

## Redington (India) Limited

December 31, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1900.00	1900.00	[ICRA]A1+; reaffirmed
Fund based - Cash credit	610.00	615.00	[ICRA]AA(Stable); reaffirmed
Short term - Fund based facilities	972.50	901.00	[ICRA]A1+; reaffirmed
Short term Non-Fund based	160.00	160.00	[ICRA]A1+; reaffirmed
Long term/Short term - Unallocated facilities	7.50	74.00	[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 revenues and cash accruals, strong liquidity profile, and comfortable capital structure and debt coverage indicators. REDIL's business profile remains strong supported by its leading market position in the Information technology (IT), lifestyle and mobility products in India, the Middle East, Turkey and Africa, and healthy diversification spread across geographies, products and brands. The ratings favourably factor in the strong distribution network through its association with a large number of channel partners to cater to retail and enterprise customer requirements, vast business expertise of the management and robust risk management practices. The ratings also consider the low operating profit margins inherent to the distribution nature of business, high working capital intensity necessitated by stocking requirements and credit sales, and vulnerability of the business to geo-political risks although the same is largely mitigated by risk management practices.

For H1 FY2019, REDIL's consolidated revenues grew by 9.8% year on year (YoY) supported by growth in both India and the overseas business. However, the margins were down by 20 bps (both at operating and net level) owing to an increasing share of mobility sales, higher-than-normal provisioning for debtors and sale of ageing inventory at lesser profits. With improving demand for IT and mobility products led by thrust on digitalisation, REDIL's revenue visibility is strong, going forward. The margins are expected to gather momentum from higher scale, focus on value-added products and efficiency improvements.

### Outlook: Stable

ICRA believes that REDIL's financial profile will remain healthy supported by favourable business profile and risk management practices. The outlook may be revised to Positive if substantial growth in profitability, and better working capital management strengthens the financial risk profile. 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 significant increase in operating cycle.

## Key rating drivers

### Credit strengths

**Dominant market position in distribution of IT and mobility products** - REDIL has established itself among the leading hardware distributors across the geographies of its operations, namely India, the Middle East, Turkey and Africa. The company holds the market leadership position in the Middle East and Africa regions 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. With a strong distribution network (41,100+ active channel partners, 80+ sales offices, 200+ warehouses, and 60+ service centres), REDIL enjoys a diversified geographical presence and has a balanced mix of revenues across markets. Around 63% of revenues and 64% of profits in H1 FY2019 were earned from overseas operations.

**Tie-ups with leading vendors across IT, mobility and lifestyle space; change in distribution landscape for Apple business in India augurs well for REDIL's future growth**- REDIL has base of over 200 vendors spread across domestic and overseas markets. Apple, HP, Dell, Lenovo and Samsung collectively add ~60% of revenues; especially with share of Apple increasing to 27% in H1FY2019 (against <10% five years back) on the back of strong growth in Apple product sales in India. With the changing distribution landscape of Apple products in India from April 2019, the growth prospects remain healthy for REDIL.

**Strong financial profile** - Consolidated revenues grew 9.8% year on year in H1 FY2019 supported by 9% increase in domestic operations and 10.5% growth in overseas operations. However, the operating margins were low at 1.7% in H1 FY2019 owing to the higher share of mobility sales, one-off sale of ageing inventory and increase in accounting provisions for debtors (as per IND AS). Despite the low margins, supported by better accruals, limited capital spends and prudent working capital management the company's gearing and total outside liabilities/tangible net worth (TOL/TNW) ratio are comfortable at 0.4 times and 1.9 times as on September 30, 2018. The liquidity position is comfortable with a strong cash balance of Rs. 732.3 crore as of September 2018 and 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, 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 the mobility space in India and overseas. Over the 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 that insulate its business from the possible risks on price movement, technological obsolescence etc. 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 distribution business, REDIL's profit margins are low. The operating and net margins contracted to 1.7% and 0.9% respectively in H1 FY2019. Going forward, the margins are expected to expand gradually with the scaling up of the margin-accretive new product segments and normalising of provisions. 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 63% of revenues and 64% of profits in H1 FY2019 derived from overseas operations, REDIL remains exposed to geo-political risks because of its presence in some countries with a history of political instability. The recent economic uncertainties in Turkey (which accounts for 7.5% of consolidated revenues in FY2018) and the depreciation of Turkish Lira against US dollars negatively impacted the consolidated profits. 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

The liquidity position is comfortable with a strong cash balance of Rs. 732.3 crore as of September 2018. REDIL utilises about 15–20% of its sanctioned working capital limits on an average, providing adequate buffer in the form of undrawn bank lines. The company extensively uses commercial paper (CP) for its working capital requirements. 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.

### 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, 2018, the company had 59 subsidiaries/associates; of these, four subsidiaries are direct and 55 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. With the advent of GST, REDIL is also exploring addition of more automatic distribution centers (ADCs) in key business regions to meet the storage and warehousing requirements. Currently REDIL has three ADCs in Chennai, Kolkata and Dubai.

### Key financial indicators (audited)

Consolidated	FY2017	FY2018
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

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years									
		Type	Amount Rated (Rs. crore)	Amount o/s (Rs Crore)	Date & Rating		Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016			
					Dec,18	Sep,18	Dec,17	Sep,17	Aug,17	Aug,16	Jul,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+		[ICRA]A1+
2	Unallocated facilities	Long Term/ Short term	74.0	-	[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+	
3	Fund based facilities	Short Term	901.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+				[ICRA]A1+	
4	Fund based facilities	Long Term	615.0	-	[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	160.0	-	[ICRA]A1+	[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](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	-	-	-	615.0	[ICRA]AA (Stable)
NA	Fund based facilities	-	-	-	901.0	[ICRA]A1+
NA	Non-fund-based facilities	-	-	-	160.0	[ICRA]A1+
NA	Unallocated facilities	-	-	-	74.0	[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

Company Name^	Ownership	Consolidation Approach
ProConnect Supply Chain Solutions Limited	100.00%	Full Consolidation
Ensure Support Services (India) Limited	100.00%	Full Consolidation
Redington International Mauritius Limited (RIML)	100.00%	Full Consolidation
Redington Distribution Pte. Limited (RDPL)	100.00%	Full Consolidation

^the annexure does not include the list of stepdown subsidiaries/associates which are otherwise consolidated as part of direct subsidiaries/associates

## ANALYST CONTACTS

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**K Srikumar**

+91 44 45964318

[k.srikumar@icraindia.com](mailto:k.srikumar@icraindia.com)

**Pooja Mundhra**

+91 44 45964313

[pooja.mundhra@icraindia.com](mailto:pooja.mundhra@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

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