September 07, 2017

Redington India Limited

Summary of rated instruments

Instruments*	Rated amount (Rs. crore)[1]	Rating action
Long-term: Fund based	610.00 (revised from 695.00)	[ICRA] AA- (Stable)/re-affirmed
Short-term: Fund based facilities	972.50 (revised from 621.69)	[ICRA]A1+/re-affirmed
Short-term: Non-Fund based	160.00 (revised from 427.40)	
Long term/Short-term: Unallocated facilities	7.50 (revised from 5.91)	[ICRA]AA-(Stable)/[ICRA]A1+; re-affirmed
Commercial Paper	1,400.00	[ICRA]A1+/re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 610.0 crore (revised from Rs.695.0 crore) fund based facilities of Redington India Limited ("REDIL") at [ICRA]AA- (pronounced ICRA double A minus)[2]. The outlook on long-term rating is stable. ICRA has also reaffirmed the short-term rating outstanding on the Rs. 972.5 crore (revised from Rs. 621.69 crore) fund based facilities, the Rs. 160.0 crore (revised from Rs. 427.4 crore) non-fund based sub-limit facilities at [ICRA]A1+ (pronounced ICRA A one plus). For the unallocated facilities totalling Rs. 7.50 crore (revised from 5.91 crore), the rating of [ICRA]AA- with stable outlook or [ICRA]A1+ shall apply contingent upon the tenor of the facility being availed. ICRA also has reaffirmed the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 1,400.00 crore commercial paper programme of the company.

Rationale

The ratings considers REDIL's strong operational profile marked by its well entrenched position in the Indian and Middle Eastern IT / consumer products distribution market, its diversified revenue profile spread across geographies, products and brands, and management's vast business expertise. Wide distribution network, increasing focus towards distribution of margin-accretive products and prudent risk control measures further underpins the ratings. The ratings also derive comfort from REDIL's healthy financial profile characterized by its sustained growth in revenues and cash accruals, strong debt indicators and comfortable liquidity position.

The ratings however remain constrained by low operating margins, attributed to the rising share of non-IT business. While REDIL's margins are low due to the nature of distribution business, return on capital employed (RoCE) levels remain healthy. The ratings also consider the geo-political risks because of its presence in some countries with history of political instability; although share of revenues from these regions is low. Rollout of Goods and Services Tax (GST) is a long-term positive for REDIL as it paves for efficient supply chain and reduced operating costs. However the impact of transition related challenges and consumer spending pattern on REDIL's revenues and cash flows remains to be seen.

[1] 100lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Dominant market position in distribution of IT and non-IT products -** REDIL has established itself among the leading hardware distributors across the geographies of its operations, namely India, Middle East, Turkey and Africa. REDIL holds the market leadership position in the Middle East and Afirca region owing to its early mover advantage, while it is the second largest distributor of IT hardware products in India. REDIL, along with its key competitor, Ingram Micro India Ltd, holds a combined market share of ~70%. REDIL has a strong presence in Turkey as well. Diverse vendor base, wide distribution network, experienced management and strong capability to adjust its product portfolio to accommodate prevailing market leading brands supports REDIL's positioning in the market.
- **Diversified geographical presence -** REDIL has operations spread across Africa, Middle East, South Asia and Turkey and has a strong distribution network (51,400 channel partners, 180+ warehouses, and 65+ service centers) with presence over 24 countries. Historically, REDIL's geography mix of revenues has been split almost equally between domestic and overseas markets. However the share of revenues and profits from overseas operations has increased in recent years.
- **Robust credit appraisal and recovery systems -** REDIL has robust internal control and risk management systems insulating its business from possible risks on price movement, technological obsolescence etc. REDIL maintains strong credit assessment norms and provisioning policies and its delinquency ratio are thin, indicating sound credit appraisal adopted in this large volume business.
- **Tie-ups with leading vendors aid steady revenue growth; focus on margin-accretive product segments augurs well for future growth -** REDIL has a diversified vendor base both in the domestic and overseas market covering most of the reputed vendors. Vendor concentration remains high with the top vendor, Apple accounting for ~22% revenues in FY2017. That said, revenues from Apple continue to grow at a sharp pace (70% growth during FY2017). Revenue growth has remained strong with other leading vendors as well during FY2017. In recent years, REDIL has also focused on new margin-accretive segments like integrated logistics operations, cloud services, etc. While its share of revenue mix is currently small, healthy scalability is seen strong.
- **Strong financial profile –** REDIL's revenues and net profits have grown a CAGR (FY2012-17) of 14% and 7% respectively aided by strong growth in non-IT segment, apart from by aggressive sales push and continuous focus on product and service expansion. While the margins are low, the capitalisation and coverage indicators are strong. As of March 2017, the net gearing and interest coverage ratio stood at 0.3 times and 4.7 times respectively. The liquidity position is comfortable with a cash balance of Rs. 721 crore as of March 2017. While the working capital (WC) intensity is high in the business, WC requirements have reduced in FY2017 with sharp improvement in operating cycle. ICRA notes that part of the cash balances will be used for funding acquisitions contingent upon availability of suitable targets; ICRA would re-assess the impact of any such decision on REDIL's profile on a case to case basis.

