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COMPUAGE INFOCOM LTD

24th May, 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 Thursday, 19th May, 2022 at 3.00 p.m. IST

Dear Sir / Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, we enclose herewith the transcript of the tele-conference call with the analysts held on Thursday, 19th May, 2022, at 3.00 p.m. IST, to discuss the Operational and Financial performance for Q4 & FY22 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully

For **Compuage Infocom Limited,**

Hastipala

Hasti Pala
Company Secretary

Place: Mumbai
Encl.: As above.

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"Compuage Infocom Limited's Q4 and FY 2022 Earnings Conference Call"

May 19, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 19th May 2022 will prevail.

MANAGEMENT: MR. ATUL MEHTA – CHAIRMAN AND MANAGING DIRECTOR

Moderator: Ladies and gentlemen, good day and welcome to Compuage Infocom Limited Q4 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 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 the participants' 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 the operator by pressing '"*" then "0" on your touch-tone 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. Thank you and over to you, Mr. Mehta.

Atul Mehta: Good afternoon ladies and gentlemen. Thank you for joining us on Compuage Infocom Limited's Q4 and 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:

FY2022 was a challenging year for the Company. It began with the deadly second wave of Covid-19 which brought back the lockdown restrictions to prevent the spread of the virus. As the year progressed, the lockdown restrictions were eased before the country was again hit by third wave of Covid-19. Thankfully, the third wave did not prove to be a deadlier one and lasted for a short period of time. Another major disruption faced during the year was on account of shortage of semi-conductors. The production timelines for the manufacturers who are dependent on semi-conductors were impacted and hence the supply of the end finished product was affected. All these uncertainties led to supply chain disruptions during FY2022.

In spite of all these disruptions during the year, I am pleased to share that we posted strong performance on the revenue as well as on the profitability front. This robust performance was led by strong demand across our product offerings, marketing initiatives, new business developments, and cost optimization initiatives. This demand was also led by restarting of offices and while some of the demand continued to come from work-from-home segment, our diversified product segments across IT Consumers, IT Enterprise, Cloud and Hardware Services with excellent service support enables us to give a value proposition to our customers.

One of the most important focus areas for us continues to be brand addition for growth. We have added nine brands to our portfolio during FY2022, most of which are under IT enterprise and Cloud categories. These categories earn higher margin and help us improve our product mix and enhance our Return on Capital Employed.

Let me now give you an overview of our consolidated Q4 and FY2022 Results:

Total income for Q4 FY2022 stood at Rs. 1,292 Crores as compared to Rs. 1,083 Crores in Q4 FY2021, up by 19% year over year. Total income for FY2022 stood at Rs. 4,224 Crores as compared to Rs. 3,747 Crores in FY2021, up by 13% year over year. Gross profit for Q4 FY2022 stood at Rs. 54.5 Crores as compared to Rs. 51 Crores in Q4 FY2021, up by 7% year over year. Gross profit for FY2022 stood at Rs. 192.4 Crores as compared to Rs. 169.9 Crores in FY2021, up by 13% year over year. EBITDA for Q4 FY2022 stood at Rs. 36.1 Crores as compared to Rs. 32.9 Crores in Q4 FY2021, up by 10% year over year. EBITDA for FY2022 stood at Rs. 114.5 Crores as compared to Rs. 94.4 Crores in FY2021, up by 21% year over year. EBITDA margin for Q4 FY2022 stood at 2.8% as compared to 3.0% in Q4 FY2021, contracted by 20 basis points. However, EBITDA margins expanded by 20 basis points to 2.7% in FY2022 as compared to 2.5% in FY2021. PAT for Q4 FY2022 stood at Rs. 10.4 Crores as compared to Rs. 7.6 Crores in Q4 FY2021, up by 38% year over year. PAT for FY2022 stood at Rs. 26.7 Crores as compared to Rs. 20.7 Crores in FY2021, up by 29% year over year.

Let me spend a minute on debt and return ratios:

We have reduced our total gross debt by Rs. 69 Crores in FY2022. It now stands at Rs. 509 Crores in FY2022 as compared to Rs. 578 Crores in FY2021. Talking about short-term debt, which is our working capital debt, we have reduced that by Rs. 46 Crores even with income increasing by 13% year over year. Hence, our debt-to-equity ratio has improved from 2.66 in FY2021 to 2.1 in FY2022. ROCE improved by 330 basis points to 14.7% in FY2022 as compared to 11.4% in FY2021. ROE improved by 150 basis points to 10.8% in FY2022 as compared to 9.3% in FY2021. Also, we are happy to announce that the board has recommended a final dividend of Rs. 0.2 per equity share for FY2022.

Before concluding my speech, I would like to mention that the IT products in the long term have to grow on a sustainable basis given the need for the digitization, especially in our country. The world is moving at a rapid pace towards complete digitization, and this is not possible without extensive use of IT products and its services. Along with the rising adoption of IT products, distributors like us play a very crucial role for this journey to be successful. Going forward, our focus will continue to keep on adding new brands to our portfolio, penetrate newer regions to increase the scale of the business, improve the product mix, and optimize the cost structure to drive the profitability and thus create value for all our stakeholders.

