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COMPUAGE INFOCOM LTD

25th November, 2021

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 Monday, 22nd November, 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 Monday, 22nd November, 2021, at 11.30 a.m. IST, to discuss the Operational and Financial performance for Q2FY22 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 FY2022 Earnings Conference Call"

November 22, 2021

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

Moderator: Ladies and gentlemen, good day and welcome to Compuage Infocom Limited Q2 FY2022 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 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 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 Managing Director, Compuage Infocom Limited for his opening remarks.

Atul Mehta: Good morning ladies and gentlemen. Thank you for joining us on Compuage Infocom Limited's Q2 FY2022 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 has had a chance to go through the same. Let me first start with business highlights.

Q2 FY2022 witnessed all round recovery as lockdown restrictions were eased as compared to the previous quarter. The recovery was on the back of demand from reopening of offices while demand from work-from-home products also continued. Recovery was across all our product categories which include IT, Consumers, Cloud and Hardware Services. IT Enterprise, which has been slow during the pandemic, is now expected to grow rapidly. With the economy now normalizing, we expect the positive demand momentum to continue.

We also witnessed good growth and profitability as compared to the revenue on year-on-year basis as well as sequentially. We continued to put efforts on adding newer brands and adding partners. These new partnerships will enable us to scale up our business and get more profitable business segments leading to better return on our capital and at the same time, provide better reach to these brands in terms of customers, especially into the Tier II and Tier III cities.

We believe the future of work will be a mix of work from office and work from home. This will require new additional investments by the corporates in the areas of remote working and cloud services in order to ensure the business does not get impacted in case of disruptions going ahead. We are putting extra efforts in scaling up our cloud business. We are in talks with several brands to bring them on board. We are strengthening our team and of course, enhancing our reach across all geographies. We are investing in the cloud business by developing a portal for seamless execution for the partners. This I believe, is going to be the next growth area for Compuage.

Let me now give you an overview of our consolidated Q2 FY2022 results. Total income for Q2 FY2022 stood at Rs.1126 Crores as compared to Rs.1090 Crores in Q2 FY2021, up by 3% year-on-year. Gross profits for Q2 FY2022 stood at Rs.53 Crores as compared to Rs.45.2 Crores in Q2 FY2021, up by 17% year-on-year. Gross profit margins expanded by 60-basis points year-on-year to 4.7% in Q2 FY2022.

EBITDA for Q2 FY2022 stood at Rs.29.9 Crores as compared to Rs.25.3 Crores in Q2 FY2021 up by 18% year-on-year. EBITDA margins expanded by 40-basis points year-on-year to 2.7% in Q2 FY2022.

PAT for Q2 FY2022 stood at Rs.7.5 Crores as compared to Rs.6.8 Crores in Q2 FY2021 up by 11%. We believe IT products, in the long run, are going to witness strong and sustainable demand from corporate, employees working from home, students learning from home and lastly for personal, entertainment and news. All these factors collectively will lead to sustainable demand, generation across all segments.

All these factors collectively will lead to sustainable demand generation across all segments. With this, I now open the floor for questions and answers.

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

Atul Kothari: Thank you Sir for this opportunity. I have three to four questions; my first query is what kind of EBITDA margins can we expect post two, three years.

Atul Mehta: We do not really want to get into forecasting. All I can say is we are working towards improving our bottomline. The goal is going to be focused towards bottomline and not the topline and all the steps and initiatives being taken by us are working towards this objective.

Atul Kothari: Sir, do we anticipate any softness in demand, as work from home is now reducing and offices have started again?

Atul Mehta: What has happened is, people have realized the need for IT equipment and IT services. There will be some softening of demand on the consumer or the home front. It will never go back to the earlier times of lower demand and that will be more than made up by demand on the commercial segment on the office front. So, overall we expect demand generation to be good and sustainable.

Atul Kothari: Sir, do we also provide any services, any cloud services or are we just dealers for cloud purpose?

