Redington India Limited

December 27, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	610.00	610.00	[ICRA]AA(Stable); upgraded from [ICRA]AA-(Stable)
Short term – Fund based facilities	972.50	972.50	[ICRA]A1+; reaffirmed
Short term –Non-Fund based	160.00	160.00	[ICRA]A1+; reaffirmed
Long term/Short term- Unallocated facilities	7.50	7.50	[ICRA]AA(Stable);upgraded from [ICRA]AA-(Stable); [ICRA]A1+; reaffirmed
Commercial Paper	1,400.00	1,500.00	[ICRA]A1+; assigned/outstanding
Total	**3,150.00**	**3,250.00**	

Rating action

ICRA has upgraded the long-term rating outstanding on the Rs. 610.0 crores fund based facilities of Redington India Limited ("REDIL") to [ICRA]AA (pronounced ICRA double A) from [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 fund based facilities, the Rs. 160.0 crore non-fund based facilities at [ICRA]A1+ (pronounced ICRA A one plus). For the unallocated facilities totaling Rs. 7.5 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 assigned the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 1,500 crore (revised from Rs. 1,400 crores) commercial paper programme of the company.

Rationale

The rating action considers REDIL's strengthening operational and financial profile, marked by its sustained growth in earnings and sustained improvement in operating cycle leading to strong cash flows during H1FY2018. The ratings also consider REDIL's dominant market position in the IT / consumer products distribution markets in India, Middle East, Turkey and Africa aided by its healthy diversification spread across geographies, products and brands. Management's vast experience, established relationship with leading vendors, favourable demand for IT and mobility products, and increasing focus towards distribution of margin-accretive products further underpins the ratings. The ratings however remain constrained by low operating margins inherent to the distribution nature of business, high working capital intensity necessitated by stocking requirements and credit sales, and vulnerability of business to any geo-political risks because of its presence in some countries with history of political instability.

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.

---

[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

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 (rated [ICRA]AA- (stable)/[ICRA]A1+]. REDIL has strong presence in Turkey as well. The company has a diverse vendor base, wide distribution network (38,905 active channel partners, 80+ sales offices, 180+ warehouses, and 65+ 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.

Tie-ups with leading vendors aid steady 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. However, the vendor concentration remains high with the top vendor, Apple accounting for ~26% in H1FY2018. That said, 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. While its share of revenue mix is currently small, scalability is seen strong.

Strong financial profile

REDIL's revenues have grown at CAGR (FY2012-17) of 14% aided by strong growth in mobility segment in overseas market. While the margins are low, the capitalisation and coverage indicators are strong. REDIL's adjusted gearing and ratio of total outside liabilities to tangible net worth (TOL/TNW) improved to 0.3 times and 1.7 times respectively as on September 30, 2017, from 0.6 times and ~2.4 times at March 31, 2016. The liquidity position is comfortable with a cash balance of Rs. 870 crore as of September 2017. 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, and the expected gradual recovery in IT space in the domestic market over the medium term.

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. REDIL's delinquency ratio has been thin, indicating sound credit appraisal adopted in this large volume business.

Credit weaknesses

Low profit margins

Inherent to the nature of distribution business, REDIL's profit margins are low. IT business, which account for ~69% of revenues, grew by 1% during H1FY2018 while the mobility business grew by 18%. Increasing skew towards mobility business, lower growth in IT business, and higher manpower related spend required for expanding the new product segments have affected the margins. During H1FY2018, REDIL's operating and net margins stood at 1.8% (down 10 bps YoY) and 1.1% (up 10 bps YoY) respectively. Going forward, the margins are expected to expand gradually with scaling up of the margin-accretive new product segments.

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 is 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 and mobility products and a provider of supply chain management solutions and support services in India, Middle East, Turkey and Africa. REDL 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 ADCs in Chennai, Kolkata and Dubai.

Key Financial Indicators (Audited)

	FY 2016	**FY 2017**
Operating Income (Rs. crore)	35,442.2	41,114.7
PAT (Rs. crore)#	444.0	476.7
OPBDIT/ OI (%)	2.5%	2.2%
RoCE (%)	16.6%	16.8%
Total Debt/ TNW (times)	0.8	0.5
Total Debt/ OPBDIT (times)	2.7	1.7
Interest coverage (times)	4.0	4.7
NWC/ OI (%)	12.9%	9.2%

#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 (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2017	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 August,17	Date & Rating in FY2016 August,16	Date & Rating in FY2015 June,15
1	Commercial Paper	Short Term	1,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Unallocated facilities	Long Term/ Short term	7.5	-	[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+
4	Fund based facilities	Long Term	610.0	-	[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+

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	1500.0	[ICRA]A1+

Source: Redington India Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

K Srikumar
+91 44 45964318
k.srikumar@icraindia.com

Pooja Mundhra
+91 44 45964313
pooja.mundhra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-3341580 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

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
Website: 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) 66069999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents