December 30, 2024

Inflow Technologies Pvt Ltd: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based (CC)	298.10	350.10	[ICRA]A+ (Positive); reaffirmed/ assigned for enhanced amount
Long Term - Interchangeable	(298.10)	(300.10)	[ICRA]A+ (Positive); reaffirmed/ assigned for enhanced amount
Short Term - Fund Based	202.00	250.00	[ICRA]A1; reaffirmed/ assigned for enhanced amount
Short Term – Interchangeable	(500.00)	(600.00)	[ICRA]A1; reaffirmed/ assigned for enhanced amount
Short Term - Fund Based / Non-Fund Based - Interchangeable	(500.00)	(600.00)	[ICRA]A1; reaffirmed/ assigned for enhanced amount
Total	**500.10**	**600.10**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings on the bank lines of Inflow Technologies Private Limited (ITPL) consider the expectation of sustained strengthening of its credit profile going forward. ITPL reported an operating income of Rs. 4,921.3 crore in FY2024, representing a CAGR of 15% during FY2021 to FY2024, aided by stable business profile and healthy demand for its product offerings. Despite the low operating profit margin (OPM) due to the inherent nature of distribution business and elevated trading costs, the company's capital structure and coverage metrics remain healthy, supported by modest capex and healthy accruals over the years, and this is likely to continue going forward. ITPL's TOL/TNW has stood at 1.9 times as on March 31, 2024, albeit improvement from 2.3 times as on March 31, 2023. The capital structure and coverage metrics is expected to improve going forward, with higher scale and accruals, and modest capex requirements.

The ratings continue to favourably factor in ITPL's strong parentage, by virtue of it being a wholly-owned subsidiary of Savex Technologies Private Limited (STPL), an established player in the distribution of branded computers, computer peripherals, mobile phones and accessories. ITPL is likely to derive business synergies as it is a subsidiary of STPL, including access to STPL's wider distribution network. Also, given its healthy financial profile and adequate liquidity position, ITPL does not require funding support for the next few years. However, STPL is expected to extend any need based financial support to ITPL. The ratings continue to factor in ITPL's established track record as well as its wide distribution channel and associations with global technology vendors, enabling the company to strengthen its brand position. The ratings also factor in ITPL's strong distribution channel and long-term associations with global technology vendors, and its risk management practices, which mitigate the counterparty credit risk, inventory obsolescence and forex risk to a large extent.

The ratings are, however, constrained by the company's inherently low operating margins, in line with the distribution nature of business, stemming from limited value addition and competition. ITPL's receivable levels have remained high over the years due to extended credit period offered to the customers, along with substantial billing towards the end of the financial year. However, ITPL's ability to obtain extended credit period from its vendors mitigates the impact on working capital to an extent. Further, the products of the top three vendors contributed more than 55% of the revenues in FY2024, and, thus the performance of the principals is critical for the business. Nevertheless, the addition of new vendors over the last few years mitigates the risk to a certain extent.

Key rating drivers and their description

Credit strengths

Benefits arising from strong parentage –The company is a wholly-owned subsidiary of STPL, which is an established player in the distribution of branded computers, computer peripherals, mobile phones and accessories. ITPL is likely to derive business synergies by being a subsidiary of STPL, including access to STPL's wider distribution network. Also, given the company's healthy financial profile and its adequate liquidity position, it does not require funding support for the next few years. However, STPL is expected to extend timely and adequate financial support to ITPL, should there be a need.

Strong distribution channel and long-term associations with global technology vendors – ITPL was established in 2005 and over the last two decades the company has established a strong distribution network comprising 19 branches across India, Singapore, Nepal, Bangladesh and Sri Lanka. It has more than 2,600 channel partners and 50+ technology vendors. The company is present across the information security, networking infrastructure and application software segments and focuses on value-added assignments such as automatic identification and data capture (AIDC), point of sale (PoS) etc. Established brand presence of the vendors ensures consistent demand and the increasing penetration with the channel partners would aid in revenue growth.

