August 02, 2019

Ivalue Infosolutions Pvt Ltd: Ratings upgraded to [ICRA]BBB+(Positive)/A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	18.00	17.00	[ICRA]BBB+ (Positive); upgraded from [ICRA]BBB (Positive)
Long Term - Fund Based - Term Loan	5.00	0.00	-
Short Term - Fund Based	45.00	20.00	[ICRA]A2; upgraded from [ICRA]A3+
Short Term - Non-Fund Based	28.00	27.00	[ICRA]A2; upgraded from [ICRA]A3+
Long Term / Short Term – Unallocated	0.00	32.00	[ICRA]BBB+ (Positive)/[ICRA]A2; upgraded from [ICRA]BBB (Positive)/[ICRA]A3+
Total	**96.00**	**96.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in ratings takes into account the capital infusion in Ivalue Infosolutions Pvt Ltd (Ivalue) by a private equity investor in Q1 FY2020, in the form of compulsorily convertible preference sharesof Rs. 80.00 crore, resulting in an improved net worth and capital structure. Going forward, the capital infusion is likely to provide adequate headroom for near-to-medium-term growth. Further, the upgrade factors in the improvement in Ivalue's financial profile marked by improved revenues and operating margins in FY2019 and Q1 FY2020, aided by an expanding distribution network and addition of new OEM brands to its product offerings. Moreover, the company's margins remain healthy in comparison 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 information technology (IT) infrastructure distribution business. The ratings also consider the risk management practices adopted by the company, which mitigate the counterparty risk and foreign currency exposure to a large extent.

The ratings are, however, constrained by the company's scale of operations despite an improvement in FY2019 and Q1 FY2020. The ratings are 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. However, the recent capital infusion has aided in bringing down the gearing and TOL/TNW ratios. The ratings note the competition in the industry, which limits it's the pricing flexibility in the long-term and the foreign currency exposure, albeit a large position remains hedged. The ratings are constrained by the significant interest outflow that impacted the interest coverage ratio in FY2019. Furthermore, ICRA notes that Ivalue's revenues are susceptible to the performance of its key vendors, which operate in an intensely competitive market. However, the risk is primarily mitigated by the tie-ups with the leading players in the segment.

Going forward, ICRA will continue to monitor the deployment of the funds infused by the private equity investors. The ratings remain sensitive to any debt funded acquisitions or capital expenditure undertaken by the company. While inorganic growth may help the company to diversify its product profile and service offerings, and thereby scale up the operations at a much faster pace, the ability of the company to integrate the operations, without any impact on its capital structure, profitability and liquidity profile, remains to be seen.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that Ivalue's financial risk profile would continue to improve with its growing scale of operations, healthy accretion to the reserves along with the capital infusion in Q1 FY2020 supporting the capital structure, and healthy operating margins supporting the coverage indicators. Theratings may be upgraded if the company continues to scale up its operations as expected, while maintaining its profitability, capital structure and liquidity profile. The outlook may be revised to Stable if any capital expenditure or inorganic growth pursued by Ivalue deteriorates the capital structure and coverage indicators, or any elongation of working capital cycle results in a weakened liquidity position.

Key rating drivers

Credit strengths

Established track record of the promoters in IT infrastructure distribution business – The company's promoters have more than two decades of experience in the IT industry and have served in senior roles in Wipro e-peripherals, before founding Ivalue. The expertise of the management has aided in scaling up the business over a short span of time.

Improvement in financial risk profile supported by capital infusion from private equity investor – The company's operating margins improved to 6.83% in FY2019 driven by increasing scale of operations resulting in better absorption of fixed costs as well as higher margins derived from the value-added sales. Further, the capital structure and net-worth base improved with Rs. 80.00 crore of capital infusion by private equity investment firm Creador in Q1 FY2020, in the form of compulsorily convertible preference share. Going forward, the capital infusion is expected to provide financial flexibility and adequate headroom for growth over the near to medium term.

Strong revenue growth in FY2019 and Q1 FY2020 – Ivalue's revenues witnessed a healthy growth of ~35% and improved to Rs. 712.10 crore in FY2019 fromRs. 525.81 crore in FY2018. Further, it reported revenues of Rs. 212.88 crore in Q1 FY2020 against Rs. 120.46 crore in Q1 FY2019. The growth is driven by an expanding distribution network, which at present consists of more than 600 system integrators catering to more than 6,000 end-customers. Ivalue has also tied up with over 40 technology vendors. The increased product offerings aided by addition of new vendors led to revenue growth in the past.

Risk management practices reduce counterparty credit and foreign currency risks – 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, it avails credit insurance, which mitigates the counter party credit risk to a large extent. With imports constituting a major portion of the procurement, it remains exposed to foreign currency fluctuation risk. However, Ivalue hedges its entire exposure through the use of forwardcontracts. Reduction in imports in FY2019, coupled with natural hedge on its exports, minimises the forex risk further.

Credit challenges

Moderate scale of operations – Notwithstanding the revenue growth in the past, with a turnover of Rs. 712.10 crore in FY2019, Ivalue's scale of operations remains moderate in the IT distribution space compared to other players such as Redington (India) Limited, Compuage Infocom Limited, Avnet India and Ingram Micro Inc, etc. Aided by the infusion of funds from the private equity players, the company's scale of operations is expected to achieve strong traction going forward.

Seasonality inherent in business model leading to high indebtedness – The company has a high proportion of sales during the quarter ends, especially in the third and fourth quarters. This results in higher receivables and payables as on the quarter ends, leading to higher debt levels and TOL/TNW ratios. The total indebtedness (as measured by TOL/TNW) remained high and stood at 4.61 times as on March 31, 2019. However, the recent capital infusion has aided in bringing down the gearing and TOL/TNW ratios as on June 30, 2019. Going forward, these ratios remain sensitive to the revenue growth pursued and the working capital management strategies adopted by the company.

Competition from 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 at present, it faces the threat of entry by other established IT hardware distribution giants in the same product segment. This may restrict its pricing flexibility and thereby the margins and revenue growth potential, in the long-term. Nevertheless, the company is present in the value-added distribution business, through which, it has been able to garner higher operating margins compared to its peers.

Liquidity position

The liquidity position is comfortable with a strong cash balance of Rs. 64.04 crore as on June 30, 2019. Ivalue utilises about ~60% of its sanctioned working capital limits on an average, providing adequate buffer in the form of undrawn bank lines. The company has limited repayment obligations towards car loans and NBFC loans of Rs. 0.87 crore as on June 30, 2019. ICRA notes that a part of its cash balances will be used for funding inorganic growth, contingent upon availability of suitable prospects. ICRA would re-assess the impact of any such decision on Ivalue's profile on a case-to-case basis.

Analytical approach

For arriving at the ratings, ICRA has adjusted the net worth of Ivalue for the Rs. 29.50crore cross-holdings between Ivalue and Iunite, an SPV held by the same promoters as of Ivalue. ICRA has also applied its rating methodologies as indicated below.

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Information Technology (Hardware) Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements of the issuer.

About the company

Established in 2008, Ivalue 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 600 system integrators. It has nine offices in India and one each in Kenya, Dubai and Singapore.

In July 2016, Auroile Technologies Private Limited, a 100% subsidiary of Iris Computers Limited, acquired 60% stake in Ivalue. In April 2018, Iunite, an SPV held by the same promoters as of Ivalue, acquired the 60% stake from Auroile Technologies Private Limited. In April 2019, a private equity firm Creador, through its affiliate Sundara (Mauritius) Ltd., acquired 15.27% equity shares of the company. Ivalue issued compulsorily convertible preference shares to Sundara (Mauritius) Ltd. The capital infusion in Ivalue is of ~Rs. 80.00 crore in FY2020 from issue of Rs. 1.25 crore of preference shares with a premium of Rs. 78.75 crore.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	525.81	712.10
PAT (Rs. crore)	18.42	26.10
OPBDITA/OI (%)	5.75%	6.83%
RoCE (%)	45.53%	61.28%
Total Debt/TNW (times)	0.49	0.72
Total Debt/OPBDITA (times)	0.79	0.75
Interest Coverage (times)	10.01	5.50

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)		Date & Rating in FY2019	Date & Rating in FY2018			Date & Rating in FY2017
	Instrument				August 2019	Oct 2018	Feb 2018	Nov 2017	Oct 2017	-
1	Cash Credit	Long Term	17.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Term Loan	Long Term	0.00	_	-	[ICRA]BBB (Positive)	-	-	-	-
3	Fund based	Short Term	20.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	-	-
4	Non-fund based	Short Term	27.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	ICRA]A3	ICRA]A3	-
5	Unallocated	Long Term/ Short Term	32.00	-	[ICRA]BBB+ (Positive)/A2	-	-	[ICRA]BBB- (Stable)/A3	-	-
6	Interchangeable CC	Long term	-	-	-	-	-	[ICRA]BBB- (Stable)	-	-

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				17.00	[ICRA]BBB+ (Positive)
NA	Fund based	-	-	-	20.00	[ICRA]A2
NA	Non-fund based				27.00	[ICRA]A2
NA	Unallocated				32.00	[ICRA]BBB+(Positive)/[ICRA]A2

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.

For more information, visit www.icra.in

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