Atul Mehta: As we speak, we do not have too much of cloud services because we have just started on this journey about one and a half years back. So, first step is going to increase the basket, second is going to increase the partners that we serve and along with that, we plan to get into cloud services as well, but everything will be aimed at partners and through partners, we will support the customers.

Atul Kothari: Sir lastly, you have signed an agreement with MSI. So, can you give some colour on the business opportunities which lies here?

Atul Mehta: That is a very recent tie up since it got announced this morning, that is why I have excluded in my coverage today. MSI is a Taiwan based company, a leader in laptops, gaming products and they have several other peripheral PC components as well and the objective of signing up with them was to increase our product range and of course ensure that we work towards growing our bottomline.

Atul Kothari: Thanks. That is all from my end. Thank you Sir.

Moderator: Thank you. The next question is from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead.

Aasim Bharde: Good morning Sir. Sir, a couple of questions more to do with the ductal side. Sir, firstly can you just talk about what are your brand partners paying in terms of supply. Have supplies improved compared to what you are hearing in the recent past or are more issues expected and if yes then when do you think the supply issues will get sorted out?

Atul Mehta: There are two challenges on the supply front; one is the challenge of the availability of components which we know and we have been reading and hearing about it all the time and they do continue. There are challenges and nobody is able to predict as to by when things will really start easing out, the lead time of supplies has gone up. Second is of course, the true supply chain shipments and those kinds of challenges which would be possibly the one that would get resolved earlier, the components part may take a longer time, but our brands, our OEM partners are not able to share the exact details as to by when things will be absolutely streamlined.

Aasim Bharde: But are your brand partners facing any troubles in terms of supplying to you, is there any problem on that side?

Atul Mehta: There are longer lead times. Some part of it is being addressed with better planning wherever we are in the stock and sale model, things are being able to get addressed better because we can forecast better, we can project and plan better, but there are a lot of businesses where it is B2B. They are project based businesses. Of course as far as we are concerned, everything is through partners, but the order can only be placed once the entire component BOM is available and there the impact is a little more because the work can only start once the order is placed.

Aasim Bharde: So, is it safe to assume that still, there are supply issues and even at your own vendor end, there can be some problem, partly it can be addressed by your own forecasting needs, but for net, there is still a problem under vendor side, so will it affect our own revenue generation in the near future?

Atul Mehta: Two answers to it. Yes these are the challenges which do continue. Now that they have been there for a long time, companies have started addressing them as best possible by them. Easier to address in the stock and sale business, difficult on the back-to-back business. Second is in terms of impact, I do not think the impact will be much because it is now set in the system. If there is a lead time of three months, it is already being budgeted, it is already being put into planned motion. So, I do not think there will be too much of impact on the business moving forward.

Aasim Bharde: But just to follow-up there should not be an impact, but there may not be an acceleration in revenue growth as well, because of the long lead time that you just mentioned because there is still a supply chain issue and we do not know when that really gets sorted out, so maybe it will not slow down, but it will not pickup as well. Is that the right thinking?

Atul Mehta: It will, you are right to some extent. It is difficult to quantify exactly as we speak, because things may just take a turn quicker than anticipated. So I do not think growth may be impacted that much because for example, in the enterprise business, demand is just beginning to come back again. So to that extent, it is not only a supply related issue. I think demand picking up will have to see how well the demand is being met, so it is a little difficult to quantify.

Aasim Bharde: I think that actually brings me to my second question. Sir, there is this whole narrative of the larger players being able to secure supply a little bit better compared to the rest of the industry and by larger players they are just two in the market - Ingram and Redington, at least Redington I am aware that they are also seeing some kind of supply pressure, but it is not to that extent. So, in such a market is the possibility that industry consolidation may happen, so I am not saying that Compuage will also be a victim of that but how do we differentiate where we can at least stay relevant in the market where demand is high but supply from the vendors is on the lower side so the market may also be shifting towards certain brands compared to having a wider choice in terms of brands. How do we differentiate on that thing?

