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COMPUAGE INFOCOM LTD

23rd August 2019

To,

The Corporate Services Dept.
BSE Ltd.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001.

National Stock Exchange of India Ltd.,
Exchange Plaza,
C-1, Block G, Bandra Kurla Complex,
Bandra (E),
Mumbai – 400 051.

Security Code: 532456
ISIN: INE070C01037

Symbol: COMPINFO

Sub: Transcript of Analyst Call held on Friday, 16th August 2019 at 3.30 p.m. IST

Dear Sir/Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, we enclose herewith transcript of the tele-conference call with the analysts held on Friday, 16th August 2019 at 3.30 p.m. IST, to discuss Operational and Financial performance for Q1FY20.

Please take the disclosure above on records.

Thanking you,

Yours faithfully
For Compuage Infocom Ltd.

COMPUAGE INFOCOM LTD MUMBAI

Disha Shah
Company Secretary

Place: Mumbai

Encl: As above.

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"Compuage Infocom Limited
Q1 FY2020 Earnings Conference Call"

August 16, 2019

MANAGEMENT: MR. ATUL MEHTA – CHAIRMAN AND MANAGING DIRECTOR – COMPUAGE INFOCOM LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Compuage Infocom Limited Q1 FY2020 Earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Mehta, CMD, Compuage Infocom Limited. Thank you and over to you Sir!

Atul Mehta: Good afternoon ladies and gentlemen. I would like to thank you all for being part of Compuage Infocom Q1 FY20 earnings conference call. Along with me we also have Strategic Growth Advisors, our Investor Relations Advisors.

Let me first give you an overview of our consolidated Q1 FY20 results. Our revenue grew by 6% to Rs.926.2 Crores for Q1 FY20 as compared to Rs.873.5 Crores in Q1 FY19 led by IT products and mobility businesses. Our gross profits came in at Rs.37.6 Crores Q1 FY20 versus Rs.36.4 Crores in Q1 FY19 a year-on-year growth of 3.4%; however gross margins reduced by 10 BPS from 4.2% in Q1 FY19 to Rs.4.1% in Q1 FY20. Our consolidated EBITDA stood at Rs.16.7 Crores in Q1 FY20 as against Rs.17.1 Crores in Q1 FY19 down by 1.9% year-on-year due to higher other expenses consequently, our EBITDA margins also reduced by 14 basis points from 1.95% in Q1 FY19 to 1.81% for Q1 FY20. Our profit after tax stood at Rs.4.2 Crores in Q1 FY20 down from Rs.5.0 Crores in Q1 FY19 due to lower other income.

Now coming on the operational highlights, Q1 FY20 saw a positive upward trend for our IT products and mobility business division. Even during the weak business environment, this segment continued to grow for us as people continue to invest in what is necessary for day to day use and it is difficult to cut down on these spending. Due to recent elections and uncertainty, corporates were on a wait and watch more for further investment onto their businesses, which affected our enterprise solutions business due to postponement of investments. Overall economy along with IT market growth has slowed down for many reasons ranging from weak business sentiments to liquidity crunch, etc., which we believe are temporary in nature, which are a part and parcel of business cycle. For long-term, we remain positive on the overall IT spends for the industry and with our rich experience team and strong execution we are in a much better position to capture the opportunity wherever available.

With this, I shall now leave the floor open for question and answers.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question is from the line of Zaki Abbas Nasser an Individual Investor. Please go ahead.

Zaki Abbas Nasser: Good afternoon Atul Bhai and we have to commend you for at least keeping the topline better than Q1 last year although the expenses were slightly higher. Sir broadly how do you foresee the current year panning out considering there is a liquidity crunch and slowdown in spending although I think margins would be slightly lower do you think on the topline basis we would be able to better last year Sir and number two what are the products ? Any change in products mix you see going forward? Thank you.

Atul Mehta: As a practice we do not really want to get into forecasting more so but let us acknowledge that the year is quite challenging. There are a lot of uncertainties in businesses backed by weak sentiments and cash flow challenges, which we are all aware of and while IT and mobility is gaining importance, it is still something that is postponable. There are things, which are a lot more important and therefore it is very, very difficult how the year is going to pan out to. Having said that it is going to be our endeavor while Q1 was challenging and we have tried to ensure that at least the topline was maintained because a lot of fixed expenses, which cannot be put on hold or postponed so our endeavor is going to be definitely to improve upon last year's performance. That is one. The second is in terms of the product mix. I think we are quite well placed because I will take you a little further into our business strategy. We have broken our businesses into five verticals. First one is being the IT consumer, second one being IT enterprise, third being mobility, fourth one, which is a relatively newer one that we have ventured into about two to three quarters back and that is cloud business, which is still in a very nascent and I would say more of an investment stage at this point of time and fifth one is the hardware services, which we have got into about two to three years back and we have now stabilized and now we are going to be looking at growing from here on, so we are well balanced not having any high dependency on any one area and we will continue to focus to grow our businesses in all these areas.

