

Press Release

**Compuage Infocom Limited.**

December 12, 2019

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating	Rating Action
1.	Long Term - Fund Based Facilities	425.00*	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook)	Assigned
2.	Long / Short Term – Non Fund Based Facilities	535.00	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook) and IVR A2+ (IVR A Two Plus)	Assigned
	<b>Total</b>	<b>960.00</b>		

\* Includes Rs. 32.55 Crore of Proposed Facility

**Details of facilities are in Annexure 1**

**Rating Rationale**

The rating derives strength from the long track record of operations, the experienced management, strong product mix, association with strong global brands and the growing operating income. The rating however is constrained by weak profitability margins, the inherent risk on the supply side and the financial leverage with moderate debt coverage parameters.

**Key Rating Sensitivities**

- **Upward Factor** -Improvement in profitability margins and achieving the projected sales figures without putting any additional burden on the existing operating cycle would call for a positive rating action for the company.
- **Downward Factor** – As maintaining its liquidity position and operating cycle is crucial for the company, any deterioration in liquidity or elongation in operating cycle could put the company in financial stress and call for a negative rating action.

## **Detailed Description of Key Rating Drivers**

### **Key Rating Strengths**

#### ***Long track record of operations and experienced management***

CIL being in business for more than three decades now has established a strong position in the market. It has successfully built a wide distribution network with 46 sales offices, 69 service centres, 28 warehouses and 12500+ online & offline channel partners. Mr. Atul Mehta, CEO & Managing Director, has a huge experience in IT distribution industry and is being supported by a team of well qualified and experienced industry professionals.

#### ***Strong product mix and association with Global brands***

The company deals in wide range of products belonging to different service verticals like Mobility, IT consumables, Hardware etc. This allows the company to offer wide range of products to its channel partners and project itself as a one stop shop for all its customers and retailers. The company has business relations with 28+ global brands and is the single source of many of their products in the country.

#### ***Growing scale of operations***

The company's total operating income has continued on its growth path and seen a healthy CAGR of ~19% for the last three years. From Rs.4074.71 cr. in FY18 it saw a 10% increase to Rs.4514.83 cr. in FY19.

### **Key Rating Weaknesses**

#### ***Low profitability margins***

IT distribution industry being characterised by low profit margins, even though the company's top-line is increasing at a commendable rate its expenses continue to follow its sales resulting in flat margins. The company reported low EBITDA and PAT margin of 1.71% and 0.5% respectively in FY19, which were same in the previous year.

#### ***The inherent risk on the supply side***

Although the company has been able to grow its business with its existing vendors, it is critically dependent on few major relationships that can potentially change in relatively quick time. In FY19, around 78% of CIL's total business came from selling products belonging to its

top nine vendors. With the technology sector as dynamic as ever and newer products and innovations coming up at a fast pace, CIL could do better by diversifying its vendor portfolio

### ***Financial leverage and moderate debt coverage parameters***

The capital structure of CIL is moderately leveraged with its overall gearing ratio increasing marginally to 2.09x in FY19 from 2.07x in FY18. TOL/TNW stood at 4.72x in the same period. Owing to the lower margins and leveraged structure, the company has reported moderate debt coverage parameters albeit, the promoters have managed to infuse fresh funds regularly in the business.

### **Analytical Approach & Applicable Criteria:**

- Standalone
- Rating Methodology for Service sector companies
- Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity**

The company has adequate liquidity position in terms of the liquid cash and the fixed deposits with varying maturities that it holds. As indicated by the management these liquid assets are maintained to avoid any unforeseen stress in paying the debt obligations. The company promoter's too have infused funds regularly in the business and plans to infuse another Rs. 25.00 crore by FY20 is on the cards.

### **About the company**

Established in 1987, Compuage Infocom Limited (CIL) is one of the leading technology products distribution company in India. Headquartered in Mumbai, it has a team of 800+ professionals, 46 sales offices, 28 warehouses and 69 service centres. Listed since year 2000, the company represents 28 global brands that includes Apple, Samsung, Cisco, Microsoft, Asus, HP and Sandisk amongst the other large and famous brands. CIL sells to more than 11,000 online and offline resellers and system integrators in over 600 cities of India.

### **Financials (Standalone)**

**(Rs. Crore)**

<b>For the year ended / As on</b>	<b>31-Mar-18 (A)</b>	<b>31-Mar-19 (A)</b>
Total Operating Income	4074.41	4514.83
EBITDA	69.86	77.04
PAT	20.54	22.58

Total Debt	376.83	451.88
Tangible Net worth	182.01	216.32
EBIDTA Margin (%)	1.71	1.71
PAT Margin (%)	0.50	0.50
Overall Gearing ratio (x)	2.07	2.09

\* Classification as per Infomerics' standards

**Any other information: N.A**

**Details of Non Cooperation with any other CRA:** Care Ratings in its report dated November 15, 2019 has revised company's rating to CARE BBB (Negative); ISSUER NOT COOPERATING\* from CARE A- Negative, on account of failure on CIL's part to provide the requisite information for monitoring the rating.

**Rating History for last three years:**

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long Term	425.00	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook)	--	--	--
Non Fund Based Facilities	Long Term & Short Term	535.00	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook) And IVR A2+ (IVR A Two Plus)	--	--	--
	<b>Total</b>	<b>960.00</b>				

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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**Annexure 1: Details of Facilities**

<b>Sr. no</b>	<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. crores)</b>	<b>Rating Assigned/ Outlook</b>
1	Fund Based	--	--	--	425.00	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook)
2	Non-Fund Based	--	--	--	535.00	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook) And IVR A2+ (IVR A Two Plus)
<b>Total</b>					<b>960.00</b>	