September 01, 2023

Redington Limited: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,900.0	1,900.0	[ICRA]A1+; reaffirmed
Fund-based - Cash credit	450.0	450.0	[ICRA]AA+(Stable); reaffirmed
Short-term – Fund based facilities	931.0	0.0	-
Short-term – Fund/Non-fund based facilities	0.0	2221.0	[ICRA]A1+; reaffirmed/assigned for enhanced limits
Short-term Non-fund based	50.0	0.0	-
Long-term/Short-term - Unallocated facilities	319.0	329.0	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced limits
Total	**3,650.0**	**4,900.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the various debt instruments of Redington Limited (REDIL) factors the expectation that its credit profile would remain comfortable in the medium term on the back of steady growth in revenues and earnings. This will be driven by REDIL's strong operational profile which is characterised by established market position in IT and mobility product segments in the geographies it operates in, healthy tie-ups with leading vendors, wide distribution network comprising large channel partners catering to consumer and enterprise segments, strong product profile and credit appraisal systems.

In FY2023, REDIL's consolidated revenues grew by ~27% to Rs. 79,376.8 crore with growth seen across IT (primarily enterprise) and mobility segments across its major geographies namely India, the Middle East, Turkey, and Africa, vast experience of the management and robust risk management practices. The margins witnessed some moderation with change in product mix and additional spend on operating costs. The working capital cycle increased in FY2023 (as compared to the last two years) with normalisation of demand-supply scenario, change in product mix and supply related challenges. Further, vendors offered lower credit period as comparted to the pandemic period with normalization of demand. Accordingly, total outside liabilities to tangible networth rose to 2.2 times as of March 2023 (2.0 times in March 2022) and is likely to remain range-bound in the near term. Other debt metrics remain healthy with gearing of 0.5 times and interest coverage ratio (ICR) of 7.8 times in FY2023.

In Q1 FY2024, the company reported revenues of Rs. 21,187.2 crore, a ~26% growth YoY while the operating and net margins moderated to 2.0% and 1.2% respectively in Q1 FY2024 on contraction in gross margins, increase in other expenses with investments in talent and technology upgrade and increase in interest costs amidst higher working capital needs.

The ratings also consider distributor-specific factors like low operating profit margins and working capital intensive nature of operations necessitated by stocking requirements and credit sales. With rising share of revenues from the overseas markets, REDIL's operations remain exposed to geopolitical risks, although the same is largely mitigated by its robust risk management practices. Further, revenues are susceptible to growth and strategies of key vendors, though this is partly mitigated by long-standing relationship with clients.

ICRA also takes note the recent regulatory development wherein in August 2023, the Government of India has restricted the import of certain IT products (namely laptops, tablets, all in one PCs, ultra small form factor computers, servers etc.) effective from November 1, 2023. Nevertheless, import of such products are allowed against valid license. ICRA will monitor the development, assess the possible impact on credit risk profile of the company and take an appropriate rating action as and when required.

The Stable outlook on long-term rating reflects ICRA's opinion that REDIL's business and financial profile will continue to be supported by stable demand, its established market position, and wide distribution network.

Key rating drivers and their description

Credit strengths

Leading market position in distribution of IT hardware and mobility products in India, Middle East, Turkey and Africa – REDIL has a strong market position in the distribution of IT and mobility products across the geographies of its operations, namely India, the Middle East, Turkey and Africa. Around 54% and 57% of revenues and profits, respectively were generated from non-SISA (Singapore, India, South Asia) operations in FY2023. Supported by its well-established relationships with OEMs, early mover advantage and a strong distribution network (43,000+ active channel partners), the company is the market leader in the Middle East and Africa. In India, it is a major distributor garnering a significant share of IT distribution business along with its closest peer, Ingram Micro India Private Limited. A wide range of brands and large product portfolio enable REDIL to sustain its market position even in a changing demand environment.

Strong financial profile characterised by healthy revenue growth, low gearing, strong cash balances and comfortable coverage metrics - REDIL's consolidated revenues rose by ~27% YoY in FY2023 to Rs. 79,376.8 crore aided by a 26% and 27% growth in revenues from SISA and RoW (rest of the world) operations, respectively. Its operating margins declined to 2.7% in FY2023 (3.0% in FY2022) with change in product mix and increase in investments for long-term growth. In Q1 FY2024, the company reported revenues of Rs. 21,187.2 crore, a ~26% growth YoY aided by ~24% and ~29% growth in revenues from SISA and RoW operations, respectively. The company's gearing remained strong at 0.5x with strong networth position despite sharp increase in working capital debt amidst increase in working capital days. Total outside liabilities to tangible networth rose to 2.2 times as of March 2023 (2.0 times in March 2022) and is likely to remain range-bound in the near term. The liquidity position is strong with stable operational cashflows and healthy cash and bank balances. ICRA expects that REDIL will sustain its healthy financial profile given its large product offerings, and strong association with vendors both in India and overseas. REDIL also enjoys strong financial flexibility with lenders resulting in an ability to raise debt at a short notice.

