

August 27, 2024

Ingram Micro India Private Limited: Ratings reaffirmed

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	1,150.00	1,150.00	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed
Long-term/ Short-term – Non-fund Based Limits	200.00	200.00	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed
Total	1,350.00	1,350.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for the bank lines of Ingram Micro India Private Limited (IMIPL) reflects ICRA's expectation that its credit profile will remain healthy on the back of its 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 advanced solution and services segment. The company reported revenue growth of ~17% in FY2024 on a YoY basis, owing to healthy growth in its mobility and advanced solutions, and specialty businesses. The growth, however, was impacted by slowdown in the IT distribution (commercial consumer) segment in FY2024. The near-term revenue growth is expected to be driven by advanced solutions and specialty businesses owing to opportunities related to automation of businesses and rising digitisation needs.

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. However, upstreaming of cash requirement from IMIPL impacting its credit profile or any weakening of the parent's profile, given the operational and financial flexibility it derives from the parent, will remain a key rating monitorable.

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. ICRA notes that the working capital requirement in FY2024 has increased over earlier levels owing to slowdown in consumer commercial segment resulting in extended credit period availed by customers. The working capital requirement has also gone up on account of higher business share from the advanced solutions business, which entail a longer receivable cycle. Going forward, with the company's increasing thrust on advanced solutions, the receivable cycle is expected to be longer and will remain a monitorable in terms of impact on the overall credit profile. The ratings further consider the susceptibility of IMIPL's revenues to the performance of its key vendors, who operate in a highly competitive market, and their policies related to distribution. 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.

ICRA expects IMIPL to sustain its business risk profile, given its established and diversified vendor base, along with a robust distribution network. Further, the Stable outlook factors in the leading business position of IMIPL in terms of domestic mobility and IT distribution business, its access to its parent's global vendor tie-ups, the innovations across geographies, and its global financial and banking relationships.

Key rating drivers and their description

Credit strengths

Leading player 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 (including IMIPL) handle the bulk of distribution. The company's revenues grew at a CAGR of 11% over the last 10 years by adding several leading vendors and increasing geographical cover for them along with increasing its presence in the advanced solutions segment, thus cementing its leadership position.

Healthy financial profile – IMIPL has a healthy financial profile characterised by stable growth in operating income, comfortable capital structure, strong debt coverage indicators and strong liquidity position. The company's revenue grew by 17% YoY in FY2024, driven by healthy sales from the mobility segment, increasing digitalisation and healthy demand in advanced solutions and speciality segments. The debt coverage indicators remain comfortable, with interest coverage of 11.6 times and total debt/OPBIDTA of 0.8 time in FY2024. Further, IMIPL's liquidity is strong with sizeable unutilised bank lines and unutilised fund-based limits of ~Rs. 2,130 crore as on April 30, 2024.

Diversified revenue streams and vendor base along with established relationships with key vendors – IMIPL operates in multiple business segments, such as mobility distribution, IT distribution, and advanced solutions and services. The company expects its advanced solutions and services business to be one of its key growth drivers, going forward.

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 to 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; business remains highly sensitive to working capital changes – Inherent to the nature of the distribution business, the company's OPM is low given the limited value addition involved in the distribution business. The company's overall operating margins declined to 2.6% in FY2024 (on provisional basis) over 3.1% in FY2023 owing to higher sales from the low margin mobility segment. However, the operating margins were supported by healthy sales from the higher margin advanced solutions business. The operating margins are expected to remain at a narrow range and would largely depend on business share from different segments. The movement in OPM will depend on the product mix during the year, the success of launches, sales velocity and the number of deals by e-commerce companies. The IT product and advanced solutions segments witnessed better margins than the mobility segment. The business also remains highly sensitive to working capital changes, wherein the requirements have gone up in FY2024 on account of higher business share from the advanced solutions vertical, which entail a longer receivable cycle. In the near term, the working capital requirement is expected to increase on account of the company's thrust on its advanced solutions business. This will necessitate maintaining a conservative financial policy to conserve cash flows for funding growth during periods of lower margins or elongated working capital cycles.

Revenues susceptible to key vendor performances and policies – Any weak performance of an Original equipment manufacturer's (OEM) 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, Hewlett-Packard (HP), Cisco and Dell collectively generating ~70% of revenues in FY2024. The share of Apple among its vendors was the highest at ~38% in FY2024. The business also remains vulnerable to changes in policies of the principals in the mobility and IT distribution businesses, as witnessed in the last two fiscals for Samsung and Apple, wherein they restructured their business model and began dealing with online players directly for smartphones, which limited IMIPL's overall revenue growth to an extent.

