March 17, 2022

Ivalue Infosolutions Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based (CC)	72.00	80.00	[ICRA]A- (Stable) reaffirmed
Short Term – Non-fund based	10.00	10.00	[ICRA]A2+ reaffirmed
Short Term – Non-fund based Interchangeable	(42.00)	(60.00)	[ICRA]A2+ reaffirmed
Long/Short Term – Unallocated	14.00	6.00	[ICRA]A- (Stable)/[ICRA]A2+ reaffirmed
Total	**96.00**	**96.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings considers Ivalue Infosolutions Pvt Ltd's (Ivalue/the company) consistent revenue growth, its robust debt metrics and strong liquidity position, and the expectation that the company would continue to witness healthy revenue growth over the medium term. Ivalue's revenues grew to Rs. 942.0 crore in FY2021 from Rs. 458.0 crore in FY2017 at a CAGR of 20%, supported by increasing digitization and healthy demand for cyber security and storage devices, strong association with system integrators resulting in repeat orders, and addition of new OEMs leading to an enhanced product portfolio. Also, in H1 FY2022, the revenue improved to over Rs. 600.0 crore. Going forward, the company's revenues are expected to benefit from the 20+ OEMs added in the last couple of years, geographical expansion into new overseas regions and inorganic growth via planned acquisition of similar businesses over the medium term. The company is also expected to benefit from the healthy industry growth prospects which would be supported by enterprises increasingly strengthening their technological capabilities. The company has remained net debt negative since FY2020 with negligible long-term debt and relatively low working capital utilisation (39% of sanctioned limits in the one year ending in September 2021), the latter supported by its healthy accruals. Further, its TOL/TNW reduced from 2.9 times in FY2019 to 1.3 times in FY2020 – H1 FY2022 owing to the investment by a private equity investment firm, Creador. As on September 30, 2021, the company had free cash of Rs. 90.6 crore and unutilised working capital limits of over Rs.50.0 crore. Ivalue has only negligible debt repayment obligations and minimal maintenance capex plans over the next three years.

The ratings are, however, constrained by Ivalue's moderate scale of operations vis-à-vis other IT distribution players. The company's debtor days also remains relatively high as on March 31, 2021 at 131 days. Ivalue's operating margins are relatively less at around 5% over the years owing to relatively low value-addition in distribution businesses. However, it is better than pureplay distributors owing to the consultation services provided to system integrators/end customers and a margin accretive-product mix comprising of niche, customised solutions. Also, with 40-60% of revenues from distribution of products from merely 3 OEMs, Ivalue's revenues are susceptible to the performance of OEMs. However, consistent addition of new OEMs across the product segments mitigates this risk to an extent. Going forward, the company is looking to acquire similar entities in the IT distribution space. While revenue and accruals will increase consequent to the same, impact on debt metrics remains a monitorable and would be evaluated on a case-to-case basis.

Key rating drivers and their description

Credit strengths

Consistent revenue growth during the last five years; healthy industry growth prospects – Expansion in customer base across the industry segments including Banking, financial services and insurance (BFSI), enterprises and government business, repeat orders supported by strong association with system integrators and addition of new vendors/OEMs together enabled Ivalue's consistent revenue growth over the years. The revenues grew at a CAGR of 20% to Rs. 942.0 crore in FY2021 from Rs. 458.0. crore in FY2017. Also, in H1 FY2022, the revenues crossed Rs. 600.0 crore. While Ivalue's scale of operations is relatively moderate compared to other established players, the demand outlook remains healthy with more enterprises strengthening their technological capabilities. Further, the company has added over 20 new OEMs in the last couple of years which has added to Ivalue's product offering and would help better capitalize on the demand from system integrators. Apart from this, the company has ventured into new geographies like Sri Lanka, Bangladesh and Singapore as a part of its business expansion plans and is looking to acquire similar entities in the IT distribution space. Accordingly, Ivalue is expected to post healthy revenue growth over the medium term as well.

Negative net debt and strong liquidity position – With the business not being capex intensive, the company has negligible long-term debt and its borrowings are restricted only to working capital requirements. Further, the company's cash and bank balances have been over Rs. 80.0 crore since FY2020 post the fund infusion by the private equity investors and the TOL/TNW reduced from 2.9 times in FY2019 to 1.3 times in FY2020 – H1 FY2022. Accordingly, the company has remained net debt negative since FY2020, and its working capital utilization also remained low at 39% of the sanctioned limits in the last one year ending in September 2021. With negligible debt repayment obligations (Rs. 0.2 crore p.a. in FY2022 and FY2023 and Rs. 0.1 crore in FY2024) and minimal maintenance capex plans in the next three years, the company's liquidity position is expected to remain strong over the medium term. However, the impact of any business acquisitions on the debt metrics remains a monitorable.

Diversified product profile comprising hardware and software solutions and value-added services – Ivalue distributes over 350+ products including cyber security systems, network and application performance monitoring solutions, unified storage solutions, network integration solutions, etc, which are bundled as a package that involves hardware, software and services components. While the hardware products contribute to around 40% of revenues, software and services constitute 60% of revenues. Ivalue has also recently started providing implementation services on its own to the customers. Also, unlike pureplay distributors, the company also works with systems integrators/end-customers to provide consultation services for setting up the right kind of networking, storage and security infrastructure which provides a competitive edge. The value of the consultation service is built into the prices, thereby resulting in earning higher realisations and margins.

Credit challenges

Inherently low margins in the distribution business; relatively high debtors – The company's debtor days remained relatively high as on March 31, 2021 at 131 days. Further, the margins in the distribution and trading businesses are inherently low and, therefore, the company's operating margins have remained modest at around 5.0% over the years. However, Ivalue provides value-added consultation services to system integrators and end customers, resulting in higher realisations and margins compared to pure play IT hardware distributors. While the company is working on increasing the revenue share from margin-accretive, niche and customised hardware/software solutions, the operating margins are expected to be range bound given the distribution nature of business. Ivalue's ability to achieve material improvement in the margin profile over the medium term remains to be seen.

Moderate scale of operations; competition from other established distributors and other small and medium-sized players – While Ivalue's revenues have grown at a CAGR of 20% in the last four years, the company's scale of operations remains relatively moderate in the IT distribution space compared to other established players. However, periodic client additions, expansion into new geographies like Sri Lanka, Bangladesh and Singapore in FY2022, healthy growth prospects for the cyber security and data storage industries and Ivalue's inorganic growth plans are expected to support revenue growth over the medium term.

Relatively high dependence on a few key OEMs – The company has tie-ups with large OEMs like Hitachi, Checkpoint, HP and other reputed players in the industry that cater to the data network architecture as well as data asset protection space. The performance of the OEMs is critical for Ivalue's business as the company has derived 40-60% of revenues from distribution of products from top 3 suppliers over the years. However, the addition of more than 20 OEMs in the last couple of years provides comfort to an extent.

Liquidity position: Strong

Ivalue's liquidity is strong with healthy fund flow from operations over the years. The company had free cash of Rs. 90.6 crore as on September 30, 2021. Also, the company has had relatively low working capital utilisation of 39% of sanctioned limits in the last one year, and it had unutilised working capital limits of over Rs. 50.0 crore as on September 30, 2021. In relation to these sources of cash, Ivalue has negligible debt repayment obligations in the medium term and minimal maintenance capex in the next three years. ICRA expects Ivalue to be able to meet its commitments through internal sources of cash and yet be left with healthy cash/liquid investment surplus. Any debt funded acquisition can have a bearing on the company's liquidity and will be evaluated on a case-to-case basis.

Rating sensitivities

Positive factors – ICRA could upgrade Ivalue's ratings if the company continues to demonstrate consistent improvement in its scale and profitability, while maintaining healthy leverage and coverage metrics.

Negative factors – Pressure on Ivalue's ratings could arise due to a sharp decline in its scale and profitability or any major debt-funded capital expenditure or acquisition or a deterioration in its working capital cycle and liquidity position. Key metrics include TOL/TNW of more than 1.5 times on a sustained basis.

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 standalone financials of Ivalue.

About the company

Established in 2008, Ivalue is a value-added distributor of IT hardware and software products, offering consulting solutions and associated services in data, network, and application protection and management, along with digital asset protection. While the hardware products contribute to around 40% of revenues, software and services constitute 60% of revenues. While banking, financial services, and insurance sector (BFSI) and government sectors constitute 30 – 35% of revenues each, the remaining revenues come from other corporate entities. The company partners with over 70 original equipment manufacturers and offers around 350 products to more than 750 system integrators through which it serves over 6000+ customers. It has thirteen offices in India at - Bengaluru, Kolkata, Kerala, New Delhi, Ahmedabad, Mumbai, Chennai, Pune, and Secunderabad, and one each in Kenya and Singapore. Sundara (Mauritius) Ltd, an affiliate of Creador, a PE firm, invested in the company in FY2020. Apart from the private equity investor, the remaining shares are held by promoters in individual capacity or through group companies.

Key financial indicators (audited)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	844.1	942.0
PAT (Rs. crore)	31.1	35.7
OPBDIT/OI (%)	5.3%	5.5%
PAT/OI (%)	3.7%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.3
Total Debt/OPBDIT (times)	0.6	0.7
Interest Coverage (times)	7.2	6.6

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 17, 2022	Jan 10, 2022	Nov 30, 2020	Aug 2, 2019	Oct 24, 2108
1	Cash Credit	Long Term	80.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB + (Positive)	[ICRA]BB B (Positive)
2	Non-fund based	Short Term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3 +
3	Unallocated	Long Term / Short Term	6.00	-	[ICRA]A- (Stable)/[ICRA]A 2+	[ICRA]A- (Stable)/[ICRA]A 2+	[ICRA]A- (Stable)/[ICRA]A 2+	[ICRA]BBB + (Positive)/ [ICRA]A2	-
4	Interchange-able	Short term	(60.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
5	Fund Based	Short term		-	-	-	-	[ICRA]A2	[ICRA]A3 +

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based (CC)	Simple
Short Term – Non-fund based	Very Simple
Short Term – Non-fund based Interchangeable	Very Simple
Long/Short Term – Unallocated	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	80.00	[ICRA]A- (Stable)
NA	Non-fund Based	NA	NA	NA	10.00	[ICRA]A2+
NA	Interchangeable	NA	NA	NA	(60.00)	[ICRA]A2+
NA	Unallocated	NA	NA	NA	6.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis - NA

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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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