

March 02, 2017

IRIS Computers Limited

| | Amount (Rs. Crore) | Rating Action |
|------------------------------|-----------------------|---------------------------------|
| Long Term fund based limits | 142.00 | [ICRA] BBB- (Negative), revised |
| Short Term fund based limits | 105.00 | [ICRA] A3, revised |
| Unallocated | 28.00 | [ICRA] BBB- (Negative), revised |
| Total | 275.00 | |

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has revised its long-term rating on the Rs. 142 crore fund-based limits and Rs 28 crore unallocated limits of Iris Computers Limited (Iris) to [ICRA] BBB- (pronounced ICRA triple B minus) from [ICRA] A- (pronounced ICRA A minus). ICRA has also revised its short-term rating on the company's Rs. 105 crore non-fund-based limits to [ICRA]A3 (pronounced ICRA A three) from [ICRA] A2+ (pronounced ICRA A two plus). The outlook on the long term rating has been revised to 'Negative' from 'Stable'.

Rationale

The ratings revision factors in the deterioration in the credit profile of Iris' parent, Dragon Tech Distribution Pte Ltd (DTD)¹ which has resulted in reduction in Iris' financial flexibility. Consequently, Iris' business volumes have suffered over the last few months, leading to weaker than expected performance for YTD FY17. The rating revision is also driven by limited visibility on Iris' ownership structure, in the light of expected exit of the Inflexionpoint group. The resultant pressure on Iris' credit profile is exacerbated by the funding risks due to committed outflows towards acquisition of iValue Infosolutions as well as Iris' own long term debt obligations. The ratings continue to remain constrained by the highly competitive nature of the IT hardware distribution industry and consequent low margins.

However ICRA's ratings continue to take comfort from Iris' established track record in the IT product distribution business in India, its well established distribution channel with a pan-India presence, its recovery systems and its professional management. ICRA also notes that Iris' recent acquisition will enable it tap the system integration market, and will be margin accretive.

Going forward, clarity on the company's ownership structure, its ability to arrange funding and improve its operating scale will be the key rating sensitivities.

¹ Iris' shareholding witnessed a change in 2016 wherein DTD became a 90.4% shareholder of Iris as opposed to 90% earlier

Key Rating Drivers

Credit Strengths

- One of the leading domestic national distributors for IT hardware and services, mainly boxed devices
- Large distribution channel through a wide network of resellers and own distribution centers
- Diverse customer profile and practice of availing credit insurance
- Acquisition of iValue to be margin accretive

Credit Weakness

- Reduced financial flexibility on account of deterioration in credit profile of the parent company, weak expected performance in current year
- Limited clarity on future ownership profile, funding risks for committed payments going forward
- Low operating margins, given the nature of distribution business; margins are however stable as the OEMs take the ultimate call with respect to pricing; thus vendors support the company in instances of price reduction
- Supplier concentration risk, with purchases from top 5 suppliers, accounting for ~85% of overall purchases, with revenue highly dependent on demand for IT hardware and components

Description of key rating drivers highlighted above:

Iris' performance is expected to be weak in FY2017, with almost negligible profit at net level due to the reduced financial flexibility of the company. This is on account of deterioration in credit profile of its Singapore based parent, DTD. Iris' business volumes have suffered over the last few months along with the reduction in indebtedness of the company. Further, there is limited clarity on the company's future ownership pattern, in light of the expected exit of the Inflexionpoint group, which currently holds 90.4% stake in the company. The founder promoters of Iris, who currently holds a 9.6% equity stake are in process of buying back the stake from Inflexionpoint. In August, 2016, IRIS acquired 60% stake in iValue Infosolutions. This exposes the company to funding risks, given the committed outflows towards acquisition of iValue's remaining 40% stake over the next three years. This is further exacerbated by Iris' own long term debt obligations as reflected in weak coverage indicators with DSCR of 0.84x for H1FY2017. However, iValue's acquisition is expected to add value to Iris' business model and is expected to be margin accretive (higher EBITDA margins of iValue, of around ~4.4% in FY2016). ICRA continues to take into account Iris' established track record in the industry, with a large distribution channel and strong recovery systems in place, along with professional management.

Analytical approach: Standalone

Links to applicable Criteria

[Corporate Credit Rating –A Note on Methodology](#)

About the Company:

Iris was founded in 1996 by Mr. Sanjiv Krishen along with Mrs. Kamini Talwar and Mr. Som Arya and is engaged in the trading and distribution of computer hardware, peripherals and accessories. The company is an authorized distributor for technology products of hardware majors like IBM, HP, Lenovo, Dell and HCL, and is the largest distributor of Lenovo's products in India. In FY2014, Inflexionpoint Acquisition Corporation (Inflexionpoint), a global consolidator of IT supply chain companies, through Inflexionpoint Technologies Pte Limited (ITPL, its step-down subsidiary) acquired a 90% stake in Iris. In FY2015, Dragon Tech Distribution Pte. Ltd (DTD) acquired ITPL. DTD's main business is in the sales and



distribution of electronic components. In August, 2016, Iris acquired 60% stake in iValue Infosolutions for ~Rs 25.5 crore.

Iris reported a net profit of Rs. 11.2 crore on an Operating Income (OI) of Rs.2,645.3 crore in FY2016 as compared to a net profit of Rs. 13.2 crore on an OI of Rs. 2,423.3 crore in the previous year. Further, as per H1FY2017 provisional results, the company reported a net profit of Rs 2.1 crore on an operating income of ~Rs. 1389.8 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable **Rating History for last three years:**

Table: Rating History

| S.No | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | |
|------|--------------------|----------------|---------------------------|-----------------------|---|--------------------------------|
| | | Type | Rated amount (Rs. Crores) | Month-year & Rating | Month- year & Rating in FY2017 | Month- year & Rating in FY2016 |
| | | | | March 2017 | June 2016 | July 2015 |
| 1 | Fund-Based Limits | Long Term | 142.0 | [ICRA]BBB- (Negative) | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 2 | Fund-Based Limits | Short Term | 105.0 | [ICRA]A3 | [ICRA]A2+ | [ICRA]A2+ |
| 3 | Unallocated Limits | Long Term | 28.00 | [ICRA]BBB- (Negative) | [ICRA]A- (Stable) | [ICRA]A- (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
Details of Instrument

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue (Rs. Cr) | Current Rating and Outlook |
|-------------------------------|-------------------------|--------------------|----------------------|-----------------------------------|-----------------------------------|
| Fund based Limits | - | - | - | 142.00 | [ICRA]BBB-(Negative) |
| Fund based Limits | - | - | - | 105.00 | [ICRA]A3 |
| Unallocated Limits | - | - | - | 28.00 | [ICRA]BBB-(Negative) |

Source: IRIS

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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.

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