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COMPUAGE INFOCOM LTD

28th November 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 Monday, 18th November 2019 at 12.00 noon 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, 18th November 2019 at 12.00 noon IST, to discuss the financial performance for Q2 & H1 FY20 and allied matters.

Please take the disclosure above on records.

Thanking you,

Yours faithfully
For Compuage Infocom Limited

R. P. Shah

COMPUAGE INFOCOM LTD MUMBAI

Ruchita Shah
Company Secretary

Place: Mumbai

Encl: As above.

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"Compuage Infocom Limited
Q2 & H1 FY2020 Earnings Conference Call"

November 18, 2019

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

Moderator: Ladies and gentlemen, good day and welcome to the Compuage Infocom Limited Q2 & H1 FY2020 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. The statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in 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, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Mehta, Chairman & Managing Director, Compuage Infocom Limited. Thank you and over to you Mr. Mehta!

Atul Mehta: Thank you. Very good afternoon ladies and gentlemen. I would like to thank you all for being part of Compuage Infocom Limited's Q2 and H1 FY2020 earnings conference call. Along with me today we also have SGA, our investor relations advisors.

Let me start with giving you an overview of consolidated Q2 FY2020 results. Revenue for Q2 FY2020 decreased by 0.8% year-over-year to 1288 Crores while H1 FY2020 had increased by 2% year-over-year to 2215 Crores despite the weak business environment. Gross profit for Q2 FY2020 exceeds by 13.3% year-over-year to Rs.51.1 Crores while for H1 FY20, it is up by 8.9% year-over-year to Rs.88.8 Crores. Gross profit margins expands by 49 basis points to 3.97% in Q2 FY2020 from 3.48% in Q2 FY2019 and 25 basis points to 4.01% in H1 FY2020 from 3.75% in the same period last year as a result of higher revenue contribution from a more profitable segment.

EBITDA for Q2 FY2020 stood at Rs.26 Crores up by 10.7% year-over-year and for H1 FY2020 it is up by 5.4% year-over-year to 42.7 Crores. EBITDA margin for Q2 FY2020 expands by 21 basis points year-over-year to 2.02% and H1 FY2020 it expanded by 6 basis points year-over-year to 1.93% on the back of cost optimizations undertaken by the company. Profit after tax for Q2 FY2020 increased by 51.5% to 10.4 Crores year-over-year and H1 FY2020 it exceeds by 23.2% year-over-year to 14.6 Crores. PAT margins for Q2 FY2020 expanded by 28 basis points year-over-year to 0.81% and for H1 FY2020 by 11 basis points to 0.66%. Return on capital employed for H1 FY20 is 15.6% on annualized basis as compared to 13.5% for FY2019. Return on equity for H1 FY2020 is 14.7% on annualized basis as compared to 12.8% for FY2019.

Now coming to the business highlights, during the weak business environment prevalent in the Q2 we focused more on improving our margins and focusing on profitable business segments and as a result we could outperform in terms of profitability. Lately during the festive season we have seen improved sentiment bagged by consumer demand. The liquidity crunch with the economy had been in for some time seems to be easing as the interest rates have reduced a bit and availability of credit comes back to the market, which will fuel the purchases. We are positive that the IT spends in the country showed increase at a steady rate. Compuage being associated with global brands with excellent supply chain and serviceability is well positioned to tap the huge business opportunities and sustain a growth momentum. With this I shall now leave the floor open for Q&A. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin question and answer session. The first question is from the line of Ankit Agarwal from Arc Capital. Please go ahead.

Ankit Agarwal: Thanks for the opportunity and congrats on a good set of numbers. I have a couple of questions so basically as of now how is the competition scenario currently in the IT distribution business?

Atul Mehta: Well it is an intensely competitive industry. Having said that there are no new distribution partners that have come in the place.

Ankit Agarwal: In the quarter have we added any additional brands?

Atul Mehta: No, we have not added any additional brands. We have just been going a little slow because the environment is very unpredictable at this point of time and when we add a new brand it brings in lot more pressures to deliver and delivering under such a scenario is not easy. We are in discussions so that maybe in another one or two quarters we are back to signing new brands.

Ankit Agarwal: Okay Sir, something is there in the pipeline for the rest of the year?

Atul Mehta: Yes. So difficult to determine when the new branch will get activated, but we have already initiated discussions and if not one quarter, in two quarters we should be back to signing new brands.

Ankit Agarwal: Okay fine Sir. Sir one last question, in the next year or so do you plan any additional fund raise?

Atul Mehta: Well we have not taken a decision on it as of now, but yes that could be coming up. It will be subject to discussions at board as to how we want to plan for the next financial year, so I think we will be closing that part of discussions before the end of this calendar year.

Ankit Agarwal: Will it be debt or equity?

Atul Mehta: No what I am referring to is the equity.

Ankit Agarwal: Okay, fine Sir. So that answers all my questions. Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Srinath Krishnan, an individual investor. Please go ahead.

