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COMPUAGE INFOCOM LTD

10th June 2019

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 Wednesday, 22nd May 2019 at 2.00 p.m. IST

Dear Sir/Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, we enclose herewith transcript of the tele-conference call with the analysts held on Wednesday, 22nd May 2019 at 2.00 p.m. IST, to discuss the financial performance for the quarter and year ended 31st March 2019 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully
For Compuage Infocom Ltd.

Dshah

COMPUAGE INFOCOM LTD ★ MUMBAI

Disha Shah
Company Secretary

Place: Mumbai

Encl: As above.

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"Compuage Infocom Limited Q4 FY2019 Earning Conference Call"

May 22, 2019

ANALYST: **MR. SONAL KUMAR SHRIVASTAVA - KIRIN ADVISORS PRIVATE LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to the Compuage Infocom Limited Q4 FY2019 Earnings conference call hosted by Kirin Advisors Limited. 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 telephone. Please also note that this call is being recorded. I would now like to hand the conference over to Mr. Sonal Kumar Shrivastava from Kirin Advisors Limited. Thank you and over to you Sir!

Sonal K Shrivastava: Good afternoon everybody, I welcome you all to this conference call of Compuage Infocom post results held by Kirin Advisors. The call will be initiated with the brief management discussion and earning performances of the company after which we will have interactive questions and answer session. Today on the call, we have Mr. Atul Mehta, Chairman and Managing Director of Compuage Infocom. I will hand over the call now to Mr. Mehta. Over to you Sir!

Atul Mehta: Very good afternoon friends. FY2019 as we all know has been a challenging year, the year began with PNB scam at the forefront, which brought about tightening of credit norms and thereby credit disbursement by the banks. NBFCs which play an important role in channel financing were also affected due to bank squeeze and were forced to cut credit support to channels. All this had a huge impact on the channels and thereby the business, which got affected on account of the credit, squeeze in the marketplace.

Having said that, Compuage bounced back from a flat Q3 to a growth of about 12% in Q4 for FY2019. On the whole Compuage had registered a revenue of Rs.4531 Crores as against Rs.4089 Crores in the previous year, thereby registering growth of about 11%. Its profit after tax too has grown to Rs.22.68 Crores from Rs.20.54 Crores thereby registering a growth of about 10%.

Before I end and throw open the call to questions, let me mention the company raised sum of Rs.17 Crores in March 2019 by way of preferential allotment of shares. This will enable the company raise additional funds by way of debt that would enable the company to fund its growth year after year. I think that is all that I would like to add and I will through open the call to questions that anyone would have.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin question and answer session. We take the first question is from the line of Zaki Abbas Nasser, Individual Investor. Please go ahead.

Zaki Abbas Nasser: Good afternoon Atul Bhai and congratulations for a good recovering fourth quarter I would say. Sir I have two questions number one is what would be the fully diluted equity after the full conversion of whatever capital issued? Number two in 2018 or 2019 you did a growth of around 10% how would you see the current year planning out and with this light emphasis on your product category?

Atul Mehta: Very good afternoon Zaki. Glad to hear from you. I am not clear on your question one when you mentioned that diluted equity you mean of the promoters?

Zaki Abbas Nasser: No equity capital as conversions of all the pending stock Sir after the preferential allotment what would be the equity?

Atul Mehta: The equity has gone up by about 62 lakhs shares. I am giving you an approximate figure. I do not have the exact figure on hand at this moment so the total equity number of shares, which stood at about Rs.5 Crores 88 lakh share now becomes close to about Rs.6 Crores 50 lakhs share.

Zaki Abbas Nasser: That would be the final thing Atul I meant they would not be any other conversion, I mean there is no pending conversions as of now?

Atul Mehta: Nothing

Zaki Abbas Nasser: Rs.10 Crores allotted to Karvy that would be redeemable?

