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COMPUAGE INFOCOM LTD

7th February 2018

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, 2nd February 2018 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 the transcript of the tele-conference call with the analysts held on Friday, 2nd February 2018 at 2.00 p.m. IST, to discuss the financial performance for the quarter and nine months ended 31st December 2017 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 Q3 FY2018 Post Results Analyst Conference Call”

February 02, 2018

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 Q3 FY2018 Post Results Analyst 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. Now I would like to hand the conference over to Mr. Sonal Kumar Shrivastava from Kirin Advisors. Thank you and over to you Sir!

Sonal K Shrivastava: Good afternoon everybody On behalf of Kirin Advisors, I welcome you all to the Q3 FY2018 Post Results Conference Call of Compuage Infocom Limited. Today, we have with us, Mr. Atul Mehta – Chairman and Managing Director of Compuage Infocom Limited, who would be addressing us all. I would ask Mr. Mehta to briefly update the participants abut Compuage and its performance during the last quarter and then we will open floor for question and answers. Over to you Sir!

Atul Mehta: Very good afternoon friends. This is Atul Mehta, Chairman and Managing Director of Compuage Infocom Limited. A warm welcome to all of you. I am very happy to mention that the performance for the Q3 has been more than satisfactory. A few financial highlights I will bring forward for everyone's ready reference. The revenue during the period of Q3 has gone up from Rs.884 Crores to Rs.1039 Crores growing by about 18%. EBITDA has gone up from Rs.16.9 Crores to Rs.24.69 Crores going up by about 46% and profit after tax has gone up from Rs.3.93 Crores to Rs.5.91 Crores that is by about 50%. Despite the October, November, December quarter being slow quarter this time with the festive buying not being all that great, but that has really affected the performance of the company to that extent. So I would say it is more than satisfying. That is all I would like to say at this point of time, I would rather throw open the floor to questions and answers and address them with whatever specific queries that each one of you might have. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Zaki Abbas Nassar from Nazar Investments. Please go ahead.

Zaki Abbas Nassar: Good afternoon Mr Atul Mehta. Sir first of all it is really commendable performance looking at the slow down, and also it is an exciting area you are in, so could you just give a brief on where would you see the next wave of growth coming? That is my first question. And the next question is have you thought of reducing your debt and thereby reducing the interest burden? Thank you Sir.

Atul Mehta: I totally agree that it is very exciting space that we are in and in an exciting country where there is so much happening at this point of time. One, the country is going through the transformation with our present Prime Minister, Minister Narendra Modi launching the digitization in a very big way that along with the smart cities that are coming up with the GST, which is opening up newer demand for the IT systems and services and deeper penetration of broadband and networking services all this will create additional demand for the IT equipment across the country. Apart from IT, we are also there in the mobility space when I say mobility, I am referring mobile handsets and tablets and that space too is growing with the country having more than 800 million users only 35% of those are in to smart phones as of now. Rest of them is still using the feature phones because of affordability and various other reasons. So that is a kind of our opportunity, which exists in the smart phone space as well. So the growth will come both in IT and the mobility space with lower penetration on both sides of the businesses.

Coming to the second question, yes as a distribution company there is an intense need of working capital and we have been growing on the basis of debt. We have not yet got into a decision as to what kind of quantum and when we will raise capital. We are working with the three-year growth plan as far as organization is concerned and at an appropriate point of time, we will definitely look at infusion of additional capital in the company.

Zaki Abbas Nassar: Sir there is another followup question. With the government encouraging the local assembly of handsets, how do you look at your sales fitting into that space, and also how do you see yourself fitting into the competitive world of online shopping Sir?

Atul Mehta: As far as Compuage is concerned, we are into distribution of hardware, software and mobility products. Now it does not matter whether the products are imported or assembled on manufactured in India. For example, we are already distributing Samsung Smart Phones, which are manufactured in India, so we are indifferent as to where the products are manufactured, because alternately we enable the vendors or we give the vendors the last mile connectivity to the resellers to make the products available to the end customers. That is as far as be it the imported of domestic products of the smart phones is concerned and what is the second questions Zaki?

Zaki Abbas Nassar: In the online space Sir, how do you see yourself fraternity online environment?