Zaki Abbas Nasser: Sir any challenges from any new lines of market any new entrants in terms of any new channels, which might give you competition you see beyond what was there a couple of quarters back?

Atul Mehta: There is not much change, which has happened in the last two quarters. I think the channels of distribution remain the same. That is the traditional reseller and system integration channel and then thereafter came the modern retail the large format retail channel and the latest being the online channel and we cater to all the three channels directly so yes there is some change happening, but nothing, which is very drastic in nature, but we fulfill all the channels and therefore there is nothing worrisome as far as the distribution companies like us are concerned.

Zaki Abbas Nasser: Sir the equity in the current quarter what is given is fully diluted right. Rs.13 Crores is the fully diluted equity or any other conversions are pending Sir?

Atul Mehta: No nothing is pending as of now. There is no dilution pending.

Zaki Abbas Nasser: There was some allotment to Karvy that is not going too converted to equity right?

Atul Mehta: That is redeemable preference shares. So it is an eight year period that we have and therefore they do not have an option to convert. It is redeemable preference shares.

Zaki Abbas Nasser: The equity as of now is fully diluted whatever is there?

Atul Mehta: That is correct.

Zaki Abbas Nasser: Thank you Sir. Thank you.

Moderator: Thank you. The next question is from the line of Akshay Vora an Individual Investor. Please go ahead.

Akshay Vora: Sir how are we planning to reduce the debt?

Atul Mehta: Very frankly there are two things that we cannot be doing. One is definitely we are looking at raising more capital as we move along and with high growth plan that the company has over the next three to five years, I do not think we are going to be reducing the debt, but we will ensure that even if the debt grows, which it will grow because we are after all a distribution company and there is a limited value addition that we can do vis-à-vis a product company and therefore we will ensure that there is a right mix or balance between equity and debt as we move along.

Akshay Vora: Since the credit rating had degraded so do you think there will be difficulty obviously there will be difficulty in raising the capital, so how do you think those lines?

Atul Mehta: There is a very marginal decrease in rating. It basically remains A minus and it was only because of delay in capital infusion, which it has already happened and therefore we expect it to be restored back very soon and basis what we are seeing in terms of current trend in the last six to nine months. I think the agencies are also trying to take a very, very cautious view. So in our case, it has moved from A minus (A-) Stable to A minus (A-) Negative primarily for the reason I mentioned.

Akshay Vora: The employees and everybody except the shareholders I hope they are taken off, but how do you think the minority shareholders will be rewarded of say three to five years?

Atul Mehta: We believe we are very, very strongly committed to every stakeholder of the organization and it definitely keeps our team, our shareholders very close to our mind and heart and I play a dual role as an employee as well as the shareholder so if there any benefit happening to either of these two set of stakeholders it is going to benefit me as well, so in my opinion the shareholders will definitely see lot of value as we move along because we have ambitious plan, plan of not only growing the topline but growing the bottomline line as well and it is just that we have to be a little patient at the moment considering the overall macroeconomic scenario that is going on.

Akshay Vora: Wish you all the best. Thank you so much.

Moderator: Thank you. The next question is from the line of Amit Shah from PS Securities. Please go ahead.

Amit Shah: Sir my question is on cloud solutions, so now that the enterprises are shifting from traditional servers to cloud solutions, so how are we as a distributor placed to make most for this opportunity?

Atul Mehta: Cloud it is still in a very nascent stage as far as India is concerned primarily because of the way we still look at acquiring assets and acquiring software where the cultural shift is still not happening moving from outright purchases to the subscription annuity mode, so it is going to be a gradual transition until some things are trashed upon us. Sometimes we are not willing to adopt the newer ways of doing business and that is what we as a company and country are seeing. It is a very, very slow progression. It will pick up as we move along because there are lots of companies which are switching off, selling off licenses. They are saying cloud or they are saying subscription or annuity as the only way forward and as that gathers momentum our cloud business will grow so we will have to kind of go with how the market adopts moving from outright purchases of licenses towards subscription annuity base and so we as a company what we can do we are doing, we have started a line of sales with vendors, we have created a market place again only for the resellers because our entire business model is B2B, we do not create a end customers at all and getting our teams ready, techno commercial team to address the partners so all that is required as an organization enablement which is already happening and will continue to gather momentum as we see customers adopting towards this approach.

