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COMPUAGE INFOCOM LTD

24th February, 2021

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 Wednesday, 17th February, 2021 at 11.30 a.m. IST

Dear Sir/Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, we enclose herewith the transcript of the tele-conference call with the analysts held on Wednesday, 17th February, 2021 at 11.30 a.m. IST, to discuss the Operational and Financial performance for Q3 & FY21 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully

For Compuage Infocom Limited,

Anmol Jolly
Company Secretary

COMPUAGE INFOCOM LTD
MUMBAI

Place: Mumbai
Encl: As above

"Compuage Infocom Limited Q3 FY21 Earnings Conference Call"

February 17, 2021

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

Moderator: Ladies and gentlemen, good day, and welcome to the Compuage Infocom Limited Q3 FY21 Earnings Conference Call. This conference call may contain forward-looking statement about the Company which are based on the beliefs, opinions and expectations 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 - Chairman and MD, Compuage Infocom Limited for his opening remarks.

Atul Mehta: Good morning, ladies and gentlemen. Thank you for joining us on Compuage Infocom Limited's Q3 FY21 Earnings Conference Call. I hope you and everyone around you are safe and in good health. Along with me today, we also have SGA, our Investor Relations Advisors. We have uploaded our press release and results presentation on the stock exchanges and I hope everybody had a chance to go through the same.

Let me first start with the business highlights. I am pleased to report that our Company has fully recovered from the COVID crisis by surpassing last year's Q3 revenue and increasing profitability by 13% year-over-year in Q3 FY21. We witnessed broad-based growth across all our segments - which are IT Consumer, Enterprise, Mobility and Cloud. As lockdown restrictions were eased during the quarter, we witnessed renewed demand for IT products led by reopening of sales offices, while demand for mobility and personal use products continue to sustain from employees working from home. Work from home integrated with office will lead to enhance demand from both these segments. Penetration of IT products continues to be much lower in India as compared to the developed countries giving us the long-term visibility of sustained growth. With a view to capture this value chain, even government of India has unveiled various PLI schemes to promote manufacturing of IT and mobility products in India.

A general trend which is observed across the world is that companies are focusing on specialization and continue to outsource their non-core functions. There are two benefits to this. First, it allows the companies to focus on their core competency whereby the management bandwidth and company resources are directed towards the areas which matter. Second, it also allows them to reduce cost by outsourcing their non-core functions and delegate it to the companies who are specialized in those areas which can operate the same function at a lower cost. The distribution industry is going through this transition. As a leading distribution player, Compuage with its Pan India network and efficient supply chain, adds immense value to our vendors, taking care of the distribution angle and providing a wider reach to their products, while they can focus on their core competency of developing newer products and upgrading existing products.

Let me now give you an overview of our consolidated Q3 FY21 results. Total income for Q3 FY21 stood at 1013 crores as compared to 979 crores in Q3 FY20, up by 3.5% year over year.

Gross profit for Q3 FY21 stood at 44.4 crores as compared to 44.1 crores in Q3 FY20, up by about 1% year over year. EBITDA for Q3 FY21 stood at 22.8 crores at similar levels to last year Q3. EBITDA margins for Q3 FY21 stood at 2.3% at same levels when compared to Q3 FY20. PAT for Q3 FY21 stood at Rs. 6.1 crores as compared to Rs. 5.4 crores in Q3 FY20, up by 13% year over year.

To conclude, we believe there is a long-term growth opportunity in the IT distribution space in India, given the lower penetration of IT products. Going ahead, our focus continues to be on partnering with newer brands, enhance our product offerings and improve the profitability through better product mix and cost efficiency initiatives. With economy now recovering, we are very confident and positive on growth ahead of India as well as for our Company. With this, I now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Shah from Ace Securities. Please go ahead.

Amit Shah: I have a couple of questions, Sir, first would be, what is our current working capital cycle in number of days?

Atul Mehta: Our current working capital cycle is approximately 35 days, net working capital cycle.

Amit Shah: Sir, can you give us the breakup in terms of debtor days, inventory days and payable days?

Atul Mehta: Yes, receivable is at 52 days, inventory is at 24 days and payables is at 41 days.

Amit Shah: Sir, how do you see this thing going forward? Are we seeing any reduction in these or something?

Atul Mehta: We are trying to work on reducing the cycle, but as we see it is not going to be happening in the immediate future. We expect the trend to continue because the enterprise business which is the biggest category of business in Compuage, the business happens on longer credit cycles and therefore compressing this further is going to be taking some time. That is something that we have to work on.

Amit Shah: Sir, my second question, what is our Company's total debt and what would be the cost of debt as on December?

Atul Mehta: The total debt, more or less remains at similar levels at March which is closer to about 400 to 425 crores and the cost of finance on the averaging is in the region of about 11 to 11.5%.

Amit Shah: Sir, my last question would be, can you provide segment revenue contribution for Q3?

Atul Mehta: Segment revenue basically, we will break it down into four broad categories, IT consumer which is at about 37 to 38%, IT Enterprise which is at about 42%, Mobility which is at 15%

and rest which comprises of Cloud and Lifestyle and Hardware services is all put together at about 5%.

Amit Shah: And Sir, do you see this thing changing over year?

Atul Mehta: Very difficult to predict over the year, because our focus is very clearly on driving profitability and not only in absolute terms, in terms of ROI, so we are working on categories which give us better returns and what has happened is, this year our progression towards Enterprise business has been slow because the Consumer business has been a stronger driver and at the same time, they have been able to work on shorter cycles and thereby improving the ROI. So we will have to gauge over the next couple of quarters till things stabilize, by when we will get a more firm idea as to how we will progress in future.

Moderator: Thank you. The next question is from the line of Nimish Sheth from GD Advising. Please go ahead.

Nimish Sheth: Can you just talk about your recent partnerships, you already have several, what you call associations with, for example, Microsoft, SAP, I am just seeing your Cloud computing, you have added Acronis India for cyber security and data protection, etc., so can you just give us a little idea on what is going on? You also signed a service agreement with HP to provide aftermarket support, etc., just elaborate on some of those initiatives and how it will help going forward?

Atul Mehta: In terms of new signup in the FY21, we have had 3, if I am correct, one is, HP on the services front, second is Dahua which is on the physical safety and surveillance. Third is Acronis. As rightly mentioned, it is cyber security and data protection. The signup has been little slow because of what has happened. When there is so much of uncertainty going on in the environment and very rightly, all brands do not want to take any calls during such period. These discussions we were having for quite some time and therefore they materialized. Once situation stabilizes, of course we are engaged with all the prospective brands that we want to associate with, then I am sure, the journey will continue on the same path in line with the strategy of the organization. Now, coming to these three brands, Acronis, even though signed up is a slow start, it will not give us significant contribution in revenue, but that is the case with all brands, they start as slow and then it starts gaining momentum once we integrate very clearly with the brand and then we have a go-to-market strategy which gets executed. Dahua has shaped up quite well, it is progressing quite well, it is number 2, number 3 brand in India in the physical safety and surveillance business and growing. HP services, HP is more or less the number one brand in the PC printing space and therefore the service, again the start was slow because we signed up around Q4-Q1 and the it was really slow because of the COVID movement, restrictions, etc., but now it is gaining momentum and we are adding to our team of engineers to support the HP service business. So I would say, to summarize HP and Dahua have stabilized and on the growth part, Acronis hopefully will stabilize in this quarter and we should look at good business in the next financial year.

Nimish Sheth: I have just one more question, in Q4 of the previous fiscal, I mean March 20, you would have some impact of lockdown, some days of sales would have gone impacted, etc., am I correct on that assumption?

Atul Mehta: You are right. We did lose, it was a very small period of about 7 to 8 days which were lost.

Nimish Sheth: Now, you already announced that in Q3, your revenues have crossed the Q3 of last fiscal, Q3 of this fiscal revenue have crossed Q3 of last fiscal and hence things seem to be falling in place, so can we assume a similar trend going forward? Your Q4 would be better than Q4? Are you now thinking up Y-o-Y?

Atul Mehta: Last quarter, as I just shared, our Consumer business grew over the previous year and the Enterprise business has been slow. Normally Q4 is a good quarter for the Enterprise business, but it is a little slow because companies are still getting back to CAPEX and looking at investments on the IT front. Once it picks up, it will definitely do well, because I think with what happened, companies realized the importance of IT. But to answer your question, yes, we are seeing a positive Q4 and we hope to end on a positive note.

Moderator: Thank you. The next question is from the line of Aarush Oberoi from VD Securities. Please go ahead.

Aarush Oberoi: Sir, I would like to know which are the business segments you are focusing on to grow?

Atul Mehta: So, our strategy very clearly remains to be a broad based distributor. There are lot of trends being present in all the segments and therefore we don’t really want to say that we want to be only IT Consumer company or an IT Enterprise company. So we have very clearly demarcated ourselves into these divisions which I shared earlier and what will drive is the profitability aspect. So we will keep changing the levers. This is where we are able to deploy our resources and get better return. So that is a broad strategy with which we are going forward. If I were to say the percentages that I shared in terms of the various divisions, we will see plus minus in the next financial year, may be plus minus 2, 3, 4% between each of these divisions. Of course, in terms of momentum, as a percentage year over year, Cloud will grow better, but still it is small, so it may not become a significant contributor as such.

Aarush Oberoi: Do you plan to raise equity in the current year?

Atul Mehta: If we look at our 3-year strategy, yes, we will infuse equity. The question is, when and it may be FY22, it may be FY23. FY21 is ruled out.

Moderator: Thank you. The next question is from the line of Sachin Shah from H. S. Securities Please go ahead.

Sachin Shah: I have a couple of questions with respect to mobile and laptop brands, do we plan to add any new mobile or laptop brands in our Company?

Atul Mehta: In terms of mobile, there are only 5 or 6 brands which dominate the Indian market place. We all know the brands, they are Samsung, Apple, Oppo, Vivo and Xiaomi. So if something comes up in this phase, yes, we will look at it, but beyond this, we may not want to look at it, because it may not really make sense. We want to associate with brands with which we see long-term play in the market. Coming to laptops, also the strategy is something similar, in fact, laptop as a category, offers lower margins and therefore it is not a very high focused area from the Company point of view, but in the event we see an opportunity which matches our goals in terms of the return. Then, again there are 4 or 5 brands only which really make sense.

Sachin Shah: On the similar product like tablet?

Atul Mehta: Tablet is too smaller space while it made inroads and lot of noise when it got launched, but off-lately the volumes are not all that great, but tablets typically ride on the laptop brands only.

Sachin Shah: And does making IT products in India benefit Compuage in anyway?

Atul Mehta: We are totally indifferent. Today, as we speak, except for smart phones, I don't think anything else, by and large, is manufactured in India. Now, we will continue to source from all these brands that we have association with, whether they procure internationally from their international factories or international contracting factories or whether they do that from India. So I don't think we would benefit in any way in the event the same were to manufacture in India. I think these brands will have to take a call basis, the policies of government of India, the directions and what benefits them and are there any benefits in terms of made in India in terms of cost reduction. I think that is the call they will take. So the cost transfers to us and the customers will remain the same by these brands.

Sachin Shah: And just one more query, is there any brand addition during this quarter, with respect to?

Atul Mehta: In this quarter, there may be closure of one brand which is on final stages of discussion. Until it closes, we will not want to make any announcements, but, yes one is at advanced stage of discussions.

Moderator: Thank you. The next question is from the line of Akash Jain from Ajcon Global Services Limited. Please go ahead.

Akash Jain: Sir, my concern is regarding Q-on-Q profitability, we have seen, economy has bounced back strongly in the festive season, so why is that on Q-on-Q basis, our profitability has been down despite good gross margin?

Atul Mehta: Our profitability is not lower, unless may be I am missing the question, if you see our profitability on Q-on-Q basis, we have registered 6.1 crores profit as against 5.4 crore year over year, so is this what you are inquiring or something else?

Akash Jain: I am comparing with September quarter?

Atul Mehta: Not year over year, you were talking about quarter over quarter, so I think broadly the numbers remain similar. I think what has happened is, we are getting into growth in terms of all our activities including the marketing activities and all that which was at subdued level in Q2, which has increased in this quarter, that is Q3 which has increased the spent and therefore, has an impact on the profitability of our Company.

Akash Jain: So going forward, we are not facing any challenges as such? It would be a good period for us?

Atul Mehta: I think the fears which were there at the end of Q1, COVID was still fresh in our minds, I think all that is behind us. We are very confident going ahead. Now, we are working the way, its normal quarter in terms of strategies, plans, growth, expansion, so those kind of fears are not there and we are confident moving forward, business will be as usual.

Moderator: Thank you. The next question is from the line of Aarush Oberoi from Victor Delta Securities. Please go ahead.

Aarush Oberoi: Sorry sir, I got disconnected, so, my question was, do you plan to raise equity in the current year?

Atul Mehta: FY21, no, the FY22 plans have yet to be firmed up, so as and when we firm up, we will be able to take a call as to what quantum that we want to raise.

Aarush Oberoi: And is there any plan to reduce debt in the next 1 or 2 years?

Atul Mehta: I will answer it differently. The plans will be to reduce the debt equity ratio and not debt in absolute terms, because since we want to grow, reducing working capital which is the raw material for our business will not be possible, and it will not be a realistic situation, but two things, one is, may be as I just mentioned, A - consider equity infusion, which would help improve the ratio and B - improve the cycle, which would help reduction which would help in not increasing the debt in that proportion.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCILP. Please go ahead.

Keshav Garg: Sir, I wanted to understand that our larger competitor Redington, it has become debt free in the past two years and Sir, if you compare both the companies, our gross margins are broadly similar, operating margins of 2% are broadly similar, our inventory days and debtor days are also broadly similar, Sir, the payable days are much higher for Redington and Sir, that is what is helping them balance their working capital and helping them become debt free and Sir, instead of raising equity like we are doing, they are doing share buyback which is the opposite, Sir, so what are they doing different which we are not able to do, Sir, it is basically the same industry apart from the size?

Atul Mehta: Yes, what Redington is doing is fantastic, while our inventory and receivable days may be similar. I think one area is something that, the creditor's days are similar with similar vendors being worked out at by Compuage and Redington and others in the space. So if we have similar vendors then payment terms would be similar, it is only that we work with much smaller number of vendors and they work with the vendors which are possibly three times a number of vendors and that is where possibly some of the vendors, they may be able to offer better terms which would help them increasing the payable days and help reduce the net working cycle which is much better than us. I think that is one area which we will have to work on in terms of not increasing debt significantly and help curtail on our debt which would help improve our margins in the business.

Keshav Garg: Sir, basically, what I am trying to understand is, other shareholders would also be looking further, if we can broadly replicate what the Redington is doing, so then our future will be very bright because that company has become debt free, doing buybacks, so do you think that it is possible for us to succeed in replicating some of the best practices that they might be doing, so since it is a listed company and they hold conference call, everything, so publicly information is available, Sir you think that we can also do something like that in future?

Atul Mehta: Absolutely, we have to learn from our peers in the industry in India and globally and try and replicate all the best practices, be it on financial parameters, be it on business parameters or any other parameter, whatsoever. Let me acknowledge what they have delivered last quarter is fantastic and taking a view from that, yes that is what we would like to work towards, it will take us time, it will not happen in the immediate future. The horizon, I am not able to pen down at this point, but that is what we would also eventually like to work towards.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Atul Mehta for closing comments.

Atul Mehta: Thank you everyone for joining the call. I hope I have been able to answer most of your queries. In case, if you have any queries now or at a later stage, you may kindly contact SGA, our Investor Relations partners. Thank you so much.

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