September 24, 2024

Redington Limited: Ratings reaffirmed

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	541.0	[ICRA]AA+(Stable); reaffirmed
Short-term – Fund/Non-fund based facilities	2,221.0	2,040.5	[ICRA]A1+; reaffirmed
Long-term/Short-term - Unallocated facilities	329.0	418.5	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Total	**4,900.0**	**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 expectations that its credit profile would remain comfortable in the near to medium term, on the back of steady growth in revenues, earnings and cash flows. REDIL's operational profile remains strong and is characterised by its established market position in information technology (IT) and mobility product distribution 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 FY2024, REDIL's consolidated revenues grew by ~13% to Rs. 89,345.7 crore with operating and net margins of 2.6% and 1.4%, respectively (both down 40 bps YoY). The revenue growth was across segments like technology solutions group (TSG), endpoint solutions group (ESG), mobility solutions group (MSG), cloud solutions group (CSG) and others, in its major geographies of India, the Middle East, Turkey, and Africa. The revenue growth was relatively higher in CSG, MSG and TSG segments collectively account for around two-thirds of consolidated revenues. The profit margins contracted marginally with a change in product mix, increase in other operating costs and rise in factoring costs amid high inflation in some of its end-markets (like Turkey). REDIL's working capital cycle remains at over a month, necessitating continuation of working capital loans and commercial paper. REDIL's increasing scale of operations, high net worth level and strong liquidity position support its financial profile. Its total outside liabilities to net worth was 2.1 times as of March 2024 (against 2.2 times in March 2023) and is likely to remain range-bound in the near term.

In Q1 FY2025, the company's revenue was flat on a YoY basis, amid headwinds from Turkey operations on the back of high inflationary and interest rate environment, even as other markets grew. Favourable demand from the CSG and ESG businesses, coupled with the replacement demand for products sold during the Covid-19 pandemic, are expected to support the revenue growth in the near term. REDIL's operating and net margins moderated in Q1 FY2025 with some contraction in gross margins, on account of lower realizations in middle east and increase in other expenses towards investments in talent and technology upgradation. Its earnings are, however, expected to be supported by better product mix, stable demand and improved operational efficiencies.

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 and strong risk management practices.

While the performance of the Turkey operations has been subdued in recent period on account of hyperinflationary trend, ICRA notes that the planned monetisation of the Paynet business (subject to regulatory approvals) is likely to improve the cash flows and will be a key monitorable.

The Stable outlook on the company's long-term rating reflects ICRA's expectations that the company's business and financial profiles 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 53% and 47% of revenues and profits, respectively, were generated from non-SISA (Singapore, India, South Asia) operations in FY2024. The company is the market leader in the Middle East and Africa, supported by its established relationships with OEMs, early-mover advantage and a strong distribution network (50,000+ active channel partners). In India, it is a major distributor garnering a significant share of the 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, comfortable gearing and strong cash balances - REDIL's consolidated revenues rose by ~13% YoY in FY2024 to Rs. 89,345.7 crore, aided by a growth of 15% and 11% in revenues from SISA and RoW (rest of the world) operations, respectively. Its operating margins declined marginally to 2.6% in FY2024 (3.0% in FY2023) with a change in product mix and increase in investments for long-term growth. In Q1 FY2025, the company reported revenues of Rs. 21,282.3 crore, a YoY growth of 0.4% and is likely to achieve better growth in the ensuing quarters. The company's margins moderated in Q1 FY2025 on account of drop in gross margins, increase in inventory provisioning and other expenses with investments in talent and technology upgrade. However, improved operational efficiencies and decline in inventory provisioning are expected to increase in the company's margins in subsequent quarters.

The company's gearing remains strong at 0.4x with a robust net worth position, despite increase in working capital debt amid normalisation in working capital days. Total outside liabilities to net worth was 2.1 times as of March 2024 (2.2 times in March 2023) and is likely to remain range-bound in the near term. The liquidity position is strong with stable operational cash flows and healthy cash and bank balances. ICRA expects that REDIL will sustain its healthy financial profile given its large product offerings, and strong associations with vendors both in India and overseas. REDIL also enjoys strong financial flexibility with lenders, which helps the company to raise debt at a short notice.

Tie-ups with leading vendors across IT, mobility, and electronics space – REDIL has over 200 vendors in the domestic and overseas markets. Its key vendors — Apple, HP, Dell, Lenovo, and Samsung — collectively contributed to ~59% of revenues in FY2024. The share of Apple, among the vendors, is the highest at 30% in FY2024. The established relationships with vendors aid favourable credit periods, which reduces the company's working capital intensity. Further, comprehensive contracts with vendors mitigate risks of product and technology-related obsolescence.