With this, I now open the floor for questions and answers.

Moderator: We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amit Shah from Ace Securities. Please go ahead.

Amit Shah: I have a couple of questions. Firstly, can you give some insights on new brand partnerships which you have signed and the business opportunities from these new partnerships?

Atul Mehta: We have signed most of these brands in the space of Enterprise and Cloud. We have signed brands like Alcatel-Lucent, which is in the network infrastructure space, we have signed Velox which is in the Security Cloud Space, and we have signed Zoho. Of course, I do not have the entire list right in front of me at this point of time. These brands primarily offer the opportunity of higher profitability for the Company. That is the whole objective. While they may not be as big in the immediate future in terms of the size and the revenue that it can bring to the organization, the goal of the Company is to enhance not only the top line but the profitability as well as to ensure that we fill in the product gaps which exist in the Company, or which has a strategic role to play as we move along.

Amit Shah: What is our Company's cost of debt? Do you have any plans to reduce the debt in FY2023?

Atul Mehta: The cost of debt would be in the region of about 10% to 11% and as you would have seen, we have reduced some debt in this financial year FY2022. Moving forward, of course, our endeavor would be to control that. I will not be able to comment upon whether we are going to be able to reduce it because working capital plays a very important role in driving our business and it will all depend upon the growth that the Company achieves in the financial year FY2023.

Amit Shah: Lastly, can you please share revenue contribution from each segment and margins in each segment for FY2022?

Atul Mehta: Yes. We have 4 divisions – IT Consumer, IT Enterprise, Cloud, and Hardware Services. IT Consumer has contributed 55%, IT Enterprise 33%, Cloud offerings is about at 12%, and Services is less than 1% because it is more on the bottom-line contribution that it brings for the Company. In terms of margin contribution, that is something that we are not in a position to share. What I can mention is the gross margin that we have in each of the businesses differs, and while it's not only the gross margin that plays a role, it is also the question of ROI depending upon the working capital cycle. So, it's a very complex worksheet where gross margin stand-alone will not give a true reflection of the business.

Moderator: The next question is from the line of Sanjay from Envision Capital. Please go ahead.

Sanjay: Sir, I can see that the margins are very low. It is roughly around 2% to 3% which I see EBITDA margins. Are there any plans to further improvise on these margins as we see that the demand is increasing in the IT industry for these enterprise solutions as well? Where is the issue exactly coming in, to extract these kinds of pricing? Is that attrition which is hitting this? Can you highlight some things on this?

Atul Mehta: Firstly, we have improved on our EBITDA margins during the year by about 0.2% as mentioned by me in my address. We have also improved on our gross margins as well. We are constantly working towards improving our margins in this business. Having said that, we as a distributor, have a very well-defined role in the business and our role is to manage the supply chain management from the time we procure our goods from the OEMs and the brand and sell it to the resellers which includes bulk buying, warehousing, breaking bulk, engagement with the partners and deployment of credit. With that as a role, the margins are also defined to some extent by the brands and the OEMs and we play within those parameters defined by them, but of course, we are trying to improve on the same by bringing in the product mix that would help us enhance the offerings as we move along.

Sanjay: Any other major challenges which you are facing, as you mentioned that there are supply side concerns coming in and even geo-political issues are in the place? Have that as well impacted or can you foresee something in the future which will impact us?

Atul Mehta: Regarding supply side challenges, there were two challenges. One was the availability of semi-conductors and that has affected on certain product categories, not all. Longer lead time, that is one problem which has come about; and the second has been the disruption of the actual supply chain in terms of material movement from the component's end to the OEMs and some OEMs to us. These were the two constraints that were felt by us. There has been some improvement because it has been going on for a while, but we still have a long way to go and to come back to normalcy. And as we speak, our principals – the brands and the OEMs – are not able to give us a definite timeline by when will it be completely under control while everyone is working on it, there are a lot of challenges apart from the geo-political challenges which have come about recently. The impact of geo-political challenges, the increase of oil prices and thereby the interest and the inflation, I think their impact, we will have to see as we move along because all these have been the recent developments of the past two to three months. While the demand on the IT side is definitely going to be there, because now in the last two years, people have realized the need for IT, but I am sure there will be some impact of all these factors which I just mentioned. To what extent? Only time will tell us.

Sanjay: Any guidance on FY2023 revenue or margins, you expect we can achieve, if you can help us with that?

Atul Mehta: I am not going to give any guidance. That's something that I have been refraining from doing, but of course, our endeavor will always be to improve on the same as we have been able to do so in FY2022.

Sanjay: One last thing from my end is that are we losing out on any OEMs which is affecting, or which may affect us on the revenue or margin size in the future? Is there any major thing we foresee?

Atul Mehta: Nothing at all, absolutely.

Moderator: The next question is from the line of Priyanka Shah from N M Securities. Please go ahead.

