

November 28, 2024

Inflow Technologies Pvt Ltd: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based (CC)	298.10	298.10	[ICRA]A+ (Positive); reaffirmed; Outlook revised to Positive from Stable
Long Term - Interchangeable	(298.10)	(298.10)	[ICRA]A+ (Positive); reaffirmed; Outlook revised to Positive from Stable
Short Term - Fund Based	202.00	202.00	[ICRA]A1; reaffirmed
Short Term – Interchangeable	(500.00)	(500.00)	[ICRA]A1; reaffirmed
Short Term - Fund Based / Non-Fund Based - Interchangeable	(500.00)	(500.00)	[ICRA]A1; reaffirmed
Total	500.10	500.10	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to factor in Inflow Technologies Pvt Ltd.'s (Inflow/ the company) strong parentage, wherein Savex Technologies Pvt Ltd (Savex) held an 85.99% stake as on March 31, 2023. Inflow is likely to continue deriving business synergies by being a subsidiary of Savex, including access to Savex'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, Savex would extend financial support to Inflow, should there be a need.

The ratings continue to factor in Inflow's established track record as well as its wide distribution channel and associations with global technology vendors, enabling Inflow to strengthen its brand position. The ratings also factor in the established risk management practices adopted by the company, which mitigate the counterparty risk and foreign currency exposure to a large extent.

Inflow achieved a strong revenue growth of 60.5% in FY2023, on the back of higher demand for its products, supported by increasing digitisation in the domestic market as well as pent-up demand and the resolution of supply-chain challenges, leading to an improvement in the overall performance. Going forward, the revenue growth is expected to normalise in FY2024 on account of a higher base; however the long-term prospects for the business remain healthy due to healthy demand for its products, supported by Government and industry-wide push towards digitisation, while maintaining a healthy financial risk profile. The ratings also consider the company's comfortable liquidity position with its sizeable cash balance and undrawn working capital limits, further supported by minimal repayment obligations in the near to medium term.

The ratings are, however, constrained by the company's moderate operating margins, in line with the distribution nature of business. ICRA also notes the company has high receivables and trade creditors, prevalent in the IT distribution business. Extended credit period being offered to customers resulted in higher debtor days for the company in the recent past. However, the company's ability to avail extended credit periods from its vendors has mitigated the impact of higher debtors on its working capital requirements to an extent. Further, its revenues are susceptible to the performance of its key principals with ~45% of its revenue derived from distributing products of single principal.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from its strong parentage, healthy demand outlook for its products, while maintaining its comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Strong parentage being a subsidiary of Savex – The company is a subsidiary of Savex, which is an established player in the distribution of branded computers, computer peripherals, mobile phones and accessories. Inflow is likely to derive business synergies by being a subsidiary of Savex, including access to Savex’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, Savex would extend financial support to Inflow, should there be a need.

Strong distribution channel and long-term associations with global technology vendors - Inflow was established in 2005 and over the last decade, it has established a strong distribution network comprising 19 branches, more than 2,600 and 50 channel partners and technology vendors, respectively. 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. The established brand presence of the vendors ensures consistent demand and the increasing penetration with the channel partners aids in the sustenance of the revenue growth.

Risk management practices reduce counterparty credit risk, inventory obsolescence and foreign currency fluctuations – 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 a significantly low inventory obsolescence risk. With imports contributing a significant portion of the procurement, Inflow is exposed to the foreign currency fluctuation risk. However, the company hedges its entire exposure using forward contracts. This leads to relatively higher outgo on hedging-related premium payouts for Inflow.

Healthy financial risk profile – The debt profile of the company primarily consists of working capital borrowing. Working capital debt increased to Rs. 100.0 crore as on March 31, 2023, against Rs. 42.0 crore as on March 31, 2022, which is in line with increase in scale of operations. This led to marginal increase in gearing and Total Debt/ OPBDITA to 0.2 times and 0.5 times, respectively, as on March 31, 2023, against 0.1 times and 0.3 times, respectively, as on March 31, 2022. Interest coverage ratio declined to 7.6 times during FY2023 against 8.6 times during FY2022, on account of higher interest expense towards working capital borrowing. Despite marginal moderation in debt metrics of Inflow during FY2023, its financial profile remained healthy and going forward, the company is expected to maintain the same, on back of expected improvement in cash accruals and low debt levels.

