

Acer India (Pvt) Ltd.

March 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Guarantee	390.00	395.00	[ICRA]BBB+ (Stable); Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 395-crore¹ (enhanced from Rs. 390-crore) bank facilities of Acer India (Pvt) Ltd. (AIPL). The outlook on the long-term rating is Stable.

Rationale

The rating derives comfort from AIPL's established position in the Indian personal computer (PC) market, its extensive distribution network and strong brand image. The rating also takes into account the support derived by AIPL from its parent company, Acer Inc., which is the fifth-largest seller of PCs globally. AIPL benefits from the flexible credit terms on purchases from its parent, apart from management, marketing and product support. The rating also factors in AIPL's debt-free status and the prudent financial policy followed by it in terms of insuring its non-Government receivables.

The rating is, however, constrained by the thin profit margins due to intense competition and the trading nature of operations. The operating profitability remained low at 0.1% in FY2017 and 0.2% in the first nine months of FY2018. AIPL is exposed to price and forex risks on account of significant exposure to fixed price, rupee-denominated medium-term supply contracts for which it mainly imports the materials. ICRA notes that the overall business environment in the PC segment, which AIPL primarily operates in, continues to be challenging because of the extended replacement cycle and the competition from tablets and smartphones, in which Acer has minimal presence.

Outlook: Stable

ICRA believes that AIPL will continue to benefit from its association with Acer Inc. The outlook may be revised to Positive if there is substantial growth in revenue and profitability at the Group level. The outlook may be revised to Negative if slowdown of demand in the PC market further reduces revenues and profitability.

¹ 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

Position among the top-five desktop/laptop brands globally as well as domestically – AIPL was the fourth-largest player in the PC market (desktops and laptops) in India, with a market share of 12.2% in CY2017. Its parent company, Acer Inc., was the fifth-largest player in the global computer market with a market share of 6.9% during the same period.

Significant support derived from parent company – AIPL derives significant support from Acer Inc., in terms of availing flexible credit period on purchased products, sourcing products at short notice, and receiving marketing support as both the companies are in the same line of business.

Debt-free company – AIPL has no fund-based bank credit on its accounts and all its credit facilities are in the form of bank guarantees, which it utilises for providing earnest money deposits and performance guarantees in institutional orders. AIPL follows a prudent financial policy of insuring the bulk of company receivables and hedging foreign currency exposures.

Credit challenges

Intense competition in the desktop/laptop market – There is intense competition in the desktop/laptop market. Though AIPL has been traditionally strong in this market, it has to price its products competitively, leading to thin operating margins, especially in the tender-based Government sector orders.

Stagnating demand for desktops because of elongated replacement cycles; competition from smartphones and tablets – Of late, there has been a shift in the customer interest towards hand-held devices such as smartphones and tablets, in which AIPL has limited presence. This has impacted the desktop and laptop markets.

Subdued performance of the parent company in recent years – Acer Inc. is present mainly in the desktop segment, wherein sales have declined over the last five calendar years due to decrease in market size as well as market share. Nonetheless, it continues to have a strong capital structure with limited debt on its balance sheet and healthy cash and bank balances.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

About the company

AIPL, founded in 1999, is a 100% subsidiary of Acer Inc. The company is among the top-five suppliers of PCs in India. In FY2017, AIPL reported a net profit of Rs 2.5 crore on an operating income (OI) of Rs 2,141.0 crore compared with net profit of Rs 6.4 crore on an OI of Rs. 2,687.2 crore in FY2016.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	2,687.2	2,141.0
PAT (Rs. crore)	6.4	2.5
OPBDIT/OI (%)	0.2%	0.1%
RoCE (%)	10.0%	3.1%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	5.0	7.4
NWC/OI (%)	2.1%	2.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Bank Guarantee	Long Term	395.0	NA	March 2018 [ICRA]BBB+ (Stable)	April 2017 [ICRA]BBB+ (Stable)	April 2016 [ICRA]BBB+ (Stable)	April 2015 [ICRA]BBB+ (Stable)	

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee – I	NA	NA	NA	60.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee – II	NA	NA	NA	100.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee – III	NA	NA	NA	50.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee – IV	NA	NA	NA	80.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee – V	NA	NA	NA	25.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee – VI	NA	NA	NA	30.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee – VII	NA	NA	NA	50.00	[ICRA]BBB+ (Stable)

Source: Acer India (Pvt) Ltd.

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