November 30, 2020

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

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based (CC)	17.00	72.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Positive)
Short Term –fund based	20.00	-	-
Short Term – Non-fund based	27.00	10.00	[ICRA] A2+; upgraded from [ICRA]A2
Short Term – Non-fund based Interchangeable	-	(42.00)	[ICRA]A2+; upgraded from [ICRA]A2
Long/Short Term – Unallocated	32.00	14.00	[ICRA]A- (Stable)/A2+; upgraded from [ICRA]BBB+(Positive)/A2
Total	**96.00**	**96.00**	

Rationale

The upgrade in ratings considers the improvement in Ivalue Infosolutions Pvt Ltd's (Ivalue) financial profile, marked by healthy return metrics and debt coverage with a modest working capital cycle. The ratings also consider the company's comfortable liquidity position with sizeable undrawn limits and private equity funds. Diversity across the end-user industry segments, addition of new principals and the company's ability to establish relationships with OEMs have driven the revenue growth over the last five years. While the growth is expected to continue even in the backdrop of the ongoing pandemic, the company's margins remain healthy in comparison to other information technology (IT) infrastructure hardware distributors owing to its focus on value-added distribution (VAD) services. The ratings continue to derive comfort from the established track record of the promoters in the IT infrastructure distribution business.

Notwithstanding the consistent revenue growth, the ratings are constrained by Ivalue's moderate scale of operations compared to other IT distribution players. The ratings are constrained by the seasonality inherent in the business, resulting in high receivables and payables position during the quarter ends. However, the recent capital infusion has supported moderation in leverage, as characterised by the gearing and TOL/TNW ratios. Additionally, as prevalent in the business, Ivalue has to offer long credit period to its customers though ICRA notes the credit risk management practices adopted by the company. The ratings factor in the intense competition in the industry as well as the players' exposure to foreign currency fluctuation risks. Further, Ivalue's revenues are susceptible to the performance of its key principals though the company's induction of new principals across the product segments mitigates this risk to an extent.

The Stable outlook reflects ICRA's expectations that Ivalue will continue to benefit from the healthy industry outlook. Its comfortable funding position will enable it to drive growth across the targeted initiatives, which include geographical expansion and inorganic growth opportunities.

Key rating drivers and their description

Credit strengths

Consistent and healthy growth in revenues over the last five years – Expansion in customer base across the industry segments including Banking, financial services and insurance (BFSI), enterprises and government business has enabled Ivalue to increase its volumes. In addition, the company is tying up with new principals across the product segments. Ivalue's ability to maintain good relationships with its existing customers leads to strong repeat business. These factors have led the company to achieve a healthy revenue growth (CAGR of 22% in the last five years). While the company witnessed a decline in revenues from Q4 FY2020 to Q1 FY2021 owing to the lockdown related logistical issues, the demand outlook remains healthy with more enterprises strengthening their technological capabilities. Thus, Ivalue is expected to post healthy revenue growth over the medium term as well.

Improvement in financial risk profile owing to capital infusion by private equity investor – Ivalue's return and debt coverage metrics continued to improve in FY2020 and H1 FY2021 even though the operating margins dipped in FY2020 owing to lower revenue booked in the Q4 FY2020. Moderate operating margins, low debt levels and interest costs resulted in healthy return metrics. The capital structure and net worth base improved with capital infusion by private equity investment firm, Creador, in Q1 FY2020. Moreover, low debt and moderate margins led to an improvement in debt coverage metrics, as reflected by interest coverage, TOL/TNW and Debt/OBDIT of 6.8 times, 1.5 times and 0.6 times in FY2020 respectively, improved from 5.5 times, 4.6 times and 0.8 times, respectively in FY2019. The company's ability to sustain its margins while growing volumes over a modest working capital cycle will be the key determinants of its debt coverage profile, going forward.

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 its business over a short span of time.

Credit weaknesses

Moderate scale of operations – Notwithstanding the revenue growth witnessed in the past, Ivalue's scale of operations remains moderate in the IT distribution space with a turnover of Rs. 841.0 crore in FY2020, compared to other established players. Aided by fund infusion from private equity player, the company's growth plans are expected to achieve strong traction in the medium to long term.

Inherent seasonality in business model leading to high indebtedness – The company makes a high proportion of sales during the quarter ends, especially in the third and fourth quarters, which results in higher receivables and payables as of the quarter-ends. However, the recent capital infusion has aided in bringing down the gearing and TOL/TNW ratios. The total indebtedness (as measured by TOL/TNW) stood at 1.59 times as on March 31, 2020. Going forward, these ratios will remain sensitive to the revenue growth pursued and the working capital management strategies adopted by the company. While offering high credit period is prevalent in the business, ICRA notes the risk management and credit appraisal policies implemented by the company. ICRA also notes the hedging practices followed, which partly mitigate forex fluctuation risks.

Competition threat from 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 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 VAD business, through which it has been able to garner higher operating margins compared to its peers.

Dependence on performance of principals – The company has tie-ups with large players like Hitachi, Checkpoint, HP and other reputed players in the industry that cater to the data network architecture as well as data asset protection space. The company primarily provides solutions through system integrators and direct customers. The performance of the principal is critical for the business of Ivalue as 52% of the purchases have been with the top three principals in FY2020. Addition of new principals, however, is increasing diversity.

Liquidity position: Strong

The company's liquidity position is **strong** as evident from the low reliance on working capital borrowings, and high free cash levels (~Rs. 75 crore as on September 30, 2020). A part of the capital infusion is expected to be utilised for working capital purpose. Between July 2019 and October 2020, the company's cash credit limits were sparingly utilised, leaving a large undrawn buffer. Ivalue has very limited debt repayment obligation in the near to medium term. The company is expected to generate positive cashflows from operations over the medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade Ivalue's ratings if the company demonstrates a substantial improvement in its scale and profitability, while maintaining healthy leverage and coverage metrics.
Negative triggers –Pressure on Ivalue's ratings could arise due to a sharp decline in its scale and profitability or any major debt-funded capital expenditure or acquisition or a deterioration in its working capital cycle and liquidity position. Key metrics include TOL/TNW of more than 1.5 times on a sustained basis.

Analytical approach

For arriving at the ratings, ICRA has adjusted the net worth of Ivalue for the Rs. 29.50-crore cross-holdings between Ivalue and Iunite, an SPV held by the same promoters as of Ivalue. ICRA has 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	The rating is based on the 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 40 original equipment manufacturers or principals and more than 600 system integrators. It has ten offices in India and one each in Kenya, the UAE (Dubai) and Singapore. The company is expected to post healthy revenue growth in line with what they achieved last year.

Key Financial Indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	712.1	841.6
PAT (Rs. crore)	26.1	31.1
OPBDIT/OI (%)	6.9%	5.1%
RoCE (%)	61.3%	35.1%
Total Outside Liabilities/Tangible Net Worth (times)	4.6	1.6
Total Debt/OPBDIT (times)	0.7	0.6
Interest Coverage (times)	5.5	6.9
DSCR	3.9	5.8

**Company data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding as on Sep 2020	Rating	FY2020	FY2019	FY2018		
					30-Nov-2020	02-Aug-2019	24-Oct-2018	15-Feb-2018	09-Nov-2017	12-Oct-2017
1	Cash Credit	Long Term	72.00	-	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB (Positive)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Non-fund based	Short Term	10.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	-
3	Unallocated	Long Term/ Short Term	14.00	-	[ICRA]A-(Stable)/ A2+	[ICRA]BBB+(Positive)/ A2	-	-	[ICRA]BBB-(Stable)/A3	-
4	Interchange-able	Short term	(42.00)	-	[ICRA]A2+	-	-	-	-	-
5	Fund Based	Short term	20.00	-	-	[ICRA]A2	[ICRA]A3+	[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 No	Instrument Name	Date of Issuance/ Sanction	Interest Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit				72.00	[ICRA]A- (Stable)
NA	Non-fund Based				10.00	[ICRA]A2+
NA	Interchangeable				(42.00)	[ICRA]A2+
NA	Unallocated				14.00	[ICRA]A- (Stable)/A2+

Source: Company

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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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