

October 06, 2023

Acer India (Pvt) Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Non-fund Based – Bank Guarantee	770.00	770.00	[ICRA]BBB+(Stable)/[ICRA]A2 reaffirmed
Total	770.00	770.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action factors in benefits derived by Acer India (Pvt) Ltd. (AIPL) from its strong parentage (Acer Inc.) in the form of operational synergies and financial flexibility. Acer Inc., a global major, is among the leading players in the global personal computer (PC) market with strong brand presence in key geographies, including India. AIPL benefits from the flexible credit terms on sourcing from its parent (the 'Acer Group') as well as from the marketing, management and product support since both companies operate in the same business segment. Over the years, AIPL has established a well-entrenched distribution network by associating with numerous channel partners to cater to retail/ commercial/ enterprise customer requirements. Supported by its brand strength, this has enabled the company to develop established relationships with its key customers, who include reputed entities.

However, the ratings are constrained by AIPL's thin operating profit margins (0.5-0.8% over the past five years), although attributable to the trading nature of its business and limited pricing flexibility owing to intense competition in the industry. In FY2023, AIPL's reported modest YoY growth of ~3% (52.3% in FY2022), owing to the higher base of the previous fiscal (accentuated by the sharp spike in demand during the pandemic) as well as moderation in demand for PCs in H2 FY2023. While the company has reported higher growth on a QoQ basis in Q1 FY2024, overall revenue growth for FY2024 is also likely to remain modest. Nevertheless, AIPL's credit profile is expected to remain comfortable, supported by its strong parentage and healthy financial profile, characterised by steady accrual generation, its debt-free status and adequate liquidity position. ICRA also notes that the overall business environment in the PC segment continues to be challenging because of the extended replacement cycle and the competition from tablets and smartphones, wherein AIPL has a limited but growing presence. The company also has sizeable contingent liabilities, whose materialisation can have an adverse impact on its credit profile.

ICRA also notes the recent regulatory development in August 2023, with the Government of India restricting the import of certain IT products (namely laptops, tablets, all-in-one PCs, ultra-small form factor computers, servers, etc.) effective from November 1, 2023. Nevertheless, import of such products are allowed against valid licenses. About 50-55% of finished goods is directly imported by the company. ICRA will monitor the development, assess its possible impact on AIPL's credit risk profile and take an appropriate rating action, as and when required.

The Stable outlook on long-term rating reflects ICRA's opinion that AIPL's business profile will continue to be supported by its strong parentage, established brand and market position. Moreover, steady accrual generation and its debt-free status will continue to support its credit profile.

Key rating drivers and their description

Credit strengths

Strong brand presence in international and domestic markets – Acer Inc. is one of the leading players in the global computer market, with a market share of ~6.5% in CY2022 (as per International Data Corporation, or IDC). AIPL is the fourth-largest player in the PC market in India, with a market share of 9.9% in CY2022 (as per IDC).

Financial and operational support from parent company – AIPL, a wholly-owned subsidiary of Acer Inc., derives significant support from its parent in terms of availing flexible credit periods on purchased products, import invoicing in the Indian currency, sourcing products at short notice, and receiving marketing, management and product support since both companies operate in the same business segment. Moreover, the parent has extended letters of comfort (LoCs)/ corporate guarantees against the limits availed by AIPL in India.

Well entrenched distribution network and established relationships with key customers, including reputed entities – AIPL has a diversified geographical footprint, supported by its well-entrenched distribution network. Moreover, the company's client base includes reputed names such as Tata Consultancy Services Limited, Flipkart India Private Limited, Redington (India) Ltd. and Ingram Micro India Pvt. Ltd., with whom the company enjoys strong relationships built over many years.

Healthy financial profile with comfortable capital structure and debt-free status; adequate coverage metrics and liquidity position – AIPL remains debt free and its credit facilities are in the form of bank guarantees, which are used to provide earnest money deposits and performance guarantees for contract orders. The company's capital structure remains strong with net worth of ~Rs. 199.6 crore as on March 31, 2023, and adequate liquidity with free cash balances/liquid investments of Rs. 54 crore as on June 30, 2023. Moreover, AIPL follows a prudent financial policy of insuring the bulk of its receivables and hedging its foreign currency exposures. ICRA expect the company's financial profile to remain comfortable with steady accrual and a debt-free status.

Credit challenges

Thin operating margin – The company's OPM and NPM remain low, in line with the nature of the trading business, high competitive intensity of the industry and transfer pricing agreement with its parent. AIPL's OPM has remained in the 0.4–0.8% range in recent years, which is expected to remain stable over the near to medium term.

Intensely competitive market – The industry is characterised by an intense price-based competition among players. This limits the pricing flexibility for players across the industry, resulting in thin margins. Moreover, the computer market is very competitive, and AIPL generally prices its products below its other MNC competitors. This is due to the intense competition in the desktop and laptop market, which has kept a tight control over product pricing. The margins are especially low for tender-based Government sector orders.

Risks associated with sizeable contingent liabilities – As of March 2023, AIPL reported contingent liabilities of Rs. 516.9 crore in income tax demands and Rs. 147.5 crore in indirect tax demands. The company had received a favourable order from the income tax tribunal for some of the disputed demands. Nonetheless, any adverse rulings in these ongoing legal cases can have an adverse impact on AIPL's financial profile.

Intensely competitive market and threat from smartphones and tablet – There is intense competition in the desktop and laptop market, where AIPL has been traditionally strong. In recent times, there has been a shift in customer interest towards hand-held devices such as smartphones and tablets, impacting the desktop and laptop market with high competition from other established vendors.

Liquidity position: Adequate

AIPL's liquidity profile remains adequate, supported by steady internal accrual generation, free cash balances (~Rs. 54.8 crore as of June 30, 2023), funding support from its parent in the form of extended credit period and no scheduled debt repayment liability. Moreover, the company's financial flexibility is strengthened by its debt-free status and strong parentage.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of AIPL if there is material improvement in the business and credit profile of the group, reflected by significant revenue growth, expansion in margins and growth in market share on a sustained basis.

Negative factors – ICRA may downgrade AIPL’s rating if there is any material weakening of the Group’s credit profile, or if there is any reduction in strategic linkages between AIPL and the Group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The rating assigned to AIPL factors in the high likelihood of its parent, Acer Inc., extending financial support to it because of the close business linkages between them. ICRA also expects Acer Inc. to be willing to extend financial support to AIPL out of its need to protect its reputation from the consequences of a group entity’s distress.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

AIPL, founded in 1999, is a 100% subsidiary of Acer Inc., a global major in hardware and electronics. The company is among the top five suppliers of personal computers in India. The company also supplies tablets, laptops, servers, projectors, monitors and smartphones.

Key financial indicators (audited)

AIPL - Standalone	FY2022	FY2023*
Operating income	3,976.3	4100.8
PAT	24.5	27.9
OPBDIT/OI	0.9%	0.7%
PAT/OI	0.6%	0.7%
Total outside liabilities/Tangible net worth (times)	12.4	8.5
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	9.4	16.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Oct 06, 2023	Aug 04, 2022	Sep 30, 2021	Jun 26, 2020	
1	Non-Fund-based bank-Bank Guarantee	Long term and short term	770.0	--	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term / Short term - Non- Fund Based -Bank Guarantee	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	NA	NA	NA	770.0	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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Branches



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