Atul Mehta: Coming to the second question in terms of FY2019 over 2018, the growth as I mentioned in my earlier statement was about 11%. We are starting FY2020 on a cautious note because the start has been a little slow, which is understandable in view of the election so the business has been a little slow to take off and lot will depend upon the formation of the government and the steps that we take. Having said that we are waiting for clarity to firm up plans for the year, but we will definitely not be looking at anything lower than 10% growth that is what I can mention at this moment, more clarity will emerge once we possibly end Q1.

Zaki Abbas Nasser: Atul Bhai could I add another question? Fundamentally, how do you going forward, how do you see competition from the online players I mean as there have been massive changed in the way people look at the business over the past six to nine months?

Atul Mehta: **O**nline is one more channel available for sales and we continue to supply to partners who sell on the online channel. Earlier we had two channels, one was the reseller community and second was the retail including the large format retail, now we will add the third channel to it, which is the online channel and they continue to be supported by distribution companies like us so I do not think it eats into our businesses. Nothing changes as far as business for distribution companies like us is concerned.

Zaki Abbas Nasser: And your 10% growth estimate would be keeping in mind the late start and elections and whatever as pending I mean seeing that the year started late?

Atul Mehta: Yes that is again and aspirational figure I am quoting to you at this point of time. Ideally I would not like to make any commits, but I mean that is the bare minimum we as a company would like to work towards considering the present situation.

Zaki Abbas Nasser: Thank you Sir.

Moderator: Thank you. We take the next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Couple of questions from my side so first if you can throw light on, how is the current channel financial situation is and basically the dealers are getting credit, if yes at what rate how is the situation and how is the interest cost has gone up for the channel?

Atul Mehta: The situation has not changed much. Channel financing continuous to be tight and the channel financing rates have also gone up. The bank rates have also gone up so there is adverse impact in terms of the cash flow situation in the business.

Giriraj Daga: Okay so my question is that like normally if I look at our business model so basically how our interest cost has gone up?

Atul Mehta: Very marginally, not much but in the last one year, there has been small tweaks in terms of the way that the banks charge us so we have seen a very very marginal, I would say it is in decimal point or so it has gone up.

Giriraj Daga: Do you think this possibility we might go back to the vendor or OEM people to say that okay that this current situation is big worse and even we need higher gross margin, is their possibility?

Atul Mehta: Well that is on ongoing discussion we always have with all our OEM principles, vendors. We are always in discussion considering the fine margins that which we operate. It does not necessarily have to be only because of our finance cost and generally because of the lower margins that which we operate at. They come back and say they also have wafer think margins so that is an ongoing discussion we keep having and we keep working towards.

Giriraj Daga: Second in terms of our like when I had some bookkeeping questions, when I look at last year the other expense was very low compared to the right so was there any one-off there?

Atul Mehta: **T**here is fair bit of marketing expense that get classified in the other expenses and lot of these marketing activities are undertaken on behalf of our principles and some of it is funded by them and therefore while it does get classified in other expenses so it is not that there is any one-off expenses or our operating expenses have gone up.

Giriraj Daga: This year we see the number has gone up, but then similarly our gross margin has always gone up marginally?

Atul Mehta: Yes it is more or less funded by the vendors to undertake activities on that behalf.

Giriraj Daga: Second my question is a bit longer term so when I look at the situation like let us say we are having network capital currently about Rs.600 Crores so if we have to grow we will have, it was another like as 10% and Rs.60 Crores incremental network capital and when I look at our profitability we are generating let us say cash profit also it about Rs.26 Crores, Rs.27 Crores?

Atul Mehta: Correct.

Giriraj Daga: Like we will still be like every year for the growth will still require a debt funding to be continuing situation and one year where I seen the situation is not good and create some trouble and we might be back to zero square one so can we, I do not know how I put it this way, but can we redefine our business model there something that okay we should be able to generate our growth from a profit?

