

November 01, 2019

## Redington (India) Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                                   | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                          |
|-----------------------------------------------|--------------------------------------|-------------------------------------|----------------------------------------|
| Commercial Paper                              | 1900.00                              | 1900.00                             | [ICRA]A1+; reaffirmed                  |
| Fund based - Cash credit                      | 615.00                               | 620.00                              | [ICRA]AA(Stable); reaffirmed           |
| Short term - Fund based facilities            | 901.00                               | 851.00                              | [ICRA]A1+; reaffirmed                  |
| Short term Non-Fund based                     | 160.00                               | 185.00                              | [ICRA]A1+; reaffirmed                  |
| Long term/Short term - Unallocated facilities | 74.00                                | 94.00                               | [ICRA]AA(Stable)/[ICRA]A1+; reaffirmed |
| <b>Total</b>                                  | <b>3,650.00</b>                      | <b>3,650.00</b>                     |                                        |

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation factors in Redington (India) Limited's (REDIL) healthy financial profile characterised by the stable growth in revenues and cash accruals, strong liquidity profile marked by large cash balances, improving working capital cycle and comfortable capital structure. The ratings remain supported by REDIL's strong business profile marked by its leading market position in the information technology (IT), lifestyle and mobility products in India, the Middle East, Turkey and Africa. The strong brands in its portfolio and healthy diversification across geographies, products and brands also support the ratings. The business profile remains supported by a strong distribution network comprising large channel partners that cater to the requirements of retail and enterprise customers. Further, the extensive experience of the management and robust risk management practices support REDIL. The ratings also consider the distributor-specific factors like low operating profit margins and high working capital intensity necessitated by stocking requirements and credit sales. With increasing share of revenues from overseas regions, REDIL's operations remain exposed to geopolitical risks, although the same is largely mitigated by risk management practices.

In FY2019 and Q1 FY2020, REDIL's consolidated revenues grew by 11.9% and 14.3% YoY, respectively supported by growth in both India and the overseas businesses. The operating margins remained low at ~2.2% and 2.0% in FY2019 and Q1 FY2020, respectively, even as the margin accretive service segment continues to grow. PAT remained flat owing to higher finance costs, increased provisioning for debtors and impairment of investment in the Turkish subsidiary in FY2019. With the recent tie-ups with new brands, changes in distribution landscape of its key vendor, and stable demand for IT and mobility products led by the thrust on digitalisation, REDIL's revenue visibility remains strong. While the margins may remain low, the earnings shall gather momentum from rising scale, increasing focus on value-added products and efficiency improvements.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that REDIL's financial profile will remain healthy supported by favourable business profile and risk management practices.

## Key rating drivers and their description

### Credit strengths

**Leading market position in distribution of IT and mobility products in India, Middle East, Turkey and Africa** - REDIL is a leading hardware distributor across the geographies of its operations, namely India, the Middle East, Turkey and Africa. Around 63% and 68% of revenues and profits, respectively were generated from overseas operations in FY2019. Supported by its early mover advantage and a strong distribution network (39,650+ active channel partners, 80+ sales offices, 225+ warehouses, and 250+ service centres as of June 2019), the company holds the market leadership position in the Middle East and Africa. In India, it is the second largest distributor of IT hardware products after Ingram Micro India Private Limited (rated [ICRA]AA-(Stable)/[ICRA]A1+). In line with the changing demand trends, REDIL has added brands and products to its portfolio proactively, sustaining its market share.

**Tie-ups with leading vendors across IT, mobility and electronics space** - REDIL has over 200 vendors across domestic and overseas markets. Its key vendors – Apple, HP, Dell, Lenovo and Samsung – collectively added ~61% of revenues in Q1 FY2020. The share of Apple increased to 29% in Q1 FY2020 (against ~11% five years back) supported by the growth in Apple product sales in India. The change in Apple's distribution strategy in India to have only two national level distributors (Ingram Micro and Redington) in the current year and addition of new brands (including Oneplus) are expected to support REDIL's growth in the domestic mobility segment.

