Ivalue Infosolutions Pvt Ltd

October 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (CC)	18.00	18.00	[ICRA]BBB (Positive); upgraded from [ICRA]BBB- (Stable)
Long Term – Fund Based (TL)	-	5.00	[ICRA]BBB (Positive); upgraded from [ICRA]BBB- (Stable)
Short Term – Fund Based	35.00	45.00	[ICRA]A3+; upgraded from [ICRA]A3
Short Term – Non-fund based	28.00	28.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**81.00**	**96.00**	

Rating action

ICRA has upgraded the long-term rating from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BBB (pronounced ICRA triple B) for the Rs. 18.00-crore long-term fund-based (CC) limits and Rs. 5.00-crore (previously nil) long-term loans of Ivalue Infosolutions Pvt. Ltd. (Ivalue). ICRA has also upgraded the short-term rating from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 45.00-crore (enhanced from Rs. 35.00 crore) short-term fund-based limits and Rs. 28.00-crore short-term non-fund based limits of Ivalue. The outlook on the long-term rating has been revised to 'Positive' from 'Stable'.

Rationale

The ratings were upgraded as the uncertainty over Ivalue's shareholding and ownership structure was mitigated, with the erstwhile promoters arranging to buy back the 60% stake from Iris Computers Limited (Iris, rated [ICRA]BBB- (Stable)/A3 by ICRA). Further, the upgrade factors in the improvement in Ivalue's financial profile, marked by improved operating margins and coverage indicators during FY2018 and H1 FY2019. Ivalue's revenue increased at a CAGR of over 30% in the last five years, aided by expanding distribution network and addition of new OEM brands to its product offerings. Moreover, the margins of the company have been healthier compared to other IT hardware distributors owing to its focus on value-added distribution services. These apart, the ratings derive comfort from the established track record of the promoters in the IT infrastructure distribution business.

The ratings are, however, constrained by the moderate scale of operations and moderate net worth base of the company. Further, reduction in net worth following the pay-out for acquiring the stake from Iris in H1 FY2019 led to an increase in gearing from 0.5 times as on March 31, 2018 to 1.2 times as on September 30, 2018. The ratings are also constrained by the seasonality inherent in the business, resulting in high receivables and payables position during the quarter ends, leading to high gearing and TOL/TNW ratios. The ratings also note of intense competition in the industry, limiting the pricing flexibility in the long term and the foreign currency exposure though a large position remains hedged.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that Ivalue's financial risk profile would continue to improve going forward, aided by healthy accretion to reserves, supporting the capital structure and healthy operating margins, aiding the coverage indicators. The ratings may be upgraded if the gearing and TOL/TNW ratios improve substantially, along with efficient working capital management. The outlook may be revised to Stable in case of any deterioration in capital structure and coverage indicators, or any elongation of working capital cycle results in weakened liquidity position.

Key rating drivers

Credit strengths

Established track record of promoters in IT infrastructure distribution business: The promoters of the company have close to two decades of experience in the IT industry, and have worked in senior positions in Wipro E-peripherals Ltd, before founding Ivalue. The expertise of the management has aided in scaling up the business over a short span of time.

Strong growth in revenues in the last five years: Ivalue's revenues have increased at a CAGR of more than 30% from Rs. 138.1 crore in FY2013 to Rs. 525.8 crore in FY2018. During H1 FY2019, the company reported a y-o-y growth of 48%. The growth was driven by an expanding distribution network, which currently consists of more than 500 system integrators through which it reaches out to more than 6,000 end customers. Ivalue has also tied up with over 30 technology vendors. The increased product offerings, along with addition of new vendors, has also aided the revenue growth in the past.

Improvement in the financial risk profile: The operating margins of the company improved from 3.9% in FY2017 to 5.7% in FY2018 and further to 7.6% during H1 FY2019. The improvement in margins is driven by increasing scale of operations, resulting in better absorption of fixed costs as well as higher margins derived from the value-added sales. The higher margins and cash accruals led to a significant improvement in coverage indicators. The Total Debt/OPBDITA improved to 0.8 times, interest cover to 10.0 times and NCA/Total Debt to 79.5% in FY2018.

Risk-management practices reduce counterparty credit risk - The company has an established credit-risk management system for its system integrators and channel partners. Apart from carrying out an internal credit risk assessment for its new customers, the company also avails credit insurance, which mitigates counterparty credit risk to a large extent.

Credit challenges

Moderate scale of operations and net worth base: Notwithstanding the revenue growth in the past, with a turnover of Rs. 525.0 crore in FY2018, Ivalue's scale of operations remains moderate in the IT distribution space. Further, the net worth base of the company remains moderate, given the substantial payout for acquiring the stake from Iris in H1 FY2019 and the dividend payout in FY2017. While ICRA notes that Rs. 5.0 crore equity infusion in August 2018 and the accretion to reserves during H1 FY2019 have supported the net worth to an extent, it remained moderate at Rs. 33.5 crore as on September 30, 2018. This also resulted in a high gearing of 1.2 times as on September 30, 2018.

Seasonality inherent in the business model leading to high indebtedness: The company witnesses a high volume of sales during the quarter ends, especially in the third and fourth quarters. This results in higher receivables and payables as of the quarter ends, leading to higher debt levels and TOL/TNW ratios. The total indebtedness (as measured by TOL/TNW) has been consistently high for the company and stood at 6.1 times as on September 30, 2018 against 4.8 times as on March 31, 2018. With a reduced net worth base (on an adjusted basis), the sensitivity of these ratios to any changes in the receivables/payables position remain high and any stretch in the receivables or payables could further weaken the TOL/TNW or gearing ratios.

Intense competition amid presence of well-established IT distribution companies and other small and medium-sized players: While the number of players operating in the value-added distribution segment is limited at present, it faces the threat of entry of 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.

Exposure to foreign currency fluctuations: With imports constituting a major portion of the procurement, the company is exposed to foreign currency fluctuation risk. However, the company hedges a large portion of its exposure through use of forward contracts, mitigating the risk to a large extent. While the company incurred forex losses during Q1 FY2019 due to absence of sufficient limits to cover the entire exposure, it was able to pass on the risk to its customers to some extent. With subsequent enhancement in the forex limits, the exposure is expected to be limited, going forward.

Analytical approach: For arriving at the ratings, ICRA has adjusted the net worth of Ivalue for the Rs. 29.5-crore cross-holdings between Ivalue and Iunite. ICRA has also applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for 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 in data, network, and application protection and management, along with digital asset protection. The company partners with more than 30 original equipment manufacturers and more than 500 system integrators. It has nine offices in India and one each in Kenya, UAE and Singapore.

In July 2016, Auroile Technologies Private Limited, a 100% subsidiary of Iris, acquired a 60% stake in Ivalue. In April 2018, Iunite, an SPV held by the same promoters as of Ivalue, acquired the 60% stake from Auroile.

Key Financial Indicators (Audited)

	FY2017	FY2018	H1 FY2019 (Provisional)
Operating Income (Rs. crore)	457.4	525.8	272.4
PAT (Rs. crore)	10.4	18.4	9.0
OPBDIT/ OI (%)	3.9%	5.7%	7.6%
RoCE* (%)	34.8%	45.5%	47.6%
Total Debt/ TNW* (times)	1.1	0.5	1.2
Total Debt/ OPBDIT (times)	2.0	0.8	1.0
OPBDIT/Interest and Finance Charges (times)	6.6	10.0	5.5
NWC/ OI (%)	8.1%	7.6%	10.4%

** TNW has been adjusted for Rs. 29.5 crore.*

PAT: Profit After Tax; OPBDIT: Operating Profit Before Depreciation Interest and Tax; OI: Operating Income; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)^	Date & Rating Oct 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 Feb 2018	Nov 2017	Oct 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Cash Credit	Long Term	18.00	-	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2	Term Loan	Long Term	5.00	4.67	[ICRA]BBB (Positive)		-	-	-	-
3	Fund based	Short Term	45.00	-	[ICRA]A3+	[ICRA]A3	-	-	-	-
4	Interchangeable (CC)	Long Term	-	-	-	-	[ICRA]BBB- (Stable)	-	-	-
5	Non-fund based	Short Term	28.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	-
6	Unallocated /Proposed	Long Term/ Short Term	-	-	-	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-

^ As on September 30, 2018

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	18.00	[ICRA]BBB (Positive)
NA	Term Loan	FY2019	NA	FY2020	5.00	[ICRA]BBB (Positive)
NA	Fund based	NA	NA	NA	45.00	[ICRA]A3+
NA	Non-fund based	NA	NA	NA	28.00	[ICRA]A3+

Source: Ivalue Infosolutions Pvt Ltd

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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