

March 18, 2024

Team Computers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Fund-based/ CC	78.00	78.00	[ICRA]A(Stable); reaffirmed
Long-term/ Fund-based/ TL	7.75	7.75	[ICRA]A(Stable); reaffirmed
Short-term/ Non-fund Based	124.00	124.00	[ICRA]A2+; reaffirmed
Long-term/ Short-term – Unallocated Limits	40.25	40.25	[ICRA]A(Stable)/ [ICRA]A2+; reaffirmed
Total	250.00	250.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation takes into consideration that Team Computers Private Limited's (TCPL) credit metrics will continue to be comfortable. In the 9M FY2024, the company's revenue moderated as it witnessed slowdown in demand after executing various high-volume orders in the previous fiscal for which repeat order build will be gradual. Although TCPL added a number of fresh clients, their average ticket sales was lower than the sizeable orders received from its key clientele. ICRA expects the company to leverage its established relationships to achieve improvement in cash accruals, going forward. Further, TCPL's financial profile is expected to remain comfortable as reflected by low gearing, comfortable debt protection metrics and adequate liquidity.

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 couple of years owing to their higher demand. The ratings continue to be supported by TCPL's established relationships with clients from both public as well as private sectors; its national presence, which enables it to cater to a wide end-user base spanning sectors and regions; and a healthy demand outlook for the sector in the medium to long term, given the growing focus on IT infrastructure and digitisation.

The ratings, however, remain constrained by TCPL's inherently low margins primarily emanating from its infrastructure business, which largely involves hardware trading of end-user computing devices, networking and security infrastructure. However, TCPL's increased focus on value addition and product diversity is expected to support a gradual margin expansion in the long-term, which has also been displayed in the current fiscal to a large extent. Moreover, the ratings are constrained by its working capital-intensive nature of operations, mainly on account of high payables, whose sustenance is crucial. 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 by economic slowdowns when IT product users curtail their 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 amid a buoyant demand outlook.

Key rating drivers and their description

Credit strengths

Established relationships 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 generally drives TCPL's revenues.

Around 70–80% of its existing customers repeat their orders. Apart from this, TCPL continues to add reputed clients to its portfolio from both public as well as private sectors. The company also enjoys a widespread presence across the country through its established distribution network, strong manpower and technical expertise.

Healthy demand outlook – Despite the expected revenue de-growth in FY2024 over the previous fiscal, the demand in the industry is expected to be healthy in the medium to long term. Demand is expected to remain buoyant for IT end-user products and related infrastructure, with expectations of demand stability in the near to medium term. The same is supported by the growing focus on strengthening IT infrastructure and initiatives related to technology and digitisation. In the first nine months of its operations in FY2024, the company has achieved revenues of ~Rs. 1,600 crore on a provisional basis. As of February 29, 2024, it had a healthy order book of Rs. 600 crore, providing moderate revenue visibility to support the growth momentum.

Comfortable financial risk profile – TCPL's cash accruals have grown significantly over the past few years till FY2023. However, there is a slight de-growth expected in FY2024 largely owing to a reduced top line. Though the capital structure and coverage indicators of the company have moderated in 9M FY2024, they remained comfortable with gearing of 0.44 times, interest coverage ratio of 12 times and DSCR of ~8.0 times (on a standalone basis), given that TCPL's debt requirements are mainly towards working capital without any long-term repayments. Including debt in associate/promoter owned companies for whom TCPL has offered corporate guarantees (total of Rs. 20 crore as of March 31, 2023), the coverage indicators remain adequate. Over the past several years, the company has also shored up liquidity as reflected by free cash balances of ~Rs. 99 crore, as of February 29, 2024. ICRA expects TCPL's coverage metrics to be comfortable in the near to medium term supported by growing cash accruals, limited debt dependence with available credit from its vendors, and limited capex requirements.

Credit challenges

Modest margin profile – TCPL's major business division, i.e., infrastructure (~80% of revenues in 6M FY2024), is largely a hardware sales business with inherently low margins. In the current fiscal, the margins have expanded, supported by a growing share of the higher margin non-hardware sales businesses and price hikes implemented in other segments.

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 from vendors, resulting in high outside liabilities. TCPL's TOL/TNW has been improving, and stood at 2.18 times, as on March 31, 2023, and could further improve in line with its efforts to match the payables cycle with the receivables cycle to the extent possible. 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.

Supplier concentration continues – Over the past several years, the company's supplier concentration has been skewed towards Apple, which was more pronounced in the last two fiscal due to the semiconductor chip shortage. In the current fiscal, the revenue share from Apple has come down significantly to ~32% in 6M FY2024 over ~51% in FY2023.

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. 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 average cushion from unutilised working capital limits of ~Rs. 34 crore in the past 13 months and positive cash flows from operations. TCPL does not have any major loan repayments. Its liquidity position is further aided by free and unencumbered cash balances amounting to ~Rs. 99 crore, as on December 31, 2023.

Rating sensitivities

Positive factors – The ratings might be upgraded if there is a substantial scale up in the company’s 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. Any substantial funding support or cash outflow leading to increased indebtedness or deterioration in liquidity profile will also be a negative rating factor. 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
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TCPL. The list of companies consolidated are shared in Annexure-II . Earlier, ICRA used to review the standalone financials of the company; however, in FY2023, TCPL had extended funding support to associates/promoter companies in the form of corporate guarantees. While the standalone business remains the principal driver for the Group’s ¹ financial profile, in ICRA’s opinion, the company’s consolidated financials along with inclusion of the guaranteed debt will reflect the credit risk profile more accurately. As a result, ICRA has revised its rating approach to analysing its consolidated business and financial profile, as it is now more representative of TCPL’s credit profile.

