

Vertex Techno Solutions Bangalore Pvt. Ltd.

April 04, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities (CC)	3.5	[ICRA]BB+ (Stable); Assigned
Non-fund Based Facilities (BG)	1.5	[ICRA]A4+; Assigned
Total	5.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into consideration Vertex Techno Solutions Bangalore Pvt. Ltd's (VTSBPL) established track record and extensive experience of its promoters in the IT hardware and service industry. The ratings derive comfort from the company's status as a platinum partner for Hewlett-Packard India Pvt. Ltd. (HPIPL) and its established relationship with key customers across diverse sectors. The ratings positively factors in VTSBPL's healthy growth in revenues in FY2018 and the current fiscal, supported by increased order inflows from its customers and improved revenues from the network and security division. The ratings also factor in its healthy financial profile, reflected by comfortable capital structure, adequate coverage indicators and liquidity position. Further, VTSBPL's plan to expand its geographical presence and the stable outlook for the IT services industry supports business prospects. The ratings, however, are constrained by the company's modest scale of operations and thin net-worth base, restricting operational and financial flexibility to some extent. It faces high geographical concentration with a predominant share of revenues derived from Karnataka and Kerala regions. The ratings further consider the intensely competitive and fragmented nature of the business, which limits the company's pricing flexibility and results in thin profit margins.

Outlook: Stable

ICRA believes VTSBPL will continue to benefit from the extensive experience of its promoters in the IT hardware and services industry and its established relationship with key customers. The ratings may be upgraded if the company is able to achieve sustainable and substantial growth in revenues and profitability, while efficiently managing its working capital requirements. Conversely, the outlook may be revised to Negative if any decline in revenues or profitability results in lower-than-expected cash accruals or if any deterioration in the working capital cycle weakens its liquidity position.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the IT hardware and services industry – VTSBPL's promoters Mr. Anil Kesavan, Mrs. Anju Anil, and Mr. Bijoy Nair have over two decades of experience in the IT hardware and solutions industry. It is a platinum business partner for HPIPL and is one of the largest HP partners in India for their range of products spanning across enterprise servers, storage, networking (ESSN), and personal computers and printing solutions (PPS).

Healthy revenue growth in FY2018 and the current fiscal; comfortable capital structure and adequate coverage indicators – The company recorded a healthy revenue growth in FY2018 (~36% YoY) and the current fiscal, driven by improved order inflows from the existing as well as new customers and increased revenues from the network and security division. It had a comfortable capital structure as reflected by a gearing of 1.1 times as on March 31, 2018 with adequate coverage indicators. Further, adjusting the debt for the company's sizeable fixed deposits in the banks results in a robust capital structure and interest coverage.

Reputed customer base with repeat orders from key customers – VTSBPL’s clientele consists of reputed players across banks, educational institutions, hospitals, IT and ITES, retail chains and government and public sectors. The company has established strong business tie-ups with its major customers, as evident from the repeat orders. Additionally, stable demand outlook for the ITES industry in India supports business prospects.

Credit challenges

Modest scale of operations – VTSBPL’s existing scale of operations is modest with an operating income (OI) of ~Rs. 60.3 crore in FY2018, restricting operational and financial flexibility to some extent. Its net worth has remained modest owing to thin accruals over the years.

High geographical concentration – The company derives a predominant share of its revenues from Karnataka (70% in FY2018) and Kerala (30%), resulting in high geographical concentration. However, VTSBPL’s plan to expand operations to Tamil Nadu and Telangana by setting up offices at Chennai and Hyderabad, respectively, is likely to diversify its revenue streams over the medium term.

Intense competition in the industry limit pricing flexibility – The IT hardware industry remains intensely competitive and commoditised, restricting the pricing flexibility of players operating in the industry. The company faces stiff competition from other HP partners and from brands like Dell, Lenovo and Acer, which exerts pressure on its profitability. However, VTSBPL’s established track record and its promoters established relationship with key customers provide comfort to some extent.

Liquidity position

VTSBPL’s liquidity position remains comfortable as reflected by positive free cash flows in the last four fiscals, healthy liquid investments in the form of fixed deposits (Rs. 14.3 crore as on March 31, 2018) against which it avails loan and a free cash balance of Rs. 5.1 crore as on March 31, 2018. The fund-based working capital utilisation remained moderate at 67% of the drawing power during the 13-month period that ended on January 2019. With no long-term debt repayment obligations and no major capex plans in the medium term, VTSBPL’s liquidity position is likely to remain comfortable, supported by healthy cash balance and expected cash accruals from operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company

Established in 1993 as a partnership firm, VTSBPL was reconstituted as a private limited in 2006. It offers end-to-end IT infrastructure solutions and services to small to mid-sized businesses (SMBs) and enterprises across the Government and private sector. VTSBPL is one of the largest HP platinum business partners in India for their range of products spanning across enterprise servers, storage, networking (ESSN), and personal computers and printing solutions (PPS). The company’s head office is in Bangalore, while it has branch offices at Kochi, Trivandrum and Chennai. In March 2016, VTSBPL was recognised as the ‘Most Valuable PPS partner’ of the year, which is one of the most prestigious recognition for a HP partner.

In FY2018, the company reported a net profit of Rs. 0.4 crore on an OI of Rs. 60.3 crore compared to a net profit of Rs. 0.6 crore on an OI of Rs. 44.3 crore in the previous year.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	44.3	60.3
PAT (Rs. crore)	0.6	0.4
OPBDIT/ OI (%)	3.8%	3.3%
RoCE (%)	11.7%	13.3%
Total Debt/ TNW (times)	1.0	1.1
Total Debt/ OPBDIT (times)	6.2	6.0
Interest Coverage (times)	1.3	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount	Amount	Date&Rating April 2019	Date & Rating in	Date & Rating in	Date & Rating in
		Rated (Rs. crore)	Outstanding (Rs.crore)		FY2018	FY2017	FY2016
1 Fund-based facilities (CC)	Long Term	3.5	-	[ICRA]BB (Stable)	-	-	-
2 Non-fund based facilities (BG)	Short Term	1.5	-	[ICRA]A4+	-	-	-

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	Cash Credit	NA	NA	NA	3.5	[ICRA]BB(Stable)
NA	Bank Guarantee	NA	NA	NA	1.5	[ICRA]A4+

Source: VTSBPL

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