

November 08, 2017

Ingram Micro India Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term, Fund-based / Non-fund Based Facilities	700.00 (enhanced from 200.00)	[ICRA]AA- (Stable) / [ICRA]A1+; Assigned / Outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)¹ and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 700.00 crore² (enhanced from Rs. 200.00 crore) long-term / short-term, fund-based / non-fund based bank facilities of Ingram Micro India Private Limited ('IMIPL'). The outlook on the long-term rating is Stable.

Rationale

The assigned ratings reflect IMIPL's strong operational profile marked by its well established position in the Indian mobility and information technology (IT) products distribution market, its diversified revenue profile spread across products and brands, and the vast business expertise of its management. The competition among the distributors is limited as the vendors [mobile and IT product original equipment manufacturers (OEMs)] assign geography-wise or customer segmentation-wise exclusive distribution rights to each of the chosen distributors. IMIPL has a wide distribution network across the country, through its association with a large number of channel partners to cater to retail and enterprise customer requirements. The ratings also factor in IMIPL's healthy financial profile characterised by the sustained growth in revenues and cash accruals, comfortable capital structure, strong debt coverage indicators and adequate liquidity levels. The company derives considerable operational and financial flexibility by virtue of it being a subsidiary of Ingram Micro Inc., world's leading technology products distributor.

The ratings are, however, constrained by the low operating profit margins (OPM) inherent to the distribution business, which necessitates maintaining a conservative financial policy and healthy liquidity to fund future growth requirements. Given the working capital intensive nature of business, any increase in the working capital cycle, coupled with contraction in the OPM, would adversely impact the return on capital employed (RoCE), which remains healthy at present. Furthermore, ICRA notes that IMIPL's revenues are susceptible to the performance of its key vendors, who operate in a highly competitive market. However, the risk is largely mitigated due to IMIPL holding distribution rights for most of the leading players in each segment (mobile / IT products / other technology products) in India. Though it is exposed to foreign currency related risks with ~20% of its purchases in the form of imported products, the same is partially mitigated due to a natural hedge in the form of operations in the Singapore branch (~10% of the total revenue), which is carried out in foreign currency.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Market leader in IT hardware and mobility products distribution in India** – The nation-wide distributorship of mobile phones and IT hardware is an oligopolistic business with the top-five players handling bulk of the nation-wide distribution of these products. IMIPL accounts for ~45% of the aggregate distribution revenue of these top five players. IMIPL has grown at a CAGR of 16% over the past four years through addition of several leading vendors and increasing the geographical cover for these vendors, thus, cementing its leadership position.
- **Diversified vendor-base and established relationship with key vendors** – IMIPL, as distributor, accounts for ~35% of HP's business and ~33% of Apple's business in India. The share of Samsung's business is low at 5-8% as Samsung relies on small regional players for its distribution. With most of the key vendors, IMIPL has exclusive rights for distribution to large format retail (LFR) stores across the country. IMIPL also enjoys geography-wise exclusive rights, across all store formats, for a few brands.
- **Strong distribution channel through a wide network of resellers / channel partners** – IMIPL's distribution network includes around 8,000 channel partners, resellers, value added resellers (VAR), sub-distributors, and direct and consumer marketers. The company reaches retail customers, small and medium businesses, and enterprise customers through this channel ecosystem.
- **Professional management with vast experience** – IMIPL's operations are managed by well experienced professionals. Each of the members of the senior management team has been associated with the company for more than a decade.
- **Healthy financial profile characterised by sustained growth** – IMIPL has posted a robust revenue growth over the past four years (FY2013-FY2017), at a compounded annual growth rate (CAGR) of 16.1%. It was driven by 30.9% CAGR in mobility division revenues, 7.8% CAGR in IT products segment revenues and 10.5% CAGR in advance solutions segment revenues. The yearly net cash accruals have also grown at a CAGR of ~18% over the past four years, indicating steady profitability. As indicated by a gearing of 0.27 times and Total Debt/OPBDITA of 1.42 times as of March 31, 2017, the capital structure is comfortable. The debt coverage indicators are also comfortable as indicated by the interest coverage of 7.55 times and the cash coverage of 42% in FY2017. Its liquidity is comfortable with sizeable unutilised bank lines and cash balances (including liquid investments) of Rs. 108.60 crore as of March 31, 2017.
- **Operational synergies and financial flexibility by virtue of being a subsidiary of Ingram Micro Inc. (Ingram Micro; rated Ba1 / stable by Moody's)** – Ingram Micro, headquartered in Irvine, California, is the world's largest technology distributor with operations in 160 countries with approximately 200,000 customers worldwide, including retailers and IT resellers. Ingram Micro posted revenues of US\$ 43 billion and profit after tax of US\$ 215 million in CY2015. IMIPL, being the Indian arm of Ingram Micro, enjoys access to global vendor tie-ups, innovations across geographies, and global financial and banking relationships.