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 contributed to ~65% of revenues in FY2023. The share of Apple among the vendors is the highest at 31% in FY2023. The well-established relationships with vendors aid REDIL towards favourable credit periods, which reduces its working capital intensity. Further, comprehensive contracts with vendors de-risk REDIL from any risks of product and technology related obsolescence.

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

Credit challenges

Low operating margins; working capital intensive nature of business – Inherent to the nature of distribution business, REDIL's profit margins remain low at operating and net margins of 2.7% and 1.8%, respectively in FY2023. Going forward, the margins are expected to remain range bound. FY2023 has seen sharper than expected normalization in working capital days for REDIL due to change in demand conditions post the pandemic period, higher contribution of enterprise segment where collections period is relatively high, as well as short shipments of certain products in the enterprise segment. Further, vendors offered lower credit period as comparted to the pandemic period with normalization of demand. However, free cash flows are likely to improve going forward, as working capital cycle has nearly normalized. The company's profit margins, operating and net, have moderated to 2.0% and 1.2%, respectively in Q1 FY2024 on account of drop in gross margins, increase in other expenses with investments in talent and technology upgrade and increase in interest costs on account of increased working capital debt.

Exposure to geopolitical risks and susceptibility of revenues to key vendors' performance - With a large share of business generated from overseas operations, REDIL remains exposed to geopolitical 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. Further, any subdued performance of vendors' products or loss of business from key vendors could impact REDIL, though the multiple brands in its portfolio and long-standing relationships act as a mitigant.

Environmental and Social Risks

Environmental considerations - Environmental risks are low for distribution companies. REDIL has robust mechanisms in place to identify products where the 'end of life' period has lapsed and ensures proper disposal of the same through recognized channels, as 'E-Waste'. Company channelizes the e-waste generated to the authorized recyclers for proper disposal.

Social considerations – Social risks for distribution companies are moderate. It has taken various measures towards societal obligations including skill development, health, and education initiatives.

Liquidity position: Strong

The liquidity position is strong with strong cash and bank balance of ~Rs. 1,900 crore as of March 31, 2023, stable accruals and operating cashflows, and moderate capex plans. Further, it has buffer in working capital and commercial paper lines of ~Rs. 3,000 crore as on March 31, 2023.

Rating sensitivities

Positive factors – Limited pricing power given the distribution nature of the business along with exposure to geopolitical risks constraints an upgrade in long-term rating in the near-term.

Negative factors – Negative pressure on REDIL's rating could arise in case of a sharp deterioration in profitability, liquidity profile or debt indicators arising from any major debt-funded capital expenditure or acquisitions or large expansion in operating cycle. Key metrics include operating margins at less than 2.25% and/or TOL/TNW at above 2.5x on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
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, 2023

About the company

REDIL is a leading distributor of IT 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 to its portfolio and continues to provide ancillary services like after-sales, third-party logistics through the subsidiary companies. Currently, REDIL has three automated distribution centres (ADCs)—in Chennai, and Kolkata in India, and Dubai.

Key financial indicators (audited)

REDIL (Consolidated)	FY2022	FY2023	Q1 FY2024
Operating income	62,644.0	79,376.8	21,187.2
PAT	1,314.9	1,439.4	255.2
OPBDIT/OI (%)	3.0%	2.7%	2.0%
PAT/OI (%)	2.1%	1.8%	1.2%
Total outside liabilities/Tangible net worth (times)	2.0	2.2	NA
Total debt/OPBDIT (times)	0.4	1.6	NA
Interest coverage (times)	10.9	7.8	NA

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in		Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Sept 01,2023	June 22, 2023	July 28, 2022	July 08, 2021	June 28, 2021	November 06, 2020
1	Commercial Paper	Short Term	1900.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Unallocated facilities	Long Term/ Short Term	329.0	-	[ICRA]AA+(Stable) / [ICRA]A1+	[ICRA]AA+(Stable) / [ICRA]A1+	[ICRA]AA+(Stable) / [ICRA]A1+	[ICRA]AA(Positive) / [ICRA]A1+	[ICRA]AA (Positive) / [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
3	Fund/Non-fund based facilities	Short Term	2221.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund based facilities – Cash Credit	Long Term	450.0	-	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA(Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
5	Non-fund based facilities	Short Term	0.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term– Fund Based/CC	Simple
Short Term Fund/Non-fund based	Very Simple
Commercial Paper	Very Simple
Long Term / Short Term - Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	450.0	[ICRA]AA+(Stable)
NA	Fund/Non-fund based facilities	-	-	-	2221.0	[ICRA]A1+
NA	Unallocated facilities	-	-	-	329.0	[ICRA]AA+(Stable)/[ICRA]A1+
Yet to be placed	Commercial Paper				1900.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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	Redington International Mauritius Limited	100	Full Consolidation
3	Redington Distribution Pte Ltd	100	Full Consolidation
4	Redserv Global Solutions Limited	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 (LLC)	100	Full Consolidation
3	Redington Gulf & Co	70	Full Consolidation
4	Redington Kenya Limited	100	Full Consolidation
5	Cadensworth FZE	100	Full Consolidation
6	Redington Middle East LLC	100	Full Consolidation
7	Ensure Services Arabia LLC	100	Full Consolidation
8	Redington Qatar WLL	49	Full Consolidation
9	Ensure Services Bahrain S.P.C.	100	Full Consolidation
10	Redington Qatar Distribution WLL	49	Full Consolidation
11	Redington Limited (Ghana)	100	Full Consolidation
12	Redington Kenya (EPZ) Limited	100	Full Consolidation
13	Redington Uganda Limited	100	Full Consolidation
14	Cadensworth United Arab Emirates LLC	100	Full Consolidation
15	Redington Tanzania Limited	100	Full Consolidation
16	Redington Morocco Ltd	100	Full Consolidation
17	Redington South Africa (Pty) Ltd.	100	Full Consolidation
18	Redington Gulf FZE Co, Iraq	100	Full Consolidation
19	Redington Turkey Holdings S.A.R.L.	100	Full Consolidation
20	Arena Bilgisayar Sanayi ve Ticaret A.S.	49.4	Full Consolidation
21	Arena International FZE	49.4	Full Consolidation
22	Redington Bangladesh Limited	99	Full Consolidation
23	Redington SL Private Limited	100	Full Consolidation
24	Redington Rwanda Ltd.	100	Full Consolidation
25	Redington Kazakhstan LLP	100	Full Consolidation
26	Ensure Gulf FZE	100	Full Consolidation
27	Redington South Africa Distribution (Pty) Ltd	100	Full Consolidation
28	Ensure Middle East Trading LLC	49	Full Consolidation
29	Ensure Services Uganda Limited	100	Full Consolidation
30	Ensure Technical Services Tanzania Limited	100	Full Consolidation
31	Ensure Ghana Limited	100	Full Consolidation
32	Proconnect Supply Chain Logistics LLC	100	Full Consolidation
33	Ensure Technical Services Morocco Limited (Sarl)	100	Full Consolidation
34	Redington Senegal Limited S.A.R.L.	100	Full Consolidation
35	Redington Saudi Arabia Distribution Company	100	Full Consolidation
36	PayNet Odeme Hizmetleri A.S.	49.4	Full Consolidation
37	CDW International Trading FZCO	100	Full Consolidation

38	RNDC Alliance West Africa Limited	100	Full Consolidation
39	Redington Turkey Teknoloji AS	100	Full Consolidation
40	Ensure Middle East Technology Solutions LLC	49	Full Consolidation
41	Proconnect Saudi LLC	100	Full Consolidation
42	Redserv Business Solutions Private Limited	100	Full Consolidation
43	Redington Distribution Company	99	Full Consolidation
44	Citrus Consulting Services FZ LLC	100	Full Consolidation
45	Arena Mobile Iletisim Hizmetteri ve Turketici	49.4	Full Consolidation
46	Online Elektronik Ticaret Hizmetleri A.S.	49.4	Full Consolidation
47	Paynet (Kibris) Odeme Hizmetleri Limited	49.4	Full Consolidation
48	Redington Cote d'Ivoire SARL	100	Full Consolidation
49	Africa Joint Technical Services	65	Full Consolidation
50	Redington Angola Ltd.	100	Full Consolidation
51	Redington Saudi for trading	100	Full Consolidation
52	Redington Bahrain W.L.L	49	Full Consolidation
53	Redington Gulf FZE Jordan	49	Full Consolidation
54	Arena Connect Teknoloji Sanayi Ve Ticaret A.S	49.4	Full Consolidation
55	Area Connect İletişim ve Servis Limited Şirketi	49.4	Full Consolidation
56	Proconnect Holding Limited	100	Full Consolidation
57	Redington Gulf Arabia for Information Technology	100	Full Consolidation

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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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