Atul Mehta: Yes, point one our margins are low and if at all anything can happen, it can only happen for the betterment of the company because this is the bare minimum. We are aware about it and walking towards the improving the bottomline and that will happen as the revenue grows. We are in an industry where size is very important. While 4500 crore sounds a big number, in this industry, it is not that big number so we have to work towards improving the size. It will grow not only in absolute terms but also in percentage so that will start contributing towards the higher cash generation that would help in terms of growth, If we want to grow by just may be let us say 5%, 7%, 8% then we will not need to borrow more. But since we want to grow at a pace which is faster than the industry then obviously we will have to either infuse capital or raise debt or combination of two. Let me just mention one number out here if I look back our last 10 years growth, we have grown at a CAGR of about 18.5%. Now with that kind of growth obviously we will need to add debt as well. But moving forward we will raise capital and that was the reason that we have raised equity capital of Rs.17 Crores and redeemable of Rs.10 Crores so that gives us the ability to raise some more debt required for growth.

Giriraj Daga: Last question from my side when I look like receivables of Rs.645 Crores, is there any receivables which is let us say pending for more than six months that is number one and out of inventory of Rs.300 Crores is there any inventory, which is like slow moving or beyond a year inventory?

Atul Mehta: To answer your question by and large we do not have challenges on receivables or inventory and I will quantify my answer. Our inventory by and large is supported by the principle/vendor. So if let us say there is any item which move slowly the vendor has two policies. Some vendors have a stock rotation policy whereby every quarter a particular percentage of stocks can be returned back and fresh stock can be taken against the same. Some vendors have policy of supporting in terms of price. We do not have any bad debts. We have also taken credit insurance for our receivables and for the last 12 months we have not filed the single claim with the insurance company which demonstrates that we do not have receivables issue.

Giriraj Daga: Okay just a followup that if you look at last five years, what are the total bad debt number and normally how much you spend on this receivable insurance?

Atul Mehta: Our bad debt percentage for five years is very low. I am giving a top of the head answer at this point of time. In terms of insurance, it of course is linked to the revenue of the company but it is about roughly in the region of about Rs.2.5 Crores to Rs.3 Crores a year. Even though our bad debts are far lesser, but it is like how we take life insurance or mediclaim even though we would not have spent anything for the last many years, we still keep taking the same for a rainy day. It is better to be protected and when the company can afford to pay that premium and still maintain or improve on its profitability then it would be foolish not to do that.

Giriraj Daga: Understood sure. Thanks a lot and all the best.

Moderator: Thank you. We take the next question from the line of Rajesh Gupta from SBI Cap Securities. Please go ahead.

Rajesh Gupta: Thanks for the opportunity. I just wanted to ask you Sir if I look at your numbers since last few quarters so the numbers are very consistent in nature so just want to understand is there any seasonality associated with the business, I mean four quarters always better than the third quarter, second quarter is not really good for us compared to first quarter?

Atul Mehta: Normally, the two reasons why Q4 is better; one, we may have added some new set of Vendors, which if added, it will contribute to a little higher revenue that is kind of inorganic growth. Second, JFM quarter invariably is always one of the best quarters so I think these are two reasons why Q4 if I look at it for the last few quarters that would always end up coming number one quarter in terms of performance.

Rajesh Gupta: You also mentioned about the liquidity crisis had led to be the drying out of the credit line for your business so how is the situation right now I mean as there have been any improvement in the last few months or so, did you see rate cut by RBI, but the ground level what you see I mean is the cost of fund is rising for your business?

Atul Mehta: When I mentioned there is credit tightness in the market, I am talking about our industry which is technology products industry that is the IT and mobility products. So across all channels there has been tightness and when money is tight it does slowdown the business so it is not something related only to Compuage. It is an industrial phenomenon that I was referring to and we have not seen too much of improvement on the credit front in the market place.

Rajesh Gupta: And why margin for the current quarter basically if I take example for example the other quarter is last year, they have a little drop in that so what reason behind that?