**Strong financial profile** - REDIL's consolidated revenues rose by 11.9% year on year in FY2019 supported by 13.4% growth in domestic operations and 11.1% increase in overseas operations. The operating margins improved to 2.2% in FY2019 from 2.1% in FY2018 due to better margins in overseas segment, while PAT remained flat due to high finance costs owing to increased utilisation of working capital limits and rise in cost of funds. There was also a one-time impairment charge of Rs. 71.1 crore for the investment in its Turkish subsidiary. Despite the low margins, the company's gearing and total outside liabilities/tangible net worth (TOL/TNW) ratio are comfortable at 0.3 times and 1.9 times as on March 31, 2019, supported by better accruals, limited capital spends and prudent working capital management. The liquidity position is strong with cash and other bank balances of Rs. 868.1 crore as on March 2019 and sizeable undrawn working capital limits. ICRA notes that part of the cash balances will be used for funding acquisitions, contingent upon the availability of suitable targets. Thereafter, ICRA would reassess the impact of any such decision on the company'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 the mobility space in India and overseas.

**Robust credit appraisal and recovery systems** - REDIL has robust internal control and risk management systems that insulate its business from the possible risks of price movement, technological obsolescence, etc. through arrangements with vendors. REDIL maintains strong credit assessment norms and provisioning policies to minimise credit risks. It follows healthy foreign exchange risk mitigation practices by 100% hedging on exchange rates, which helps minimise foreign currency fluctuation risks.

### Credit challenges

**Low profit margins and working capital intensity** - Inherent to the nature of the distribution business, REDIL's profit margins are low. The operating and net margins were low at 2.0% and 0.9%, respectively during Q1 FY2020. Going

forward, the margins are expected to remain low and can expand gradually with the scaling up of the margin-accretive new product segments. The working capital intensity is high because of the stocking requirements, given the company's wide reach and credit sales, as inherent in the distribution business. Nevertheless, with tighter control on credit terms and inventory holdings, the working capital cycle remains comfortable.

**Exposure to geo-political risks** – With large share of business generated from overseas operations, REDIL remains exposed to geo-political risks because of its presence in some countries with a history of political instability. However, REDIL's proactive measures and strong risk management practices led by control on working capital and cost optimisation measures have helped limit the impact to a large extent.

### Liquidity position: Strong

The liquidity position is **strong** with a robust cash and other bank balance of Rs. 868.1 crore as of March 31, 2019. REDIL utilised about 42% of its rated working capital limits on an average in the last one year, providing buffer in the form of undrawn bank lines.

### Rating sensitivities

**Positive triggers** – The rating can be upgraded with sustained growth in earnings, improvement in debt coverage indicators and working capital cycle, thus strengthening the financial risk profile

**Negative triggers** – Negative pressure on REDIL's rating could arise due to a sharp deterioration in profitability or debt indicators arising from any major debt-funded capital expenditure or acquisitions or large expansion in operating cycle. Key metrics include adjusted RoCE at less than 15% or adjusted TOL/TNW at above 2.5x on sustained basis.

### Analytical approach

| Analytical Approach             | Comments                                                                                                                                                                                                                                                                                           |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a>                                                                                                                                                                                                                                                |
| Parent/Group Support            | Not applicable                                                                                                                                                                                                                                                                                     |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the consolidated financials of Redington (India) Limited; as on March 31, 2019, the company had 62 subsidiaries/associates; of these, four subsidiaries are direct and 58 are step-down subsidiaries/associates, which are enlisted in Annexure-2 |

### 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, the Middle East, Turkey and Africa. REDIL procures IT and mobility products from vendors, handles distribution logistics, sells the same to resellers and dealers. The company has periodically added new products (like roof-top solar, medical equipment) to its portfolio and also provides ancillary services like after-sales, third-party logistics through the subsidiary companies. Currently, REDIL has three automatic distribution centres (ADCs) in Chennai, Kolkata and Dubai.



## Key financial indicators (audited)

|                                                      | FY2018   | FY2019   |
|------------------------------------------------------|----------|----------|
| Operating Income (Rs. crore)                         | 41,602.6 | 46,536.2 |
| PAT (Rs. crore) <sup>#</sup>                         | 484.4    | 484.5    |
| OPBDIT/OI (%)                                        | 2.1%     | 2.2%     |
| RoCE (%)                                             | 16.0%    | 16.4%    |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.8      | 1.9      |
| Total Debt/OPBDIT (times)                            | 1.7      | 1.3      |
| Interest Coverage (times)                            | 4.4      | 3.7      |
| DSCR                                                 | 3.7      | 3.2      |

<sup>#</sup>Before minority interest and other comprehensive income

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| Rating (FY2020)             |                      |              |                    |                             | Rating History for the Past 3 Years |                               |                             |                             |                             |                             |                             |
|-----------------------------|----------------------|--------------|--------------------|-----------------------------|-------------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Instrument                  | Type                 | Amount Rated | Amount Outstanding | Current Rating 01-Nov-2019  | Date & Rating in FY2019             |                               | Date & Rating in FY18       |                             |                             | Date & Rating in FY17       |                             |
|                             |                      |              |                    |                             | 31-Dec'18                           | 17-Sep'18                     | 27-Dec'17                   | 07-Sep'17                   | 25-Aug'17                   | 24-Aug'16                   | 15-Jul'16                   |
| 1 Commercial Paper          | Short Term           | 1900.0       | -                  | [ICRA]A1+                   | [ICRA]A1+                           | [ICRA]A1+                     | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   |
| 2 Unallocated facilities    | Long Term/Short Term | 94.0         | -                  | [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+ | [ICRA]AA-(Stable)/[ICRA]A1+ | [ICRA]AA-(Stable)/[ICRA]A1+ | [ICRA]AA-(Stable)/[ICRA]A1+ |
| 3 Fund based facilities     | Short Term           | 851.0        | -                  | [ICRA]A1+                   | [ICRA]A1+                           | [ICRA]A1+                     | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   |
| 4 Fund based facilities     | Long Term            | 620.0        | -                  | [ICRA]AA (Stable)           | [ICRA]AA (Stable)                   | [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           | 185.0        | -                  | [ICRA]A1+                   | [ICRA]A1+                           | [ICRA]A1+                     | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   | [ICRA]A1+                   |

Amount in Rs. Crore

## 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: 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               | -                           | -           | -             | 620.0                    | [ICRA]AA(Stable)           |
| NA      | Fund based facilities     | -                           | -           | -             | 851.0                    | [ICRA]A1+                  |
| NA      | Non-fund-based facilities | -                           | -           | -             | 185.0                    | [ICRA]A1+                  |
| NA      | Unallocated facilities    | -                           | -           | -             | 94.0                     | [ICRA]AA(Stable)/[ICRA]A1+ |
| -       | Commercial Paper          | -                           | -           | 7-365 days    | 1,900.0                  | [ICRA]A1+                  |

Source: Redington India Limited

## Annexure-2: List of entities considered for consolidated analysis

| Direct Subsidiaries |                                           |               |                        |
|---------------------|-------------------------------------------|---------------|------------------------|
| Sr no               | Name of subsidiary                        | Ownership (%) | Consolidation Approach |
| 1                   | ProConnect Supply Chain Solutions Limited | 100           | Full Consolidation     |
| 2                   | Ensure Support Services (India) Limited   | 100           | Full Consolidation     |
| 3                   | Redington International Mauritius Limited | 100           | Full Consolidation     |
| 4                   | Redington Distribution Pte Ltd            | 100           | Full Consolidation     |

| Step-down Subsidiaries |                                         |               |                        |
|------------------------|-----------------------------------------|---------------|------------------------|
| Sr no                  | Name of subsidiary                      | Ownership (%) | Consolidation Approach |
| 1                      | Redington Gulf FZE                      | 100           | Full Consolidation     |
| 2                      | Redington Egypt Ltd.                    | 100           | Full Consolidation     |
| 3                      | Redington Nigeria Limited               | 100           | Full Consolidation     |
| 4                      | Redington Gulf & Co                     | 70            | Full Consolidation     |
| 5                      | Redington Kenya Limited                 | 100           | Full Consolidation     |
| 6                      | Cadensworth FZE                         | 100           | Full Consolidation     |
| 7                      | Redington Middle East LLC               | 49            | Full Consolidation     |
| 8                      | Ensure Services Arabia LLC              | 100           | Full Consolidation     |
| 9                      | Redington Africa Distribution FZE       | 100           | Full Consolidation     |
| 10                     | Redington Qatar WLL                     | 49            | Full Consolidation     |
| 11                     | Ensure Services Bahrain S.P.C.          | 100           | Full Consolidation     |
| 12                     | Redington Qatar Distribution WLL        | 49            | Full Consolidation     |
| 13                     | Redington Limited                       | 100           | Full Consolidation     |
| 14                     | Redington Kenya (EPZ) Limited           | 100           | Full Consolidation     |
| 15                     | Redington Uganda Limited                | 100           | Full Consolidation     |
| 16                     | Cadensworth UAE LLC                     | 49            | Full Consolidation     |
| 17                     | Redington Tanzania Limited              | 100           | Full Consolidation     |
| 18                     | Redington Morocco Ltd                   | 100           | Full Consolidation     |
| 19                     | Ensure IT Services (Pty) Ltd.           | 100           | Full Consolidation     |
| 20                     | Redington Gulf FZE Co                   | 100           | Full Consolidation     |
| 21                     | Redington Turkey Holdings S.A.R.L.      | 100           | Full Consolidation     |
| 22                     | Arena Bilgisayar Sanayi ve Ticaret A.S. | 49.4          | Full Consolidation     |
| 23                     | Arena International FZE                 | 49.4          | Full Consolidation     |
| 24                     | Redington Bangladesh Limited            | 99            | Full Consolidation     |

