February 28, 2022

Ingram Micro India Private Limited: Ratings reaffirmed; ratings removed from watch with developing implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term - Fund/Non-fund Based Limits	700.0	700.0	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed; removed from watch with developing implication and stable outlook assigned
Total	**700.0**	**700.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in the ratings and removal of watch with assignment of stable outlook follows the healthy improvement in Ingram Micro India Private Limited's (IMIPL) scale of operations in FY2021, driven by increasing digitalisation and rising needs due to 'work from home' requirements, which is expected to keep the demand in mobility and information technology (IT) distribution segment healthy in the near term. The ratings were placed on watch in December 2020 following the announcement of Platinum Equity, LLC entering into a definitive agreement to acquire Ingram Micro Inc. (parent company of IMIPL) from the HNA Group. With no change in the management structure and continuing strategy in terms of business growth and financial policies, ICRA does not foresee any impact on IMIPL's credit profile due to the change in ultimate parent. However, given the leveraged buyout, the credit profile of Ingram Micro Inc. has seen a deterioration. ICRA will continue to monitor for any upstreaming of cash requirement from IMIPL impacting its credit profile or any further weakening of the parent's profile, given the operational and financial flexibility it derives from the parent and will remain a key rating monitorable.

The company reported revenue growth of 16% YoY in FY2021 and is estimated to grow by ~12% in FY2022. IMIPL's operating margins expanded in FY2020 to 3.2% (over 2.0 % FY2019), due to focus on better margin advance solution business, though marginal decline was witnessed in FY2021 due to lower sales from the said division due to Covid-19 related disruption. The margin further contracted in 9M FY2022 and reverted to normal levels of 2.4% and is expected to remain at similar levels in the near term. The ratings also take into consideration IMIPL's strong operational profile marked by its well-established position in the Indian mobility and IT product distribution market, along with its increasing presence in the advance solution and services segment. The ratings also consider IMIPL's diversified revenue profile spread across products and brands, and the management's vast business expertise. Due to exclusivity granted by most of the vendors based on geography and/or customer segment, impact of competition is partially mitigated. IMIPL has a wide distribution network across the country, through its association with numerous channel partners, to cater to retail and enterprise customer requirements. The ratings remain supported by IMIPL's healthy financial profile characterised by strong cash accruals, comfortable capital structure, strong debt coverage indicators and strong liquidity position. Also, IMIPL derives considerable operational and financial flexibility as a subsidiary of Ingram Micro Inc., USA, a leading technology product distributor.

The ratings are, however, constrained by the low OPMs inherent in the distribution business, which necessitates maintaining a conservative financial policy and healthy liquidity to fund future growth requirements. The ratings also factor in the working capital-intensive nature of the business as well as foreign currency related risks. The ratings further consider the susceptibility of IMIPL's revenues to the performance of its key vendors, who operate in a highly competitive market. However, the risk is largely mitigated as IMIPL holds distribution rights for most of the leading players in each segment (mobile/ IT products/ other technology products) in India.

Key rating drivers and their description

Credit strengths

Market leader in IT hardware and mobility product distribution - The nationwide distributorship of mobile phones and IT hardware is an oligopolistic business, wherein the top three players handle the bulk of distribution with IMIPL being the market leader. The company's revenues have grown at a CAGR of 8% over the last eight years by adding several leading vendors and increasing geographical cover for them along with increasing its presence in the advance solution segment, thus cementing its leadership position.

Healthy financial profile – IMIPL has a healthy financial profile characterised by healthy growth in operating income, comfortable capital structure, strong debt coverage indicators and strong liquidity position. The company's revenue grew by 16% to Rs. 26,687.7 crore in FY2021 and is estimated to grow by ~12% in FY2022 driven by increasing digitalisation and rising needs due to 'work from home' requirements, which is expected to keep the demand in mobility and IT distribution segment healthy in the near term. The capital structure remains strong supported by equity infusion through compulsorily convertible debentures (CCDs) and strong internal accruals. The debt coverage indicators remain comfortable, with interest coverage of 33.8 times during FY2021 and total debt/OPBIDTA of 0.1 time as on March 31, 2021. Further, IMIPL's liquidity is strong with sizeable unutilised bank lines and unutilised fund-based limits of ~Rs. 1,294 crore as on November 30, 2021.

Diversified revenue streams and vendor base along with established relationships with key vendors - IMIPL operates multiple business segments, such as mobility distribution (37% of total revenues), IT distribution (~36%) and advance solutions and services (~25%). The company expects its advance solutions and services business to be one of its key growth drivers, going forward. IMIPL has exclusive distribution rights to large format retail stores across the country from most of its key vendors. It also enjoys geography-wise exclusive rights across all store formats for a few brands.

Strong distribution channel and Professional management with vast experience - IMIPL's distribution network includes ~15,000 channel partners, resellers, value-added resellers (VAR), sub-distributors, as well as direct and consumer marketers. The company reaches retail customers, small and medium businesses, and enterprise customers through this channel ecosystem. The company's operations are managed by well-experienced professionals, who have an established presence. IMIPL has strong risk management systems that insulate its business from the possible risks of price movement and technological obsolescence through contractual arrangements with vendors.

Operational synergies and financial flexibility as subsidiary of Ingram Micro Inc. - Ingram Micro Inc., headquartered in Irvine California, USA, is the world's largest technology distributor with operations in many countries and customers worldwide, including retailers and IT resellers. IMIPL, its Indian arm, enjoys access to its parent's global vendor tie-ups, the innovations across geographies, and the global financial and banking relationships.