Atul Mehta: Everyone has a well-defined USP, well-defined role. It is not defined by the brand owners, but by virtue of the focused efforts that every distribution company puts in, it gets kind of tagged with that distributor, that this distributor is doing this well, better than the others and therefore these kinds of opportunities would either they end up going to that distributor or maybe to some extent nudged into that distribution company so that it gets better addressed. As far as Compuage is concerned, our biggest strength and the biggest USP is that we have been a very focused distributor for addressing the geo-locations and the partners who address the MSME space, that is what we are really focusing on and in that space, when any brand owner needs to accelerate or needs to put in focus or needs to grow that business in those segments, Compuage is what they look up to because that is our strength, that is our focused area. So, I think we have established our niche very well and it is not that we cannot address other segments. There are no restrictions per se, we cannot do everything. So, we are focusing on what we are good at and create a value proposition for Compuage and our brands.

Aasim Bharde: Sir for Compuage, the key market segments focus is more on the MSME side and not on the direct consumer side. Is that correct?

Atul Mehta: No, sorry. When I said MSME, I would refer to partners addressing that space and of course that is as far as both consumer and the enterprise space, so we do address both the spaces; however, our focus is going to be more on the enterprise side moving forward because that is where we can really add more value. Consumer is a very straight jacket business where you sell the product and that is it. In the enterprise phase, we have to provide presales support, we have to provide post sales support, that is where we can differentiate ourselves by providing better support to the partner.

Aasim Bharde: Can we also differentiate by having a portfolio of brands which might be niche in the overall market, but they do not work with any other players, like MSI I mean, I read your press release, MSI seems like a very exclusive, but rather a more niche side of the laptops market. So, can we create a differentiation that way as well, by signing up that brand?

Atul Mehta: We are working towards that especially wherever there are gaps, we are working on those gaps, number one. Number two, especially on the cloud front, we are working on creating a huge portfolio and that would be visible. It will take time. That would be visible over the next 12 months.

Aasim Bharde: By portfolio what exactly does that entail? Is it the portal that you are mentioning?

Atul Mehta: It will again be selling security, software, products and services. Currently we are doing Microsoft on cloud, we are doing Acronis, and others. All these and we want to ensure we build a much, much bigger and wider portfolio offering cloud products and services to customers through our partners.

Aasim Bharde: I have a couple of more questions, but I will come back in the queue. Thanks.

Moderator: Thank you. The next question is from the line of Aditi Sawant from ADM Advisors. Please go ahead.

Aditi Sawant: Thank you so much for the opportunity. A Couple of my questions have already been answered. I have just one question. Sir, what is your outlook on the Company in terms of brand addition in the next one year?

Atul Mehta: Very difficult to quantify Aditi, because while we are working on several brands, but there are various things that come into play. First of all, the vendor or the brand owner should see the opportunity to add a distribution partner. Second is then they kind of go in the market place and check out who would be the ideal distributor to fill the gap that is existing so all these things come into play, so at any point of time, we are working at anywhere between in the general space, maybe about 10 to 15 brands, in the cloud space, we are working with maybe 20, 30, 40 brands. So it is difficult to quantify what will get closed at which point of time, but our goal is very clearly to add brands, add partners, and grow the business.

Aditi Sawant: Thank you Sir. All the best for the upcoming quarter.

Moderator: Thank you. The next question is from the line of Pankaj Jain from Mahavir Investments. Please go ahead.

Pankaj Jain: Thanks for the opportunity. Sir, I had a couple of questions; first if you can explain to me how much does the Company earn from giving credit assistance to our partners, like how much is the interest do we charge to them?

Atul Mehta: Sorry, I could not hear it clearly. Can you please repeat the question?

Pankaj Jain: Sir, if you can explain me how much does the Company earns from giving credit assistance to our partners? How much is the interest component in it that we charge?

Atul Mehta: We do not charge interest by giving credit that is in line with the industry. The credit that we extend to the partners depends upon product category and it ranges from anywhere between 30 and 90 days but we do charge interest on delayed payment basis which would be in the region of about 18% per annum.

Pankaj Jain: Proposed the credit period expires?

Atul Mehta: Yes. If there is a delayed payment then we do charge for that.

Pankaj Jain: Sir my second question is what is the Company's current cost of debt?

