

November 06, 2020

Redington (India) Limited: Ratings reaffirmed

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	620.00	450.00	[ICRA]AA(Stable); reaffirmed
Short-term - Fund-based facilities	851.00	1,106.00	[ICRA]A1+; reaffirmed
Short-term Non-fund based	185.00	115.00	[ICRA]A1+; reaffirmed
Long-term/Short-term - Unallocated facilities	94.00	79.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Total	3,650.00	3,650.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to derive comfort from Redington (India) Limited's (REDIL) strong business profile marked by its leading market position in the information technology (IT) and mobility products in India, the Middle East, Turkey and Africa. REDIL's operational profile remains healthy, characterised by the presence of strong brands, diversified revenue mix across geographies and products, and a wide distribution network comprising large channel partners catering to the requirements of retail and enterprise customers. Further, the extensive experience of management and robust risk management practices support its business profile. REDIL's strong financial profile is characterised by stable cash accruals, strong liquidity profile marked by large cash balances, improvement in working capital intensity and comfortable debt metrics. The ratings also consider distributor-specific factors like low operating profit margins and high working capital intensity necessitated by stocking requirements and credit sales. With a substantial part of revenues derived from the overseas regions, REDIL's operations remain exposed to geopolitical risks, although the same is largely mitigated by its robust risk management practices.

In FY2020, REDIL's consolidated revenues grew by 10.6% YoY supported by healthy double-digit growth in both India and the overseas businesses. In terms of segments, the growth was more pronounced in the mobility segment (grew by 26%) followed by Services and IT (grew by 9% and 2%, respectively). The growth in the mobility segment outpaced the growth in the IT segment on the back of launch of new smartphone models, stable business ecosystem and attractive pricing, and affordability schemes offered by vendors. In addition to the inherent nature of distribution business, the operating margins (OPM) were low at 2.2%¹ in FY2020, partly because of the higher provisioning in ProConnect Supply Chain Solutions Limited (ProConnect) impacted by risky trade advances. Despite low operating margins, PAT margins remained flat owing to reduced finance costs, lower corporate tax rates in India and a strong growth in REDIL's Turkey operations. While the gross debt increased to Rs. 2,537.5 crore as on March 31, 2020 from Rs. 1,307.4 crore as on March 31, 2019, the net debt declined to Rs. 170.3 crore from Rs. 439.3 crore during the same period, supported by incremental cash balances maintained by the company amidst the pandemic-led uncertainties.

In Q1 FY2021, REDIL reported an 8.4% revenue degrowth on a YoY basis affected by the lockdown in its key business geographies. However, its operating margins were largely unaffected aided by several cost optimisation measures

¹The operating margin (on a comparable basis) adjusted for Ind AS 116 stood at 2.0%

adopted by the company. While the muted corporate spending, subdued economic conditions and pandemic-related uncertainties continue to weigh on the overall demand, the stable demand for IT and mobility products led by the increasing digitalisation, growing requirements of laptops/smartphones/tablets due to the changing operating landscape provides visibility to revenues. 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 - REDIL is a leading distributor of IT and mobility products across the geographies of its operations, namely India, the Middle East, Turkey and Africa. Around 63% and 73% of revenues and profits, respectively were generated from overseas operations in FY2020. Supported by its well-established relationships with OEMs, early mover advantage and a strong distribution network (37,370+ active channel partners, 80+ sales offices, 225+ warehouses, and catering to 37 markets as of June 2020), 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 M/s Ingram Micro India Private Limited. The active rejig of brand and products portfolio in line with the changing demand trends helps REDIL in sustaining its leading market position.

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 ~62% of revenues in FY2020. The share of Apple among the vendors is the highest at 29% in FY2020, supported by the growth in Apple product sales in India. The well-established relationships with vendors aids REDIL in getting an extended credit period, which reduces its working capital intensity. Further, comprehensive contracts with vendors de-risk the company from product and technology obsolescence.

Strong financial profile - REDIL's consolidated revenues rose by 10.6% YoY in FY2020 to Rs. 51,465.2 crore supported by 10.3% and 10.7% growth in domestic and overseas operations, respectively. The operating margins contracted to 2.0% (on a comparable basis; adjusted for IndAS 116) from 2.2% in FY2019 because of the higher share of low-margin mobility segment and higher provisioning because of risky trade advances in ProConnect. Despite low OPM, the net margins remained flattish at 1.0% aided by lower interest cost (because of lower average debt utilisation), lower corporate tax rates in India and strong performance of the Turkey subsidiary. The company's gearing and TOL/TNW² ratio moderated to 0.5 times and 2.1 times as on March 31, 2020 (compared to 0.3 times and 1.9 times as on March 31, 2019) due to elevated debt levels as on March 31, 2020. However, adjusted for the cash balances, the net TOL/TNW remained comfortable at 1.6 times. The liquidity position is strong with cash and bank balances of Rs. 2,367.2 crore as on March 2020. ICRA expects that REDIL will sustain its healthy financial profile following the sustained increase in product offerings and dealer base 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 contractual

²TOL/TNW refers to the ratio of total outside liabilities to tangible net worth + minority interest

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 profit margins; working capital intensive nature of business – As inherent in the nature of distribution business, REDIL's profit margins remain low. The operating and net margins were low at 2.2% and 1.0%, respectively in FY2020. Going forward, the margins are expected to remain low and may expand gradually with the scaling up of the margin-accretive new product segments. The company's working capital intensity is high because of stocking requirements, given its wide reach, scale and credit sales, as inherent in the distribution business. Nevertheless, with tighter control on credit terms and inventory holding, there has been a steady reduction in working capital days in last two years.