Credit challenges

Low OPM necessitates conservative financial policy and healthy liquidity – Inherent to the nature of distribution business, the company's OPM is low given the limited value addition involved in distribution business. IMIPL's operating margins expanded in FY2020 to 3.2% and 2.9% in FY2021 over 2.0 % in FY2019, due to focus on better margin advance solution business, though marginal decline was witnessed in FY2021 due to lower sales from the said division from Covid-19 related disruptions. The company also took cost management initiatives, which supported the operating margins. Going forward, the margins are expected to moderate from FY2021 levels. The movement in OPM depends on the product mix during the year, the success of launches, sales velocity and the number of deals by the e-commerce companies. IT product segment (which generates gross margin of ~4.0-4.5%) and the advance solution segments (~6.0-7.0%) witness better margins compared to the mobility segment (~2.6%). The diversified product mix cushions the overall gross margin movements (4.0% in FY2021 and 4.3% in FY2020). This necessitates maintaining a conservative financial policy to conserve cash flows for funding growth requirements during the periods of lower margins. The margin further posted a decline in 9M FY2022 and back to normal levels of 2.4% and is expected to remain at similar levels in near term.

Weakened credit profile of the parent company – In December 2020, Platinum Equity, LLC announced that it has entered into a definitive agreement to acquire Ingram Micro Inc. from the HNA Group, for about $7.2 billion. The transaction was completed in Q2 FY2022 and was funded by a mix of debt (64%) and equity (36%). Since the debt was borrowed at the level of Ingram Micro Inc., the credit profile of Ingram Micro Inc. has seen a deterioration over its earlier levels. While the company has not distributed any large dividend or share buybacks in the past, any upstreaming of funds to the parent company impacting the credit profile of IMIPL would be a key credit monitorable.

Revenues susceptible to key vendors' performance - Any weak performance of an OEM's products (due to intense competition) could adversely impact the distributor's business. In case of IMIPL, the risk is largely mitigated by its distribution rights for most of the leading players in each segment. The revenue concentration among its key vendors remains high with Apple, HP, Samsung and Lenovo collectively contributing to ~67% of revenues in FY2021. The share of Apple among the vendors is the highest at 35% in FY2021.

Exposure to currency risks – The company caters to the distribution requirements of several overseas brands with ~15% of the purchases in the form of imports. Thus, a part of its procurement takes place in foreign currency. While this exposes it to the vagaries of foreign exchange (forex) fluctuations, the risk is mitigated through a forex policy, which hedges the net forex exposure through forward contracts.

Liquidity position: Strong

The liquidity position of IMIPL is strong with adequate cash and other bank balances of ~Rs. 426.2 crore as of March 31, 2021. Also, IMIPL has sizeable unutilised bank lines, with unutilised fund-based limits of Rs. 1,294 crore as on November 30, 2021. Against this, the company has no long-term debt repayments (excluding lease liabilities) and is expected to incur minimal capex, supporting its liquidity position in the near to medium term.

Rating sensitivities

Positive factors - ICRA could upgrade IMIPL's rating if the company demonstrates a sustained improvement in its operating performance, while maintaining its current credit profile. Improved credit profile of the parent entity will also be a credit positive.

Negative factors - Negative pressure on IMIPL's rating could arise due to a sharp deterioration in profitability or any major debt-funded capital expenditure or acquisitions or large expansion in operating cycle. Weakening of the company's linkages with the parent company or further moderation in credit profile of the parent entity may impact the rating. Key metrics include Core RoCE at less than 15% or interest coverage below 7x on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Ingram Micro India Private Limited is a subsidiary of Ingram Micro Inc. Established in 1979, IMIPL is a top technology product distribution company in India, with a nationwide presence at over 40 locations. It is a leading wholesale provider of computer systems, components, peripherals and printers, networking solutions, computer storage systems, application software and support services, and mobile phones and accessories. IMIPL distributes products from over 100 hardware manufacturers and software publishers to over 15,000 technology solution providers across India. The supplier list includes most of the leading IT hardware and mobile phone manufacturers, networking equipment manufacturers and software publishers, including Apple, Samsung, Hewlett-Packard (HP), Lenovo, Cisco, Dell, IBM, Intel, Juniper, Microsoft, Symantec, VM Ware and Western Digital, among others.

IMIPL's businesses can be segregated into four segments, namely IT distribution (hardware and software), mobility distribution (mobile phones and accessories), advance solution and speciality (networking, servers and storage) and services (includes cloud-based services and commerce and fulfillment services). Each segment comprises a variety of customer groups, such as corporate resellers, direct and consumer marketers, and VAR.

Key financial indicators (Consolidated)

	FY2020	FY2021
Operating Income (Rs. crore)	22,966.5	26,687.7
PAT (Rs. crore)	513.8	549.9
OPBDIT/OI (%)	3.2%	2.9%
PAT/OI (%)	2.2%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.0
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	15.4	33.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022) Type	Amount Rated (Rs. crore)	Amount Outstanding	Date & Rating on 28-Feb-2022	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2021 Dec-18-2020	Date & Rating in FY2021 May-29-2020	Date & Rating in FY2020 -	Date & Rating in FY2019 Feb-28-2019
1	Fund/Non Fund-based Limits	Long Term/ Short term	700.0	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-&/ [ICRA]A1+&	[ICRA]AA-(Stable)/ [ICRA]A1+	-	[ICRA]AA-(Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short Term - Fund/Non Fund-based Limits	Very Simple/ Simple

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 analysing 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund/Non Fund-based Limits	-	-	-	700.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6114 3421
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches