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COMPUAGE INFOCOM LTD

26th August, 2020

To,

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

Security Code: 532456
ISIN: INE070C01037

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

Symbol: COMPINFO

<u>Sub: Transcript of Analyst Call held on Thursday, 19th August, 2020 at 11.30 a.m. IST</u>

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, 19th August, 2020 at 11.30 a.m. IST, to discuss the Operational and Financial performance for Q1 & FY21 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully
For Compuage Infocom Limited,

COMPUAGE INFOCOM LTD. MUMBAI

Sunil Mehta
Chief Finance Officer

Place: Mumbai
Encl: As above

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"Compuage Infocom Limited
Q1 FY2021 Earnings Conference Call"

August 19, 2020

MANAGEMENT: **MR. ATUL MEHTA - CHAIRMAN & MANAGING DIRECTOR - COMPUAGE INFOCOM LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Compuage Infocom Limited Q1 FY2021 Earnings conference call. As a reminder, all participant lines will be in 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, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not guaranteeing future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Atul Mehta, Chairman & Managing Director, Compuage Infocom Limited. Thank you and over to you Mr. Mehta!

Atul Mehta: Good morning ladies and gentlemen. Thank you for joining us on Compuage Infocom Limited's Q1 FY2021 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 business highlights. First of all, I am pleased to inform you that in spite of the lockdown we still managed to sign a distribution partnership in July with Zhejiang Dahua Technology, the world leading video centric smart IOT solution and service provider for its entire distribution range of CCTV surveillance and video management solution products.

The distribution coverage will be for four major states of India, which include Maharashtra, Karnataka, Andhra Pradesh and Telangana. Signing this partnership during this lockdown is a testimony to our efficient distribution system and a strong belief that clients put onto us.

This is in line with our strategy to focus on more profitable value-added business segments to enhance our profitability and thus our return on investments. With this partnership we have taken our total brand portfolio to 30. Our endeavor will continue to be on adding more and more brands in times to come.

Now coming back to Q1 FY2021, it was one of the most challenging quarters for the company till date. Business operations was severely impacted as significant part of the quarter went under the COVID-19 induced lockdown; however, the silver lining was that once the lockdown started easing from the month of May, there was a new set of demand for IT products emerging from corporates working from home.

Our total income for Q1 FY2021 stood at Rs.561 Crores impacted by the lockdown; however, our gross margins and EBITDA margin expanded by 80 basis points and 20 basis points year-over-year respectively on the back of our continuous focus on better product mix and cost optimization efforts.

We believe that, though COVID-19 has disrupted businesses throughout the world, it has with it, brought a new digital revolution in terms of how people work, communicate and co-ordinate with each other. The future of workspace, we believe, would be a mix of office plus working from remote locations as companies evolve and adapt to new way of working. Hence, we are confident that the post pandemic world will lead companies to invest extensively in IT devices that enable smooth work from home operations, cloud services & cyber security services.

We are presently established in all these value-added segments and thus are well placed to capture these new business opportunities. Our focus in FY2021 will continue to be on increasing revenue contribution for more profitable business segments to enhance the overall return on investment for the company and better utilize our resources.

Let me now give you an overview of consolidated Q1 FY2021 results. Let me first highlight that since the lockdown was enforced for significant part of Q1, the result for the same are adversely affected by COVID-19 pandemic and may not be strictly comparable with those of other periods.

- Total Income for Q1FY21 stood at Rs. 561 Crores as compared to Rs. 929.6 Crores in Q1FY20, impacted due the lockdown
- Gross Profit for Q1FY21 stood at Rs. 29.3 Crores as compared to Rs. 41.1 Crores in Q1FY20
- Gross Profit Margins expanded by 80 bps YoY to 5.2% in Q1FY21 with the help of better product mix
- EBITDA for Q1FY21 stood at Rs. 13.4 Crores as compared to Rs. 20.2 Crores in Q1FY20
- EBITDA Margins expanded by 20 bps YoY to 2.4% in Q1FY21 as we undertook several measures to rationalize operating expenses to minimize the impact on profitability
- PAT for Q1FY21 stood at Rs. 0.2 Crores, impacted due to the finance costs

Looking at the bright side we are pleased that we reported profit during this extremely challenging quarter.

Speaking about our liquidity position - the company is currently in a comfortable liquidity position to meet all its financial and other commitments. Although Q1 has been impacted due to the pandemic, we hope that the renewed and pent up demand for IT products during the remainder of the year will make up for most of the lost business opportunity.

We believe we have managed this phase reasonably well, giving us confidence for the future. With Pan India reach, strong brand portfolio, efficient supply chain and excellent service we are confident to grow our business and continue to provide value to all our stakeholders. 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 Nimis Sheth from GT Advisory. Please go ahead.

Nimis Sheth: Congratulations on the signing up of new agreements during the quarter. Obviously, the quarter was extremely tough for everyone and not just yourself. Couple of questions, one is relating to receivables, how are our receivables panning out? That is one, and two, what is the situation now going ahead, are you seeing some pickup in orders? Are we seeing some trend that is encouraging, could you give us some sense on that?

Atul Mehta: Receivables of course have been slow. In the months of April and May, we were at 30% of our normal collection. In June, we had almost about 60%-65%, in July, we were at 80%-85%, by the end of this month, we should be back to normalcy and as we speak, we do not see too much of a challenge on that front. So things are moving pretty comfortably. Yes that was a concern with us, but I think business seems to be streamlining quite well. As far as the situation now is concerned, I would say that this industry has been comparatively well placed as I mentioned in my statement being in the technology space and also the fact that India has low IT penetration, which is creating a lot of requirements of IT products and we are progressing quite well. The only question we have in our minds, like you do, is how the year is going to pan out while we are positive, we are bullish, but we are not making any conclusions at this moment. We have been cautious in our approach and moving forward.

Nimit Sheth: Understood. Thank you.

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

Ankit Agarwal: Thanks for the opportunity. I have a couple of questions on the numbers actually. The first one being, Sir, can you just help us with the segmental revenue contribution for this quarter?

Atul Mehta: This quarter we will not be sharing the segment wise revenue because it is a very, very curtailed quarter. There has been a very unpredictable fulfillment of orders and that will not give a true picture of what we are at, so therefore, this quarter we are not getting into review of segmental revenue.

Ankit Agarwal: Sir, couple of questions on the debt. Sir what is the plan in terms of our debt reduction?

Atul Mehta: We will be looking at it the other way. We will not be reducing the debt as we grow but moving forward we will work towards ensuring that the debt is not added in the same proportion to the growth because working capital is the raw material for this business and therefore curtailment is very, very difficult or rather, I should say impossible, if we continue to grow at a rapid pace.

Ankit Agarwal: Similarly with the cost of debt, like what is the plan there, has it reduced?

Atul Mehta: Cost has not reduced in terms of the debt. The model has remained the same. What we started on a journey last year, was using it optimally by focusing on more profitable segments, that is the trend which we will continue and thereby get better return on the investments that we have made.

Ankit Agarwal: You have talked about the working capital, so what are the working capital cycle days like, if you can give separately, like debtor, inventory and creditor days?

Atul Mehta: We will not be able to share because, as I mentioned in the earlier question that recoveries, payables, inventory were totally disproportionate, because we did not have a full quarter functioning, so it does not give a true perspective to the whole business. I would say September will be the right time to look at it where we are in terms of the receivable days, inventory days and creditor days, as I mentioned, our collection was impaired, inventory was definitely not into perspective and therefore, it will give a very distorted picture.

Ankit Agarwal: Okay fair enough. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kunal Mandawat from Investor Inc. Please go ahead.

Kunal Mandawat: I just had question regarding the management opinion, the stock has been near lows for quite a long time, so is the management looking for some option of buyback or something in the future regarding promoters looking for buyback or increasing the stake?

Atul Mehta: At this point of time, we have not thought about looking at stock buyback as a company, for the simple reason being A) due to the challenges in the environment we want to conserve on the resources and B) we would like to use the resources available to focus on growth of businesses, so as we speak, that is something which is not on the cards.

Kunal Mandawat: Fair enough and second question, as on March 31, 2020, we just saw marginal increase in these stakes in Bombay Mercantile. Is that any strategic decision also as an investment part? It was a very small amount but still.

Atul Mehta: Stake increase in Bombay Mercantile, can you elaborate?

Kunal Mandawat: Bombay Mercantile Corporative Bank, we have just increased stake by small percentage any investment part?

Atul Mehta: Very frankly it is relationship which we had for the long time and they extend credit facilities to Compuage so in reciprocation they expect us to subscribe to a very, very small percentage of shares so which is what we would have done, nothing beyond that so this is more of a reciprocation of relationship, very insignificant.

Kunal Mandawat: Thank you.

Moderator: Thank you. The next question is from the line of Kush Joshi from Kitara Capital. Please go ahead.

Kush Joshi: Good morning Sir. Thanks for the opportunity. Just one question, on new sign off which we did, so what is the size of opportunity you are looking at from this segment?

Atul Mehta: This is a growing segment. I think the right terminology in a very layman's language is the CCTV surveillance business and that is high growth segment like IT penetration, the CCTV surveillance penetration also in the country is very, very low. So it offers tremendous potential. This segment, pre-COVID, was growing at about 20% to 25% per annum in the country and we expect that to continue for some time to come, that is the bigger picture. Now in terms of India market - Dahua is one of the top three brands in the country and therefore it offers us a good opportunity not only now, but they also want to test us and therefore they have given us the four states and once we deliver, we are confident that in less than a year the entire country will be opened up to us and moving forward, we see good growth potential, so it is going to be a good business for Compuage.

Kush Joshi: Currently we are doing all these things through their own channel, the distribution?

Atul Mehta: Currently, they have two distributors in this business, one is a global player company called ADI. They have a worldwide distribution relationship with them. Second is the Indian company, which is primarily a niche player only into the CCTV business called Aditya Infotech and as I have mentioned a few times that principle company starts looking at alternative options when they feel their existing distributors are not doing full justice to the potential that the brand has and therefore when they started evaluating more options and we pitched for it, they found Compuage to be the most suitable option so they brought us on board as a third distributor to help them achieve their desired goals and the biggest USP that Compuage brings on the table for every single principle company, every single brand is the reach and penetration and the company and we are very, very confident that in less than a year, the entire country will be opened up to us.

Moderator: Thank you. The next question is from the line of Navneet Bhaiya, Individual Investor. Please go ahead.

Navneet Bhaiya: I wanted to understand that basic channel checks today suggest that IT products actually have quite a robust demand, it is like some people tell me that it is selling like really hot cakes. So I wanted your views on that, are you also seeing the demand pick up quite significantly, maybe even beyond pre-COVID level so I would like to have your view on that?

Atul Mehta: You are right to the extent that there is one category of product lines, which is doing extremely well, possibly better than pre-COVID days and that is the laptop category. Now a laptop category is doing well for two reasons. One is the work from home concept, which is there at this point of time and second there is also huge demand for this coming up due to the education segment, if a family has two children, they are studying from home, so earlier the house would have one laptop, now possibly they need two or three laptops because they all need to use it at the same time. So that is the reason there is this one segment, which I would say, has higher than normal demand of products at this stage. The other was usual, but we expect demand to increase over a period of time because organizations will want to prepare. There are some companies who have announced that over the period of time, we will have work from home concept as part of a strategy so not only demand for these products, there will be demand for cybersecurity products. There will be higher demand for networking products so that, all we will have to see as we progress, as to which category and how much the demand grows beyond the normal demand and we are there in all these product categories and therefore we hope to benefit out of the same.

Navneet Bhaiya: So the remaining nine months if we remove the first quarter there is a reasonable possibility of normal nine-month scenario for Compuage Infocom.

Atul Mehta: So this is the most difficult question because while we will be working towards that, but it is very difficult to predict because we are taking month after month approach, while we have plan B, plan C for any eventuality, but at this point of time, we do not want to make any predictions as such.

Navneet Bhaiya: My second question is, these entire things about Atmanirbhar Bharat, IT product segment is one segment, which is heavily dependent on imports and that too a lot on China so how you are seeing this Atmanirbhar Bharat and maybe to some extent anti-China feeling towards consumerism. Are you seeing that? Is that having any impact?

Atul Mehta: That is definitely weighing on our minds, no doubt about it. But as a Distribution Company, we have limited role to play. The entire industry - the laptops and everything else, everything comes here primarily out of China so I think that is something that all the vendors will have to think how they counter that strategy in terms of either sourcing from or shifting some of the manufacturing to the other countries or maybe getting it manufactured within India. I think it is something I am sure they are thinking about and are trying to work out strategies for that. But as we speak, we have not seen or heard anything and it cannot happen so quickly; it is a big change of moving a manufacturing base, so we will really have to see how, but it is not that brand A is doing it within the country and B and C and D are doing outside the country, so the impact is on the entire segment.

Navneet Bhaiya: As a distributor, it does not impact you right? Whether it is coming from China or if it is shifted to some other country or may be India also, but your work would essenmtially remain the same?

Atul Mehta: Absolutely it would only affect us if, let us say we are selling brand A, and Brand A is only in China, and Brand B and Brand C are not made in China, they are made in India, then it would possibly affect us. So as of now everything comes out of China, so it does not affect us and ultimately it is the brands that will have to decide a strategy and sync with the Government of India.

Navneet Bhaiya: So your dependence on Chinese brands, is that something that you are also considering managing over a period of time?

Atul Mehta: Absolutely, whatever we can do, we will do, like to see, we have our businesses broken into six verticals. The six verticals are IT consumer, IT enterprise, mobility, cloud, hardware services and audio products, so obviously, cloud does not get affected, the enterprise - some products come out of China, but companies like CISCO, have multiple manufacturing hubs so that also gets insulated, software products that we deal in and products like Microsoft, SaaS, do not get affected. The hardware portion gets affected which only comes out of China. I am sure the way we are concerned, our brands are concerned even more, because India is a large growing market and I am sure they will think and work out strategies which can address this wherever possible, like I will want to mention Dahua, the new sign up which is a Chinese company and they definitely have plans to move manufacturing into India. They have not shared the timeline, but they are definitely working on it. So I am sure every brand is concerned and would not like to lose on a large market and will work out in sync with the Government of India strategy.

Navneet Bhaiya: Your dependence on Chinese owned brand not manufactured out of China, but China own brands would be how much approximately?

Atul Mehta: To the best of our knowledge, I think it is only two or three small brands, Dahua is there, we have AOC which is monitor brand which comes out of China and I cannot right away think of anything else, so the real Chinese own brand as we speak, the percentages maybe 2 or 3 or less than that.

Navneet Bhaiya: Thank you and all the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Isha Savla from Arya Securities. Please go ahead.

Isha Savla: I wanted to ask how your service vertical scaling is up. What are the margins there?

Atul Mehta: Service vertical has been scaling up well. Of course, we still have a lot of work to do because signing up a brand and then there is a gestation period in terms of which they want to test us for three to six months before giving us Pan India, and we also want to see how profitable that brand’s business is for us. But it plays a very, very important role and will play a significant role in our strategy to enhance the bottomline of the organization in terms of margins, of course, the margins are more relevant rather than topline and the margins are in the region of about I would say post expenses EBITDA level would be between 20% and 30%.

Isha Savla: Sir our company is really investing in the remote working solutions and cloud services and also wanted to know that what is your outlook on the business for the next year?

Atul Mehta: We are definitely investing in cloud services. Again, our entire business model is through channel so whatever we do in cloud also, we are signing a brand that will be routing through the partner, because it is partners who will then give the desired support to the customers and I think before the end of next month, we are in the final stages of signing up. Once it is signed up, we will be able to announce it hopefully next month. For remote working, it is primarily not only cloud software, it is also security services and hardware device and we are already there, and we are addressing that, so it is as far as remote and cloud services go, and I am sorry what was the second question that you had asked?

Isha Savla: I wanted to know what is the business outlook for the next year?

Atul Mehta: While we are bullish and positive and we hope to get back to growth next year but it is going to be very, very difficult to predict now because we feel that we will still see some swings in the next two or three quarters despite being in a well placed technology distribution space, so it is going to be difficult to comment on it at this moment and may be, as we move into Q4, I think we will have much better picture as to how the whole environment is panning out.

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 everybody for joining the call. I hope I have been able to answer most of your queries. In case of any further queries, you may contact SGA, our Investor Relations Partner. Thank you.

Moderator: Thank you. On behalf of Compuage Infocom that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.