Atul Mehta: I do not think there has been drop in margins if I were to compare year-over-year or if I were to compare sequentially also if you have anything specific that you are noticing which I am not recollecting because there is no drop in margin as such.

Rajesh Gupta: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: Thank you for the opportunity. Can you throw some light on what would be your market share in the overall distribution industry now?

Atul Mehta: It is a little difficult to answer that. So if you are saying from the distribution industry. Which in my opinion would be basis our understanding of the industry and our peers in the business, it would be closer to about 10 and 15%.

Lalaram Singh: 10% to 15%?

Atul Mehta: Yes.

Lalaram Singh: And what would this be say five years ago?

Atul Mehta: I think it would be lesser than that because we have definitely grown as far as IT part of the business is concerned, we have grown faster than the industry I think if I were to consider mobility part we would have grown a little less than the industry, but overall I think we would have to done better than the growth in the industry. As I mentioned earlier we have grown at a CAGR of 18.5% in last 10 years. I do not think the industry has grown at that percentage.

Lalaram Singh: However I think there is one of few last concall you are saying mobility is relatively higher growth compared to IT within the overall industry right as of now mobility is faster pace is that correct?

Atul Mehta: Yes that is correct.

Lalaram Singh: Do you mean that we have little weaker in mobility that is what this means?

Atul Mehta: Now in mobility, there are two parts to it. There are some brands which are going direct and not using distribution as a way to market the product, some of the Chinese brands like Oppo, Vivo, Xiaomi and OnePlus. They are going directly and not using the distribution channels available. That is one part to it. Second part, yes I will accept the fact that our mobility portfolio is comparatively less strong considering some of our peers in the industry. To share the number with you, our mobility is at about 14% to 15% of our total revenue whereas if I were to consider some of our peers they would be anywhere between 25% and 40% of their business.

Lalaram Singh: I understood so do you think we going forward this is something where we need to work on or do you believe that there is structural change in the way mobility industry works when you are saying that there are going ahead to customer so what is your take on this for the next say coming two to three years, do we want to focus on mobility or you believe that IT is where let straight off direct two customers some thoughts around these lines if you can?

Atul Mehta: We are very clear, we have to work at it, and there is no two doubts about it. That is an area that we are working on and we are very clear in what we want and how we want get there and we do not want to use any shortcuts by getting into some relationships, which may not have long-lasting benefit. We have been a late entrant and therefore we are taking some time but we are working and we will ensure that we speed up in the next couple of years on this front.

Lalaram Singh: One question on the inventory risk side so who takes the inventory is for example if they something which is not moving quickly or becomes absolute so who takes that hit of inventory is just Compuage or is it the manufacturer?

Atul Mehta: No it is more or less supported by the manufacturers. Compuage does not take, the distributors take because it is a stock and sale model. When they expect us to carry stocks, they therefore support and protect us.

Lalaram Singh: Got it so the only risk in the business would be then I would believe collection of money from the end customer right because considering margins are very thin, the inventory risk is not there then so what is the key risk so for example a new entrant, someone wants to enter this business and what is the key areas of which we need to manage to ensure profitable NPT in this particular line of business?

Atul Mehta: You said it rightly, we have bulk of money in current assets, by and large broken inventory and receivables. Inventory is well protected by the principal themselves. Receivables is our risk which can be muted by taking credit insurance. Of course, credit insurance policy worldwide policy covers only 85%. But that is good enough and which does not happen everyday. As I mentioned earlier in the last financial year, we have not had any claims filed with insurance company. Now coming to your second part of the question in terms of if somebody wants to enter this business it is not that easy for two reasons, one is there is huge infrastructure requirement, we have 38 offices, 69 service centers, 850 to 900 people who are trained. We have the industry knowledge, we have product knowledge, and we understand the channels and the track record that they have built with us to take exposures. All that is one part to it and the second part, which today if you ask me is also one of the biggest challenges for Compuage of getting new brands signed on for Compuage. First of all the brand has to have an opportunity out of their existing distribution structure. And then, we have to be found to be the best possible distributor to fill the gap.

