



Press Release

Compuage Infocom Limited

April 14, 2023

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	383.00	IVR BB/ Negative (IVR Double B with Negative Outlook)	Revised	Simple
Proposed Long term Bank Facilities	67.00	IVR BB/ Negative (IVR Double B with Negative Outlook)	Revised	Simple
Long term/ Short term Bank Facilities	478.00	IVR BB/ Negative IVR A4 (IVR Double B with Negative Outlook / IVR A Four)	Revised	Simple
Proposed Long term/ Short term Bank Facilities	32.00	IVR BB/ Negative IVR A4 (IVR Double B with Negative Outlook / IVR A Four)	Revised	Simple
Total		960.00 (INR Nine Hundred and Sixty crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating and outlook assigned to the bank facilities of Compuage Infocom Limited (CIL) is on account of consideration the stretched liquidity, consistent decline in the share price of the company and resignation of three Non-Executive Independent directors and Company secretary of the company, continued stress on the liquidity of the company due to high debtors, capital-intensive nature of business marked by high utilisation of working capital facilities (~95%) and the fact that the company extends 45-120 days to its resellers and 45-60 days to enterprise segment. Infomerics expects the liquidity position of the company might impact the overall financial and business profile of the company.

CIL's ratings continue to factor long operational track record and experienced management, strong product mix and association with global brands, Industry prospects which continue to remain constrained by thin operating margins due to trading nature of business and highly



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competitive market conditions, moderate financial leverage and debt coverage parameters and inherent business risk associated with the business.

Key Rating Sensitivities

Upward Factor

- Sustained improvement in profitability, scale of operations and decline in leverage from the current levels.

Downward Factor

- Any decline in profitability and/or increase in leverage impacting the cash accruals and debt protection metrics.
- Any further decline in the liquidity position of the company impacting the operations of the company.

Detailed Description of Key Rating Drivers

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 built a wide distribution network with 46 sales offices, 69 service centers, 27 warehouses and 12000 online & offline channel partners and a team of over 700+ professionals across the country and region. Mr. Atul Mehta, CEO & Managing Director, has 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 with a wide range of products belonging to different service verticals like Mobility, IT consumables, Hardware etc. This allows the company to offer a 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 maintained a 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.



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Improved scale of operations due to increased demand

CILs total income improvement by 12.73% in FY22 to Rs 4223.95 Crores from Rs 3746.95 Crores in FY21. The decline in income levels for FY21 was on account of a decline in operating income due to the impact of COVID-19. The increase in total revenues of the company is on the back of strengthening demand for PCs & IT and IT-enabled services for home learning and to manage the growing workforce in the ongoing work from home scenario, respectively. The major revenue contributor has been from the sale of notebooks, desktops, TFTs and hard disk.

Key Rating Weaknesses

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

The low value additive nature of the IT distribution business, coupled with high competition in the industry and due to low industry barriers has impacted the profitability of CIL and the same continues to remain thin. CIL recorded an operating margin of 2.33% during FY22, as compared to 2.07% in FY21. The PAT margin also remains very thin at 0.63% for FY22 when compared to 0.55% in FY21. Further the operating margin and PAT margin stood at 0.94% and 0.69% respectively as on 31 December 2022.

Inherent Business Risk

Although the company has been able to grow its business with its existing and addition of new vendors, it is critically dependent on a few major relationships that can potentially change in relatively quick time. Around 65% of CIL's total business came from selling products belonging to its top vendors like CommScope, Cisco, Microsoft, Asus, HP and Sandisk. 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.

Moderate Financial Leverage and Debt Coverage Parameters

The capital structure of CIL is moderately leveraged with its overall gearing ratio at 2.22x as on March 31, 2022, from 2.73x as on March 31, 2021, and TOL/TNW at 3.59x as on March 31, 2022 as compared to 3.90x as on March 31, 2021. Owing to the lower margins and leveraged structure, the company has reported moderate debt coverage parameters albeit,



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the promoters have managed to infuse fresh funds through rights issue. ISCR of the company declined to 0.55x as on 31 December 2022 from 1.34x as on 31 March 2022.