Priyanka Shah: Sir, in which category are you focusing on to grow the business in future?

Atul Mehta: Before I answer that question, I would like to say that we want to stay focused on all the fourareas that I just mentioned, but the real focus will be to improve on the bottom line whatever product and whatever category helps us and we see that happening more in terms of the Enterprise and the Cloud Space apart from the services that we are offering.

Priyanka Shah: Do you have any plan to open a rights issue during FY2023 and how do you intend to utilize that money?

Atul Mehta: You would have noticed that we have already taken the Board approval for our rights issue. We are definitely working on it, and we would like to do that in FY2023 for sure. And the funds proceeds will primarily be used towards the growth of the Company. There are no other plans beyond that.

Priyanka Shah: What kind of revenue mix among business segments you are targeting in the long term?

Atul Mehta: We are going through some industry dynamics on account of Covid-19. For example, the consumer business has been robust because of the demand of laptops and smartphones as a category and the Enterprise business has been slow on account of the supply chain constraints that have come about. So, at this point of time, we would not like to give a definite direction in terms of where we are headed, but as I have already mentioned that we want to focus on profitability and one of the areas that would help us improve profitability is Enterprise and Cloud, and to what extent the revenue split will come about, that I think something time alone will tell us.

Moderator: The next question is from the line of Shahnawaz, an individual investor. Please go ahead.

Shahnawaz: What is the free cash that the Company has generated during FY2022? And the rights issue – someone has asked this question – what will be the pricing of the rights which the Company is looking for? I was going through one of your last transcripts. In that, you have said that kind of thing I want to do where organizations would get benefit off of it. So, what kind of pricing are you looking for? Because the prices if you see are very much down. Even though you have given a robust performance, the stock is not performing. Third question is, in FY2023, what kind of free cash you are looking for? What is the visibility of our free cash development by which we can pay the debt and as you said in getting the growth forward?

Atul Mehta: As you have seen, we have improved on our working capital cycles in the financial year FY2022. Our working capital days have been reduced from 62 to 54 approximately. That is something which has helped us in reduction of our debt to that extent. Moving forward, it is going to be our endeavor to keep working on this area and that would help us in keeping our debt under control. I will not say that we will be reducing our debt significantly because money is the raw material for any growth that we intend to have in this line of business, and therefore, we will see to it that we try and conserve resources as much as we can and thereby have the debt under control. I am not able to – because of disruption and the working capital cycles being unpredictable – predict what is going to be the free cash reserves for FY2023.

Coming to your second question on the rights, market as you see is very volatile at this point of time and therefore we are not able to predict at what price points we will be coming out with the rights issue. I think that is the Call we will take as we come closer to the date, and of course, in terms of the price of the share, that is completely where we have no control over it. But if you see the price points over the last one or two years, I think the price has moved up fairly well and it has improved substantially over the period of one to two years back.

Shahnawaz: One more last question I have about this. One is about rights, you said you will issue in this FY2023. Can we get any idea in which quarter or half – 1st half or 2nd half – you are planning this rights issue? Second, just I wanted to put it this way; a lot of revenue the organization is able to make, but the entire money is ultimately going to the bank. I was looking at two to three years of financial year results, but what I am observing is the entire money is going to the bank. That way, my question was how we can manage if you issue rights at a quicker pace, and all this can be converted into PAT in the profit and loss statement? As a whole, the balance sheet will look much better. Is there any idea where we have a plan like you want to do in first or in second half of financial year 2023 for these rights issue?

Atul Mehta: Yes, you are absolutely right. While equity is always an expensive means of financing, we need to have a balanced fund infusion from equity and debt so that the Company is much more stable, and with that as an objective, we are working on this rights issue. If the market is supportive, our endeavor would be on doing it in first half of financial year 2023.

Moderator: The next question is from the line of Parth Vasani from K K Advisors. Please go ahead.

Parth Vasani: I have two questions. The first one will be that are you in talks with any newer brands for partnership? If you can share something on that? The second one would be, are you facing any challenges with respect to receivables?

Atul Mehta: Our discussion with prospective brands is an ongoing exercise. That is something that we undertake round the clock. There are two things that determine the sign-up of a brand. One is the brands themselves wanting to expand their distribution network. Second is, of course, we being the right suitor for them; sometimes we are, sometimes we are not, because for whatever reasons, the brand feels maybe somebody else is better equipped to fulfill that responsibility. So, that is an ongoing discussion which has helped us sign so many brands in the last financial year and we are continuing on that front. In fact, our growth strategy is three pronged. 1) We are going to grow organically by growing our existing brands that are there in the portfolio. 2) We are going to add brands which will bring in inorganic growth for the Company. 3) We will be continuing to work towards adding more and more resellers and partners. That is the strategy which remains unchanged as we move along.

The second part of your question was on the receivables. While there are delays, there are no challenges is how I would put it.

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

Atul Mehta: Thank you very much everyone for joining the Call. If you have any further questions, please feel free to reach out to SGA, our Investor Relations Advisors, and we would be more than happy to address them from time to time.

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