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. As a flagship entity of the Group, the company 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.

TCPL 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. The Group also has interests in the hospitality business, and has a related entity named Team Hotels and Resorts Private Limited (Team Hotels) that runs a hotel in Goa, which commenced operations in FY2023. The company also has other associates, namely Qutab Entertainment Private Limited and Tatvahill Homes Private Limited, which operate in the hospitality business.

¹ Group includes Team Computers Private Limited, its subsidiaries and associates further elaborated in annexure-II

Key financial indicators (audited/provisional)

TCPL consolidated	FY2022	FY2023	9MFY2024*
Operating income	2,046.3	2,798.2	1,597.0
PAT	52.99	69.09	47.31
OPBDIT/OI	3.55%	3.42%	3.98%
PAT/OI	2.59%	2.47%	2.96%
Total outside liabilities/Tangible net worth (times)	3.26	1.97	1.90
Total debt/OPBDIT (times)	0.66	0.86	1.39
Interest coverage (times)	21.36	19.67	11.93

Source: Company, ICRA Research; * Provisional standalone numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 18, 2024	Jan 23, 2023	Oct 25, 2021	Oct 09, 2020	Sep 29, 2020
1 Fund based/CC	Long term	78.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
2 Fund based/TL	Long term	7.75	0.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
3 Non-fund Based	Short term	124.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4 Unallocated Limits	Long term and short term	40.25	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Fund Based/CC	Simple
Long-term/Fund Based/TL	Simple
Short-term/Non-Fund Based	Very Simple
Long Term/Short Term- 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	78.00	[ICRA]A(Stable)
NA	Term Loans	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 II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Team Computers Private Limited	-	Full consolidation
Black Magic Toners Private Limited	51.00%	Full consolidation
Kockpit Analytics Private Limited	100.00%	Full consolidation
Team Business Solutions LLC	100.00%	Full consolidation
Zorba Entertainment Private Limited	35.46%	Full consolidation
Qutab Entertainment Private Limited	41.99%	Full consolidation
Tatvahill Homes Private Limited	40.73%	Full consolidation

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About ICRA Limited:

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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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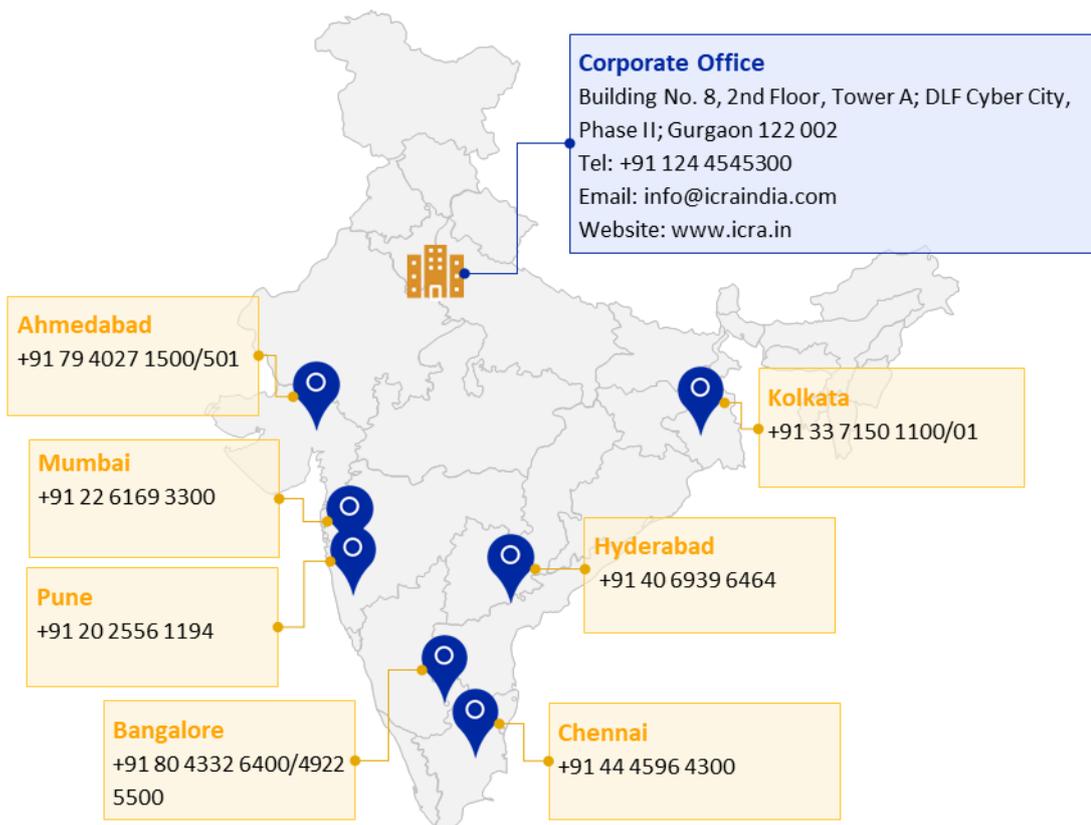
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