Exposure to currency risks – The company caters to the distribution requirements of several overseas brands with ~11% 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 healthy free cash and other bank balances of ~Rs. 406 crore as of March 31, 2024. Also, IMIPL has sizeable unutilised bank lines, with unutilised fund-based limits of ~Rs. 2,130 crore as on April 30, 2024. 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. 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 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 a 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 30 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. Its supplier list includes most leading IT hardware and mobile phone manufacturers, networking equipment manufacturers and software publishers, including Apple, 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), advanced solutions and speciality (networking, servers and storage), and services (includes cloud-based services). Each segment comprises a variety of customer groups, such as corporate resellers, direct and consumer marketers, and VAR.

Key financial indicators (audited)

IMIPL	FY2022	FY2023
Operating income (Revenue from Operations)	31,175.7	34,727.5
PAT	654.0	792.0
OPBDIT/OI	2.9%	3.1%
PAT/OI	2.1%	2.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	43.7	28.5

Source: Company; ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;

Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
			Aug 27, 2024	10-May-23	06-Apr-23	-	-	28-Feb-22
1 Fund/Non Fund-based Limits	Long Term/ Short term	1150.00	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	[ICRA]AA-(Stable)/[ICRA]A1+	
2 Non Fund-based Limits	Long Term/ Short term	200.00	[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	Simple
Long-term/ Short Term - Non Fund-based Limits	Very 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	Fund/Non Fund-based Limits	NA	NA	NA	1150.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Non Fund-based Limits	NA	NA	NA	200.00	[ICRA]AA-(Stable)/[ICRA]A1+

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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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.

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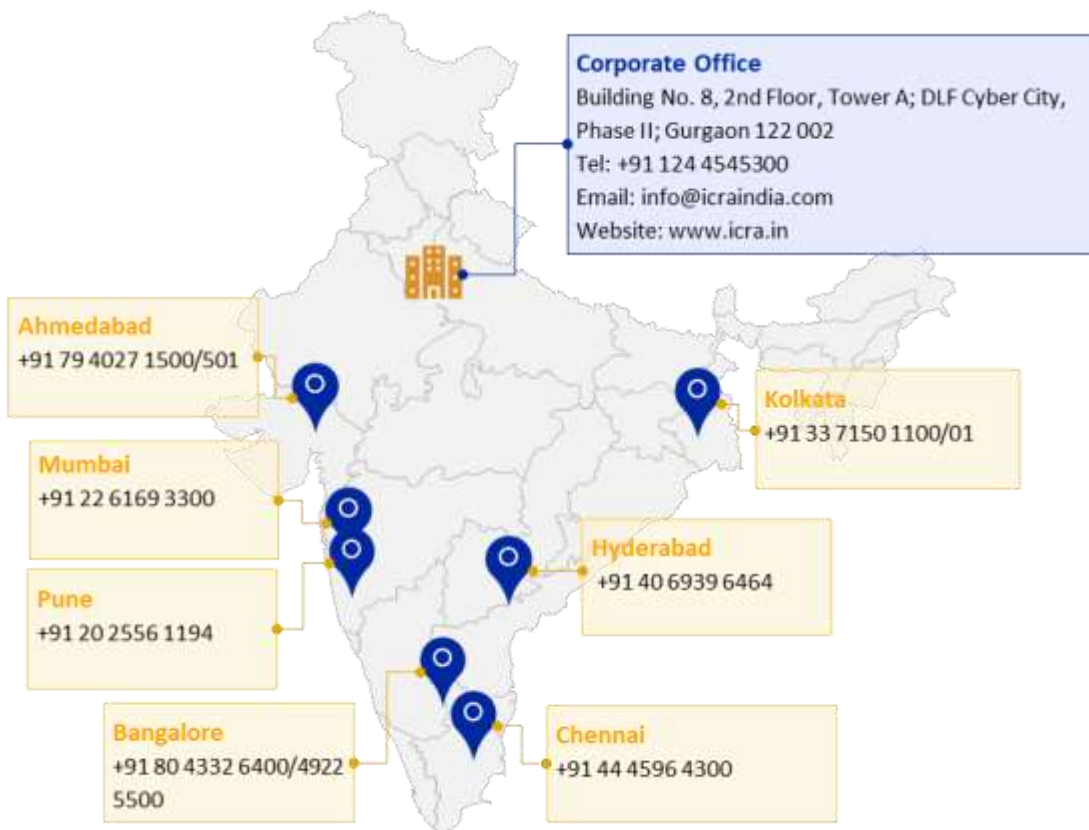
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