|    |                                                                                 |       |                    |
|----|---------------------------------------------------------------------------------|-------|--------------------|
| 25 | Redington SL Private Limited                                                    | 100   | Full Consolidation |
| 26 | Redington Rwanda Ltd.                                                           | 100   | Full Consolidation |
| 27 | Redington Kazakhstan LLP                                                        | 100   | Full Consolidation |
| 28 | Ensure Gulf FZE                                                                 | 100   | Full Consolidation |
| 29 | Ensure Technical Services (PTY) Ltd.                                            | 100   | Full Consolidation |
| 30 | Ensure Middle East Trading LLC                                                  | 49    | Full Consolidation |
| 31 | Ensure Solutions Nigeria Limited                                                | 99.90 | Full Consolidation |
| 32 | Ensure Technical Services Kenya Limited                                         | 100   | Full Consolidation |
| 33 | Ensure Services Uganda Limited                                                  | 100   | Full Consolidation |
| 34 | Ensure Technical Services Tanzania Limited                                      | 100   | Full Consolidation |
| 35 | Ensure Ghana Limited                                                            | 100   | Full Consolidation |
| 36 | Proconnect Supply Chain Logistics LLC                                           | 49    | Full Consolidation |
| 37 | Ensure Technical Services Morocco Limited (Sarl)                                | 100   | Full Consolidation |
| 38 | Redington Senegal Limited S.A.R.L.                                              | 100   | Full Consolidation |
| 39 | Redington Saudi Arabia Distribution Company                                     | 75    | Full Consolidation |
| 40 | PayNet Odeme Hizmetleri A.S.                                                    | 49.4  | Full Consolidation |
| 41 | Sensonet Teknoloji Elektronik ve Bilisim Hizmetleri Sanayi Ve Ticaret A.S.      | 49.4  | Full Consolidation |
| 42 | CDW International Trading FZCO                                                  | 100   | Full Consolidation |
| 43 | RNDC Alliance West Africa Limited                                               | 100   | Full Consolidation |
| 44 | Linkplus Bilgisayar Sistemleri Sanayi ve Ticaret A.S.                           | 100   | Full Consolidation |
| 45 | Ensure Middle East Technology Solutions LLC                                     | 49    | Full Consolidation |
| 46 | Rajprotim Supply Chain Solutions Limited                                        | 88    | Full Consolidation |
| 47 | Proconnect Saudi LLC                                                            | 100   | Full Consolidation |
| 48 | Redserv Business Solutions Private Limited                                      | 100   | Full Consolidation |
| 49 | Redington Distribution Company LLC                                              | 99    | Full Consolidation |
| 50 | Citrus Consulting Services FZ LLC                                               | 84.8  | Full Consolidation |
| 51 | Arena Mobile Iletisim Hizmetleri ve Turketici Elektronik Sanayi ve Ticaret A.S. | 49.4  | Full Consolidation |
| 52 | Online Elektronik Ticaret Hizmetleri A.S.                                       | 44.5  | Full Consolidation |
| 53 | Paynet (Kibris) Odeme Hizmetleri Limited                                        | 49.4  | Full Consolidation |
| 54 | Ensure Services Limited                                                         | 99    | Full Consolidation |
| 55 | Redington Cote d'Ivoire SARL                                                    | 100   | Full Consolidation |
| 56 | Africa Joint Technical Services                                                 | 65    | Full Consolidation |
| 57 | Redington Angola Ltd.                                                           | 100   | Full Consolidation |
| 58 | Auroma Logistics Private Limited                                                | 90    | Full Consolidation |

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