Compuage Infocom Limited

February 21, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities – Fund Based Limits	-	-	**Reaffirmed at CARE BBB; Negative: ISSUER NOT COOPERATING *and Withdrawn (Triple B; Outlook: Negative: ISSUER NOT COOPERATING*)**
Short Term Bank Facilities – Non Fund Based Limits	-	-	**Reaffirmed at CARE A3; ISSUER NOT COOPERATING* and Withdrawn (A Three; ISSUER NOT COOPERATING*)**
Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed the rating assigned to the bank facilities of Compuage Infocom Limited (CIL) to CARE BBB; Negative: ISSUER NOT COOPERATING **/CARE A3;* ISSUER NOT COOPERATING** and has simultaneously withdrawn it, with immediate effect. The ratings have been reaffirmed on account of non-infusion of equity by the management within the projected time frame due to which the solvency indicators continue to remain under stress. The lack of timely communication of information pertaining to various aspects of business and financial performance from the management, despite repeated follow-ups, constrains CARE's ability to make comprehensive credit assessment. The ratings continue to derive strength from established track record of promoters, and their long experience in the IT peripheral business. The aforementioned strengths are, however, tempered by CIL's leveraged capital structure and weak debt coverage indicators; thin profit margins inherent to the IT product distribution business, intense competition prevalent in the industry and technological obsolescence risk.*

The rating withdrawal is at the request of Compuage Infocom Limited and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

Outlook: Negative

The outlook is 'Negative' on account of continued stress on the solvency position of the company. CIL has not infused fresh equity capital within the committed time frame. The outlook may be revised to 'Stable' if there is fresh infusion of equity leading to an improvement in capital structure and debt coverage indicators.

Detailed Rationale & Key Rating Drivers

At the time of last rating on November 15, 2019 the following were the rating strengths and weaknesses (updated for the information available from stock exchange and company website)

Key Rating Strengths

Long track record of operations and extensive experience of the promoters in IT/ITES distribution business

CIL has well established track record of operating of over three decades in the IT/ITES distribution business with presence across various product segments and across the length and breadth of the country. The company is promoted by Mr. Atul Mehta, (Chairman and Managing Director), a first generation entrepreneur with rich industry experience. Over the years, CIL grew into a multi-location multi-product company with a prominent position as it is placed as among the major IT hardware distributors in India having strong relationships with a large base of vendors (32+ brands and 5 business verticals with different regional distribution coverage) and dealers. The management has been a key driving force behind development of strong relationships with reputed IT hardware/software vendors. Furthermore, the promoters have supported the operations of the company by way of funds infusion through unsecured loans in the past. During March 2019, there was an infusion of equity capital of Rs.16.84 crore in CIL. Further, on May 10, 2019 there was a fund infusion

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Issuer did not cooperate; Based on best available information* of Rs.10 crore in the form of Cumulative Non-convertible Compulsorily Redeemable Preference shares. **However, CIL did not infuse fresh equity as envisaged by September 2019. As a result, the capital structure of the company remains highly leveraged with weak debt coverage indicators.

Established market position backed by wide distribution network, well-diversified product mix

CIL has an established market position backed by robust distribution network which consists of 38 branches, 40 warehouses and 67 service centres catering to over 12,000 resellers spread across 1,000 cities/towns in India. CIL continues to pursue tie-ups with well-established and reputed brands like CISCO, HP, Samsung, Microsoft, Apple, Asus etc. During FY18, CIL added complete accessories of Apple and Commscope (Systimax range of copper and fiber connectivity products and information management system) to its product portfolio. Furthermore, during H1FY19, CIL tied-up with CBC Corporation, Japan for CCTV surveillance products and ~15 cloud brands catering to the requirement of mid-sized and large enterprise requirements.

The company's product mix is diversified owing to its presence across various business segments like sale of computer components and networking, sale of computer software, sale of telecom products and support services. A strong distribution network along with a well-diversified product helps the company to register consistent growth in revenues.

Consistent growth in scale of operations with thin profitability

For FY19, the total income from operating income increased by 11% to Rs.4,531.36 crore on the back of growth in sales of both computer hardware and telecom products. CIL's profitability margins were in line with those in FY18. The margins were stagnant despite the increase in revenue on account of lower Fixed Deposits interest rates in FY19 as compared to that in FY18 and fluctuations in the foreign currency.

Key Rating Weaknesses

Leveraged capital structure and weak debt coverage indicators

The IT distribution business is highly working capital intensive leading to high gearing. Although CIL's overall gearing improved from 3.30x as on March 31, 2018 to 2.80x as on March 31, 2019 primarily on account of infusion of equity capital of Rs.16.84 crore in March 2019, it continued to remain high. Further, the debt coverage indicators continue to remain weak with interest coverage and total debt to GCA ratios at 1.72x and 22.58x in FY19 as against 1.71x and 25.22x respectively in FY18. **With increasing scale of operations, the company's ability to manage its working capital requirement while improving its capital structure remains a key rating monitorable. The management of CIL had committed to infuse fresh equity during H1FY20 to improve the capital structure. However, the same has not materialised so far.**

Competitive nature of business leading to low profitability margins

The IT distribution business remains intensely competitive with a low degree of product differentiation throughout the industry with most of the players supplying computers of limited established brands. Furthermore, the margins in the industry are low as companies provide discounts to clients to achieve higher volumes.

Technological obsolescence risk

Technological obsolescence is an inherent risk in any technology related business applicable to the IT distribution business as well. CIL's vendors however continue to provide the company significant support against technological obsolescence. CIL is compensated when a new hardware model / software version is launched and the existing model is to be sold at a discount. Nonetheless, CIL continues to remain exposed to the risks associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability in the event of company's inability to achieve timely liquidation of inventory.

Liquidity analysis: CIL's business is highly working capital intensive in nature. The company funds the working capital requirement through both fund based facility and non-fund based facility. The average month end utilization of the fund based bank limits and the non-fund based bank limits remained high at 91.65% and 90.27% respectively for the twelve months ended April 2019. The limits are required mostly to fund debtors. Average collection period ranges between 45-50 days for the company..

Analytical approach: Consolidated approach. Consolidation includes CIL's wholly owned Singapore based subsidiary, Compuage Infocom (S) Private Limited. However, there were minimal operations in Compuage Infocom (S) Pte Ltd. in FY19.

Applicable Criteria
[Policy on Withdrawal of ratings]
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Short-term Instruments]
[Financial ratios – Non-Financial Sector]
[CARE's Rating Methodology - Wholesale Trading]

About the company
Compuage Infocom Limited (CIL), promoted by Mr Atul Mehta, in 1987, is a distributor of IT products. CIL's product portfolio includes more than 32 brands of monitors, laptops, PC hardware components, computer peripherals like printers, scanners, pen drives, software, computer accessories and mobile handsets. These products are sold to system integrators, corporate resellers, Original Equipment Manufacturers (OEMs), system assemblers and large format retailers. The company has a nationwide presence with 38 branches, 40 warehouses 67 Service Centers and a team of over 800 trained professionals catering to more than 12,000 resellers across 1,000 cities/towns in India. The company procures majority of its supplies of computers, computer peripherals and mobile phones from the local units of the vendors.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A
Total Operating Income	4089.40	4531.36
PBILDT	84.61	93.55
PAT	20.29	20.40
Overall Gearing (times)	3.30	2.80
Interest coverage (times)	1.71	1.72

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	-	-	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (15-Nov-19) 2)CARE A-; Negative (27-May-19)	1)CARE A-; Negative (07-Jan-19)	1)CARE A-; Stable (12-Sep-17) 2)CARE A-; Stable (24-May-17)	1)CARE BBB+ (22-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A3; ISSUER NOT COOPERATING* (15-Nov-19) 2)CARE A2+ (27-May-19)	1)CARE A2+ (07-Jan-19)	1)CARE A2+ (12-Sep-17) 2)CARE A2+ (24-May-17)	1)CARE A2 (22-Sep-16)
3.	Fixed Deposit	LT	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE A- (FD); Stable (12-Sep-17)	-

Issuer did not cooperate; Based on best available information

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Sumit Sharma
Contact no. : +91-22-6754 3679
Email ID: sumit.sharma@careratings.com

Business Development Contact
Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer
CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**