

March 09, 2017

## Inflow Technologies Private Limited

Instrument	Rated Amount (in Rs. crore)	Rating Action
Long Term – Fund Based (CC)	32.00 (enhanced from 22.00)	[ICRA]BBB+ (stable); assigned / outstanding
Long Term – Interchangeable (CC)	(25.00) (enhanced from (8.00))	
Short Term – Fund Based (BD)	76.00 (enhanced from 45.00)	[ICRA]A2; assigned / outstanding
Short Term – Interchangeable (BD)	(35.00) (enhanced from (10.00))	
Short Term – Fund Based / Non Fund Based (LC / BG / Buyer's Credit)	55.00 (enhanced from 45.00)	
Long Term / Short Term – Unallocated	2.00 (revised from 40.00)	[ICRA]BBB+ (stable) / [ICRA]A2; outstanding
<b>Total</b>	<b>165.00 (enhanced from 152.00)</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has assigned the long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 32.00 crore (enhanced from 22.00 crore) long term – fund based limits and the Rs. 25.00 crore (enhanced from Rs. 8.00 crore) long term – interchangeable sub-limits of Inflow Technologies Private Limited (ITPL/ the company). ICRA has also assigned the short term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 76.00 crore (enhanced from 45.00 crore) short term – fund based limits, Rs. 35.00 crore (enhanced from 10.00 crore) short term – interchangeable sub-limits and Rs. 55.00 crore (enhanced from 45.00 crore) short term – fund based / non fund based limits of ITPL. ICRA has outstanding ratings of [ICRA]BBB+ / [ICRA]A2 on the Rs. 2.00 crore (revised from Rs. 40.00 crore) long term / short term – unallocated limits of the company. The outlook on the long term rating is stable.

### Rationale

The assigned ratings take into account the healthy growth in operating income witnessed in FY2016 and the strong revenue growth expected in FY2017 aided by new customer acquisitions and expansion to new geographies. The ratings continue to factor in the established track record of the promoters in the information technology products distribution business, ITPL's strong distribution channel and its long term association with the global technology vendors that support revenue visibility over the near to medium term. The ratings also take into account the robust risk management practices adopted by the company which mitigates counterparty risk through its credit appraisal mechanism for its channel partners and covers the foreign currency exposure through regular use of forward contracts.

The ratings are, however, constrained by the low operating margins in line with the distribution nature of business and the high competitive intensity in the industry due to the presence of well established distribution companies such as Redington (India) Limited, Compuage Infocom Limited and Ingram Micro Inc, among others, limiting the company's pricing flexibility. However, value added service offering by ITPL helps to differentiate itself from its competitors and also supports the margins. The working capital intensity of operations remains moderate due to high receivables from its customers, resulting in high working capital borrowings to fund the robust growth. Consequently, the capital structure of the company

remains moderate. Going forward, in the light of additional borrowings planned to finance the strong growth targeted, the capital structure is expected to remain at similar levels in the coming fiscal. The rating is also constrained by the interest coverage indicators which remain modest, despite the improvement during FY2016, due to the high interest and hedging costs.

Going forward, the ability of the company to improve the capital structure and coverage indicators, while sustaining the growth, remains the key rating sensitivity.

### **Key Rating Drivers**

#### **Credit Strengths**

- Healthy growth in operating income witnessed in FY2016 and the strong revenue growth expected in FY2017, aided by new customer acquisitions and expansion to new geographies
- Established track record of the promoters in the information technology products distribution business
- Strong distribution channel and its long term association with the global technology vendors
- Robust risk management practices adopted by the company mitigate counter party risk and foreign currency risks to a large extent

#### **Credit Weakness**

- Low operating margins in line with the distribution nature of business
- High competitive intensity of the industry due to the presence of well established distribution companies; however, value added service offering helps ITPL differentiate itself from its competitors and also supports the margins
- Moderate capital structure and working capital intensity
- Modest coverage indicators and debt protection metrics, albeit improving, due to the high interest and hedging costs

#### **Description of key rating drivers highlighted above**

ITPL is an integrated IT distributor operating in areas of information security, networking infrastructure and application software, AIDC (Automatic Identification and Data Capture) and POS (Point of Sale), electronic security and storage management. Information security and networking form the mainstay for the company contributing to more than 80% of the revenues. In its decade long presence, the company has created a strong network with 40+ vendors, 350+ Enterprise and Commercial channel partners and 1000+ SME channel partners, through which it offers solutions to 6500+ end customers.

