



RATING RATIONALE

24 Aug 2020

Iris Computers Ltd. (ICL)

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 60 Crs. of Iris Computers Ltd.

Particulars

Facility	Previously Rated Amount (Rs. in Crs)	Amount Rated** (Rs in Crs)	Tenure	Previous Rating (4 Aug 2020)	Rating Assigned*
Fund Based	40.00	44.00	Long Term	BWR BBB-Stable	BWR BBB-Stable Reaffirmation
Fund Based	-	16.00	Short Term	-	BWR A3 Reaffirmation
Non-Fund Based	(30)	(30)	Short Term	BWR A3	
Total	40.00	60.00	INR Sixty Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Detail of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed the ratings at BWR BBB-/A3 with a Stable outlook.

The Ratings take into account experience of management, established distribution network, comfortable financial risk profile and less capital-intensive nature of the business. However, the rating is constrained by low profitability margins, susceptibility of revenue to performance of its key suppliers, stiff competition and credit concern w.r.t. contingent liability.

The outlook is Stable as the company has successful execution track record considerable size of operations while dealing with most of the renowned brands in the industry and stable profitability margins.

KEY RATING DRIVERS

Credit Strengths:

- Experienced Management and Established Distribution Network:** - The top management of the company has an extensive experience in the industry. Mr. Sanjiv Krishen who is chairman and Managing Director of the company has around four decades of experience in the IT Industry. He

has managerial experience with multinational and Indian corporations such as IBM, IDM, Apple and AT&T. Ms. Kamini Talwar has been associated with the IT Industry since almost three decades with extensive experience in sales of Apple and IBM compatible computers. She looks after sales and reseller channel management for all products distributed by ICL. Hence extensive experience of the management has helped the company to establish long term relationship with various IT hardware majors over a period of time. Further the company has established distribution network having 27 warehouses across the country, ability to pick products from OEM's factories across the world and deliver to any part of the country, custom clearing facilities at Delhi, Mumbai, Chennai, Bengaluru, tie ups with all leading major logistic providers like Fedex, Bluedart and DHL.

- **Comfortable Financial Risk Profile:** - The financial risk profile of the company is comfortable marked by Tangible Net worth of INR 124.70 Crores in FY20 (Prov) as against INR 118.56 Crores in FY19. The gearing i.e. Total Debt/TNW & TOL/TNW improved to 0.63x & 1.83x as on 31st March 2020 (Prov) as against 1.32x & 2.26x as on 31st March 2019. The Company reported EBITDA of INR 23.16 Crores in FY20 (Prov) as against INR 24.70 Crores in FY19. Company reported PAT of INR 6.13 Crores in FY20 (Prov) as against INR 5.42 Crores in FY19.
- **Focus on less capital intensive business and increase in scale of operations:** - Earlier there was an investment in the company by Dragon Tech Distributors Ltd. Post the exit of DTD and withdrawal of bank lines by the existing banks, the company has reduced its operations in capital intensive business and instead has invested more in increasing the commercial business. In the beginning of July 2020, the company had orders in hand amounting to INR 111.13 Crores. Further the company had recently merged its subsidiary i.e. Iris Securx Pvt. Ltd. which will ultimately help the company in improving the leverage and finance cost in the current financial year.

Credit Risks:

- **Low but stable profitability margin:** - The distribution business is marked by low profitability margins owing to the nature of the business. ICL's operating margin remains low and has been around 1.90% in last 2 years. The NPM stood at 0.51% in FY20(Prov) as against 0.42% in FY19. Company is estimating OPM & NPM of 2.38% & 0.76% for FY21 as total debt has been reduced significantly and there will be reduction in the operating expenses also due to operating synergy to be achieved from merger of ICL's subsidiary company i.e. Iris Securx Pvt. Ltd. Hence, ISCR is estimated to be 1.79x in FY21 as per projections as against 1.22x in FY20(Prov).
- **Revenues susceptible to performance of its key suppliers due to stiff competition:** - HP, Dell, IBM, Samsung, Acer, LG are the company's key vendors, contributing a significant portion of its overall sales. Any weak performance of its key supplier's products could adversely impact the business of the distributor. Although the company is associated with other suppliers also but the contribution from other suppliers to its overall revenues is low.
- **Credit Concern:** - Contingent liability of INR 49.92 Crores in FY19 has been reduced to INR 43.00 Crores in FY20. It represents tax demands raised by various departments. Although the



outcomes have been in favour of the company, the respective departments filed an appeal against the orders. No tax expense has been accrued in the financial statements for the tax demand raised, as the company believes that its position will likely be upheld in the appellate process. Any negative outcome of the appellate proceedings might impact the financial performance in the short to medium term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the Company's ability to improve its profitability with effective management of working capital requirements, the debt servicing capability & liquidity would be key rating sensitivities.

- **Positive:** - The rating may be upgraded if the company is able to achieve significant growth in revenue while maintaining the EBITDA margins, further improving debt protection metrics and liquidity.
- **Negative:** - The rating may be downgraded if revenue and profit margins show lower than expected figures, and if there is an overall deterioration in the financial risk profile of the entity.

LIQUIDITY POSITION (Adequate)

The average maximum utilisation of working capital facilities was around 70% during the last 6 months. The net cash conversion cycle was 52 days in FY20(Prov) (FY19: 58 days), with receivables period of 70 days (FY19: 61 days) and payable period of 41 days (FY19: 31 days). The cash flow would continue to be positive in the near term on account of higher absolute EBITDA. The Company has a current ratio of 1.38x in FY20(Prov). In FY20 (Prov), Entity is having cash accrual of INR 6.27 Crores and cash & cash equivalent of INR 10.90 Crores against CPLTD of 11.85 Crores which is sufficient to repay the fixed repayment commitments.

For FY21, estimated cash accruals for FY21 is INR 10.28 Crores and cash & cash equivalent of INR 11.30 Crores against CPLTD of INR 16.60 Crores which is sufficient to repay the fixed repayment commitments.

COMPANY PROFILE

Iris Computers Ltd. was incorporated in 1996 by Mr. Sanjiv Krishen. It has an authorized capital of INR 5.50 Crores and paid up capital of INR 4.30 Crores. Company is involved in trading and distribution of computer hardware, peripherals and accessories. It is an authorized distributor of technology products of hardware majors like HP, Dell, IBM, Samsung, Acer, LG, APC, Wacom and Consul Neowatt in India. The Company is positioned as Tier 1 IT distributor, focusing on finished hardware and having nationwide coverage with 27 branches, headquartered in New Delhi.

KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	FY20	FY19	FY18
		Provisional	Audited	Audited
Total Operating Income	Rs. in Crs	1205.07	1290.06	1014.38
OPBDIT	Rs. in Crs	23.16	24.70	21.02
PAT	Rs. in Crs	6.13	5.42	4.12
Tangible Net Worth	Rs. in Crs	124.70	118.56	113.14
Total Debt/Tangible Net Worth	Times	0.63	1.32	1.49
Current Ratio	Times	1.38	1.35	1.28

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: NA

RATING HISTORY FOR LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)

Nature of Instrument	Facilities Availed	Current Rating (Aug 2020)			(Rs. Crores)					
		Tenure	Amount (In Crs)	Rating	4 Aug 2020		2019	2018	2017	
Bank Loan Facility	Fund Based	Long Term	44.00	BWR BBB- [Reaffirmation]	FB	40.00	BWR BBB- (Stable)	-	-	-
Bank Loan Facility	Fund Based	Short Term	16.00	BWR A3 [Reaffirmation]	-			-	-	-
Bank Loan Facility	Non-Fund Based	Short Term	(30.00)		FB	(30.00)	BWR A3	-	-	-
Total			60.00	INR Sixty Crores Only						

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entities](#)
- [Short Term Debt](#)

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Iris Computers Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	SBI	Cash Credit	40.00	-	40.00
5	SBI	Term Loan	4.00	-	4.00
6	SBI	(BG)	-	(30.00)	(30.00)
7	Adani Capital Pvt. Ltd	Bill Discounting	-	7.00	7.00
8	Incred	Bill Discounting	-	3.00	3.00
9	Proposed	-	-	6.00	6.00
TOTAL			44.00	16.00	60.00

INR Sixty Crores Only



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About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.