

November 09, 2017

Ivalue Infosolutions Private Limited

Summary of rated instruments

Instrument*	Current Amount (Rs. crore ¹)	Rating action
Long-term – Cash Credit	7.00 (revised from 12.00)	[ICRA]BBB- (Stable); outstanding
Long-term – Interchangeable (Cash Credit)	(5.00) [^]	[ICRA]BBB- (Stable); assigned
Short-term – Non-fund based	36.00 (enhanced from 13.00)	[ICRA]A3; assigned/ outstanding
Long term / Short-term – Unallocated (Proposed)	17.00	[ICRA]BBB- (Stable)/[ICRA]A3; assigned
Total	60.00 (enhanced from 25.00)	

*Instrument Details are provided in Annexure-1;

[^] sub-limits of short-term non-fund based limits

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 35.00-crore enhanced limits of Ivalue Infosolutions Private Limited (Ivalue). ICRA also has outstanding ratings of [ICRA]BBB- and [ICRA]A3 on Rs. 25.00-crore bank limits of Ivalue. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings take into account the established track record of the promoters in the information-technology products distribution business and the established distribution channel and long-term association with global technology vendors, lending revenue visibility over the medium term. The ratings also take into account the strong growth in revenues reported by the company in the last five years, aided by addition of new customers and increase in orders from the existing customers. Moreover, the margins of the company have been healthier compared to other IT hardware distributors due to its focus on value-added distribution services. The ratings, however, are constrained given the uncertainty in the shareholding and ownership structure in the near term following the agreement between the initial promoters of Ivalue and Iris Computers Limited (Iris, rated [ICRA]BBB- (Negative)/A3 by ICRA), whereby Ivalue's initial promoters, who are minority shareholders in the company at present, are looking to tie up with financial investors to buy back the shareholding, and Iris will liquidate its shareholding and exit Ivalue. The timing of the change in shareholding would be contingent on the promoters' ability to find suitable investors. The ratings are also constrained by the high receivables position as of March 31, 2017 owing to the seasonality in sales, which is skewed towards the last quarter, and the weakening of capital structure due to increase in borrowings as of yearend and dividend paid out in FY2017. The ratings also take note of the competitive intensity in the industry, limiting the pricing flexibility in the long term and the foreign currency exposure, though a large position remains hedged.

¹ 100 lakhs = 1 crore = 10 millions

Key rating drivers

Credit strengths

- **Established track record of the promoters in the information technology products distribution business:** The promoters of the company have close to 2 decades of experience in the IT industry, and have served in senior roles in Wipro e-peripherals, before founding Ivalue.
- **Strong distribution channel and long term association with the global technology vendors:** The company has created a strong network with around 30 original equipment manufacturers and more than 600 system integrators, aiding revenue visibility over the near to medium term.
- **Strong growth in revenues in the last 5 years:** The revenues of the company have grown a CAGR of more than 40% in the last 5 years aided by addition of new customers and increase in orders from the existing customers. The company reported a yoy growth of ~35% in its revenue during 6m FY2018.
- **Concentration on value added distribution space which leverages better margins:** The company offers value added distribution services and as a result, garners better margins as compared to a pure IT hardware distributor.

Credit weaknesses

- **Uncertainty in the shareholding & ownership structure in the near term:** Auroile Technologies Private Limited (Auroile), a 100% subsidiary of Iris Computers Limited, holds 60% stake in Ivalue as on date. Ivalue's initial promoters are looking to tie up with financial investors for purchasing this 60% stake from Iris/Auroile. Fructification of the same in a timely manner without adversely affecting the capital structure of the company would be a key rating sensitivity.
- **High receivables from the customers as of year-end:** The company derived about 45% of its revenues during the fourth quarter of FY2017. This has resulted in high receivables position as on March 31, 2017. However, ICRA takes comfort from the credit insurance system in place covering 100% of its receivables, mitigating counter-party credit risk. Also, the receivables position has improved in the months following June 2017.
- **Weakening of capital structure due to increase in borrowings and dividend payout:** The increase in receivables is mirrored by increase in debt borrowings and higher payable position as of the year end. This, coupled with dividend pay-out of Rs. 6.9 crore (including dividend distribution tax) in FY2017, has resulted in increase in gearing to 1.1 times and the TOL/TNW has shot up to 7.1 times as of March 31, 2017. However, this may be attributed to the seasonality in the business and the leverage metrics have moderated as of September 30, 2017. Going forward, the management has proposed equity infusion to the tune of Rs. 7.0 crore to support the capital structure.
- **Competitive intensity with the presence of well established distribution companies and other small and medium sized players:** While the number of players operating in the same segment as of Ivalue is limited, it faces the threat of entry by other established IT hardware distribution giants in the same product segment. This may restrict the pricing flexibility and thereby the margins in the long-term.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

[Corporate Credit Rating –A Note on Methodology](#)
[Issuers in the Information Technology \(Hardware\) Industry](#)

About the company

Established in 2008, Ivalue Infosolutions Private Limited is a value-added distributor of IT hardware and software products, offering consulting solutions and associated services data, network, and application protection and management, along with digital asset protection. The company partners with around 30 original equipment manufacturers and more than 600 system integrators. It has 9 offices in India and one in Kenya and Singapore.

In August 2016 Auroile Technologies Private Limited, a 100% subsidiary of Iris, acquired 60% stake in Ivalue. At present, the initial promoters of Ivalue are looking to purchase back the 60% stake from Auroile/Iris.

The company reported a net profit of Rs. 10.4 crore on an operating income of Rs. 457.4 crore in FY2017, as against a net profit of Rs. 7.4 crore on an operating income of Rs. 310.2 crore in FY2016.

Key financial indicators (Audited)

	FY2016	FY2017
Operating income (Rs. crore)	310.2	457.4
PAT (Rs. crore)	7.4	10.4
OPBDITA/ OI (%)	4.4%	3.9%
RoCE (%)	35.8%	34.8%
Total Debt/ TNW (times)	0.6	1.1
Total Debt/ OPBDITA (times)	1.3	2.0
Interest coverage (times)	7.8	6.6
NWC/ OI (%)	8.8%	8.2%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; OI: Operating Income; RoCE: Return on Capital Employed; TNW: Tangible Net-worth; NWC: Net Working Capital; Source: Financial statements of Ivalue and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating in FY2018		Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				November 2017	October 2017			
1	Cash Credit	Long Term	7.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-	-
2	Interchangeable (CC)	Long Term	(5.00)	[ICRA]BBB-(Stable)	-	-	-	-
3	Non-fund based	Short Term	36.00	[[ICRA]A3	[ICRA]A3	-	-	-
4	Unallocated /Proposed	Long Term/ Short Term	17.00	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument details

ISIN	Name of the instrument	Date of issuance/ sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	7.00	[ICRA]BBB-(Stable)
-	Interchangeable (Cash Credit)	-	-	-	(5.00)^	[ICRA]BBB-(Stable)
-	Non-fund based (LC/BG/BC)	-	-	-	21.00	[ICRA]A3
-	Non-fund based (LC/BC/BG)	-	-	-	15.00	[ICRA]A3
-	Unallocated /Proposed	-	-	-	17.00	[ICRA]BBB-(Stable)/ [ICRA]A3

LC: Letter of credit; BG: Bank Guarantee; BC: Buyer's Credit;

^ Sub-limit of short-term non-fund based facilities

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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