Redington (India) Limited

September 17, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1500.00	1900.00	[ICRA]A1+; assigned
Fund based - Cash credit	610.00	610.00	[ICRA]AA(Stable); outstanding
Short term - Fund based facilities	972.50	972.50	[ICRA]A1+; outstanding
Short term Non-Fund based	160.00	160.00	[ICRA]A1+; outstanding
Long term/Short term - Unallocated facilities	7.50	7.50	[ICRA]AA(Stable)/[ICRA]A1+; outstanding
Total	**3,250.00**	**3,650.00**	

Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced A one plus)[2] for the Rs. 1,900 crores (enhanced from Rs. 1,500 crores) commercial paper programme of Redington (India) Limited ("REDIL").

ICRA also has long-term rating outstanding of [ICRA]AA (pronounced ICRA double A) on the Rs. 610.0 crores fund-based facilities, and short-term rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 972.5 crore fund-based facilities and the Rs. 160.0 crore non-fund-based facilities of the company. The outlook on the long-term rating is stable. For the unallocated facilities totaling Rs. 7.5 crore, the rating outstanding of [ICRA]AA with stable outlook or [ICRA]A1+ shall apply contingent upon the tenor of the facility being availed.

Rationale

The ratings remain supported by REDIL's strong operational profile marked by its healthy market position in the Information technology (IT), lifestyle and mobility products distribution markets in India, Middle East, Turkey and Africa, and healthy diversification spread across geographies, products and brands. The ratings continue to favourably factor the vast business expertise of management, robust risk management practices and established relationship with leading vendors. REDIL's strong financial profile characterized by stable earnings, healthy RoCE levels, comfortable capitalization and coverage indicators, an adequate liquidity position further underpins the ratings. Given the increasing thrust on digitilisation and strong demand for IT and mobility products in its key regions, REDIL's visibility on revenues and earnings remain healthy, going forward.

The ratings however remain constrained by the low operating margins inherent to the distributorship nature of business and increasing contribution from low profitable mobility products, high working capital intensity necessitated by stocking requirements and credit sales, and vulnerability of business to geo-political risks although the same is largely mitigated by risk management practices.

[1] 100 lakh = 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

Outlook: Stable

ICRA believes REDIL's financial profile will remain healthy supported by favourable business profile and risk management practices. The outlook may be revised to 'Positive' with sustained improvement in accruals and debt protection metrics. The outlook may be revised to 'Negative' with lower than expected cash accruals or deterioration in profitability / debt indicators arising from any major debt funded capital expenditure or acquisitions or stretch in operating cycle.

Key rating drivers

Credit strengths

Dominant market position in distribution of IT and Mobility products and a diversified business profile- 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 Middle East and Africa region owing to its early mover advantage, while in India it is the second largest distributor of IT hardware products next to Ingram Micro India Private Limited. REDIL has strong presence in Turkey as well. The company has a diverse vendor base, wide distribution network (40,650+ active channel partners, 80+ sales offices, 210+ warehouses, and 55+ service centres) experienced management and strong capability to adjust its product portfolio to accommodate prevailing market leading brands supports REDIL's positioning in the market. 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 (64.5% and 63% in Q1 FY2019 respectively).

Tie-ups with leading vendors aids stable revenue growth; focus on margin-accretive product segments augurs well for future growth

REDIL has base of over 200 vendors spread across domestic and overseas markets. While Apple continues to account for ~29% of revenues in Q1FY2019, revenues from Apple and other leading vendors continue to grow at healthy rate. To achieve business diversification, REDIL has also focused on margin-accretive segments like logistics operations, after sales support, cloud services etc.

Strong financial profile

Consolidated revenues grew by 5.7% during the fiscal year FY2018, with a four-year compounded annual growth rate (CAGR) of 11.2%. The subdued revenue growth in year FY2018 as compared to CAGR is because of de-growth in Indian operations due to GST impact. Revenues grew by 9% year-on-year in Q1FY2019 supported by 11% growth in overseas operations and 6% growth in Indian operations. While the margins remain low, the capitalisation and coverage indicators have remained strong. REDIL's adjusted gearing and net debt to operating profits stood at 0.3 times and 1.0 times respectively as on March 31, 2018. The liquidity position is comfortable with a cash balance of Rs. 613.0 crore as of June 30, 2018 and large unavailed working capital limits aided by improving operating cycle in recent quarters. 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. ICRA expects that REDIL will sustain its healthy financial profile following the expected increase in product offerings and dealer base in mobility space in India and overseas. Over long term, the increasing share of value added segment is expected to support revenue growth and margin expansions.