Amit Shah: Thank you.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from Arc Capital. Please go ahead.

Ankit Agarwal: I have a couple of questions. The first one being client wise revenue contribution, Sir what is the Revenue Contribution from top five clients?

Atul Mehta: As a Company we are taking a very, very conservative approach. Our Board has set a guideline that no single customer can be greater than 10% of the company's revenue and therefore our top customer contributes not more than 6%- 7% and thereafter it drops fairly fast so if you were to ask me the percentage of top five customers, it may not be more than 15%- 16% put together. We believe in a broad-based model on an annualized basis we serve close to about 12,500 resellers, retailers, online, offline, systematic raters all put together so we believe and with and it means more worth but it gives us a lot more stability as an organization.

Ankit Agarwal: Right, right, so thanks Sir and I have one more book keeping question sir what is a gross debt as of first quarter?

Atul Mehta: As of first quarter our gross debt would be in the region of about Rs.435 Crores.

Ankit Agarwal: Thanks Sir. That is all from me.

Moderator: Thank you. The next question is from the line of Atul Kothari from Progwell Securities. Please go ahead.

Atul Kothari: Thank you for this opportunity. Sir can you throw some light as to what is the company's market share in the IT distribution in India?

Atul Mehta: Let me address it in a different manner and I hope I am able to address your query and if not you can ask me further questions. The IT and mobility distribution industry where there are about by and large 95% of the business comes from 10 players, which is about Rs.70,000 Crores and we as a company have about 6%- 7% share in that space. Now this is of course of a combination of IT and mobility. As far as Compuage is concerned about 80% of our revenue comes out of IT both consumer or four parts, IT consumer, IT enterprise, Cloud and hardware services, so the ratios from other companies point of view since lot of data is not very easily available, I can only give you an indication. In our case, as a company our mobility percentage is less and therefore, if I were to go by those criteria our IT share in the distribution pie is about 6%- 7%, if you were to look at the IT share it would be more because our mobility share is less.

Atul Kothari: Okay and Sir Can you let me know how the industry has panned out over the last three to four years in the IT distribution industry.

Atul Mehta: If you really see now I would say the whole industry is while we keep talking about IT and mobility in my opinion I think it is getting converged into one with brands like Apple, which are into both IT as well as mobility and I think that this is happening so I would say in the last three to five years. The IT consumer has not been growing and IT enterprise has been growing fairly well and mobility undoubtedly is going right side. I would possibly classify into those three buckets Cloud is still in a nascent stage. I think we all as users while do require a desktop or a laptop but our usage on those devices is reducing vis-à-vis usage on smart phones, now if you ask me I as a user used three devices at desktop when I am in office, smartphone when I am travelling up to three days of travel and I carry a laptop when my travel is beyond three to four days and I am sure lot of people possibly do that so that is an indication that all of use much more of smart phone for business uses as well.

Atul Kothari: Sir how do you foresee the future of the IT distribution industry going ahead couple of years from now?

Atul Mehta: This industry is definitely there to say if that is the question vis-à-vis the online forays which are happening. For several reasons today also first I would say the enterprise business which is a combination of not only sales of product giving technical support in terms of designing and creating a Bill of Material for the product for mid-to-large enterprises. There is also technical support provided by distributors for after sales during the installation etc. It is all very selective what these distributors provide so that part of business is extremely I would never use the word impossible, I will say the extremely difficult for an online player to foray into. Second is likewise cloud; third are likewise services, which had a lot of expertise requirement. The last piece I will come to is the consumer products like laptop and printers and such devices which are standalone where the consumers are I would say individual consumers or SMD consumers are growing and picking up directly from be it retail store or be it an online store but those are today also being fulfilled by a distributor and I cannot say for sure that it will be but there is no reason why it cannot be fulfilled by an offline distributor like us for the simple reason that this is a newest form of go-to market strategy which has come into play in the last 25 years and being utilized by IT as our technology is of 25, 30 years old so when the distribution was available through national distributors like us, they were quick to adopt it for various reasons.

One, the most important being obviously the low cost at which we help them reach the last mile go and make it available to a reseller or retailer who services and end customers so I am sure a brand can very well do what we are doing, but they cannot do it at 3%, 4%, 5% margins at which we are ready to it. We do stocking, we provide support to partners, resellers, we provide credit to resellers and we provide deliveries that is the supply chain part so all this is being done at margins ranging from 3% to 5%. Our brand can very well do it, but it will cost them more so I think this is one of the single most reason and let me give a classic example of Samsung which in the country has may be 70, 80, 90 warehouses for their consumer durables and all these businesses which have come into existence may be 50, 100 years back where they use city dealers, city distributors, they use warehouses, they use the sales team now when the mobility product got introduced despite having country wide infrastructure they opted for distribution firm or go-to market strategy for the very reasons that I already explained and therefore there is no reason for this mode of distribution to get discontinued. Yes, it will evolve, we evolved as a company in 32 years and that is why we are kept growing and we are stayed relevant and that is what we have to keep doing, so I do not think on the contrary my feeling is the other businesses when they see the benefit of this low cost distribution model when I say it can be pharma, it can be chemical whatever, I think they will also going to adopt to this model so I am quite sure this will stay relevant.