Srinath Krishnan: Good morning. Thank you Sir. In the presentation you have mentioned that you have entered the cloud segment so basically wanted to understand what it really takes to succeed in the cloud space like the platform, partnership, how can you differentiate compared to competition what is important because in traditional business scale is a very important factor how does it work in cloud?

Atul Mehta: Yes we have entered the cloud space about three quarters back. Since we are in the enterprise phase of the business and into software it is important to get into the cloud space because moving forward let us say we do not know the timeframe, but maybe three years, four years down the line the entire software business will move from outright sales what we call as on-premise to cloud offerings and what cloud offerings means is maybe individuals, maybe corporates whoever can subscribe. It is a subscription based utilization so one page has one user and what Compuage does is just like our any other business be it hardware or software business we are an important link between the principle software companies and the resellers and of course ultimately to the end customers. Our entire business model is through resellers only so we have created a market place platform for resellers to come in and subscribed whatever software offerings that we have through cloud base for their end customers. Currently we have tied up with one of the premium brands that we are associated with which is Microsoft for cloud offerings, along with that we also have 16, 17 other brands and we are in constant discussions with various principle companies to enhance this portfolio.

Srinath Krishnan: Understood, but how do you differentiate like compared to Redington or Ingram what is the value proposition that you provide that gives you the reason to succeed and what is actually in cloud, what are the important parameters to succeed in traditional businesses, logistics, the collection and various other things, so in cloud what are the key things to succeed?

Atul Mehta: So like any other hardware or software business in terms of product offerings we are similar to what Redington or Ingram offers. The way we have to differentiate ourselves is by offering better presales support or post sales support to partners who may not have technical expertise that is required. So I think what we are doing in our existing business of sales of enterprise products by offering what we tried towards offering better support that is the area we differentiate ourselves and that is the way we are going to move forward by offering better support as well as offering a complete gamut of brands under one roof so that reseller or customers who are resellers can come and get everything under one platform.

Srinath Krishnan: So is there exclusivity that we have with vendors that be it Microsoft or someone that you would be seen as strategic player or is there exclusivity involved in this cloud business?

Atul Mehta: By and large no, the way this industry works is, it works through multi-distribution, if I were to name Microsoft- Redington, Ingram continues to be cloud providers like Compuage and there are couple of other players as well so exclusivity is not there. I think it gets differentiated on two things, one is the reach that we try and bring on table for our principle companies going deeper and deeper into the market and giving better support to partners so that they get aligned with us vis-à-vis competition.

Srinath Krishnan: Where is the investment need to happen like traditional business is a working capital heavy, so here there is limited working capital, a) does it procure a level playing field with a larger guys because there is working capital involved and b) do you need to invest in platform or manpower so where does the investment need to happen from your side?

Atul Mehta: Multiple places; one is the platform, which will need continuous upgrades. Second is I think resources remain which are same in both the businesses. Third is in terms of I would say investments will not change much for the simple reason that when we buy a software and sell to a reseller we do sell maybe with extended credit term and that same trend may continue when we sell the subscription model as well so that is something that we will see as we progress, but I think the investments may be similar.

Srinath Krishnan: In platform does it require significant investment so how does one differentiate from others?

Atul Mehta: There is a onetime investment to create a platform and any technology that we invest in will require continuous upgrades and keeping the same in line with the requirements of the industry.

Srinath Krishnan: How much are you planning to invest in this platform?

Atul Mehta: We are in this journey at this point of time. We have started with a small investment and I think we are in the process of evaluating how much more we need to do. I think it is difficult for me to quantify at this moment because we are still in the process of how much more we need to do to make sure we are very user friendly.

Srinath Krishnan: Great. Good luck Sir. Thanks a lot for your time.

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

Amit Shah: Sir my first question is what is company's working capital cycle days currently?

Atul Mehta: The net working capital cycle currently is approximately 35 to 40 days.

Amit Shah: Okay, which business segment did well in this quarter, Q2?

Atul Mehta: We have been investing and we see a good upside potential in the enterprise space and that continues to do well.

Amit Shah: Okay going further this segment?

Atul Mehta: While there are some challenges, which are linked to the macroeconomic scenario, but yes moving forward this is one segment that will do well, the second segment where our play is limited that is the mobility space so I think that is how we see better growth potential.

Amit Shah: Okay. Sir we have reduced some debt in H1, do we plan to reduce it further?

Atul Mehta: We are trying to become more efficient in our working capital cycle so that is a conscious effort, it is difficult to say whether we will be able to reduce and it will all depend upon how the business cycles pan out over the next two quarters.

Amit Shah: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Atul Kothari from Progwell Securities. Please go ahead.

Atul Kothari: Sir thank you for the opportunity. Sir what is the reason for such a huge jump in gross margins year-on-year basis?

Atul Mehta: As I mentioned that trying to grow our enterprise business, which offers a better gross margin. Ofcourse it also results in higher investments as well, but I think that is the single most important factor that has resulted in this higher gross margin.

Atul Kothari: Sir is this gross margin sustainable?

Atul Mehta: Yes it is sustainable.

