Press Release

Compuage Infocom Limited

July 21, 2022

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	383.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Rating revised from IVR A- (IVR A Minus) and removed from Credit Watch with Developing Implications	Simple
Proposed Long term Bank Facilities	67.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Rating revised from IVR A- (IVR A Minus) and removed from Credit Watch with Developing Implications	Simple
Long term/ Short term Bank Facilities	478.00	IVR BBB+/ Stable / IVR A2 (IVR Triple B Plus with Stable Outlook/ IVR A Two)	Rating revised from IVR A-/ IVR A2+ (IVR A Minus/ IVR A Two Plus) and removed from Credit Watch with Developing Implications	Simple
Proposed Long term/ Short term Bank Facilities	32.00	IVR BBB+/ Stable / IVR A2 (IVR Triple B Plus with Stable Outlook/ IVR A Two)	Rating revised from IVR A-/ IVR A2+ (IVR A Minus/ IVR A Two Plus) and removed from Credit Watch with Developing Implications	Simple
Total	**960.00 (Rupees Nine Hundred and Sixty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in rating of the bank facilities of Compuage Infocom Limited (CIL) factors delay in the proposed rights issue of Rs.50.00 crore, which was planned to be concluded in Q1FY23. The same is now expected to be concluded in Q2FY23.

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

of business and highly competitive market conditions, inherent business risk and financial leverage and moderate debt coverage parameters.

Key Rating Sensitivities

Upward Factor

- Sustained improvement in profitability, scale of operations and decline in leverage.

Downward Factor

- Any decline in profitability and/or increase in leverage impacting the cash accruals and debt protection metrics.
- Any further delay in the proposed rights issue.

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 centres, 25 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 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

As the COVID-19 pandemic continues to spur remote working, sub segments such as public cloud services will continue to be a growth driver for the company, with cloud computing

business contributing 6% of total revenue in FY21 as compared to 2% in FY20. 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. Further, Work from home has led to a new set of demand for IT products such as laptops, desktops and accessories along with increased demand for enterprise, cyber security and cloud software which are essential for efficient and safe working environment for the corporates. However, CIL recorded dip in revenue by 11.82% in FY21 at Rs.3729.79 crore as compared to Rs.4232.51 crore in FY20. This was on account of logistics and supply chain management – core functions of IT distribution industry – being severely impacted due to Covid-19 related lockdown restrictions in FY21. The company's total operating income has increased by 12.81% y-o-y to Rs.4207.50 crore in FY22 led by strong demand across product offerings.

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. CIL recorded operating margin of 2.07% during FY21, as compared to 2.09% in FY20. The operating margin stood at 2.33% in FY22.

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 FY21, around 65% of CIL's total business came from selling products belonging to its top six vendors of 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.

Financial Leverage and Moderate Debt Coverage Parameters

The capital structure of CIL is moderately leveraged with its overall gearing ratio at 2.73x as on March 31, 2021 from 2.37x as on March 31, 2020 and TOL/TNW at 4.09x as on March 31, 2021 as compared to 4.64x as on March 31, 2020. The overall gearing ratio (Excluding

CPLTD) stood at 2.04x as on March 31, 2022. 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 at regular intervals in the business

Analytical Approach: Standalone

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity of the company is adequate with sufficient expected gross cash accruals as against debt repayment obligations. The liquidity is expected to improve further with infusion of funds via rights issue to the extent of Rs.50.00 crore in Q2FY23. The company's working capital limit is highly utilised with average utilisation of 92.81% for the twelve months ending January 2022.

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 entire supply chain right from procurement, warehousing, broking bulk, technical support, transportation, and credit deployment. The distribution network of CIL consists of 46 sales offices, 25 warehouses and 69 service centres catering to over 12,000 channel partners (online and offline resellers and system integrators) spread across 600 cities and towns in India.

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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 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (January 13, 2021)	Date(s) & Rating(s) assigned in 2019-20 (December 12, 2019)
1	Cash Credit/OD/WCDL	Long Term	383.00	IVR BBB+/ Stable	IVR A-/ Credit Watch with Developing Implications (March 31, 2022) IVR BBB+/ Stable (March 23, 2022)	IVR A- / Positive	IVR A- / Stable
2	Proposed Cash Credit/OD/WCDL	Long Term	67.00	IVR BBB+/ Stable	IVR A-/ Credit Watch with Developing Implications (March 31, 2022)	IVR A- / Positive	IVR A- / Stable

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Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (January 13, 2021)	Date(s) & Rating(s) assigned in 2019-20 (December 12, 2019)
					IVR BBB+/ Stable (March 23, 2022)		
3	LC/BG	Long Term/ Short Term	478.00	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+	IVR A- / Stable/ IVR A2+
4	Proposed LC/BG	Long Term/ Short Term	32.00	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+	IVR A- / Stable/ IVR A2+

Name and Contact Details of the Rating Analyst:

Name: Parthkumar Thakker Tel: (079) 40393043 Email: pthakker@infomerics.com	Name: Niriksha Gupta Tel: (022) 62396023 Email: niriksha.gupta@infomerics.com

About Infomerics:

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.

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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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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 BBB+/ Stable
Proposed Cash Credit/OD/WCDL	-	-	-	67.00	IVR BBB+/ Stable
LC/BG	-	-	-	478.00	IVR BBB+/ Stable / IVR A2
Proposed LC/BG	-	-	-	32.00	IVR BBB+/ Stable / IVR A2

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-Infocom-july22.pdf

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

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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.