Atul Mehta: Let me elaborate a little bit because currently online is by and large customers to us; so we are not competing with them. Now online has basically thousands of dealers operating on the online space. All these dealers are sourcing their products from distributors like us. So they are not really a threat or a competition to us. Yes, there are possibly one or two companies supplying directly to the online channels, for example OnePlus is one such company, second is MI is another company that is supplying directly to online channels but those are very, very few and we do not see that increasing much because again the kind of supply chain management that the online company is required it is only a distributor who can fulfill them, it is extremely difficult for a vendor to fulfill those kind of specific supply chain requirements and therefore today we talk about WS retailer which is a Flipkart Company, we talk about Cloudtail, which is the part of the Amazon Group, they are leading customers of Compuage.

Zaki Abbas Nassar: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Aejas Lakhani from Money Minds Financial Consultants. Please go ahead.

Aejas Lakhani: Congratulations on an excellent set of results. Sir my query is twofold. My first query is that given the recent announcement in the budget where smartphones are likely to get a little dearer given the fact that we have old inventory and incoming new inventory, will there be any impact on the inventory holding and prices in general and the ability to pass on prices given the increase in the duty for this product? That is my first query. I can ask my second query, once you answer this if you do not mind. Thank you so much.

Atul Mehta: We are working in a very structured price framework where the vendors set the prices, transfer prices from us to the reseller and reseller to the end customer, so there is any benefit be it increase or decrease, benefit or cost escalations either they are absorbed by the vendor or they are passed on to the customer, so we do not retain any benefits or we do not absorb any of the price increases, so this is very clearly determined by the vendors and typically vendors believe in passing on the benefit to the end customers. So that is the pricing policy that is normally being followed up in this industry.

Aejas Lakhani: Sir my second query is that if I were to sort of break down your turnover it is essentially nothing but like your product range into the price of the product into the number of vendors buying it, so which of these three verticals is actually contributing so my query is really that is there a more higher productivity per vendor, which is causing the improvement in sales or is that prices are marginally going up across the entire basket because of which the number looks higher or is it that the number of vendors per se have gone up because of which the number has increased?

Atul Mehta: Typically in this industry, there is very rarely that price goes up, more or less prices keep little downward trend or at a particular price point the product becomes obsolete and then a new product gets introduced. I would not say the revenue has gone up because of any price increases as such. I would say the revenue has gone up on two counts; one, we are trying to go deeper and deeper into the country, from our existing 38 offices we are fulfilling the needs of more than 10000 dealers in 800 cities and towns. So we are trying to cover more market and that is helping us generate a little higher revenue. Second we in the last two to two-and-a-half years have added several new brands to our business and typically it takes six to 12 months for a brand to stabilize and then start contributing higher revenue. I think that is the other aspect, which has enabled as to grow the revenue.

Aejas Lakhani: Sir what will be the guidance that you foresee that you can grow at another 20% from here on for the next couple of years? Do you see that number of being achieved easily or do you think there are lots of headwinds because of which you may face challenges?

Atul Mehta: I do not really want to get into too much of future forecasting, but let me share with you our aspirations as an organization. I will take the benchmark of the last three years where our CAGR has been close to about 14.5%-15% and we have been able to step it up this year if I look at the first nine months performance we are at maybe 16%-17%, so our aspiration is definitely to grow by over 20%. Yes, it is not going to be easy, but at the same time it is achievable considering the fact that what we have been able to achieve in the last three years and the current financial year.

Aejas Lakhani: Thanks a lot. I will get back in the queue.

Moderator: Thank you. We will take the next question from the line of Abhishek Lodiya from SMC Global. Please go ahead.

Abhishek Lodiya: Hello Sir. Good afternoon. Sir I just wanted to understand why there is a higher tax outgo this quarter basically roughly 42% is what I am seeing, I mean I just to understand it because roughly we are in a range of 34%-35% I mean on PBT levels, so 42% is something which is little bit higher?

Atul Mehta: Logically what you say makes perfect sense that we should be in the range of 34%-35%, I will not be able to comment on this one aspect, I will have to look in to it because our CFO is not here today, if you please excuse me on this matter and maybe I will come back.

Abhishek Lodiya: Maybe we can take it offline Sir.

Atul Mehta: Yes. Please if you can get in touch with me later and I would be more than happy to share that with you.

Abhishek Lodiya: Thanks a lot Sir. Not an issue.

Moderator: Thank you. We will take the next question from the line of Aejas Lakhani from Money Minds Financial Consultants. Please go ahead.

Aejas Lakhani: Sir I wanted to ask you that which segment do you really see at the growth driver that given the fact that even in the recent budget there is a lot of emphasis on the rural economy per se and you are having higher disposable income with the rural economy, what segment of our business do you think will be contributing more for me to gain from this rural economy benefit?

Atul Mehta: Let me share with you three segments that the company is focusing on. One is what we call as a consumer segment where it is individuals like you and me who fall in that segment. Second is the enterprise segment where all the companies made to large size companies, large insinuations, large government organizations fall in that segment and third we break up the mobility segment separately where the smartphones and tablets fall into the space. Now in terms of growth, I would say the highest growth as of now is coming from the smartphone segment. Now there is a very good potential on the consumer side of the segment where the consumers buy the basic entry level PCs for their home use or for the children's education, unfortunately for very strange reasons in the last few years we have not seen that segment fairing big time. It is very, very perplexing for the simple reason that let me share couple of numbers with you out here. Our India's PC penetration is only about 9-10 million a year as against that China and US's annual PC penetration is in the region of the 60-70 million, so you can imagine such a big gap exists, which is not very logical. At some point of time, the numbers should start growing and start growing rapidly. The question is when? So the potential for a growth oriented economy like us I would say exists in all the three segments that we are there and we should not be really worried because we are mapping the entire market and the product line to a certain extent that we do not miss out on any opportunities.

Aejas Lakhani: Perfect and for just a quick followup that you mentioned about the numbers regarding the basic entry level PCs, has not that been entirely replaced with the laptops and the mobility that the laptop per se offers?

Atul Mehta: I am sorry I did not clarify, when I say PC I am talking about desktop and laptop both put together and of course the major market is a laptop. Desktop is very, very small segment now that is one thing. Second is while smartphone can aide people on the move, it cannot entirely replace the need of desktop or a laptop. While we have doing lot of our needs on the move but typically when we go to our office or home or whatever we need a device with a larger screen to do lot of computing matters.

Aejas Lakhani: Sir I am even very surprised when you mentioned that we are stagnant at 9-10 million sort of a number because essentially even with the government distributing a lot of laptops, there is a lot of urban awareness and lot of rural awareness why do you see that the number is not being growing. It is very surprising?

Atul Mehta: The only logical feeling I mean that is one of the things that we see when in festive period while people do buy laptops and PC products but the influx or the demand of consumer durable, consumer electronics, two-wheelers, four-wheelers is much, much more. I think it is only because of the social standing that these products have a high visibility when bought that people are focusing on it, laptop as I said earlier the country had a very low, I would say broadband penetration in the country, which sometimes made it difficult to use because of lack of connectivity. I think with all that changing, we should see changes happening, now the question is when is something that we are not able to understand or answer.

Aejas Lakhani: Okay. Perfect. Sir in case there is nobody else in queue, I would like to ask further question with regards to your export market? You have mentioned that you plan to start probably looking at the SAARC region, so can you throw some light on that?

Atul Mehta: We exist in SAARC countries as of now. We have a fully owned branch in Singapore and the reason we got into SAARC was because India as a subcontinent is where the leaders updates for India and SAARC country so when we took over the distribution of Cisco they gave us a distribution rights for SAARC so that is why we started business in SAARC. Having said that while we are doing fairly okay in those markets, but our growth strategy primarily comes out of India. There is so much of potential in India that we do not want to spread ourselves to thin in a market like India both in terms of management bandwidth, in terms of financial resources, in terms of focus and efforts. So we will continue to drive what we are doing in SAARC, but our growth focus will of course be India.

Aejas Lakhani: Sir do we have any significant player who competes with a kind of size that we have except for probably specialized player like Redington?

Atul Mehta: The distribution is being driven by I would say about 10-11 companies, which is not that many for a country and the size of India, so there are a few players in this space but if I want to talk about company, which is into the space of consumer, enterprise and mobility, I think we are one of the well entrenched one.