Robust credit appraisal and recovery systems enable tight control over operations - REDIL has robust internal control and risk management systems that insulate its business from the possible risks of price movements, 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 the distribution business, REDIL's profit margins remain low as reflected in operating and net margins of 2.6% and 1.4%, respectively, in FY2024. The company's profit margins have moderated in Q1 FY2025 on account of drop in gross margins, on account of lower realizations in middle east and increase in other expenses with investments in talent and technology upgrade. The company's working capital intensity remains high because of stocking requirements, given its wide reach, scale and credit sales, inherent in the distribution business. Nevertheless, tighter control on credit terms and inventory holding, led to reduction in working capital days to 34 in FY2024 from 36 in FY2023. However, in Q1 FY2025, the same has increased to 40 days owing to a marginal increase in inventory levels. ICRA expects the working capital days to remain at current levels for the near term.

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 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 recognised channels, as e-waste. The company channels the e-waste generated to the authorised 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 cash and bank balance of ~Rs. 1,521 crore as of June 30, 2024, stable accruals and operating cash flows, and moderate capex plans. Further, it has buffer of ~Rs. 2,400 crore in working capital against sanctioned lines as of June 30, 2024.

Rating sensitivities

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

Negative factors – Pressure on REDIL's ratings 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. The key metrics for a downgrade include operating margins at less than 2.25% and/or total outside liabilities to net worth at above 2.5x, on a 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 Limited as on March 31, 2024. The company's list of subsidiaries is listed in Annexure-II.

About the company

REDIL is a leading distributor and provider of supply chain management solutions of IT products (PCs, PC building blocks, networking, software, cloud, security and enterprise solution products) and consumer and lifestyle products (telecom, digital lifestyle products, entertainment products and digital printing machines) of over 400 brands in India, West Asia, Turkey, Africa, Singapore and South Asia.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	79,376.8	89,345.7
PAT	1,439.4	1,238.6
OPBDIT/OI	3.0%	2.6%
PAT/OI	1.8%	1.4%
Total outside liabilities/ Net worth (times)	2.2	2.1
Total debt/OPBDIT (times)	1.4	1.3
Interest coverage (times)	4.8	2.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Sep 24, 2024	Date	Rating	Date	Rating	Date	Rating
Commercial Paper	Short Term	1,900.00	[ICRA]A1+	01-Sep-2023 22-Jun-2023	[ICRA]A1+	28-Jul-2022	[ICRA]A1+	08-Jul-2021 28-Jun-2021	[ICRA]A1+
Unallocated facilities	Long Term/ Short Term	418.50	[ICRA]AA+ (Stable) / [ICRA]A1+	01-Sep-2023 22-Jun-2023	[ICRA]AA+ (Stable) / [ICRA]A1+	28-Jul-2022	[ICRA]AA+ (Stable) / [ICRA]A1+	08-Jul-2021 28-Jun-2021	[ICRA]AA (Positive)/ [ICRA]A1+
Fund/Non-fund-based facilities	Short Term	2,040.50	[ICRA]A1+	01-Sep-2023 22-Jun-2023	[ICRA]A1+	28-Jul-2022	[ICRA]A1+	08-Jul-2021 28-Jun-2021	[ICRA]A1+
Fund based facilities – Cash Credit	Long Term	541.00	[ICRA]AA+ (Stable)	01-Sep-2023 22-Jun-2023	[ICRA]AA+ (Stable)	28-Jul-2022	[ICRA]AA+ (Stable)	08-Jul-2021 28-Jun-2021	[ICRA]AA (Positive)
Non-fund-based facilities	Short Term	0.00	-	01-Sep-2023 22-Jun-2023	[ICRA]A1+	28-Jul-2022	[ICRA]A1+	08-Jul-2021 28-Jun-2021	[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	-	-	-	541.0	[ICRA]AA+(Stable)
NA	Fund/Non-fund based facilities	-	-	-	2,040.5	[ICRA]A1+
NA	Unallocated facilities	-	-	-	418.5	[ICRA]AA+(Stable)/[ICRA]A1+
Yet to be placed	Commercial Paper				1,900.0	[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 LLC	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	Proconnect Supply Chain Logistics LLC	100	Full Consolidation
30	Redington Senegal Limited S.A.R.L.	100	Full Consolidation
31	Redington Saudi Arabia Distribution Company	100	Full Consolidation
32	PayNet Odeme Hizmetleri A.S.	49.4	Full Consolidation
33	CDW International Trading FZCO	100	Full Consolidation
34	RNDC Alliance West Africa Limited	100	Full Consolidation
35	Redington Turkey Teknoloji AS	100	Full Consolidation
36	Ensure Middle East Technology Solutions LLC	49	Full Consolidation
37	Proconnect Saudi LLC	100	Full Consolidation
38	Redserv Business Solutions Private Limited	100	Full Consolidation
39	Redington Distribution Company	99	Full Consolidation
40	Citrus Consulting Services FZ LLC	100	Full Consolidation
41	Arena Mobile Iletisim Hizmetteri ve Turketici	49.4	Full Consolidation
42	Online Elektronik Ticaret Hizmetleri A.S.	49.4	Full Consolidation
43	Paynet (Kibris) Odeme Hizmetleri Limited	49.4	Full Consolidation
44	Redington Green Energy Limited	100	Full Consolidation
45	Africa Joint Technical Services	65	Full Consolidation
46	Redington Angola Ltd.	100	Full Consolidation
47	Redington Saudi Trading Company	100	Full Consolidation
48	Redington Bahrain W.L.L	49	Full Consolidation
49	Redington Gulf FZE Jordan	49	Full Consolidation
50	Arena Connect Teknoloji Sanayi Ve Ticaret Anonim Serketi	49.4	Full Consolidation
51	Area Connect İletişim ve Servis Limited Şirketi	49.4	Full Consolidation
52	ProConnect Holding Limited	100	Full Consolidation
53	Redington Gulf Arabia for Information Technology	100	Full Consolidation
54	Redington Kazakhstan Technology	100	Full Consolidation
55	Redington (India) Investments Limited	47.62	Full Consolidation
56	Currents Technology Retail (India) Limited	47.62	Full Consolidation

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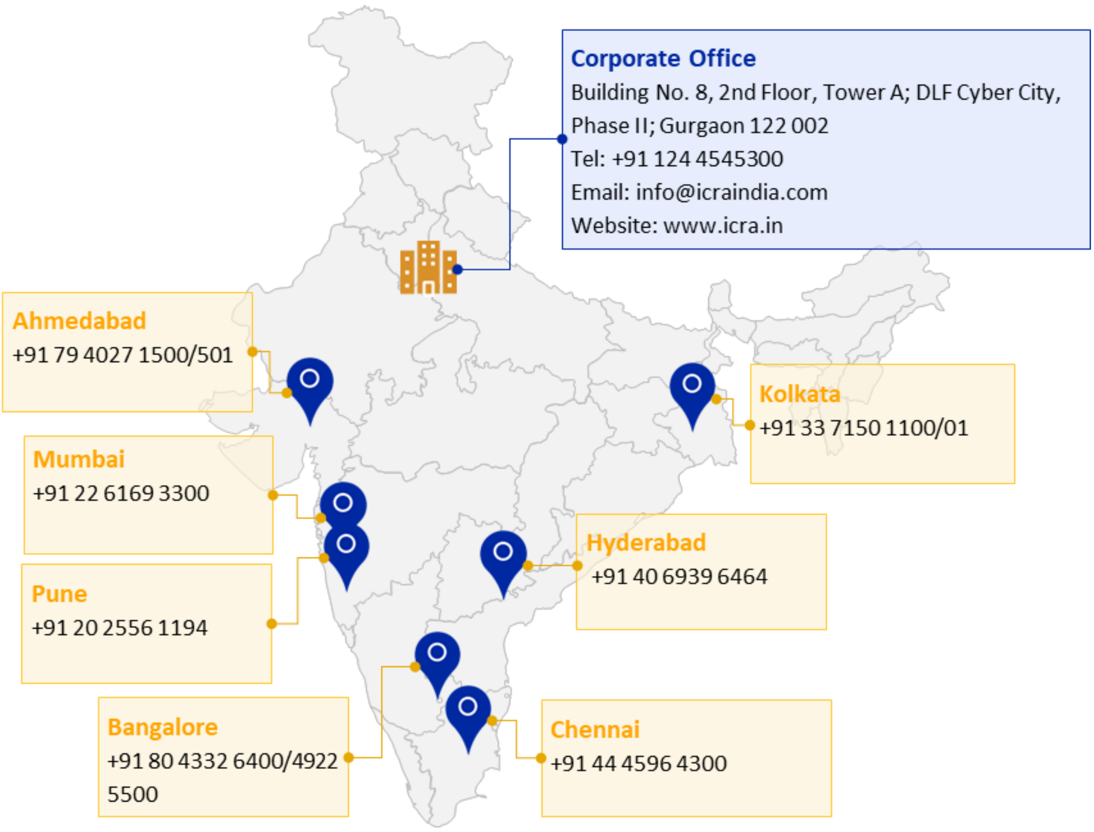

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