Working capital Intensive nature of business

CIL is exposed to working capital intensity given the nature of IT distribution business. The receivables remain high resulting into stretched liquidity coupled with continued higher working capital utilization despite inflow of funds by way of rights issue in December 2023. The company extends credit of 30 days to 90 days to its resellers and credit of 45 days to 60 days to enterprise segment. Hence the average collection period is around 46 days. Generally, the vendors give a line of credit to the company. Once the limit is exhausted the company has to open Letter of credit or provide bank guarantee for additional procurement of the products. The utilization of fund-based bank limits remains near to full utilization liquidity back-up.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity: Stretched

The liquidity position of the company is stretched marked by near to full utilization of the limits on the back of stretched receivables. The company had reported GCA of Rs 25 crores against the total debt repayment obligation of Rs 36 crores in 9MFY23. As on 31 March 2022, company had free cash and bank balance of Rs 5.00 crore with most of the cash/liquid investments being encumbered with banks as margin money.

About the Company

CIL is a technology products distribution company in India is founded by Mr. Atul Mehta in 1987. Headquartered in Mumbai, CIL is a distribution intermediary of technology products and solutions like PC components and peripherals, enterprise solutions, mobility products, hardware services and cloud-computing. The company manages the entire supply chain right



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from procurement, warehousing, broking bulk, technical support, transportation, and credit deployment. The distribution network of CIL consists of 46 sales offices, 27 warehouses, 69 service centers and a team of over 700+ professionals across the country and region, Compuage represents 28+ global brands and supports over 12,000 online & offline retailers, resellers and system integrators.

Financials (Standalone)

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	3729.79	4207.50
EBITDA	77.06	98.05
PAT	20.47	26.77
Total Debt	605.12	503.88 [^]
Tangible Net Worth	221.81	247.26
Ratios		
EBITDA Margin (%)	2.07	2.33
PAT Margin (%)	0.55	0.64
Overall Gearing Ratio (x)	2.73	2.04 [^]

*As per Infomerics' standards

[^]Excluding CPLTD

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 21 July 2022	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (January 13, 2021)
1	Cash Credit/OD/W CDL	Long Term	383.00	IVR BB/ Negative	IVR BBB+/ Stable	IVR A-/ Credit Watch with	IVR A- / Positive



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Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 21 July 2022	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (January 13, 2021)
						Developing Implications (March 31, 2022) IVR BBB+/ Stable (March 23, 2022)	
2	Proposed Cash Credit/OD/W CDL	Long Term	67.00	IVR BB/ Negative	IVR BBB+/ Stable	IVR A-/ Credit Watch with Developing Implications (March 31, 2022) IVR BBB+/ Stable (March 23, 2022)	IVR A- / Positive
3	LC/BG	Long Term/ Short Term	478.00	IVR BB/ Negative / IVR A4	IVR BBB+/ Stable / IVR A2	IVR A-/ IVR A2+/ Credit Watch with Developing Implications (March 31, 2022) IVR BBB+/ Stable / IVR A2 (March 23, 2022)	IVR A- / Positive / IVR A2+
4	Proposed LC/BG	Long Term/ Short Term	32.00	IVR BB/ Negative / IVR A4	IVR BBB+/ Stable / IVR A2	IVR A-/ IVR A2+/ Credit Watch with Developing Implications	IVR A- / Positive / IVR A2+



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						(March 31, 2022) IVR BBB+/ Stable / IVR A2 (March 23, 2022)	

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Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

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security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are 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 us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit/OD/WCDL	-	-	-	383.00	IVR BB/ Negative
Proposed Cash Credit/OD/WCDL	-	-	-	67.00	IVR BB/ Negative
LC/BG	-	-	-	478.00	IVR BB/ Negative/ IVR A4
Proposed LC/BG	-	-	-	32.00	IVR BB/ Negative/ IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Compuage-apr23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.