Credit challenges

Inherently low margins – The margins in the trading segment of Inflow’s business are inherently low and, therefore, steady-state operating margins have largely remained modest at 4-5% over the last few years. 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 well-established distribution companies limits pricing flexibility – Competition from other well-established distribution companies such as Redington (India) Limited and Ingram Micro Inc, restricts Inflow’s pricing flexibility to an extent. The 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, Hewlett Packard Enterprise (HP), Zebra Solutions, Palo Alto Networks and other reputed players in the industry, that cater to the data network architecture as well as data-asset protection space. The products of the top-three vendors contributed to more than

~55% of the revenues in FY2023, which exposes it to the vendor concentration risk to an extent and, thus, the performance of the principal is critical for the business. Nevertheless, the addition of new vendors in the current year mitigates the risk to a certain extent.

High receivable and payable levels – ITPL’s receivable level remained high over the years due to significant credit period offered to the customers, along with substantial billing towards the end of the financial year. Extended credit period being offered to customers has resulted in higher debtor days for the company in the recent past. However, Inflow’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 from vendors and working capital borrowings. As a result, its TOL/TNW has remained moderate over the years (increased to 2.5 times as on March 31, 2023, from 1.8 times as on March 31, 2022) and is expected to be in a similar range, going forward as well.

Liquidity position: Adequate

Inflow’s liquidity is adequate, supported by healthy accruals, and cash & liquid investments of Rs. 110.0 crore as on March 31, 2024, along with nil repayment obligation and Rs. 3-5 crore of planned capex over FY2025 & FY2026. The company has sanctioned the working capital limit of Rs. 500.1 crore and average utilization was 20.80% (of sanctioned limit) 20.19% (of drawing power) during June-2024 on a standalone basis. Further, the company had an undrawn working capital limit of ~Rs. 395.1 crore against its sanctioned limits of Rs. 500.1 crore as on June 30, 2024, supporting its liquidity position. Going forward, the liquidity position of the company is expected to remain adequate on the back of healthy cash accruals.

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 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 Inflow

About the company

Inflow Technologies Pvt Ltd, incorporated in 2005 and promoted by Mr. Byju Pillai, distributes IT infrastructure products that include hardware products and software licenses, along with providing support services through 19 branches located across India, Nepal, Singapore, Sri Lanka and Bangladesh. The company has three subsidiaries in Singapore, Inflow Technologies (Singapore) Pte Ltd., Inflow Trading Pte Ltd. (a step-down subsidiary) and Inflow Technologies S L (Pvt) Limited (a step-down

subsidiary and currently non-operational). Savex Technologies Pvt Ltd held an 85.99% stake in the company as on March 31, 2023.

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; 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Nov 25, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based (CC)	Long-term	298.10	[ICRA]A+ (Positive)	7-Aug-23	[ICRA]A+ (Stable)	1-Jun-22	[ICRA]A+ (Stable)	19-May-21	[ICRA]A- &
						17-Jul-22	[ICRA]A+ (Stable)	1-feb-22	[ICRA]A+ (Stable)
Interchangeable	Long-term	(298.10)	[ICRA]A+ (Positive)	7-Aug-23	[ICRA]A+ (Stable)	1-Jun-22	[ICRA]A+ (Stable)	19-May-21	[ICRA]A- &
						17-Jul-22	[ICRA]A+ (Stable)	1-feb-22	[ICRA]A+ (Stable)
Fund-based	Short-term	202.00	[ICRA]A1	7-Aug-23	[ICRA]A1	1-Jun-22	[ICRA]A1	19-May-21	[ICRA]A2+ &
						17-Jul-22	[ICRA]A1	1-feb-22	[ICRA]A1
Interchangeable	Short-Term	(500.00)	[ICRA]A1	7-Aug-23	[ICRA]A1	1-Jun-22	[ICRA]A1	19-May-21	[ICRA]A2+ &
						17-Jul-22	[ICRA]A1	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-Jul-22	[ICRA]A1	1-feb-22	[ICRA]A1
Fund-based / Non-fund Based - Interchangeable	Short-term	(500.00)	[ICRA]A1	7-Aug-23	[ICRA]A1	-	-	-	-
Unallocated	Long-term/Short-term	0.00	-	-	-	17-Jul-22	[ICRA]A+ (Stable)/[ICRA]A1	-	-

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	298.10	[ICRA]A+ (Positive)
NA	Long Term Interchangeable	NA	NA	NA	(298.10)	[ICRA]A+ (Positive)
NA	Short Term Fund-based	NA	NA	NA	202.00	[ICRA]A1
NA	Short Term Interchangeable	NA	NA	NA	(500.00)	[ICRA]A1
NA	Short-term Fund-based / Non-fund Based - Interchangeable	NA	NA	NA	(500.00)	[ICRA]A1

Source: Company

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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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Branches



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