

August 04, 2022

Acer India (Pvt) Ltd.: Long-term rating reaffirmed and short-term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non fund based - Bank Guarantee	770.00	770.00	[ICRA]BBB+(Stable) reaffirmed; [ICRA]A2 assigned
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 a leading player 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 ('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. Leveraging on these strengths and benefitting from the pent-up demand, the company has reported healthy revenue growth in FY2022. Additionally, the ratings continue to factor in AIPL's healthy financial profile characterised by comfortable capital structure with a debt-free status along with adequate debt coverage metrics and liquidity position.

The ratings are constrained AIPL's thin operating profit margins (0.4-0.8% over the past five years), however, given the trading nature of its business and limited pricing flexibility owing to intense competition in the industry. The company also has sizeable contingent liabilities, whose materialisation can have an adverse impact on its credit profile. In recent years, industry participants, including AIPL, have faced supply chain issues due to Covid-19 related restrictions and semiconductor chip (used to power electronic devices) shortage. This was also demonstrated by decline in AIPL's revenue in FY2021. However, supply chain disruptions have eased out to a large extent over the past few quarters, ensuring comparatively better product availability, enabling the company to register steady growth. 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 Stable outlook on the long-term rating reflects ICRA's opinion that AIPL will continue to benefit from its strong parentage, well established brand and steady demand outlook for its products.

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 ~7.0% in CY2021 (as per IDC). It witnessed YoY growth of 15.1% (CY2021) primarily driven by strong performance in the consumer notebook segment. AIPL is the fourth-largest player in the PC market in India, with a market share of 8.2% in CY2021 (source: International Data Corporation or 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 period on purchased products, imports invoicing in Indian rupees, 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 debt coverage metrics have remained comfortable with interest coverage of 8.5 times and DSCR of 2.1 times for FY2022 (provisional financials). AIPL follows a prudent financial policy of insuring the bulk of its receivables and hedging its foreign currency exposures. Additionally, its liquidity profile is adequate, supported by steady internal accrual generation, free cash balances and no long-term debt repayment liability.

Credit challenges

Thin operating margins – 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 over the last five years. Going forward too, margins are expected to remain at a similar range.

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 2022¹, AIPL reported contingent liabilities of Rs. 724.1 crore in income tax demands and Rs. 114.5 crore in indirect tax demands. Earlier in FY2020, the company had received a favourable order from the income tax tribunal for the largest such disputed demands. The company is yet to receive the revised order from the assessing officer. 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 tablets – 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

The liquidity profile of AIPL is **adequate**, supported by steady internal accrual generation, free cash balances (~Rs 13.6 crore as of July 26, 2022), funding support from its parent in the form of extended credit period and no scheduled debt repayment as it has no term loans on its balance sheet. 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.

¹ As per provisional financials

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit parent or group support
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. We also expect 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

AIPL standalone	FY2020 (audited)	FY2021 (audited)	FY2022 (provisional)
Operating income	2,827.5	2,611.5	4,027.3
PAT	6.5	16.9	24.5
OPBDIT/OI	0.6%	0.6%	0.8%
PAT/OI	0.2%	0.6%	0.6%
Total outside liabilities/Tangible net worth (times)	10.9	7.4	12.6
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	2.1	2.1	8.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating	Date & Rating	Date & Rating
					in FY2022	in FY2021	in FY2020
				August 04, 2022	Sep 30, 2021	Jun 26, 2020	Mar 13, 2019
1 Non-Fund Based - Bank Guarantee	Long term / Short term	770.00		[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: www.icra.in

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Bank Guarantee	NA	NA	NA	770.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

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

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