Credit weaknesses

- **Low OPM necessitates maintaining a conservative financial policy and healthy liquidity** – The OPM remains low in line with the low value addition nature of the distribution business. OPM has moved in the 1.6%-2.3% range over the past six years. The movement in the OPM depends on the product mix during the year, success of new launches, sales velocity and number of deals by e-commerce companies. IT products (gross margin of ~4%) and advance solution segments (~5%) have better margins compared to mobility segment (2%-3%). The diversified product mix cushions the overall gross margin movements (3.6% in FY2015 and FY2016, and 3.4% in FY2017). This low margin in the business necessitates maintaining a conservative financial policy, so as to conserve cash flows to fund growth requirements during periods of lower margins.
- **IMIPL's revenues are susceptible to the performance of its key vendors, given the high competition amongst these mobile and IT product OEMs** – Any weak performance of an OEM's products could adversely impact the business of the distributor. In case of IMIPL, the risk is largely mitigated due to distribution rights for most of the leading players in each segment.
- **Exposure to currency risks with ~20% of purchases in the form of imported products** – As the company caters to the distribution requirements of several overseas brands, a part of its procurement takes place in foreign currency. While this exposes the company 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. It enjoys a natural hedge to some extent, given its operations in the Singapore branch, which accounts for ~10% of the total revenue.

Analytical approach: For arriving at the ratings, ICRA has analysed the standalone business and financial profile of IMIPL. ICRA has also factored in the financial flexibility arising from being a subsidiary of Ingram Micro Inc.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Ingram Micro India Private Limited (IMIPL) is a subsidiary of Ingram Micro Inc., USA. Established in 1979, IMIPL today is the top technology product distribution company in India, with a nationwide presence at more than 40 locations. IMIPL has an established position as 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 more than 100 hardware manufacturers and software publishers to more than 8,000 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, Samsung, 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 information technology (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 value added resellers.

During FY2017, IMIPL reported an adjusted³ profit after tax (adjusted PAT) of Rs. 231.80 crore on an operating income (OI) of Rs. 22,002.30 crore, as compared to an adjusted PAT of Rs. 265.30 crore on an OI of Rs. 18,764.70 crore during FY2016.

Key financial indicators (Audited)

Standalone	FY2016	FY2017
Operating Income (Rs. crore)	18,764.70	22,002.30
Adjusted PAT (Rs. crore)	265.30	231.80
OPBDIT/ OI (%)	2.2%	1.8%
RoCE (%)	24.9%	17.9%
Total Debt/ TNW (times)	0.03	0.27
Total Debt/ OPBDIT (times)	0.13	1.42
Interest Coverage (times)	10.23	7.55
NWC/ OI (%)	9%	11%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2017 (Rs. crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					November 2017	September 2017			
1	Fund-based / Non-fund Based Bank Facilities	Long-term / Short-term	700.00	44.08	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	-	-	-

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

³ PAT has been adjusted for interest expense (coupon at 6.59% p.a.) of Rs. 19.10 crore on Rs. 289.26 crore compulsorily convertible debentures (CCD) issued by IMIPL in September 2013; CCDs have been treated as equity and accordingly the interest expense has been deducted from the networth by the company as per Ind-AS guidelines. While ICRA has treated CCDs as equity, the coupon payments have been categorised as interest expense.

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Lines of Credit (Fund-based and Non-fund Based bank Facilities)	-	-	-	700.00	[ICRA]AA-(Stable) / [ICRA]A1+

Source: IMIPL

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About ICRA Limited:

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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