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 to minimize credit risks. While the provision for bad and doubtful debts witnessed an interim spike during Q1FY2019, the same was attributed to the Indian Accounting Standard (IND AS) requirements.

Credit weaknesses

Low profit margins and working capital intensity

Inherent to the nature of distribution business, REDIL's profit margins are low. The operating margins contracted by 30 bps to 1.6% during Q1FY2019 owing to higher provisions towards bad debts and inventories and higher employee spend. Over the years provision for bad debts and inventories were in the range of 0.02% - 0.14%; however, mandated accounting treatment under IND AS resulted in higher provision. The net margins stood at 0.8% (down 30 bps YoY). Going forward, the margins are expected to expand gradually with scaling up of the margin-accretive new product segments and reversal of excess provisions. That said, the RoCE levels are high at 16.2% during FY2018.

Exposure to geo-political risks

With 64.4% of revenues and 60% of profits in FY2018 derived from overseas operations, REDIL remains exposed to geo-political risks because of its presence in some countries with history of political instability. Nevertheless, its healthy market share and strong risk management practices partly insulate the business from possible credit risks.

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, lifestyle and mobility products and a provider of supply chain management solutions and support services in India, Middle East, Turkey and Africa. REDIL procures IT and mobility products from vendors, handles distribution logistics, sells the same to resellers and dealers. REDIL has periodically added new products (like roof-top solar, medical equipments) to its repertoire and also provides ancillary services like after-sales, third-party logistics through the subsidiary companies. With the advent of GST, REDIL is also proactively building large automatic distribution centers (ADCs) in key business regions to meet the storage and warehousing requirements. Currently REDIL has three automatic distribution centers (ADCs) in Chennai, Kolkata and Dubai. With the advent of GST, REDIL is also exploring addition of more ADCs in key business regions to meet the storage and warehousing requirements.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	41,114.7	43,459.4
PAT (Rs. crore)#	476.7	484.4
OPBDIT/ OI (%)	2.3%	2.0%
RoCE (%)	15.9%	16.2%
Total Debt/ TNW (times)	0.4	0.4
Total Debt/ OPBDIT (times)	1.6	1.6
Interest coverage (times)	4.8	4.2

#before minority interest and other comprehensive income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years									
					Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016				
	Instrument	Type	Amount Rated (Rs. crore)	Amount o/s (Rs Crore)	Sep 2018	Dec 2017	Sep,17	Aug,17	Aug,16	July,16	Nov,15	Sep,15	Jul,15	Jun,15
1	Commercial Paper	Short Term	1,900.0	-	ICRA]A1+	ICRA]A1+	ICRA]A1+	ICRA]A1+	ICRA]A1+	ICRA]A1+	ICRA]A1+	ICRA]A1+		ICRA]A1+
2	Unallocated facilities	Long Term/ Short term	7.5	-	CRA]AA (Stable) / [ICRA]A1+	ICRA]AA (Stable)/ [ICRA]A1 +	ICRA]AA- (Stable)/ [ICRA]A1 +	ICRA]AA- (Stable)/ [ICRA]A1+	ICRA]AA- (Stable)/ [ICRA]A1 +				ICRA]AA- (Stable)/ [ICRA]A1+	
3	Fund based facilities	Short Term	972.5	-	ICRA]A1+	ICRA]A1+	ICRA]A1+	ICRA]A1+	ICRA]A1+				ICRA]A1+	
4	Fund based facilities	Long Term	610.0	-	ICRA]AA (Stable)	ICRA]AA (Stable)	ICRA]AA- (Stable)	ICRA]AA- (Stable)	ICRA]AA- (Stable)				ICRA]AA- (Stable)	
5	Non-fund based facilities	Short Term	160.0	-	ICRA]A1+	ICRA]A1+	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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	610.0	[ICRA]AA (Stable)
NA	Fund based facilities	-	-	-	972.5	[ICRA]A1+
NA	Non-fund-based facilities	-	-	-	160.0	[ICRA]A1+
NA	Unallocated facilities	-	-	-	7.5	[ICRA]AA (Stable) / [ICRA]A1+
-	Commercial Paper	-	-	7-365 days	1900.0	[ICRA]A1+

Source: Redington (India) Limited

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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.

For more information, visit www.icra.in

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