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COMPUAGE INFOCOM LTD

25th November, 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

Sub: Transcript of Analyst Call held on Friday, 20th November, 2020 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 Friday, 20th November, 2020 at 11.30 a.m. IST, to discuss the Operational and Financial performance for Q2 & FY21 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully,

For Compuage Infocom Limited,

Anmol Jolly
Company Secretary

Place: Mumbai
Encl: As above

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"Compuage Infocom Limited Q2 FY2021 Earnings Conference Call"

November 20, 2020

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

Moderator: Ladies and gentlemen, good day and welcome to Compuage Infocom Limited Q2 FY2021 Earnings Conference Call. 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 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. Thank you and over to you Sir!

Atul Mehta: Thank you. Good morning ladies and gentlemen. Thank you for joining us on Compuage Infocom Limited Q2 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 the business highlights.

During Q2 FY2021, we witnessed strong recovery in business as compared to previous quarter on the back of strong demand from all our channel partners, which are spread across the country. The demand surge was witnessed across all our product categories of IT consumers, enterprise, mobility and cloud-based product. Hence our revenue, EBITDA and PAT staged a strong recovery during Q2 as compared to Q1. This demand recovery, we believe, is led by multiple factors as follows: Surge in demand for IT products from corporates working from home as they continue to invest in devices which enhances productivity and ensures safety and security of the data while employees continue to work from home. As students in schools and colleges continue to study through online medium, demand for laptops increased, increased demand for mobiles as people spent more time on their devices during lockdown for connectivity and entertainment, and increased demand for fitness trackers and health devices as consumers in general have become more health conscious.

Another point I would like to highlight is that, we believe, going forward, work from home is going to be a significant part of the work culture leading to sustained demand for IT products especially in the cloud and cyber security segments as the employees need to access data remotely and at the same time security of the data is as important. Hence, in line with our strategy to enhance our product offering in this more profitable segment, we have entered into cloud distribution agreement with Acronis for enabling resale of Acronis cyber security and data production solutions during Q2. This tie up would further enable us to widen our horizon in cyber security segment thereby further strengthening the Company's product portfolio. We will continue to focus on partnering with reputed brands whereby we can help to add value to the brand as well as to our channel partners and end consumers.

Although we are still catching up with revenue as compared to Q2 of last year, with newer brand additions, better product portfolio and leaner cost structure, we expect to better our profitability as business reaches pre-COVID levels in times to come. Let me now give you an overview of our consolidated Q2 FY2021 results. We reported a strong recovery in business as compared to previous quarter and rapidly gaining traction to reach business levels as compared to last year. Total income for Q2 FY2021 stood at Rs.1090 Crores as compared to Rs.1292 Crores in Q2 FY2020 and Rs.561 Crores in previous quarter. Gross profit for Q2 FY2021 stood at Rs.45.2 Crores as compared to Rs.54.9 Crores in Q2 FY2020 and Rs.29.3 Crores in the previous quarter. EBITDA for Q2 FY2021 stood at Rs.25.3 Crores as compared to Rs.29.8 Crores in Q2 FY2020 and Rs.13.4 Crores in previous quarter. EBITDA margins for Q2 FY2021 stood at 2.3% at similar levels when compared to Q2 FY2020. Several cost optimization initiatives undertaken by us during these last six to eight months have led us to maintain our EBITDA margins as compared to last year. PAT for Q2 FY2021 stood at Rs.6.8 Crores as compared to Rs.10.4 Crores in Q2 FY2020 and Rs.0.2 Crores in previous quarter.

Speaking about our liquidity position, our total debt which includes both long term and short term stood at Rs.487 Crores as on September 2020, cash and cash equivalents as on September 2020, stood at Rs.78 Crores, hence our net debt stands at Rs.409 Crores. We continue to generate healthy cash flows and can comfortably service our debts. Our net worth as on September 2020 stands at Rs.208 Crores. To conclude we believe that penetration of IT products in India is much lesser when compared to the developed countries, hence there is long term growth opportunity for the industry and thus for our company to grow. With the economy now strongly recovering from the pandemic, with enhanced product offerings, Pan India distribution reach and efficient supply chain, we are well placed to grow strongly and sustainably in the times to come. With this, I now open the floor for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first 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. Now that the lockdown regulations are easing and people in a staggered way, have started going to office, do you think that the demand due to work from home will reduce?

Atul Mehta: For a lot of questions, very frankly, we do not have definite answers, because this is something that we are seeing for the first time in our life span, so it is going to be difficult to know, but I think what is evident, is now companies and people want to be prepared for all kinds of eventualities. There was surge in demand for laptops primarily and may be to some extent mobile phones, so we may see better than normal demand in times to come, but whether the same increased demand will be there, is something that only time will tell us.

Ankit Agarwal: I also have a couple of questions on the financials, regarding debt, what is the plan there for the next two years in terms of reducing it?

Atul Mehta: Reducing debt will be difficult, because we want to continue the growth momentum that we built in the last decade; however, we will ensure that we do not grow only on debt, we will have balanced growth or we will have a growth which will not be riding on debt alone, is what I would mention.

Ankit Agarwal: Fair enough. Sir one last question on the working capital, what is the working capital cycle in number of days?

Atul Mehta: Working capital cycle in number of days is closer to about 59 days as we end Q2.

Ankit Agarwal: And given the current situation like are you facing, any issues on the receivable side?

Atul Mehta: I would not say there are any issues or concerns, yes, from the enterprise segment there are delays which are happening, but I would not call it concerning, which is understandable, as project execution gets delayed, they have their challenges because the recovery is slow while they do meet some of the commitments from their internal resources, all of it cannot be met and therefore there are some delays happening on that front.

Ankit Agarwal: That answered all my questions. Thanks and best of luck.

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

Isha Savla: I had couple of questions. I wanted to know that how was the recent festive season for the company, basically I wanted to understand that which segment did well for us, and which has performed negatively during the Q2?

Atul Mehta: Compuage has taken a very balanced view amongst all our divisions that we have and therefore we are not dependent. In the festive period, products like laptops and smart phones are typical categories which do better than normal and since we are not highly centric on these two categories alone, we are very indifferent to say that may be like online company, there would be a surge for us or there is no surge on account of the festive buying during this period.

Isha Savla: Can you provide segmental revenue contribution for Q2?

Atul Mehta: The segmental revenue I can share, we have still not stabilized with all these upheavals happening in the market place, but I can possibly share the segmental revenue for the H1 of this current financial year, the consumer segment would be at approximately 35%, the enterprise segment would be at about 43% to 44%, mobility would be at about 18% to 19%, cloud would be at about 2% to 3%, these are the major verticals, of course we have two other verticals, one is the lifestyle and hardware services, they are still relatively smaller in terms of percentages.

Isha Savla: Thank you.

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

Ayush Oberoi: Thank you for giving me the opportunity. Sir, as e-commerce is on a boom due to the festive sales, bumper festive sales, did our company benefit from this?

Atul Mehta: As I just mentioned that the products which primarily do well during these periods are laptops and smart phones and while we are there in this category, if we were to put total business coming out of the laptops and smart phones, it would be less than 25% to 30% for the company and also there has been some constraints on the supply, so we have not seen a surge on these categories for Compuage.

Ayush Oberoi: Okay, so how many brands do you expect to be added in the next year?

Atul Mehta: We have already added two plus one in this current calender year, we have added GOQii, we have added Dahua and we have added HP services, that is why I mentioned two plus one. We are in discussions and we hope to close at least two more before the end of this financial year or latest by June. Until it closes, we can never say for sure because discussions are on with several brands, but the plan is to continue to add anywhere, between two to three brands a year, plus more on the cloud offerings and yes, we have signed up the Acronis one in terms of the cloud security space also, which I forgot to mention.

Ayush Oberoi: That was very helpful and what would be the revenue contribution from hardware services in Q2?

Atul Mehta: Hardware services have been affected because of the inability of the team to go and service the products, so it is still in the stage of settling down, because lot of our services are provided on field and that continues to be constraint.

Ayush Oberoi: That was very helpful Sir. Thank you.

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

Atul Kothari: Thank you Sir for the opportunity. I have a few questions. My first question would be to when can we expect our business to reach pre-COVID levels?

Atul Mehta: We are hoping for it to happen in Q4.

Atul Kothari: Okay. And is it possible, in terms of our FY2020 revenue, how much percentage are we likely to reach to approximately for total FY2020 revenue?

Atul Mehta: Very difficult to comment because things have still not stabilized, that gives us a clear picture at what levels we will close Q3 at this and Q4 at this. There is still a lot of uncertainty happening in the marketplace. I can only mention that we will try and make up first, of course our goal is to hit the pre-COVID levels, which is what as I mentioned, we are going to try and hit it by Q4 and minimize the gap that we have for the year over year, so we are not placing any numbers at this point of time. Our desire is going to be to minimize the gap year over year.

Atul Kothari: Is it possible for you to provide an outlook in terms of revenue and profitability over the next two, three years?

Atul Mehta: We would not like to do that at this moment, we do not know when we are going to stabilize our operations completely because what is happening in the western part of the world in terms of COVID and if it flows into India like we have just seen the announcement of Ahmedabad getting locked down for 48 hours and spread of cases in Delhi and how it will affect life and business in general, so it is going to be very, very difficult to say that this is what our plans are and we are very confident of achieving this. Yes, we hope to do well because as I mentioned in my earlier communication that demand for IT products will go up because the penetration level in the country is low and the need is now felt more with more and more things going on the digitization route, so we are hopeful that we should be able to get back on growth track from next financial year.

Atul Kothari: Are you having any plans to raise equities over the next one year or so?

Atul Mehta: We will just wait, yes, we definitely want to raise equity, so that we have a balanced contribution between equity and debt, so we have not yet made any concrete plans as to how much and when but yes, over the next three years there will be a balanced infusion of funds on both, equity as well as debt.

Atul Kothari: That was helpful. Thank you Sir.

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

Navneet Bhaiya: I wanted your views on your balance sheet construct, over the last three years, your debt to equity has consistently ranged between about 2.5 to 3x, you just spoke about raising equity at an opportune moment so that a debt equity is balanced, but the current market cap for the company is about Rs.90 Crores odd, so raising equity from the public markets, even if you dilute decent 5%, 10%, you will get may be, Rs.9 Crores or Rs.10 Crores, so I wanted to understand your views on your balance sheet construct, your turnover has been increasing, but so has your debt. If I look at your debt divided by turnover, that percentage has only increased, so majority of the growth has been funded out of the debt, which has resulted in lower profitability by your company, your interest to EBITDA is almost 70%, so I wanted your views on that, your operations and all are pretty well and I think there is good progress over there.

Atul Mehta: Last few years, we have grown on debt and we have realized that, so moving forward, as I mentioned, we will be ensuring that there is going to be balance growth coming out of equity and debt and as very rightly said by you, that our market cap is ranging in the region of about Rs.90 Crores as against our net worth, which is closer to about Rs.208 Crores which does not truly reflect in terms of the Company's intrinsic value, so that is why we are not able to share any definite plans as to how much and when we are going to raise, because we are conscious of the fact that we need to raise funds at right valuation so that the Company benefits out of it. So it is something that we are just waiting and watching and we will act appropriately, but yes, we do not want to grow entirely out of debt and therefore this is something that will be paramount in all our consideration.

Navneet Bhaiya: Perfect. My view is, I think one of the reason why the market cap of the Company is lower than the book value itself, is consistent increase in debt and interest eating up about 70% of the EBITDA that you generate, so given that do you have any target ratio of debt to equity since yours is a distribution business, are there any debt to turnover or any target numbers that you have in terms of absolute debt which you can share with us?

Atul Mehta: We do understand that debt has been higher because we have grown primarily on debt in the last few years and working capital is our raw material, so what we have done as step one in the last financial year, even at the cost of taking a hit on the topline, we focused on growing the business and enhancing the bottomline which we have successfully demonstrated and that will change the ratio of interest coverage in terms of EBITDA etc., and that is going to be the way forward. We were on that journey, which I would say, got affected this year on account of the environment, so the moment the environment stabilizes we will focus on growing the businesses in the profitable segments even if it means reducing focus or reducing certain businesses so that our debt does not grow in the same proportion and the contribution towards profitability is on the higher side, so we are conscious of the fact and are keeping that paramount to the future growth plans that the Company has.

Navneet Bhaiya: That is very nice to know and the last thing is, with the interest rates coming down significantly, are you seeing banks passing on interest benefits to you that can of course increase your profitability significantly, because interest is a big component below your EBITDA?

Atul Mehta: Not really, there has not been much change. I think what we see in news and what we see happening has not been translated into actual finance cost to us from our banking partners, it is something that we are constantly working towards, but as we speak, it has not yet translated into any benefits for the Company.

Navneet Bhaiya: Thank you so much. That is all from me.

Moderator: Thank you. Ladies and gentlemen that seems to be the last question for today. I would now like to hand the conference over to Mr. Atul Mehta for his closing comments. Over to you Sir.

Atul Mehta: Thank you everyone for joining the call. I hope I have been able to answer most of the queries. In case, if you still have any queries left out or that you may come about, you may contact SGA our investor relations partners. Thank you for your valued time.

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