Aejas Lakhani: Okay. So any significant competition that you are foreseeing?

Atul Mehta: It is very competitive industry, so we have to be on toes, we have to keep our eyes on the ball all the time, but I would not say we have to be alert because everyone is trying to expand the product portfolio, everyone is trying to grow, so I would not say that there is no competition, but I would say we are possibly quite well entrenched after Ingram and Redington, who we well balanced in terms of product portfolio.

Aejas Lakhani: Sir then because there are likes the guys like Ingram and Redington there, is there any change in the way suppliers are merged with Redington versus with us in terms of our ability to negotiate prices or margins or it is relatively similar only for a Redington as well as for us?

Atul Mehta: No. There is flat pricing policy followed by all the vendors, so there is absolutely no disadvantage applicable to us; however, that is as far as a cost goes. The margins are kind of affected because of economies of scale, product mix, finance cost and all these other factors.

Aejas Lakhani: Thanks Sir.

Moderator: Thank you. We will take the next question from the line of Abhishek Lodiya from SMC Global. Please go ahead.

Abhishek Lodiya: Thank you Sir. I just want to understand on the margin front you just said something about margin so I just want to understand, which of our product gives better margin, first thing. Second which of our client gives our highest margin and what is the percentage of sales for that client basically I want to understand the concentration of that margin?

Atul Mehta: See, margins depend upon product category. We have the PC components consumer space operating and peripheral, operating at a margin of maybe 2% to 4%. We have the enterprise business, which operates at a margin of maybe 3% to 5% and we have mobility again operating at a margin of about 2% to 4%, so the bandwidth at which the business operates in the region of 2% to 6%. So there is not too much of difference because it also depends upon the credit period that we get, the credit period that we offer, the kind of warehousing space each of the product categories would involve, which would determine its operating cost, so it is very difficult to quantify because each product category is different in its own way. That is one part of it. Second part you mentioned, which offers the highest margin, I would say in terms of ROI, the mobility category offers one of the highest margins because of faster rotations of the product lines and in terms of which client or which vendor offers the highest margin, I think it is again coming out of the mobility portfolio.

Abhishek Lodiya: Sir I just want to understand one more thing about the profit margins basically. You said that I mean it is in the range of 2% to 6% from somewhere around that but when the margin provided by a vendor is somewhere for most of your portfolio ranges from 2% to 3%, then how can we generate a margin of 5% on a sustainable basis, I mean I can see the numbers it depicts like that?

Atul Mehta: Most of our portfolio is not at 2% to 3%, as I said margins ranges from 2% to 6% and there is lot of portfolio where the margins are 2% to 5%, now 2% is a margin, which is on the very, very few miniscule kind of product category.

Abhishek Lodiya: Okay basically it is product mix what you are referring?

Atul Mehta: It is a product mix that I am referring to.

Abhishek Lodiya: Okay. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Aejas Lakhani from Money Minds Financial Consultants. Please go ahead.

Aejas Lakhani: Sir, I just want to get your sense that in terms of for the capital that you mentioned that will be required, I know that we have a very strong working capital management cycle, so can you just throw light regarding how the entire cash conversion I can get place like what is the kind of lead time that you give vendors across the categories in terms of consumers, enterprise and mobility and what is your payment term with these suppliers?

Atul Mehta: I would say it all varies from product-to-product but on an average the credits that we get from our vendors is most of the vendors are at 30 days may be some could be at 45 days. That is as far as the credits that are offered to us also there is a cap on credit that is extended to us, so in the event we have a limit of x-amount and we touch that limit means we have to start repaying or start making advanced payments for additional supplies. So therefore the requirement may go up. In terms of credit that we offer to our customer again it varies from product category-to-category we offer credit ranging from 14 to 90 days but as far as an average is concerned, our creditors would be in the region of approximately 35 days as far as the receivables is concerned, out receivables would e in the region of about 50 days.

Aejas Lakhani: Sir and what is the kind of inventory we choose to hold in terms of number of days of inventory?

Atul Mehta: It works out at about 35 to 40 days.