Credit weaknesses

- **Low profit margins -** Inherent to the nature of distribution business, REDIL's profit margins are low. IT business, which account for ~71% of revenues, have grown at a CAGR of 12% (FY2012-17) while the non-IT business have grown by 22%. Increasing skew towards the non-IT business, lower growth in IT business, and higher manpower related spend required for expanding the new product segments have affected the margins. During FY2017, REDIL's operating and net margins declined to 2.2% (down 30 bps YoY) and 1.2% (down 10 bps YoY) respectively. Over the medium term, we expect the margins to expand with the scaling up of non-distribution business (like logistics, services etc).

- **Exposure to geo-political risks -** Around 62% of revenues and 54% of profits in FY2017 were earned from overseas operations. While its strong market share and risk management practices partly insulate the business from possible credit risks, REDIL remains exposed to geo-political risks because of its presence in some countries with history of political instability. The share of revenues from these vulnerable regions are currently low, but any major slowdown in these markets due to unfavourable economic environment or political tensions could disrupt the growth.

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

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company:
REDIL is a leading distributor of IT products and a provider of supply chain management solutions and support services in India, Middle East, Africa and Turkey. The company procures IT products from vendors, handles distribution logistics, sells the same to resellers and dealers, and also handles the after-sales services. REDIL is also proactively building large automatic distribution centers in key business regions to capture emerging opportunities such as 3PL services, storage and warehousing etc. In July 2017, the promoters (Harrow Investments Holdings Limited) have divested their entire stake in the company; however this is unlikely to affect the company's operations.

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Key financial indicators

	FY2016	**FY2017**
Operating income (Rs. crore)	35,442.2	41,114.7
PAT (Rs. crore)	444.0	476.7
OPBDITA/ OI (%)	2.5%	2.2%
RoCE (%)	16.6%	16.8%
Total Debt/ TNW (times)	0.8	0.5
Total Debt/ OPBDITA (times)	2.7	1.7
Interest coverage (times)	4.0	4.7
NWC/ OI (%)	12.9%	9.2%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income; Source: Financial statements of REDIL and ICRA research

Rating history for last three years:
Table

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past three years		
		Type	Amount rated (Rs. crore)	August 2017	Aug 2016	June 2015	Mar 2014
1	Fund based facilities	Long term	610.00	[ICRA]AA- (Stable) -	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund based facilities	Short term	972.50	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-fund based facilities	Short term	160.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated facilities	Long term/ Short term	7.50	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
5	Commercial Paper	Short term	1,400.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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

Annexure-1
Instrument Details

Instrument	Date of issuance	Coupon rate	Maturity Date	Amount rated (Rs. crore)	Current rating and outlook
Cash Credit	-	-	-	610.00	[ICRA]AA- (Stable)
Fund based facilities	-	-	-	972.50	[ICRA]A1+
Non-fund based facilities	-	-	-	160.00	[ICRA]A1+
Unallocated facilities	-	-	-	7.50	[ICRA]AA- (Stable) / [ICRA]A1+
Commercial Paper	-	-	-	1,400.00	[ICRA]A1+

Source: REDIL

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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.

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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