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COMPUAGE INFOCOM LTD

23rd November, 2022

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, 18th November, 2022 at 11:00 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, 18th November, 2022 at 11:00 a.m. IST, to discuss the Operational and Financial performance for Q2 & H1 FY23 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully,

For **Compuage Infocom Limited,**

HASTI DEEPAK PALA

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Date: 2022.11.23 11:51:49 +05'30'

Hasti Pala
Company Secretary

Place: Mumbai
Encl.: As above.

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"Compuage Infocom Limited
Q2 & H1 FY 23 Earnings Conference Call"
November 18, 2022

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

Moderator: Good morning, ladies and gentlemen, and welcome to Compuage Infocom Limited Q2 and H1 FY 23 Earnings Conference. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Atul Mehta, Chairman and Managing Director from Compuage Infocom Limited for his opening remarks. 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 and H1 FY 23 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. Starting with some key developments over the past six months, I'd like to share brief insights on recent developments regarding the Company. We have made healthy progress on adding new brand partnership by signing up a Distribution Agreement with R&M India Private Limited, to provide structured cabling solution to partners. We are also focusing more on higher profitable brands and categories to realign our capital and use it more efficiently to assure better capital allocation and all new brand agreements are a step in that direction.

Collaborations, with such brands will allow us to expand our business in more profitable business segments, resulting in a higher return on capital, while also providing these brands with greater client reach particularly in Tier-2 and Tier-3 towns and cities. Demand scenario from corporates and households continue to remain healthy. Strong demand across our product portfolio has encouraged us to report a robust revenue growth of 32% sequentially. Our strong growth in revenues has helped us to achieve healthy profitability, which is majorly attributable to increase share of value-added products and strong demand for IT products.

Now let me give you an overview of our consolidated Q2 FY 23 results. Total income for Q2 FY 23 stood at INR 1,243 crores as compared to INR 1,125 crores in Q2 FY 22, up by 10% year-over-year. Gross profit for Q2 FY 23 stood at INR 58.7 crores as compared to INR 53 crores in Q2 FY 22, up by 11% year-over-year. Gross profit margins were 4.7% in Q2 FY 23, which was similar for Q2 FY 22.

EBITDA for Q2 FY 23 stood at INR 34.6 crores as compared to INR 29.9 crores in Q2 FY 22, up by 16% year-over-year. EBITDA margins expanded by 10 basis points year-over-year to

2.8% in Q2 FY 23. PAT for Q2 FY 23 stood at INR 8.4 crores as compared to INR 7.5 crores in Q2 FY 22, up by 11% year-over-year.

Now let me give you an overview of our consolidated H1 FY 23 results. Total income for H1 FY 23 stood at INR 2,186 crores as compared to INR 1,790 crores in H1 FY 22, up by 22% year-over-year. Gross profit for H1 FY 23 stood at INR 103.7 crores as compared to INR 84.1 crores in H1 FY 22, up by 23% year-over-year.

Gross profit margins were 4.7% in H1 FY 23, which was similar for H1 FY 22. EBITDA for H1 FY 23 stood at INR 61 crores as compared to INR 47.3 crores in H1 FY 22, up by 29% year-over-year. EBITDA margins expanded by 20 basis points year-over-year to 2.8% in H1 FY 23. PAT for H1 FY 23 stood at INR 14.6 crores as compared to INR 8.6 crores in H1 FY 22, up by 70% year-over-year.

We believe that the penetration of IT products in India is lower than in developed nations, providing a sufficient headroom for sustained long-term growth. Going forward, we will continue to focus on adding new brand partnerships and agreements to widen our product portfolio and explore newer markets in order to scale up our business, which will lead to better value creation and profitability. With this, I now open the floor for Q&A.

Moderator: We have the first question from the line of Kanika Kothari from Kothari Securities.

Kanika Kothari: Yes. Sir, the first question is that, are you in talks with more new brands for partnerships? Like how many new brand additions can we expect in the next one or two years?

Atul Mehta: Yes. This is a constant process that continues in Compuage. We are engaged in discussions with several brands to expand our product portfolio. We cannot quantify how many we will sign in the next one year or two years. Our objective, our goal is to sign at least minimum of six to eight brands every year. That is the goal that we are working towards, and we are very confident of achieving that goal.

Kanika Kothari: And the next question I want to ask you is like what is the Company's current working capital cycle? And I mean, has it improved as compared to the last year?

Atul Mehta: The cycle more or less remains the same. The current net working capital cycle would be in the region of about, 55 days.

Moderator: We have the next question from the line of Anjana Shah from Shah Investments.

Anjana Shah: A couple of questions from my end. Just wanted to know on the receivable front. Are we facing any challenges?

Atul Mehta: I would answer it in two parts. One is, as far as challenges are concerned, I don't think so we are facing any challenges. Yes, there are some delays, which is in the normal course of business, but nothing alarming as such.

Anjana Shah: And Sir, any ROCE targets or like a range that you aspire in the next four to five years, which possibly you might achieve by cloud sales or hardware service sales, is there any number or a range that you are working on?

Atul Mehta: We would not like to get into forecasting or projections. That is something that we will refrain from, but yes, we are very clearly working towards growth as far as the business is concerned.

Moderator: We have the next question from the line of Parth Vasani from KK Advisors.

Parth Vasani: So I had two questions. Could you give us the revenue contribution, segment wise, for this Q2 and H1 FY 23?

Atul Mehta: So we normally do not want to get into breakup of revenue, but I'll give you a ballpark figure between consumer and the enterprise and the cloud business, for H1, it would be in the region of 60:40 ratio.

Parth Vasani: 60 would be for consumer, right?

Atul Mehta: Yes.

Parth Vasani: The second question was, can you give me some insight on the new brand partnership, which you have signed and the biggest opportunity from that partnership?

Atul Mehta: Yes. So the new brand that we have signed is called R&M. It is a global brand and they are doing fairly well, not only globally but also in India, and we are very-very happy to get associated with them. We've already signed the Agreement and are in the process to kick start the business. This is into structured cabling business.

What we would call as passive networking products that goes into providing cabling and all other networking products. They are doing reasonably well in India, and we are together expected to reach newer heights. We would not like to put a number to it because it takes about six months for any new brand relationship to get settled down within Compuage system and the partner ecosystem, but it will definitely contribute towards growth and more importantly, towards a healthy bottom line.

Moderator: We have the next question from the line of Akash Mehta from Capaz Investments.

Akash Mehta: I wanted some more color on the nature of services, basically, what do we do in our service and vertical? And if you could give me some color on the margins of this business if we aim to scale it up in the future?

Atul Mehta: So as a distributor, we do not need to get into hardware services. The services responsibility lies with the brand and the principal company. But we saw an opportunity with our nationwide infrastructure, and that is what prompted us to venture into hardware services as a separate business unit within Compuage. What we do is as an infrastructure, we have 69 service centers. We have more than 300 engineers on our payroll providing these services.

Now let me give you an example, if you bought an Asus laptop and you have a problem with the product, you would call the toll-free number. The toll free number would direct you to one of the ASPs, we being one of the larger ones. When the call is directed towards us or the customer is directed towards us, we'll fix the problem during the warrantee period and get compensated by Asus. So we have about seven or eight brands that we represent for services. And this is how we provide services on this business. It offers a healthy double-digit margin, and therefore, we are trying to focus on this business.

Akash Mehta So double-digit margin percent. And what kind of a revenue mix do we have currently? And what is the steady state mix that we target in the future?

Atul Mehta: It's service revenue where the contribution is very-very low. Currently, the top line contribution is less than 0.5%. So we cannot talk about what is the revenue contribution that it will play in the Company, because in distribution business, the other businesses offer a healthy top line. But the objective is to complement the bottom line and help the bottom line grow.

Moderator: We have the next question from the line of Anup Shah from Shrinath Securities.

Anup Shah: Sir, I just had two questions on the rights issue. Just wanted to understand what are the proceeds going to be utilized? And is the promoter group goal to participate in the rights issue and if yes, how much?

Atul Mehta: So the rights issue proceeds are primarily for the growth of the Organization. It is for contributing towards the working capital needs. There is no other requirements, no capex, no inorganic growth plans or anything. So it's a very organic business that we are trying to grow by. And yes, the promoters will be contributing to the rights issue. And in terms of the quantum, that is something that we would not be able to share at this moment. But promoters are definitely going to contribute towards the rights issue.

Moderator: We have the next question from the line of Karan Mehra from Mehta Investments.

Karan Mehra: My question is, what is your outlook on scaling up of hardware services vertical?

Atul Mehta: It's a tough business. Why it is tough, is because there are very-very few organized players like us. Most of them are individual mom-and-pop shops, they operate as ASPs and therefore, sometimes, they are willing to operate at lower margins. And therefore, we are constantly fighting with the brand owners to pay us in line with what we can offer in terms of nationwide services. So it's a tough business. And we definitely want to stay put because it offers us the opportunity to increase the bottom line of the Organization. So having said that, yes, we are in it to scale up the business. We are just not making projections or forecast at this moment.

Karan Mehra: And also, if you can help us, like in which categories are you focusing on to grow the business in future?

Atul Mehta: So categories remain basically the PC hardware category. We are there in laptops. We do selectively smartphones. We do peripherals like printers, scanners. So it's the basic PC hardware category of products.

Moderator: We have the next question from the line of Ashay Jain from Jain Capital.

Ashay Jain: I have a couple of questions. Can you provide gross margin for each of the business segments?

Atul Mehta: We are not providing divisional accounts and margins. So I regret, I will not be able to provide that, but I will give you a broader outlook. Basically, the consumer business offers lower gross margins and the enterprise business offers higher gross margins.

Having said that, the consumer business has lesser value addition and has shorter working capital cycles. The enterprise business requires a much more value addition by the distribution companies and the partners and therefore, has higher investments. It also has higher working capital cycles. So the way the Company looks at it from the business perspective is, what is the ROI that any product line would contribute to the business, rather than looking at pure gross margin, because it does not give a true reflection of contribution to the Company.

Ashay Jain: So secondly, can you throw some light on the guidance in terms of revenue for specific to cloud managed service or the overall cloud business?

Atul Mehta: Cloud business is growing. We will be adding more brands in that portfolio in time to come. We are also working on creating our own portal for cloud offerings to resellers. So that gives you an indication of our focus on this business, but we will not be able to make a forecast or projections for the division of any of our businesses.

Moderator: We have the next question from the line of Priyanka Shah from NM Securities.

Priyanka Shah: I wanted to know, what is the Company's debt as on September '22 and what is cost of debt?

Atul Mehta: The coming debt as on September '22 is approximately INR 450 crores. And the cost has gone up off lately with what all has been happening in the marketplace. And I think it would be in the region of about 10%, 11%, 12%.

Priyanka Shah: And what kind of EBITDA margin can we expect in two to three years?

Atul Mehta: We are definitely working towards enhancing the EBITDA and the PAT. is all I can say at this moment.

Moderator: We have the next question from the line of Aasim Bharde form DAM Capital Advisors Limited.

Aasim Bharde: Sir, just can you talk or give a sense on working capital between the enterprise and non-enterprise portions of your business? And maybe if you could break it down between receivables and inventory?

Atul Mehta: So I can give you a broad indication. As I mentioned that the consumer business operates on shorter working capital cycles and the enterprise business works on longer working capital cycles, in terms of which, if I mentioned that our average working capital cycle, net working capital cycle is in the region of 50 days to 55 days, I think the consumer part of business would possibly be operating at about 40 days and the enterprise business would be operating at a higher days of maybe 65 days or so. That is the kind of indication I can share with you.

Aasim Bharde: I mean is there a gap, is that being fueled through your receivable days? Or is it the inventory portion that actually factors for the difference?

Atul Mehta: So in the consumer, the inventory is higher and in the enterprise, the receivables are higher.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Atul Mehta for closing comments.

Atul Mehta: Thank you, everyone, for joining the call. I hope I've been able to answer most of your queries. In case of any further queries, you may contact SGA, our Investor Relations partners. Thank you.

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