



Press Release

Compuage Infocom Limited (CIL)

January 13, 2021

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facility – Fund Based – Cash Credit/OD/WCDL	360.90 (reduced from 392.45)	IVR A-/Positive Outlook (IVR A Minus with Positive Outlook)	Reaffirmed; Outlook Revised to Positive from Stable
Long Term Bank Facility – Fund Based – Proposed Cash Credit/OD/WCDL	64.10	IVR A-/Positive Outlook (IVR A Minus with Positive Outlook)	Reaffirmed; Outlook Revised to Positive from Stable
Long Term/Short Term Bank Facilities – Non Fund Based – LC/BG	457.00 (reduced from 535.00)	IVR A-/Positive Outlook/ IVR A2+ (IVR A Minus with Positive Outlook/ IVR A Two Plus)	Reaffirmed; Outlook Revised to Positive from Stable
Long Term/Short Term Bank Facilities – Non Fund Based – Proposed LC/BG	78.00	IVR A-/Positive Outlook/ IVR A2+ (IVR A Minus with Positive Outlook/ IVR A Two Plus)	Reaffirmed; Outlook Revised to Positive from Stable
Total	960.00 (Nine Hundred and Sixty)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating continues to derive strength from Long Operational Track Record and Experienced Management, Strong Product Mix and Association with Global Brands & Impact of Coronavirus and Industry Prospects. The rating, however, is constrained by Thin Operating Margins due to Trading Nature of Business and Highly Competitive Market Conditions, Inherent Business Risk & Financial Leverage and Moderate Debt Coverage Parameters.



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Key Rating Sensitivities:

Upward Factors

- Rating could be upgraded if there is sustainable improvement in profitability and reduced debt coupled with further diversification of suppliers.

Downward Factors

- Negative pressure on ratings could arise in case of deterioration in liquidity or elongation in operating cycle resulting in deterioration of Company's credit profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long Operational Track Record and Experienced Management

CIL being in business for more than three decades, 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 12000+ online & offline channel partners. Mr. Atul Mehta, CEO & Managing Director, have more than 3 decades of experience in the 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 has successfully maintained strong vendor profile with significant vendor additions in the recent past. CIL does not have exclusivity agreements with most of its brands, however, some agreements do exist with specific brands in certain geographies.

Impact of Coronavirus and Industry Prospects

The coronavirus pandemic and effects of the global economic recession are causing CIOs to prioritize spending on technology and services that are deemed "mission-critical" over initiatives aimed at growth or transformation. However, as the COVID-19 pandemic continues



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to spur remote working, sub segments such as public cloud services will be a bright spot in the forecast, growing 19% in 2020. Cloud-based telephony and messaging and cloud-based conferencing will also see high levels of spending growing 8.9% and 24.3%, respectively. The company has tied up with various vendors for cloud based products and is constantly trying to increase share of total revenue from high margin cloud based products.

Key Rating Weaknesses

Thin Operating Margins due to Trading Nature of Business and Highly Competitive Market Conditions

Low value additive nature of the IT distribution business, coupled with high competition in the industry due to low industry barriers results in the profitability of CIL to continue to remain thin. However, led by change in product mix to higher profitable products, CIL's operating margin improved to 2.09% during FY20, as compared to 1.73% in FY19.

Inherent Business Risk

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 FY20, around 80% of CIL's total business came from selling products belonging to its top ten 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 marginally improving to 2.37x in FY20 from 2.79x in FY19. TOL/TNW stood at 4.64x 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: Standalone

Applicable Criteria:



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Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The company promoter's too have infused funds regularly in the business. Working Capital limits were utilised over 95% on an average over the 12 months through October 2020, indicating stretched liquidity. The group had reported cash and bank balance of Rs 79.64 crore as on March 31, 2020.

About the Company

Compuage Infocom Limited (CIL) is a technology products distribution company in India is founded by Mr. Atul Mehta in 1987. Headquartered in Mumbai, CIL 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 12,000 channel partners (online and offline resellers and system integrators) spread across 600 cities and towns in India.

Financials (Standalone)*:

(In Crore)

For the year ended / As on	31-03-2018	31-03-2019	31-03-2020
	(Audited)	(Audited)	(Audited)
Total Operating Income	4074.41	4514.84	4232.60
EBITDA	70.66	78.07	88.60
PAT	20.54	22.58	30.76
Total Debt	416.83	491.88	478.92
Adjusted Tangible Net-Worth	166.73	209.04	228.77
Ratios			
EBITDA Margin (%)	1.73	1.73	2.09
PAT Margin (%)	0.50	0.50	0.72
Overall Gearing Ratio (x)	2.94	2.79	2.37

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.



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Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Bank Facility – Cash Credit/OD/WCDL	Fund Based	360.90 (reduced from 392.45)	IVR A- /Positive Outlook (IVR A Minus with Positive Outlook)	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook)	--	--
2.	Long Term Bank Facility – Proposed Cash Credit/OD/WCDL	Fund Based	64.10	IVR A- /Positive Outlook (IVR A Minus with Positive Outlook)	IVR A- /Stable Outlook/ IVR A2+ (IVR A Minus with Stable Outlook/IVR A Two)		
3.	Long Term/Short Term Bank Facilities – LC/BG	Non-Fund Based	457.00 (reduced from 535.00)	IVR A- /Positive Outlook/ IVR A2+ (IVR A Minus with Positive Outlook/ IVR A Two Plus)	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook) and IVR A2+ (IVR A Two Plus)	--	--
4.	Long Term/Short Term Bank Facilities – Proposed LC/BG	Non-Fund Based	78.00	IVR A- /Positive Outlook/ IVR A2+ (IVR A Minus with Positive Outlook/ IVR A Two Plus)	IVR A- /Stable Outlook (IVR A Minus with Stable Outlook) and IVR A2+ (IVR A Two)		



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					Plus)		

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.

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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

Name of Facility	Size of Facility (Rs. Crore)	Maturity Date	Rating Assigned/ Outlook
Long Term Bank Facilities – Fund Based Limits – Cash Credit/OD/WCDL	360.90	Revolving	IVR A-/Positive Outlook
Long Term Bank Facilities – Proposed Fund Based Limits – Proposed Cash Credit/OD/WCDL	64.10	Revolving	IVR A-/Positive Outlook
Long Term/Short Term Bank Facilities – Non Fund Based – LC/BG	457.00		IVR A-/Positive Outlook/ IVR A2+
Long Term/Short Term Bank Facilities – Non Fund Based – Proposed LC/BG	78.00		IVR A-/Positive Outlook/ IVR A2+

(Annexure 2 Facility wise lender details (Hyperlink to be added))

<https://www.infomerics.com/admin/prfiles/lender-Compuage-Infocom-Limited-Jan-21-.pdf>