Atul Kothari: Thank you for this opportunity. That is all from my side.

Moderator: Thank you. The next question is from the line of Akshay Vora an Individual Investor. Please go ahead.

Akshay Vora: How are we planning to increase our market share? You mentioned we have a share of around 6%-7% so are we planning to increase the share and how difficult is it for us to increase that share?

Atul Kothari: Our plan is definitely to work towards increasing the share there is no doubt about it and I think we have done a decent job in the last 10 years. See we have been in distribution while we are a 32 year old company we have been in distribution for about 16- 17 years prior to that we ourselves were a reseller and a systematic retailer and in last 10 years our CAGR has been close to about 18.5% which I believe as more than the market share. So we will continue on that path. It is definitely not easy because the biggest challenge is to increase the share. One is we obviously will grow on our existing product lines, the industry grows, market size grows and we will grow. If our market share in a particular product is less than 10% we take it to 12% and we increase our share. We still have only about 25 to 30 brands in a portfolio which is far lesser than some of our peers in the industry who have 60, 70 and 80 brands and we need to add brands and we are working towards adding the brands which is not entirely in our control. The brand needs to have an opening to add distributor as a first step than obviously Compuage has to be the right fit for them from our perspective and their perspective, there are sometimes we feel we do not want to associate sometimes they feel we are not the right one so it is process which continues and we will continue on that part.

Akshay Vora: Why would other brands be uncomfortable partnering with Compuage as you mentioned there would be some reasons why they would be uncomfortable so why would they be uncomfortable since we have so much of experience into this business so what are the challenges that the peers give us which does not enable us to further which other brands?

Atul Mehta: I have been very realistic when I said that some may be uncomfortable because we win some and we lose some while we truly are a value added distributor and I feel if we look at the last 10 years horizon, Compuage has been the biggest beneficiary of the best and the biggest brands in the industry so we possibly won more brands than any of our competitors, but yes I will not say that we won every single opportunity came our way for whatever reason, we would have made a pitch, we do our best and sometimes the vendor finds that somebody else is better positioned to handle it so it does happen. That does not make give up on those opportunities. We keep pursuing them basis our game plan what verticals we want to focus on first and today and some may be latest basis our analysis of the business.

Akshay Vora: Thank you.

Moderator: Thank you. The next question is from the line of Manisha Gupta from Care Ratings Ltd. Please go ahead.

Manisha Gupta: Sir I have question that we know that you are going to infuse another Rs.25 Crores of cash in the form of equity so when can we expect that kind of Infusion in the Company so that your capital structure ratio would improve?

Atul Mehta: So the plan is definitely to do that as soon as possible but I am sure we are all aware about the market scenario at this point of time and we will just wait for it to get stabilized. Our endeavor is going to make it happen before the end of the year.

Manisha Gupta: Okay so most probably by Q3?

Atul Mehta: While we would like to, we will have to wait for the market to stabilize that is the only factor at this point I am sure you will agree in the investors are going to be cautious in making fresh investment they rather take care of the existing investments so we will have to wait and watch and may be hopefully I should not say they may be hopefully we will have better view on this when we end in Q2.

Manisha Gupta: Another part as you told earlier that there is decline in margin mostly because of higher other expenses so what kind of expenses are we talking about?

Atul Mehta: We as a company look at both short-term and long-term. We do not want to miss site of long-term investments which are required so that when the macroeconomic scenario improve we are there to capitalize first available opportunity so there are like one of the investments initiative that company has done which is cloud, which we have signed up people and it takes time before this start becoming net productive for the company that is one area. Second is when businesses are slow we need to do more in terms of marketing efforts and activity on that front so these are kind of areas which kind of makes it whatever little dent we have seen in the profitability I think because of the reason and we would not like to slowdown these activities because the moment the scenario improves we will be first one to benefit out of it.

Manisha Gupta: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Atul Mehta for his closing comments.

Atul Mehta: Thank you all for joining on the call and I hope I have been able to answer most of your queries. We look to forward your participation in the next quarter and if you have any further queries, you may kindly contact SGA, our Investor Relations Advisors. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Compuage Infocom Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.