

April 06, 2023

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	700.00	700.00	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed
Total	700.00	700.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation in the ratings considers the healthy growth of 17% in Ingram Micro India Private Limited's (IMIPL) scale of operations in FY2022 as well as ~16% in 9M FY2023 on a YoY basis, on the back of increasing digitalisation and rising needs due to remote working requirements. Although revenue growth from the mobility segment remained subdued in the current fiscal year, it is expected to be driven by IT distribution, and advance solution and speciality segment businesses owing to opportunities related to introduction of 5G telecom, automation of businesses and rising digitisation needs.

The ratings also continue to 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. ICRA will continue to monitor for any 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 and 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. The ratings further consider the susceptibility of IMIPL's revenues to the performance of its key vendors and their policies related to distribution, 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.

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 its access to its parent's global vendor tie-ups, the innovations across geographies, and the global financial and banking relationships.

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 9% over the last nine 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 17% to Rs. 31,195.9 crore in FY2022 and ~16% in 9M FY2023 on YoY basis driven by increasing digitalisation and healthy demand in advance solutions and speciality segment. 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 43.7 times and total debt/OPBIDTA of 0.1 time in FY2022. Further, IMIPL's liquidity is strong with sizeable unutilised bank lines and unutilised fund-based limits of ~Rs. 1,544.4 crore as on December 31, 2022.

Diversified revenue streams and vendor base along with established relationships with key vendors – IMIPL operates multiple business segments, such as mobility distribution, IT distribution and advance solutions and services. The company expects its advance solutions and services business to be one of its key growth drivers, going forward. It also enjoys geography-wise exclusive rights across certain 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 the distribution business, the company's OPM is low given the limited value addition involved in the distribution business. Despite a marginal dip in gross margins in the mobility segment in FY2022, IMIPL's operating margins remained similar at 2.9% in FY2022 over 2.9% in FY2021, driven by improvement in its advance solution business. The operating margins are expected to remain at similar 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 and the advance solution segments witness better margins compared to the mobility segment. The diversified product mix cushions the overall gross margin movements (4.1% in FY2022 and 4.0% in FY2021). This necessitates maintaining a conservative financial policy to conserve cash flows for funding growth requirements during the periods of lower margins.

Revenues susceptible to key vendors' performance and policies – 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, and Cisco and Dell collectively contributing ~69% to revenues in 9M FY2023. The share of Apple among the vendors is the highest at 34% in 9M FY2023. The business also remains vulnerable to change in policies of the principal's

in the mobility and IT distribution, as witnessed in the last two fiscals for Samsung and Apple, wherein they have restructured their business model and started dealing with online players directly for smartphones, which limited the overall revenue growth of the company to an extent.

Exposure to currency risks – The company caters to the distribution requirements of several overseas brands with ~13% 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. 426.2 crore as of March 31, 2022. Also, IMIPL has sizeable unutilised bank lines, with unutilised fund-based limits of Rs. 1,544.4 crore as on December 31, 2022. 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 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, 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). Each segment comprises a variety of customer groups, such as corporate resellers, direct and consumer marketers, and VAR.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	26,687.7	31,195.9
PAT	549.9	654.0
OPBDIT/OI	2.9%	2.9%
PAT/OI	2.1%	2.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	33.5	43.7

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 (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Apr 6, 2023	-	Feb 28, 2022	Dec 18, 2020	May 29, 2020
1 Fund/Non Fund-based Limits	Long Term/ Short term	700.00	-	[ICRA]AA-(Stable)/[ICRA]A1+	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-&/[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

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	700.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

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

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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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