

August 22, 2017

Iris Computers Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	60.0 (reduced from 142.0)	[ICRA]BBB-(negative); <i>reaffirmed</i>
Short-term Fund-based Limits	40.0(reduced from 105.0)	[ICRA]A3; <i>reaffirmed</i>
Unallocated	0.0(reduced from 28.0)	-
Total	100.0	

*Instrument details are provided in Annexure-1,

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB- (pronounced ICRA triple B minus) and the short-term rating at [ICRA]A3 (pronounced ICRA A three) assigned to the Rs. 100.0-crore¹(reduced from 275.0) fund-based bank facilities of Iris Computers Limited (Iris)². The outlook on the long-term rating is Negative.

Rationale

The ratings take into account the extensive experience of the management in the IT hardware business. The ratings also consider the transfer of ownership back to Mr. Sanjiv Krishen and family (the erstwhile promoters), thereby ceasing linkages with Dragon Tech Distribution PTE Limited (DTD), which is undergoing liquidation. ICRA notes that the company has made efforts to revive its business across the existing original equipment manufacturers (OEMs) and distribution channels.

Notwithstanding the changes in ownership, the company's financial flexibility continues to be modest with access to limited lines of credit. Moreover, the rating is constrained by the company's increased long-term repayment obligations, mainly towards vendor financing, which would necessitate funding support if cash accruals remain inadequate. The ratings continue to factor in the high supplier-concentration risk, intensely competitive nature of the IT hardware distribution industry and consequently, low margins.

ICRA also notes that the company has cancelled its plans to complete the acquisition of IValue Infosolutions stake in view of its funding position. However, the planned buy back of the same and inflow of funds will be rating sensitivities. Going forward, the company's ability to arrange timely funding, manage its operating scale as well as maintain the profitability levels would be closely monitored.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Extensive experience with strong distribution network:** The promoters have extensive experience in the industry with Iris' strong distribution network across the country. The promoters have been involved with the company since its inception.
- **Finalisation of ownership structure:** The company's parent company, DTD, had defaulted and was owned by Inflexionpoint Technologies Singapore (IPT). In June 2017, ZinX Worldwide FZE, UAE purchased 100% shares of IPT (which held 90% shares of Iris). ZinX Worldwide FZE belongs to Ms. Anjali Krishen, the daughter of Mr. Sanjiv Krishen. The previous directors of IPT have resigned and have been replaced by Mr. Sanjiv Krishen and Ms. Anjali Krishen. The remaining 10% shares of Iris remain with Mr. Sanjiv Kishen. Therefore, complete ownership now stands with the Krishen family.
- **Buy back of IValue Infosolutions stake:** Iris purchased 60% stake in IValue for Rs. 25.0 crore in FY2017. The company was expected to make the pending payments over FY2018 and FY2019, which were rating concerns. However, given the changes in Iris' ownership the companies have mutually agreed to nullify the aforesaid agreement, with IValue agreeing to buy back the 60% stake from Iris. However, the final documentation with the inflow is yet to materialise.
- **Marginal improvement in order base:** The company faced a decline in the top line in FY2017, marked by decreasing bank limits. The trend is expected to continue in FY2018 as well. However, the company has been trying to capture orders with lower working capital requirement. Though the orders have been slow, a stable improvement has been visible with the gradual increase in funding. Iris executed orders of around Rs. 400 crore for the period April to August 2017.

Credit weaknesses

- **Weak FY2017 performance:** The company witnessed a decline in the scale of operations in FY2017, marked by reduced limit availability. The trend is expected to continue in FY2018 as well. The promoters have been supporting the business to some extent and thus, the business is expected to be revived over the medium term. The company has only Rs. 100.0 crore of limits from lenders at present as against Rs. 175.8 crore in March 2017.
- **Substantial long-term repayments:** The company has substantial long-term repayment obligations, mainly towards vendor financing from Hewlett Packard (HP). Weak profitability, coupled with high repayment obligations, resulted in weak coverage indicators in FY2017. In the current year, the promoters have arranged funding on the back of their personal assets and will have to continue doing so in absence of ramp up in cash accruals or bank limits.
- **Low operating margins owing to the nature of distribution business:** The profitability is inherently low owing to the nature of the business. Iris managed to reduce the general and administrative costs to keep the operating margins intact in FY2017.
- **High supplier-concentration risk:** Though the company has reduced its purchases from Lenovo, the supplier-concentration risk remains high with purchases from the top five suppliers accounting for 85% of the total purchases.
- **Competitive nature of the industry:** The IT hardware industry has various players at the organised and the unorganised levels. Though Iris has established its position in the industry, the competitive nature of the industry remains a risk.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

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. The company is involved in the trading and distribution of computer hardware, peripherals and accessories. It is an authorised distributor for technology products of hardware majors like IBM, HP, Lenovo, Dell and HCL in India. In FY2014, Inflexionpoint Acquisition Corporation (Inflexionpoint), a global consolidator of IT supply chain companies, through Inflexionpoint Technologies Pte Limited or ITPL (its step-down subsidiary), acquired a 90% stake in Iris. In FY2015, DTD acquired ITPL. Post the bankruptcy of DTD, 100% shares of IPT have been purchased by ZinX Worldwide FZE, UAE (owned by Ms. Anjali Krishen). The previous directors of IPT have resigned and have been replaced by Mr. Sanjiv Krishen and Ms. Anjali Krishen. The remaining 10% shares of Iris remain with Mr. Sanjiv Kishen.

Key Financial Indicators (Audited/Provisional)

	FY2016	FY2017*
Operating Income (Rs. crore)	2645.3	2019.8
PAT (Rs. crore)	11.3	3.2
OPBDIT/ OI (%)	51.7	39.4
RoCE (%)	24.1%	13.7%
Total Debt/ TNW (times)	1.8	1.6
Total Debt/ OPBDIT (times)	3.5	4.5
Interest coverage (times)	1.5	1.1
NWC/ OI (%)	8.5%	11.6%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

*NWC: Net Working Capital, *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2016
					August 2017	Mar 2017	July 2016	August 2015
1	Cash Credit	Long Term	60.0	60.0	[ICRA]BBB- (negative)	[ICRA]BBB- (negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Bill Discounting	Short Term	40.0	40.0	[ICRA]A3	[ICRA]A3	[ICRA]A2+	[ICRA]A2+

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	60.0	[ICRA]BBB-(negative)
	Bill Discounting	-	-	-	40.0	[ICRA]A3

Source: Iris

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