

Team Computers Private Limited

April 11, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term - Fund based	15.0	15.0	[ICRA]A2; upgraded from [ICRA]A3+
Long Term/Short Term – Fund based	28.50	28.50	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Positive)/[ICRA]A3+
Long Term/Short Term – Non-fund Based	63.50	63.50	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Positive)/[ICRA]A3+
Long Term/Short Term – Unallocated	18.0	18.0	[[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Positive)/[ICRA]A3+
Long Term/Short Term – Interchangeable	(3.0)	(3.0)	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Positive)/[ICRA]A3+
Total	125.0	125.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in rating considers Team Computers Private Limited's (TECO) established relationship with clients in both the public and the private sectors, its diversification across sectors and geographies, healthy confirmed order pipeline as well as management initiatives towards improving the service mix with increasing focus on higher margin services business, while reducing dependence on its trading business. The ongoing capex in the printing services augur well for the company's business. ICRA expects TECO's revenues and profits to ramp up amid a workforce realignment. The ratings also take into account the well-diversified vendor base of the company, which includes all the major IT original equipment manufacturers (OEMs). In fact, TECO is the largest partner for a few of these OEMs in the domestic market. ICRA also notes the company's healthy financial risk profile, characterised by consistent growth in revenues and profits as well as improved capital structure and debt coverage indicators.

The ratings, however, remain constrained by the commoditised nature of the hardware trading business, which results in thin profit margins. However, the management's efforts to market TECO's offerings as a solution and increase focus on software services would boost operating profitability in the medium term. Although the competition in the industry remains intense owing to a large number of regional players and results in limited pricing power, the exits of national players have strengthened TECO's business position, given its pan-India presence. High exposure towards Government-backed entities have led in an increase of receivables, which has moderated to some extent in FY2019. The company also remains exposed to economic cyclicality, as the expenditure on IT hardware and services reduces during periods of economic downturn.

Outlook: Stable

ICRA believes that TECO's product mix will shift towards a higher margin service-oriented business and the company will scale up revenues from the high-margin segments such as Google Solutions and Business Analytics. The ability of the company to expand its operations and leverage its nation-wide presence following the exit of major players will remain the key rating sensitivity. The outlook maybe revised to Positive if TECO manages to increase its margins by improving the revenue contribution of higher margin verticals. However, the outlook may be revised to Negative if the revenue growth slows down and if the working capital cycle is stretched further.

Key rating drivers

Credit strengths

Established relationship with clients in public and private sectors across the country - With its pan-India presence and established relationship with OEMs and buyers, the repeat business from the existing clientele generally drives the revenues for TECO. Around 70–80% of the existing customers of the company repeat their orders.

Healthy and diversified order book - The company has a healthy order book of Rs. ~150.0 crore across its business units (as of December 2018). In addition, the management's constantly makes efforts to diversify the product mix from trading IT hardware to high-margin services as well as customised solutions business. This apart, there are substantial orders in the pipeline, the details of which have not been disclosed.

Comfortable financial risk profile - TECO has been reporting consistent growth in its revenues. It reported a 23% jump in its revenues in FY2018 to Rs. 727.98 crore from Rs. 592.24 crore in FY2017. Although the company posted an increase in the operating margins in FY2018, the margins largely fluctuated. On the back of limited fund-based debt availed and healthy profitability, the debt coverage improved further, as reflected in interest coverage of 6.3 times in FY2018 compared with 4.5 times in FY2017.

Credit challenges

Commoditised nature of trading business - The company's major business division, infrastructure solutions (InS, comprising 84.3% of revenues in FY2018) is a trading business with inherently low margins. Further, the operating margins slightly increased to 3.2% (FY2017: 2.60%) in FY2018 due to a marginal increase in the Google Services and Business Analytics business, which are more profitable in nature.

Higher margin segments yet to scale up adequately - The major business units of the company include, infrastructure solution, infrastructure management services, business analytics and Google solutions. Business units like Google Solutions and Business Analytics, which have greater value addition and are service-oriented businesses, are yet to scale up. The segments contributed only 12.66% to total revenue in 10M FY2019. A scaling up of these businesses are likely to expand the company's operating margin.

Intensely competitive and fragmented industry - The IT hardware industry is characterised by various local and regional players with limited areas of differentiation and trend of competitive pricing, limiting the pricing power of industry players like TECO. However, to counter this, TECO has been presenting its offerings to its clients as a solution encompassing 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 has opened up a huge opportunity for TECO.

Liquidity position

TECO has a comfortable liquidity position with healthy cash accruals from the business. Further, TECO has substantial free cash reserves of Rs. 5.56 crore as on March 31, 2018. The liquidity of the company is also supported by moderate levels of working capital limits utilisation at ~50%. The back-to-back arrangement with buyers and supplier enables it to manage its liquidity better.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Methodology on IT Hardware industry
Parent/Group Support	Parent/Group Company: Not applicable
Consolidation / Standalone	Standalone

About the company

Team Computers Private Limited (TECO), incorporated in 1987, offers services in the field of 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 across the country, with 26 offices and more than 250 support locations. TECO has a well-diversified client base comprising private companies as well as several public-sector units.

TECO is a privately held company, with Mr. Ranjan Chopra and family holding a 100% stake. It has a 35% stake in an event management company, Zorba Entertainment Private Limited, which is promoted by Mr. Chopra and family. The company has a 95%-owned subsidiary, Black Magic Toners Private Limited, which manufactures printer toners and provides managed printing services. Kockpit Analytics Private Limited (formerly Team Analytics Private Limited), a 71%-owned subsidiary of TECO, develops analytical software. Team Business Solutions is a US-based subsidiary of TECO.

In FY2017, the company reported a standalone net profit of Rs. 7.61 crore on an operating income (OI) of Rs. 592.24 crore compared with a net profit of Rs. 11.87 crore on an OI of Rs. 727.98 crore in the previous year. As per provisional FY2019 results, the company achieved a top line of Rs. 751.30 crore.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	592.24	727.98
PAT (Rs. crore)	7.61	11.87
OPBDIT/ OI (%)	2.62%	3.22%
RoCE (%)	25.06%	34.13%
Total Debt/TNW (times)	0.42	0.15
Total Debt/OPBDIT (times)	1.22	0.36
Interest Coverage (times)	4.54	6.34

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017
				April 2019	March 2018	January 2018	March 2017
1	Fund Based Limits	15.0	-	[ICRA]A2; upgraded	[ICRA]A3+; reaffirmed	[ICRA]A3+; reaffirmed	[ICRA]A3+; assigned
2	Interchangeable	(3.0)	-	[ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded	[ICRA]BBB (Positive); reaffirmed	[ICRA]BBB (Stable); reaffirmed	[ICRA]BBB (Stable); assigned
3	Fund Based Limits	28.50	-	[ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded	[ICRA]BBB (Positive)/ [ICRA]A3+; reaffirmed	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed	[ICRA]BBB (Stable)/ [ICRA]A3+; assigned
4	Non-Fund Based Limits	63.50	-	[ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded	[ICRA]BBB (Positive)/ [ICRA]A3+; reaffirmed	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed	[ICRA]BBB (Stable)/ [ICRA]A3+; assigned
5	Unallocated Limits	18.0	-	[ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded	[ICRA]BBB (Positive)/ [ICRA]A3+; reaffirmed	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed	[ICRA]BBB (Stable)/ [ICRA]A3+; assigned

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	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	15.0	[ICRA]A2
NA	Interchangeable	NA	NA	NA	(3.0)	[ICRA]BBB+(Stable)/[ICRA]A2;
NA	Fund Based Limits	NA	NA	NA	28.50	[ICRA]BBB+(Stable)/[ICRA]A2;
NA	Non-Fund Based Limits	NA	NA	NA	63.50	[ICRA]BBB+(Stable)/[ICRA]A2;
NA	Unallocated Limits	NA	NA	NA	18.0	[ICRA]BBB+(Stable)/[ICRA]A2;

Source: TECO

Annexure-2: Not applicable

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