Atul Kothari: Okay, Sir can you provide the segment wise revenue breakup and segment wise gross margins for Q2 FY2020?

Atul Mehta: We are not getting into segmental divisional P&L so unfortunately I will not be able to provide that, but I can share indicative segmental revenue. We have five divisions IT consumer, IT enterprise, mobility, fourth is cloud, and fifth is hardware services. Hardware service contributes very little to the topline so it is insignificant. Cloud is just beginning on the journey and again it continues to be insignificant. Both these are very, very low single digit numbers. The major revenue comes out of the top three, which I mentioned, IT consumer accounts for maybe approximately 35%, IT enterprise accounts for about 45% and mobility accounts for approximately 15 to 16%, give or take a percentage of 2 in each of these categories.

Atul Kothari: Okay and Sir what is the gross margins for these three segments, which you mentioned, which form a substantial part of our revenue?

Atul Mehta: So that is something we are not doing and therefore I will not be able to share the same, we are not getting into divisional accounts at this point of time.

Atul Kothari: Thank you Sir that was useful. That is all from my end.

Moderator: Thank you. The next question is from the line of Rahul Doshi, an individual investor. Please go ahead.

Rahul Doshi: Sir you were talking about this platform, it is an e-commerce platform like thing or it is some other kind of platform for internal purposes, for your own B2B customers or it is for all the retail public?

Atul Mehta: Our entire business model is B2B and that is only through resellers, system integrators, partners so anything and everything that we are doing is only through partners. It is not available to end customers.

Rahul Doshi: Okay so we can assume that it could be Amazon or Flipkart kind of thing but for your B2B customers' right, the pattern would be that kind of thing right?

Atul Mehta: Absolutely.

Rahul Doshi: Second question was according to your company would be the fair value of the company as per you at this point of time?

Atul Mehta: That is a very good question, I will not be able to answer that, I will leave it for the market people to determine that. Sorry, but I am not an expert on markets to comment on it.

Rahul Doshi: Okay, no problem, thank you so much.

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

Pankaj Jain: Sir thank you for the opportunity. I just have couple of questions. I would like to know what would be sustainable EBITDA margin for the coming year and the next two years or any internal targets, which we can achieve?

Atul Mehta: We are not giving any forward-looking statement, but our endeavor is going to be to sustain growth from here.

Pankaj Jain: But directionally we can see an improvement in the margin going forward since the economic scenarios were weak for the quarter and first half going further if the conditions improve will we see any improvement in the margin?

Atul Mehta: As I said that is going to be our effort to improve upon it so it is something that possibly we can review it on a quarter-on-quarter basis. I do not want to make a commitment, but as I said our efforts are going to improve and grow from here on.

Pankaj Jain: Okay. That is it from me.

Moderator: Thank you. The next question is from the line of Rahul Doshi, an individual investor. Please go ahead.

Rahul Doshi: Sir regarding your partners you were saying that you would be waiting for one or two more quarters to tie up with new partner so I was just asking if this delay in time would be from our end consciously or from their end because of their decision making?

Atul Mehta: See what happens is when the industry and the economy is going through a slowdown everybody wants to go slow in any change in structure that exist with their brand. We have definitely not slowed down anything. We are just taking a slow view in approaching newer brands at this point of time. In the event something gets signed up there is a huge expectation in terms of deliverables and delivering in a slower environment is always tough. It should not happen that in such an environment we sign up something, we do not deliver which creates a negative image for the company so I would say from both sides that there is a little cautious approach in adding newer distributor and as the scenario improves I think this whole process will change.

Rahul Doshi: How much time do you think will it take to for the improvement of the scenario maybe two quarters, three quarters, maybe one-and-a-half years as per your expectation and understanding of the market?

Atul Mehta: See I am no expert I can only talk to you more as an academician because it is as much a concern to me and all of us together. But if you ask me my personal opinion I think there are two challenges that faces any industry, one challenge is that is demand generation and second is the working capital or the liquidities. Now in terms of demand generation obviously people become a little cautious in terms of spending, wanting scenario to improve is one thing, second thing is postponement in the decision making saying that I have an equipment or a laptop or a software, which is working fine so I will postpone my decision making so that when scenario changes the overall sentiment gets positive as well as in any space and especially in IT where the government that is Central, State, Public Sector Enterprises continue to be a big buyers, so unless they start opening up, which is one of the important buyers in the industry things will continue to be slow. That is one part, which we are yet to see things opening up. It is all linked to sentiments and everything else.Second, liquidity situation also has not improved as much so we need to see. So it is difficult to put a timeframe of one quarter, two quarter, three quarters. I think both these things need to happen for the whole machinery to start humming once again.

Rahul Doshi: Okay. Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Atul Mehta for his closing comments. Over to you Sir!

Atul Mehta: Thank you all the participants for joining us today. I hope I have been able to answer most of your queries. We look forward to your participation in the next quarter and any queries that you may have in the interim you may contact our investor relations advisors, SGA. Thank you once again.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Compuage Infocom Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.