Atul Mehta: The Company's current cost of debt would be in the region of about 10% to 11%.

Pankaj Jain: Sir, what would be the debt equity ratio you would target two years from now and any plans of capital raise of funding?

Atul Mehta: Yes, capital raise is something that we want to work on. We have not firmed up the plans, but that is something which is work-in-progress and of course there is no target ratio, but moving forward, we want to make sure that there is a balance and improvement in our ratio by ensuring the growth also happens by infusion of funds by way of equity apart from debt.

Pankaj Jain: Thanks a lot. I will come back in the queue.

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

Priyanka Shah: Thanks for the opportunity. Sir, I have a few questions; Sir, can you give us a rough revenue contribution from each business segments for Q2?

Atul Mehta: I can share that for our H1 business. We have four business divisions that we breakup the revenue for, Consumer, Enterprise, Cloud and the smallest being the Hardware Services which is not a revenue and is more of a service that we provide to some of the brands, so the approximate revenue split is on the Consumer side it is about 54%, on the Enterprise it is 38%, on the Cloud it is 8% and Hardware Services is less than 1%.

Priyanka Shah: Thank you Sir. One more question; what is the outlook on scaling up of hardware services vertical?

Atul Mehta: The scaling up potential is quite good. I think we have completed the first phase of building up infrastructure, team, expertise, etc. Now we have moved into the second stage of bringing brands on board, just pre-COVID we signed up with HP which is a big brand. Unfortunately, the COVID period made it difficult for us to scale up that business in the last 18 months with restrictions all over for people to travel, etc., but now that it is behind us, we will use that scaling up, so it is a combination of brands coming on board, team getting strengthened, providing more services and building up revenues. So, the potential is very good.

Priyanka Shah: Last question from my end. What is the Company's current working capital cycle? Can you give us the breakup in terms of inventory, debtors, and creditor days?

Atul Mehta: Sure. The net working capital cycle is, the receivables is at about 55 days, the inventory is at about 35 days, 30 to 35 days, which comes to makes at a total of 85 to 90 days. We have about 25 days of creditors, payables and the net working capital cycle comes to about 60 to 65 days.

Priyanka Shah: Thank you Sir. It was very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Aasim Bharde from DAM Capital. Please go ahead.

Aasim Bharde: Just continuing on the working capital question, these inventory days, are they at an optimal level already or is it possible that we can bring it down further from these levels?

Atul Mehta: There is always room for improvement, but they are close to what I would say optimum. I think there is a room to improve by maybe about maximum of seven days.

Aasim Bharde: How would that work out? Do your brand partners have more production facilities in India, so you do not have to procure more than what it would be necessary?

Atul Mehta: Very few brands have manufacturing in India, but of course our inventory kicks in from the day it comes into our warehouse. So, even if there is a longer lead time, yes, we need to plan and stock better on the consumer front. So, how we will be able to improve upon this base, is as our enterprise business increases where lot of it is B2B, back to back so then our stocking days will be lower. So that is how we plan to improve it.

Aasim Bharde: I do not follow. How does this work exactly, I did not understand?

Atul Mehta: Let me elaborate. The consumer part of business is pure stock and sale. So, we will need to carry inventory and we end up carrying inventory upwards of 30 days. The enterprise part of the business has two parts to it, one part is stock and sale and the other part is back to back, the project business where it is again some specific bomb creation that we place back to back order. Once we increase our B2B business, the project business where the inventory cycles in our warehouses are lower that will help us bring down that business. Third, moving forward we also plan to grow our cloud offering, which is again a pure back to back and no inventories. So, the moment we increase our enterprise project business and we increase our cloud business, our inventory cycles will reduce.

Aasim Bharde: In enterprise when you say back to back, is this like you partly service a particular client, they release money and then you continue servicing part of the contract. That is how you maintain your working capital days?

Atul Mehta: No, what happens is while we carry all fast moving skews with us, there is a large project being required at either one of the banks or one of the large enterprises or one of the government organizations. There is a a project like an active networking product line like Cisco or a passive networking product line like Commscope or a UPS like Vertiv, they may have a specific requirement which normally is in sync with the policies of the brand and as we do not carry it with us, number one. Number two, sometimes, they also get special prices for a large project so therefore that becomes a back to back project. It is ordered at one go. We get the material either in parts or at one go, and therefore what I mean, it is back to back, so we do not have to carry stocks, we receive the stocks, sometimes there is a holding period, but by and large, we receive the stocks and we invoice out to our partner who would invoice out to the end customer. So that is what I mean by back to back business. I hope I have been able to clarify that?

Aasim Bharde: Got it. I think this actually helps. Fine, got it. The other thing, I think, was on capital raise. I think you have been talking about capital raise for a while now, but I do not think anything has materialized. But what exactly do you plan to use this capital for? Would it be more working capital existing business or do you plan some M&A as well?

Atul Mehta: It is only for working capital of the existing business, I would put it as growth capital, so that we have a balanced growth between equity and debt. That is the only reason. We have no plans at this point of time for M&A.

Aasim Bharde: Got it. Just one final question I think earlier participant asked about EBITDA margins target and which you did not want to put a number, but is there any ROCE target or maybe like a range of ROCE which you aspire for in the next four to five years which possibly you might achieve, by cloud scales for hardware services scales. Is there any number or a range that you are working on?

Atul Mehta: We are not able to quantify because I would say that Compuage's business is going through a transition and the transition was impacted by the COVID situation and therefore when I say we are transitioning, while we are not exiting any businesses, but we want to put emphasis on enterprise, we want to put extra emphasis on cloud services and third of course there is hardware services which is a low working capital business and when a business, especially the cloud business which is still in the very nascent stage in India, it is difficult to quantify what will be the gross margins, what will be the EBITDA, what will be the working capital cycle that will stabilize once the business comes to a particular level. So therefore we are finding it very difficult to put a particular number because we want to determine what are the percentages of business that are going to be possible, what are the working capital cycles and working capital deployment in each of the businesses and therefore the corresponding return, so maybe we will be able to address this question better in about I would say 6 to 12 months time.

Aasim Bharde: Is it safe to assume that we should be on an increasing trajectory, because these businesses would be higher margin and maybe not as bad on working capital. They would entail working capital but may still be the same or maybe lower, I am not sure, so I agree with your point that we are still in a transition phase, but safe to assume that your current ROCE levels would not be the same once these businesses have come into the overall picture?

Atul Mehta: When the businesses are small, the investments are greater. For example in our cloud business today, our investments are far greater in terms of deployment of people, etc., while margins are better, but ROI becomes quite low considering all the efforts, so until the business reaches a particular level of volume that the ROI does not kick in, number one. Number two, as businesses mature, the gross margins also start coming down. That is the reason why we are already seeing that to some extent. So that is what is making it a little difficult to quantify.

Aasim Bharde: Just help me understand why should gross margins come down if the business matures?

Atul Mehta: I think this law would possibly prevail in any industry, any business, because as volumes go up, in quest for growth each brand, when they compete with other brands, they also kind of push the distribution partner and the system integration partners to start operating at lower margins and that is basically a competing nature between the brands and their distributors that make it happen.

Aasim Bharde: But safe to assume that during that level, I think, the volumes would be much higher, so maybe a percentage margin should come out, at the return on investment level, it should not impact?

Atul Mehta: Absolutely. It will definitely not impact. On the contrary once volumes kick in, all the economies make sense and it would contribute to a better net margin.

Aasim Bharde: I get your point, lets thing settle down and then maybe we can revisit. I will ask this question again 12 months from today, but wish you guys all the very best for the future.

Atul Mehta: Thank you so much. Look forward to you joining the call after 12 months too.

Aasim Bharde: Much before, sure. Thanks.

Moderator: Thank you. As there are no further questions, I would 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 of any queries that you may have in future, you may kindly contact SGA, our Investor Relations Partners. Thank you so much.

Moderator: Thank you very much. On behalf of Compuage Infocom Limited, that concludes this Conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.