Aejas Lakhani: Sir basically how of what is the mechanism I know you have ARB installation, but do you know that if any of these vendors has delayed the payment and what is the kind of course corrective measure that we take with the particular customer's side?

Atul Mehta: We are absolutely very tight in terms of our receivables. We have a credit team just like NBFC or bank monitoring it closely, our systems throws out the data of all overdue payments on a daily basis and therefore the credit team takes it up with the sales team and sales team takes it up with the partner, so which is an ongoing exercise, The moment there is an overdue, new supplies to that customer are put on hold and we also levy interest charges for the delayed payments so that they get penalized for it and we recover the cost of finance from them. We are not in the financing business, but we definitely charge them so that they know that there is a cost and they would rather not delay the payments to us.

Aejas Lakhani: Sir essentially I am sure that I mean there must be some bad debts as a part of this, so what is your estimation on the amount of bad debs that happen as a percentage of revenue that you already factor as a part of the business?

Atul Mehta: That is what the bad debts are extremely, extremely low in fact extremely low is also an understatement, I would say maybe a Crore or two on the higher side at most, despite such low bad debts our board of directors has made a mandatory for us to take credit insurance, so our entire bad debts are protected by way of insurance in the event there is a default then we can always take recourse to the insurance that we have, but having said that in the last 18 months we have not file the single case with the insurance company.

Aejas Lakhani: Sir what is the kind of stock or inventory that your customers or the resellers or vendors really typically tend to hold like do they hold stock greater than a month or is it that month once their inventory gets over, they choose to replenish it, what is the cycle that these vendors per se or customers of you are as follow?

Atul Mehta: I think they follow similar cycles to us typically most of them do end up carrying 30 to 40 days inventory and as and how the stocks get exhausted they keep replenishing them, it is not on a monthly basis, it is on a regular basis because some still get over in a middle of the month, some at the beginning of the month or at end of the month but they also end up taking at least 30 plus days of inventory.

Aejas Lakhani: Sir I want to just sort of understand the margin change that gets allocated if the MRP of the product is pre-decided by the manufacture then the discounts that these customers of your offer, how do they survive, so I am presuming that you work on a fixed margin where if you have to earn say a 5% or 3% margin, you will basically buy it from the manufacture supply to the vendor, the vendor must be even having a prefixed margin right?

Atul Mehta: How it works is when the vendor gives it to us our price and our transfer price to resellers is decided, dealers, reseller whatever we may call them, then between them and the MRP exists, typically in this industry which is so competitive, nothing gets sold at MRP. Everything gets sold below MRP. So their liberty at what price they want to sell so they would typically load anywhere it depends upon the nature of customer, the nature of payment, is it cash or is it going to be on credit, what kind of support is to be extended whether delivery, installation support, etc., if he chose so and that would all determine the price between his buying price and MRP that would exist.

Aejas Lakhani: Sir just to understand what is the most critical or the most important piece in your information, so is it the relationship that you hold with your entire customer network which lies at the heart of what you do and what Redington does and what Ingram does or would there be some other distinguishing factor?

Atul Mehta: No everyone has their strength and advantages over which we have to play. Our advantage and our strength is one as we are mapping the market very deeply into the country. Second is since we are not as biggest as Redington and Ingram, we are able to focus on small and mid sized resellers with the equal importance at the large ones, then of course working swiftly in terms of fleet footedness that we can offer fast and approach and execution, relationship that we built around the resellers despite being systems-oriented we try and bring flexibility into the systems, all these factors play a role and ultimately it is like a multi-banking relationship, we all have credit caps with our dealers, for whatever reasons we feel that we do not want to give exposure beyond this likewise Redington and Ingram also had such policies, so dealer the moment they hit a cap with us either they have to prepay or they have to look at some other sources of supply, so that is where sometimes multi-distribution model is the need of the hour.

Aejas Lakhani: Thank you so much. That is very useful Sir.

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

Atul Mehta: Thank you all very much for participating in this call. As I mentioned in the beginning, it is very exciting space and we are in a very exciting time as far as the country is concerned and we are very bullish and with your support and blessings we will continue to do well. Thank you very much.

Sonal K Shrivastava: Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Kirin Advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines.