

January 23, 2023

Team Computers Private Limited: Long-term rating upgraded to [ICRA]A(Stable), Short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Fund-based/CC	60.00	78.00	[ICRA]A(Stable); Upgraded from [ICRA]A-(Stable), assigned for enhanced amount
Long-term/Fund-based/TL	20.00	7.75	[ICRA]A(Stable); Upgraded from [ICRA]A-(Stable)
Short-term/Non-fund Based	76.00	124.00	[ICRA]A2+; Reaffirmed, assigned for enhanced amount
Long-term/Short-term: Unallocated Limits	4.00	40.25	[ICRA]A(Stable)/[ICRA]A2+; long-term upgraded from [ICRA]A-(Stable) and short-term reaffirmed, assigned for enhanced amount
Total	160.00	250.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating upgrade takes into consideration that Team Computers Private Limited's (TCPL) scale and cash accruals will continue to witness healthy growth in the medium term, given the strong revenue visibility and healthy order book. The company is witnessing stable demand for IT end-user products after resumption of the 'work-from-office' trend and continues to focus on strengthening its capabilities through innovations and tools development. ICRA's expects TCPL's financial profile to remain comfortable with low gearing and comfortable debt protection metrics with adequate liquidity levels on the back of a modest working capital and capex requirements resulting in low debt dependence. The ratings also consider the company's relationships across a diversified vendor base, which includes all major IT original equipment manufacturers (OEMs). However, the supplier concentration risk has been skewed towards Apple products for the past 2-3 years owing to the semiconductor chip issues faced by other OEMs in this period. The ratings continue to be supported by TCPL's established relationships with clients from both public as well as private sectors; the company's national presence enable it to cater to a wide end-user base spanning sectors and regions.

The ratings, however, remain constrained by TCPL's inherently low margins primarily emanating from the infrastructure business segment, which largely involves hardware trading of end-user computing devices, networking and security infrastructure, etc. However, TCPL's increased focus on value addition and product diversity is expected to support a gradual margin expansion in the long-term. Moreover, the ratings are constrained by its working capital-intensive nature of operations, mainly on account of high payables, also reflected in a high TOL/TNW. TCPL faces stiff competition in the industry from a large number of regional players, which results in limited pricing power. Also, business may be impacted during economic slowdowns when IT product users curtail their spending budgets.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that TCPL will continue to benefit from its experienced promoters, established client base, healthy revenue visibility and diversified geographic presence.

Key rating drivers and their description

Credit strengths

Established relationship with reputed clients in public and private sectors across India – With its pan India presence and established relationships with OEMs and buyers, the repeat business from its clientele’s generally drives the revenues for TCPL. Around 70–80% of its existing customers repeat their orders. Apart from repeat orders, TCPL continues to add reputed clients to its portfolio from both public as well as private sectors.

Healthy demand driving scale – TCPL posted a revenue growth of ~48% in scale in FY2022 supported by a mix of realisation and volume expansion. In the first nine months of its operations in FY2023, the company has achieved revenue of ~Rs. 2,360 crore on a provisional basis. It has a healthy order book of Rs. 800 crore and a further healthy pipeline, providing strong revenue visibility to support the growth momentum, going forward. The demand has remained buoyant for IT end-user products and related infrastructure, with expectations of demand stability in the near to medium term. TCPL’s wide geographic presence also enables it to garner business across the country.

Comfortable financial risk profile – TCPL’s cash accruals have grown over FY2022 and current fiscal even as operating margins witnessed only modest improvement. The capital structure and coverage indicators of the company have moderated but remained comfortable with gearing of 0.31 times, interest coverage ratio of 21 times, DSCR of ~9.0 times as on March 31, 2022, given that the company’s debt requirements are mainly towards working capital without any long-term repayments. Over the last two years, the company has shored up liquidity as reflected by free cash balances and liquid investments of ~Rs. 125 crore as on date. ICRA expects TCPL’s coverage metrics to be comfortable in the near to medium term supported by growing cash accruals, limited debt dependence with credit available from its vendors and limited capex requirements.

Credit challenges

Modest margin profile – TCPL’s major business division, i.e., Infrastructure Segment (~88% of revenues in FY2022), is largely a trading business with inherently low margins. Further, the operating margins increased to 3.58% in FY2022 on the back of increased scale with fixed overheads. The company is also focussing on higher value-added segments to boost margins in the medium term. In addition, the margins are being supported by cutting down on loss making deals while maximising high margin ones.

High payables funded business – TCPL’s working capital requirements are sizeable given the need to offer credit to its customers. A large part of this funding requirements is met by credit available from vendors resulting in high outside liabilities. TCPL’s TOL/TNW improved to 3.26 times in FY2022 from 3.56 times in FY2021 but remained high due to high payable levels. Further, the contracts are generally back-to-back, and in the absence of any incentive to pay early, the overall creditors level has remained high resulting in higher TOL/TNW. ICRA, however, notes that the creditors mainly include established vendors and OEMs.

Increased supplier concentration amid ongoing supply-side constraints – The shortage of semiconductor chips, which has eased out significantly over last year, resulted in supply-side constraints causing increased lead time for product delivery. As a result, the supplier concentration became skewed in the past 2-3 years, with Apple contributing significantly higher than other OEMs to the overall purchase of devices.

Intense competition in fragmented industry – The IT hardware industry is characterised by various local and regional players with limited areas of differentiation and competitive pricing trend, restricting the pricing power of players like TCPL. However, to counter this, TCPL has been presenting its offerings to its clients as a solution for hardware and software requirements. This has improved the overall value addition of its offerings. Further, the exit of two large national players from the infrastructure solutions industry opened fresh opportunity for TCPL. Also, in case of any economic slowdown, the spending towards IT infrastructure may be curtailed, which may adversely impact the performance of the company.

Liquidity position: Adequate

The company's liquidity is **adequate**, supported by the cushion from unutilised working capital limits of ~Rs. 35 crore and positive cash flows from operations. TCPL does not have any major loan repayments. The liquidity position is further aided by free cash balances and liquid investments in mutual funds, accumulating to Rs. 81.82 crore as on March 31, 2022, and ~Rs. 125 crore as on date.

Rating sensitivities

Positive factors – The ratings might be upgraded if there is a substantial scale up of operations with sustained increase in profitability while improving its liquidity profile.

Negative factors – The ratings may be downgraded if the company is not able to scale up its operations and maintain its profitability. Further, TOL/TNW over 2.75 times, on a sustained basis, might also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology IT Hardware- Related services
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Team Computers Private Limited, incorporated in 1987, offers services in IT infrastructure such as mobility and computing solutions, networking and communication, cloud services, business analytics, and Google Solutions, among others. It is one of the largest players in the infrastructure solutions space, offering services from 26 offices and more than 250 support locations across the country. TCPL has a well-diversified client base comprising private companies as well as several public-sector units. TCPL is a privately held company, with Mr. Ranjan Chopra and family holding 100% stake in it. The company holds a 35% stake in an event management company, Zorba Entertainment Private Limited, which is promoted by Mr. Chopra and family. It also has a 51%-owned subsidiary, Black Magic Toners Private Limited, which trades in printer toners and provides managed printing services. Kockpit Analytics Private Limited (formerly Team Analytics Private Limited), a wholly owned subsidiary of TCPL, develops analytical software; while Team Business Solutions is TCPL's US subsidiary. However, the management is currently focussing on consolidating its core IT related business and hospitality business separately, which is expected to be finalised by the end of FY2023.

Key financial indicators (audited)

Consolidated	FY2020 (A)	FY2021 (A)	FY2022 (A)
Operating income	1,052.87	1,385.79	2,046.26
PAT (Rs. crore)	11.56	25.73	52.99
OPBDIT/OI (%)	2.95%	3.20%	3.58%
PAT/OI (%)	1.10%	1.86%	2.59%
Total outside liabilities/Tangible net worth (times)	3.25	3.56	3.26
Total Debt/OPBDIT (times)*	1.67	0.36	0.65
Interest coverage (times)	4.96	12.01	21.51

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

*Total debt in the above calculations include vendor bill discounting facility as well

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
							Jan 23, 2023	Oct 25, 2021	
1	Fund Based/CC	Long Term	78.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Fund Based/TL	Long Term	7.75	7.75	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Non-fund Based	Short Term	124.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Unallocated Limits	Long Term/Short Term	40.25	-	[ICRA]A (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]BBB+ (Positive)/[ICRA]A2	[ICRA]BBB+ (Positive)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2

Amount in Rs. crore

*Term loan amount outstanding entirely paid

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund Based/CC	Simple
Fund Based/TL	Simple
Non-fund Based	Very Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

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	-	78.00	[ICRA]A(Stable)
NA	Term loan	FY2020	NA	FY2024	7.75	[ICRA]A(Stable)
NA	Non-fund Based	-	NA	-	124.00	[ICRA]A2+
NA	Unallocated Limits	-	NA	-	40.25	[ICRA]A (Stable)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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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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