At a consolidated level, the revenues of the company witnessed strong growth of around 50% in FY2016, aided by strong volume growth from its primary vendor, CISCO. For the full year FY2017, the company's revenues are expected to cross Rs. 1000 crore posting a revenue growth of around 25-30%. However, the operating margins are fairly thin at around 4.8% with the company being primarily a distributor. While ITPL is exposed to foreign currency risk on account of the high proportion of imports, it hedges its entire exposure through use of forward contracts. The company faces competition from some of the well established distribution players such as Redington (India) Limited, Compuage Infocom Limited and Ingram Micro India Pvt Ltd. However, the company provides value added services in the areas of information security and networking, garnering higher margins and differentiating itself from the pure-play distributors.

In light of the strong revenue growth witnessed, the company's working capital borrowings have continuously increased, resulting in a weakened capital structure, which is likely to remain stretched in the short to medium term in the absence of any equity infusion.



### **Analytical Approach**

While arriving at the ratings, ICRA has considered the consolidated business profile of ITPL along with its subsidiary, Inflow Technologies (Singapore) Pte Ltd, and the step down subsidiary, Ensicomm Solutions (Singapore) Pte Ltd, due to the strong operational linkages between the entities.

### **Links to applicable Criteria**

[Corporate Credit Rating – A Note on Methodology](#)

[Framework for Liquidity Analysis in Corporate Ratings](#)

### **About the Company**

Inflow Technologies Private Limited (ITPL / the company), promoted by Mr. Byju Pillai in 2005, is engaged in the distribution of IT products that includes hardware products and software licenses along with providing support services through 15 branches located across India, Singapore and Srilanka. The company is engaged with 350+ Enterprise and Commercial and 1000+ SME channel partners, through which it offers solutions to 6500+ end customers. The company is a national distributor for 40+ technology vendors - CISCO Systems, Check Point Software Technologies, Extreme Networks, EMC Information Systems and McAfee among others.

The company has two subsidiaries in Singapore - Inflow Technologies (Singapore) Pte Ltd and Ensicomm Solutions (Singapore) Pte Ltd (step-down subsidiary), which were setup to raise bills in dollars for customers who get duty exemption on having dollar billings. However, the entire operations are carried out by the parent in India.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating in FY2017	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				March 2017	November 2016	December 2015	-
1	Cash Credit	Long Term	32.00	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	-
2	Cash Credit - Sublimit	Long Term	(25.00)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	-	-
3	Bill Discounting	Short Term	76.00	[ICRA]A2	[ICRA]A2	-	-
4	Bill Discounting - Sublimit	Short Term	(35.00)	[ICRA]A2	[ICRA]A2	-	-
5	LC/BG/ Buyer's Credit	Short Term	55.00	[ICRA]A2	[ICRA]A2	[ICRA]A3+	-
6	Unallocated	Long Term/ Short Term	2.00	[ICRA]BBB+ (stable) / [ICRA]A2	[ICRA]BBB+ (stable) / [ICRA]A2	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	32.00	[ICRA]BBB+ (stable)
Cash Credit - Sublimit	-	-	-	(25.00)	[ICRA]BBB+ (stable)
Bill Discounting	-	-	-	76.00	[ICRA]A2
Bill Discounting - Sublimit	-	-	-	(35.00)	[ICRA]A2
LC/BG/ Buyer's Credit	-	-	-	55.00	[ICRA]A2
Unallocated	-	-	-	2.00	[ICRA]BBB+ (stable) / [ICRA]A2

*Source: Inflow Technologies Private Limited*

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**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.

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