Lalaram Singh: That is very helpful Sir. Finally is there any plan of I think recently we have had the money any timeline for next two to three years, are we sufficiently financed for supporting the growth or is there possibility of further infusion of capital?

Atul Mehta: We definitely will need more funds since we want to grow at a rapid rate so what and when that we will decide. We will definitely have funds infused. We will look at raising capital in next 2-3 years timeframe.

Lalaram Singh: Got it Sir and is there possibility of entering into parallel line of services or providing value added services, which entitled or give much better margin profile is that possibility now at business?

Atul Mehta: Yes, there is, and we have already ventured into it if I may take a minute to define our businesses into five verticals today. One is the traditional PC component peripherals and laptop, PCs which is a combination of laptop and desktop. Second is what we call us enterprise product where you have on this networking, infrastructure, security, software. Third is the mobility vertical where we have this smartphone, tablets and mobile related products. Fourth we have ventured into hardware services. We have our own 69 service centers across the India like distribution we are entering into relationship with vendors. We already have relationship with Asus and a fewer brands where we represent them and extend warranty support on their behalf during the warranty period. How it works is let us say you are user of one of these brand products and you have a problem during the warranty period. You call up the brand toll free number and they would direct you to our service center. We would fix the product for you and we would get compensated from the brand. This is the fourth vertical of hardware services that we have got into and we are looking at growing, in that. And fifth the newest one that we have ventured into six month back is cloud offerings. Moving forward everything is going to move to cloud so we have already taken initiative to get into that segment.

Lalaram Singh: When you say cloud offering what would be the level of our in that again it would be pure simple distribution I did not understand that?

Atul Mehta: It would be simple distribution only. Our business model is very clear, everything will go through channels. We do not want to have competition or conflict with the customers who are the channel partners. So cloud offerings also that we have started, we are Microsoft Cloud partner and whatever we are offering, it is all getting routed through resellers and partners.

Lalaram Singh: But is this IT companies or IT services, which generally sell products or offerings of these innovator companies, I mean that is what I understand the hardware we understand that the distribution of hardware, distribution of software or these things seems a bit for different sort of sectors, I mean may be I am wrong in this understanding, I was in the belief that IT services or this is IT domain?

Atul Mehta: What we do is, we as Microsoft distributors for licenses. We are distributor for SAAP B1 licenses, for CA, so even software companies go through distributors because they need aggregators like us who would help them reach hundreds and thousands of resellers. And the reseller is the one who would buy the software like a hardware, they would buy software through us and then they would offer services packaged along with that to the customer.

Lala Ram Singh: Understand and as of today how many resellers would we be servicing? I think about 10000 or something?

Atul Mehta: We are servicing more than 10000 resellers as of now.

Lala Ram Singh: So what is the aim to take this number ahead? I mean, can you give some sort of forward-looking estimates with respect to this number?

Atul Mehta: We are serving 10000 resellers in 600 cities and towns. Our three-year plan is to take it to about 15000 in 750 cities and towns.

Lala Ram Singh: Thanks a lot.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: A few followups there. So first we were looking to add some other segments, revenue streams. So new segments basically, so where are we on that?

Atul Mehta: We have not in a few months tied up with any new brands. We are working and we are engaged in discussions with several brands but as I mentioned first they need to have an opportunity to add a distributor and second when they have an opportunity and when they float their RFP we have to be the right ones to get selected. So this process is entirely not in our hands while we may want to but unless there is an opportunity it may not happen. So it is difficult to define that it will take one year to get two new brands or in one year we will get zero or we will get four. So that is something which is beyond our purview as such.

Giriraj Daga: But are we looking to add some accessory business also, any success on that side?

Atul Mehta: We are working for that, but nothing as of now. There is no concrete tie up which has happened. We are in discussions with a few brands on Cloud front, on the accessory front, but nothing has closed as we speak.

Giriraj Daga: Second and last thing on the service side we are looking at different revenue number, like maybe 9 Crores or 10 Crores kind of a number in two or three year down the line, is that the right number I am recollecting?

Atul Mehta: In fact we have already crossed 10 Crores number as of FY2019 and we plan to grow it even faster. Again, I will use the word aspirational because we have still not jotted down the number but our aspirational three-year number will be closer to about 24 Crores.

Giriraj Daga: The margins are something like?

Atul Mehta: Margins that is the most important part. It is what will help us increase our bottomline overall as an organization and as service as a standalone the margins are in the region of about 15% to 20%.

Giriraj Daga: Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Mitul Gandhi an individual investor. Please go ahead.

Mitul Gandhi: Just wanted to ask we are paying dividends every year, so instead of paying dividends can we use that cash for internal purposes, for any purposes like debt repayment, or for internal accruals or anything kind of such thing?

Atul Mehta: It is always a tough call to take while your point is very valid, we conserve as much money as possible for growth, but there are two sides to this thought. Some people want dividend payouts or a higher dividend payout and some people suggest we should try and conserve it. So we are trying to balance the whole approach being fair to everyone and therefore we are being consistent. If I am not wrong the figure is in the region of about 2.5 Crores to 3 Crores which does not create that much of a negative impact on cash flows.

Mitul Gandhi: There is one more question, I am not exactly aware of as a percentage of PAT, do you think the percentage of remuneration to management is more?

Atul Mehta: The remuneration is more or less in line with what the industry remuneration and have kept it constant for the last few years and we are conscious of the fact that we would like to keep the costs over and enhance the bottomline with the objective of long-term benefits of the organization.

Mitul Gandhi: Thank you so much.

Moderator: Thank you. We will take next question from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: Thank you Sir. This question was on the dividend policy. So is there a stated number in terms of either percentage of profits or an absolute number which we want to commit every year?

Atul Mehta: Very frankly we have been debating this for the last couple of years and we have not yet firmed up a policy because we wanted to keep it flexible looking at the needs of the organization. But I think moving forward we will have a policy defining what percentage of money should be deployed towards dividend.

Lalaram Singh: Any plans of doing a buyback or something of that sort?

Atul Mehta: I will only say as of now there are no thoughts or no plans and very frankly of course this is something that we will need to discuss and deliberate at the board level. But I will only say that we will not want to look at it because money is something we would like to deploy more towards growth of the business when we are talking about growing and growing aggressively then we might as well as deploy that money for growth.

Lalaram Singh: In terms of growth is there an opportunity of growing through inorganic route in our business?

Atul Mehta: There are two ways I would look at it inorganic. Inorganic a) Is maybe acquiring some company, b) is acquiring brands. We are not looking at acquiring a company because we have everything available in terms of infrastructure, in terms of management, senior and middle management team, in terms of the best of systems and processes. So that is why an acquisition of a company only makes sense if it can really add Value on all these fronts, which I am not sure it will add. But when I say the other inorganic route is by acquiring brands or by signing on new brands and that is the route we have adopted as a company which has enabled us to grow all these years faster and that is the route that we are going to be working towards.

Lalaram Singh: Thanks a lot. All the best.

Moderator: Thank you. Sir, you may please proceed with the conclusion remarks.

Atul Mehta: Thank you all very much for joining us and for your valuable questions and inputs, which always help us in working towards improving our performance as we move along. Sonal over to you, I am done.

Sonal K Shrivastava: I thank everybody for attending this call. If there are any queries you can either reach through us or the management directly. We are always available for any further queries to be addressed which have been left out. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Kirin Advisors Limited we conclude today's conference. Thank you all for joining. You may disconnect your lines now.