Exposure to geopolitical risks – 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.

Liquidity position: Strong

The liquidity position is **strong** with a robust cash and bank balance of Rs. 2,367.2 crore as of March 31, 2020 and average fund-based utilisation of ~22% of working capital limits for the 12-month period ending in July 2020 at a standalone level, providing buffer in the form of undrawn bank lines. Steadily improving accruals, moderate capex plans of Rs. 50-75 crore per annum over the next three years and sharp focus on improving working capital intensity are likely to keep the liquidity strong going forward as well. Moreover, REDIL enjoys strong financial flexibility with lenders resulting in an ability to raise debt at a short notice.

Rating sensitivities

Positive triggers: Sustained growth in earnings, improvement in debt coverage indicators and working capital cycle shall trigger an upgrade in the long-term rating. Specified metrics supporting a rating upgrade shall include Core RoCE at above 25% and net TOL/TNW at less than 1x on a sustained basis.

Negative triggers: 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 core RoCE at less than 15% and/or net TOL/TNW at above 2.0x 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, 2020, 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 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.

In FY2020, the company reported a net profit of Rs. 533.9 crore on an operating income (OI) of Rs. 51,465.2 crore compared to a net profit of Rs. 484.5 crore on an OI of Rs. 46,536.2 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	46,536.2	51,465.2
PAT (Rs. crore) [#]	484.5	533.9
OPBDIT/OI (%) [@]	2.2%	2.2%
PAT/OI (%)	1.0%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.1
Net Total Outside Liabilities/Tangible Net Worth	1.7	1.6
Total Debt/OPBDIT (times)	1.3	2.3
Net Debt/OPBDIT (times)	0.4	0.2
Interest Coverage (times)	3.7	3.8

Source: Company data; [#]Before minority interest and other comprehensive income; OPBDIT- operating profit before depreciation, interest and tax, PAT- profit after tax, [@]operating margin on a comparable basis (adjusted for IndAS 116) stood at 2.0% in FY2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Rating (FY2021)					Rating History for the Past 3 Years						
Instrument	Type	Amount Rated	Amount Outstanding	Current Rating	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY18		
					Nov-6-2020	Nov-1-2019	Dec-31-2018	Sep-17-2018	Dec-27-2017	Sep-7-2017	Aug-25-2017
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	79.0	-	[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	1,106.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Fund based facilities	Long Term	450.0	-	[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	115.0	-	[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

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	-	-	-	450.0	[ICRA]AA(Stable); reaffirmed
NA	Fund based facilities	-	-	-	1106.0	[ICRA]A1+; reaffirmed
NA	Non-fund-based facilities	-	-	-	115.0	[ICRA]A1+; reaffirmed
NA	Unallocated facilities	-	-	-	79.0	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
-	Commercial Paper	-	-	7-365 days	1,900.0	[ICRA]A1+; reaffirmed

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

*The subsidiary has been divested w.e.f. July 31, 2020.

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	49	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	100	Full Consolidation
12	Redington Kenya (EPZ) Limited	100	Full Consolidation
13	Redington Uganda Limited	100	Full Consolidation
14	Cadensworth United Arab Emirates LLC	49	Full Consolidation
15	Redington Tanzania Limited	100	Full Consolidation
16	Redington Morocco Ltd	100	Full Consolidation
17	Ensure IT Services (Pty) Ltd.	100	Full Consolidation
18	Redington Gulf FZE Co	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	Ensure Technical Services (PTY) Ltd.	100	Full Consolidation
28	Ensure Middle East Trading LLC	49	Full Consolidation
29	Ensure Solutions Nigeria Limited	99.90	Full Consolidation
30	Ensure Technical Services Kenya Limited	100	Full Consolidation
31	Ensure Services Uganda Limited	100	Full Consolidation
32	Ensure Technical Services Tanzania Limited	100	Full Consolidation
33	Ensure Ghana Limited	100	Full Consolidation
34	Proconnect Supply Chain Logistics LLC	49	Full Consolidation
35	Ensure Technical Services Morocco Limited (Sarl)	100	Full Consolidation
36	Redington Senegal Limited S.A.R.L.	100	Full Consolidation
37	Redington Saudi Arabia Distribution Company	75	Full Consolidation
38	PayNet Odeme Hizmetleri A.S.	49.4	Full Consolidation
39	CDW International Trading FZCO	100	Full Consolidation
40	RNDC Alliance West Africa Limited	100	Full Consolidation
41	Linkplus Bilgisayar Sistemleri Sanayi ve Ticaret A.S.	100	Full Consolidation
42	Ensure Middle East Technology Solutions LLC	49	Full Consolidation
43	Rajprotim Supply Chain Solutions Limited	100	Full Consolidation
44	Proconnect Saudi LLC	100	Full Consolidation
45	Redserv Business Solutions Private Limited	100	Full Consolidation
46	Redington Distribution Company LLC	99	Full Consolidation
47	Citrus Consulting Services FZ LLC	84.8	Full Consolidation
	Arena Mobile İletişim Hizmetleri ve Ticaret A.Ş.	49.4	Full Consolidation
48	Elektronik Sanayi ve Ticaret A.Ş.		
49	Online Elektronik Ticaret Hizmetleri A.Ş.	49.4	Full Consolidation
50	Paynet (Kıbrıs) Odeme Hizmetleri Limited	49.4	Full Consolidation
51	Ensure Services Limited	99	Full Consolidation
52	Redington Cote d'Ivoire SARL	100	Full Consolidation
53	Africa Joint Technical Services	65	Full Consolidation
54	Redington Angola Ltd.	100	Full Consolidation
55	Auroma Logistics Private Limited	100	Full Consolidation

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