Risk management practices mitigate counterparty credit risk, inventory obsolescence and foreign currency fluctuations to a large extent – The company has an established credit risk management set-up for its system integrators and channel partners. Apart from carrying out an internal credit risk assessment for its new customers, the company avails credit insurance, which mitigates the counterparty credit risk to a large extent. Further, with around 95% of sales being order backed, the company has significantly low inventory obsolescence risk. With imports contributing a significant portion of the procurement, ITPL is exposed to the forex risk. However, the company hedges its entire exposure using forward contracts and this largely mitigates forex risk.

Healthy financial risk profile – The company has a healthy scale of operations and reported an operating income of Rs. 4,921.3 crore in FY2024, representing a CAGR of 15% for the period FY2021 to FY2024. The revenue growth was aided by stable business profile and healthy demand for its product offerings. Despite the low operating profit margin (OPM) due to the inherent nature of distribution business and elevated trading costs, the company's capital structure and coverage metrics remain healthy, supported by modest capex and healthy accruals over the years. With no major debt funded capex going forward, ICRA expects the company's capital structure and coverage metrics to remain healthy over the medium term.

Credit challenges

Inherently low margins – Historically, margins in the trading segment of ITPL's business are inherently low and, therefore, steady-state operating margins have largely remained modest at 4-5% over the last few years (4.4% in FY2024). While it has invested significantly and developed other high-margin businesses such as training, technical consultation and managed services, the margin profile is expected to be range-bound, given the nature of business.

Intense competition from established distribution companies limits pricing flexibility – Competition from other well-established distribution companies such as Redington (India) Limited and Ingram Micro Inc restricts ITPL's pricing flexibility to an extent. Limited pricing flexibility, coupled with the nature of business, keeps the operating margins thin. Nevertheless, the company is present in the value-added distribution business catering to the enterprises, through which it has been able to garner higher operating margins compared to its peers.

Dependence on performance of principals – The company has tie-ups with large players such as CISCO Systems, Arista, Hewlett Packard Enterprise (HP), Zebra Solutions, Palo Alto Networks and other reputed players in the industry, which cater to the data network architecture as well as data-asset protection space. The products of the top three vendors contributed more than

55% of the revenues in FY2024, and thus the performance of the principal is critical for the business. Nevertheless, addition of new vendors over the last few years mitigates the risk to an extent.

High receivable and payable levels – ITPL's receivable level remained high over the years due to extended credit period offered to the customers, along with substantial billing towards the end of the financial year. However, ITPL's ability to obtain extended credit periods from its vendors mitigates the impact on working capital, to an extent. These procurements of products are backed by the credit period offered by the vendors and working capital borrowing. As a result, ITPL's TOL/TNW stood at 1.9 times as on March 31, 2024, albeit improvement from 2.3 times recorded on March 31, 2023. It is expected to improve going forward, with higher scale and accruals, and modest capex requirements.

Liquidity position: Adequate

ITPL's liquidity is adequate, supported by healthy accruals, unencumbered cash and liquid investments of Rs. 110.0 crore as on March 31, 2024, and undrawn working capital lines of Rs. 395.1 crore as of June 2024. Its average utilisation was ~20% (of both sanctioned limit and drawing power) for the period July 2023 to June 2024. Against these sources of cash, the company does not have any repayment obligations and has annual capex of less than Rs. 5 crore for the period FY2025-FY2027. Also, STPL would extend timely and adequate financial support to ITPL, should there be a need.

Rating sensitivities

Positive factors – ICRA may upgrade ITPL's ratings if there is an improvement in its scale of operations and working capital cycle, leading to a reduction in debt levels and improvement in coverage indicators. Specific credit metrics that can lead to an upgrade would be TOL/TNW less than 1.5 times, on a sustained basis. Any material improvement in the credit profile of the parent company will also lead to a review of the ratings.

Negative factors – Pressure on ITPL's ratings may arise, if there is any significant decline in revenues and profitability. Besides, any adverse change in the credit terms offered by the major vendors and/or a stretch in the receivables, exerting pressure on the liquidity position, may trigger a downgrade in ratings. Specific credit metrics that could lead to a downgrade would be interest coverage of less than 4.0 times, on a sustained basis. Further, any weakening in linkages with the parent company, or a material deterioration in the parent's credit profile, could lead to a review of ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Savex Technologies Pvt Ltd
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ITPL

About the company

Incorporated in 2005, Inflow Technologies Pvt Ltd (ITPL) was promoted by Mr. Byju Pillai. ITPL is involved in distribution of IT products that include hardware products and software licenses along with providing support services through 19 branches located across India, Singapore, Nepal, Bangladesh and Sri Lanka. The company is involved with 2,600+ channel partners, through which it offers solutions to 7,000+ end customers. The company is a national distributor for 60+ global technology vendors.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	4146.0	4921.3
PAT	161.6	159.7
OPBDIT/OI	5.1%	4.4%
PAT/OI	3.9%	3.2%
Total outside liabilities/Tangible net worth (times)	2.3	1.9
Total debt/OPBDIT (times)	0.5	0.5
Interest coverage (times)	45.2	14.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Dec 30, 2024	Nov 28, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based (CC)	Long-term	350.10	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	7-Aug-23	[ICRA]A+ (Stable)	1-Jun-22	[ICRA]A+ (Stable)	19-May-21	[ICRA]A- &
							17-Jun-22		1-feb-22	[ICRA]A+ (Stable)
Interchangeable	Long-term	(300.10)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	7-Aug-23	[ICRA]A+ (Stable)	1-Jun-22	[ICRA]A+ (Stable)	19-May-21	[ICRA]A- &
							17-Jun-22		1-feb-22	[ICRA]A+ (Stable)
Fund-based	Short-term	250.00	[ICRA]A1	[ICRA]A1	7-Aug-23	[ICRA]A1	1-Jun-22	[ICRA]A1	19-May-21	[ICRA]A2+ &
							17-Jun-22		1-feb-22	[ICRA]A1
Interchangeable	Short-Term	(600.00)	[ICRA]A1	[ICRA]A1	7-Aug-23	[ICRA]A1	1-Jun-22	[ICRA]A1	19-May-21	[ICRA]A2+ &
							17-Jun-22		1-feb-22	[ICRA]A1
Fund-based / Non-fund Based	Short-term	0.00	-	-	-	-	1-Jun-22	[ICRA]A1	19-May-21	[ICRA]A2+ &
							17-Jun-22		1-feb-22	[ICRA]A1
Fund-based / Non-fund Based - Interchangeable	Short-term	(600.00)	[ICRA]A1	[ICRA]A1	7-Aug-23	[ICRA]A1	-	-	-	-
Unallocated	Long-term/Short-term	0.00	-	-	-	-	17-Jun-22	[ICRA]A+ (Stable)/ [ICRA]A1	-	-

& placed on rating watch with developing implication

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund-based (CC)	Very Simple
Long Term Interchangeable	Simple
Short Term Fund-based	Simple
Short Term Interchangeable	Simple
Short-term Fund-based / Non-fund Based - Interchangeable	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	**Long Term Fund-based (CC)**	NA	NA	NA	350.10	[ICRA]A+ (Positive)
NA	**Long Term Interchangeable**	NA	NA	NA	(300.10)	[ICRA]A+ (Positive)
NA	**Short Term Fund-based**	NA	NA	NA	250.00	[ICRA]A1
NA	**Short Term Interchangeable**	NA	NA	NA	(600.00)	[ICRA]A1
NA	**Short-term Fund-based / Non-fund Based - Interchangeable**	NA	NA	NA	(600.00)	[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

Company Name	Ownership	Consolidation Approach
Inflow Technologies (Singapore) Pte Ltd	100.00%	Full consolidation
Inflow Technologies SL (Pvt Ltd) - Subsidiary of Inflow Technologies (Singapore) Pte Ltd	100.00%	Full consolidation

Source: Company

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