

Redington (India) (REDI IN)

Rating: BUY | CMP: Rs330 | TP: Rs397

Robust Quarter...

Quick Pointers:

- Highest ever 1Q revenue led by market share gains amidst supply shortage.
- EBIT margins maintained at healthy levels (2.3% in 1Q22) much above pre-covid levels of 1.7-1.8%.

Redington delivered strong growth of 26% YoY led by India business (57% YoY). Overseas business also grew at healthy rate of 10.4% YoY despite decline in South Asia (-38% YoY) offset by strong growth in META (16% YoY). Growth in consumer IT was strong across India (triple digit growth) as well as Overseas (+27% YoY) fueled by work-from-home and learn-from-home demand. Despite ongoing supply shortage (due to semiconductor chip shortage), Redington is able to source largest share of inventory allocated to India and META region thus gaining significant market share. Management expects revenue to grow in double digits with Consumer IT to grow faster than Enterprise IT and Mobility to grow faster than IT. EBIT margins were healthy at 2.3% (-30 bps QoQ) led by gross margins maintained at slightly higher level (6% in 1Q22) than pre-covid (5.4% in 1Q21). Working capital cycle was maintained at 18 days (vs 17 days in 1Q21) despite negative impact of removal of credit extension period.

We have increased our target multiple to 12X (earlier 10X) given 1) ability to gain to consistently gain market share amidst supply crunch, 2) improving margin profile (EBIT margin at ~2.2% in FY22E vs 1.7-1.8% pre-covid), 3) strong working capital management and improving return ratios. We have increased our EPS estimates by 8%/5% for FY22/23E led by upgrade in revenue growth estimates. We value Redington on Sep23 EPS (rollover) of 33 to arrive at revised TP of Rs 397 (earlier: 301). Currently, Redington trades at 11.6x/10.4x on FY22/23E EPS of Rs28.4/Rs.31.6 respectively with Revenue CAGR of 16.8% and EPS CAGR of 22.1% over FY21-23E. Maintain BUY

- Consistent strong growth in revenue:** Revenue at ~Rs 134 bn grew at strong rate of +25.8% YoY. Growth was strong compared to pre-covid levels of 1Q20 as well 15%. Growth was led by India business (+57% YoY, 40% of revenue) driven by strong growth in IT (+72% YoY) and Mobility (+14.4% YoY). Overseas revenue also grew at healthy rate of 10.4% YoY led by 16% YoY growth in META offset by 38% YoY decline in South Asia due to shift of vendor business from Singapore to India initiated in 3Q21. Most of the sales lost in Singapore has been made up in India operations.

- IT segment growth led by consumer IT:** Growth in consumer IT was strong across India (triple digit growth) as well as Overseas (+27% YoY) fueled by work-from-home and learn-from-home demand. Redington's ability to gain higher share of branded PC supply in India and META region amidst supply shortage has led to significant market share gains. For example, global PC market grew by 13% YoY whereas Redington's PC segment grew by 45% YoY in Q1FY22.

August 13, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	397		301	
Sales (Rs. m)	6,71,290	7,76,714	6,58,904	7,54,807
% Chng.	2.0	2.9		
EBITDA (Rs. m)	16,340	18,641	15,691	18,115
% Chng.	4.1	2.9		
EPS (Rs.)	28.4	31.6	26.3	30.1
% Chng.	7.9	5.0		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	569	672	777	864
EBITDA (Rs. bn)	13	16	19	21
Margin (%)	2.4	2.4	2.4	2.4
PAT (Rs. bn)	8	11	12	13
EPS (Rs.)	19.6	28.4	31.6	34.6
Gr. (%)	40.8	44.9	11.4	9.4
DPS (Rs.)	4.3	6.2	7.0	7.6
Yield (%)	1.3	1.9	2.1	2.3
RoE (%)	16.5	20.7	19.9	18.8
RoCE (%)	19.5	25.7	25.4	24.5
EV/Sales (x)	0.2	0.1	0.1	0.1
EV/EBITDA (x)	7.3	5.6	4.6	3.8
PE (x)	16.8	11.6	10.4	9.5
P/BV (x)	2.6	2.2	1.9	1.7

Key Data

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52-W High / Low	Rs.354 / Rs.90	
Sensex / Nifty	54,844 / 16,364	
Market Cap	Rs.128bn/ \$ 1,730m	
Shares Outstanding	389m	
3M Avg. Daily Value	Rs.845.32m	

Shareholding Pattern (%)

Promoter's	-
Foreign	41.22
Domestic Institution	15.93
Public & Others	42.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.7)	106.3	249.0
Relative	(6.1)	93.9	144.1

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PC shipments overall rose 13.2% YoY in Q1FY22 according to International Data Corp.

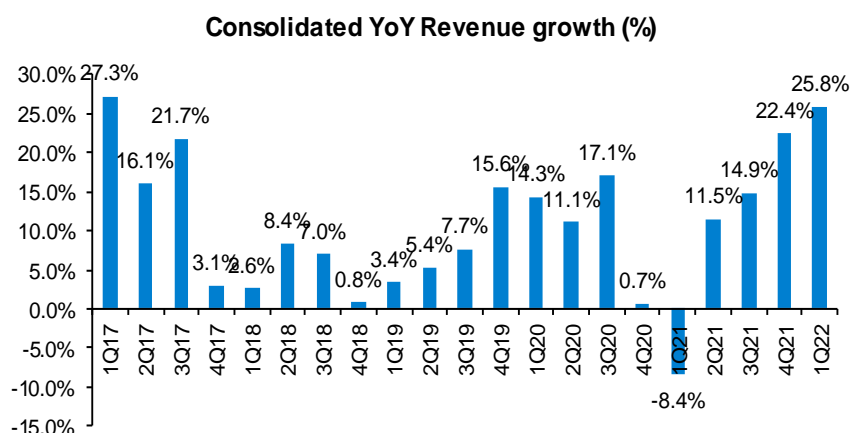
- **Margins maintained at healthy rate led by removal of discounts:** Consolidated gross margins were stable at 6%, flat QoQ, -60bps YoY. Redington is now selling products at standard margins vs lower margins pre-covid aided supply shortage due to ongoing semiconductor chip shortage issue. Consolidated EBIT margin came at 2.3% (-30bps QoQ) led by slight increase in employee cost. Segmental EBIT margins in India/Overseas were at 2.5%/2.4% (vs 2.6%/2.8% in 4QFY21). Overseas margins were healthy despite effective tax rate of 64% in Turkey (due to depreciation of Turkish Lira against USD).
- **Pro-connect business impacted by Covid:** Pro-connect India business (1% of revenue) grew by 36% YoY despite being severely affected by complete lockdown in May due to second COVID wave in India. EBITDA margin was healthy at 9% (INR 101 mn). Redington is focusing on warehouse management services (higher margins) and bringing down share of transportation (lower margins) and they are also investing heavily in to technology to improve customer experience and reduce costs. With all these measures Pro-connect EBITDA margin is expected to go up.
- **Consistent improvement in working capital:** Working capital has been contained at 18 days (vs 17 days in 1Q21). In 1Q21, working capital was supported by extended credit period by vendors with creditor days of 69 vs 50 in 1Q22. This disadvantage was offset by lower debtor days at 46 vs 58 in 1Q21 and lower inventory days at 22 vs 28 in 1Q2. Working capital is healthy across India (21 days) and Overseas (17 days). Capital efficiency is also healthy with ROCE is at new high of 52.2% in 1Q22 (vs 36.5% in FY21). ROE has also improved to 18.8% in 1Q22 (vs 16.4% in FY21).
- **Change in inventory provisioning policy:** Redington recalibrated its inventory provisioning policy in overseas. It has become very aggressive with new inventory provisioning ratio of 0.41% vs 0.13% previously. Bad debt (AR provisioning at 0.16% vs historical average of 0.07%) is higher than usual because some of the overseas receivable (Africa) are taking longer and hence Redington has recorder 100% provision for them. But Management is confident of collecting 100% of those receivables.
- Lower tax rate this quarter was aberration and on steady state basis tax rate is expected to be 23-24%.
- **Doubling down on cloud business:** Cloud business has grown at around 60% YoY with revenue of INR 2800 mn (2% of overall revenue). Managed services is overall 6% of cloud revenue. Management mentioned that cloud is expected to grow at much faster pace going forward and it is currently not cannibalizing traditional enterprise revenue with good headroom for double digit growth in that business.
- Acquisition in Turkey is still in due-diligence phase and is progressing slowly. This acquisition will be done by Redington's Arena business in Turkey.
- **Demand outlook:** Management mentioned that demand will remain robust with IT and mobility both expected to grow double digit. Though industry is facing supply constraints, Redington is able to get largest share of allocation to META and India region, enabling it to grow higher than industry. Management mentioned that Consumer IT is expected to grow faster than Enterprise IT and Mobility to grow slightly better than IT.

Exhibit 1: Q1FY22 Quick view on results

Y/e March (Rs mn)	1QFY22	4QFY21	QoQ gr.	1QFY21	YoY gr.	Ple	Variance
Revenues (in USD terms)	1824.0	2,123.83	-14.1%	1,517.32	20.2%	1629.4	11.9%
Revenues (in Rs)	1,34,541	1,55,039	-13.2%	1,06,971	25.8%	1,22,203	10.1%
EBIDTA	3,443	4,251	-19.0%	2,053	67.7%	2,811	22.5%
EBIDTA margin (%)	2.56%	2.74%	-18 bps	1.9%	64 bps	2.30%	26 bps
EBIT Margin (%)	2%	3%	-21 bps	2%	75 bps	2%	30 bps
PAT	2,367	3,025	-21.8%	888	166.6%	1,736	36.3%
EPS	6	8	-21.8%	2	166.6%	4.46	36.3%

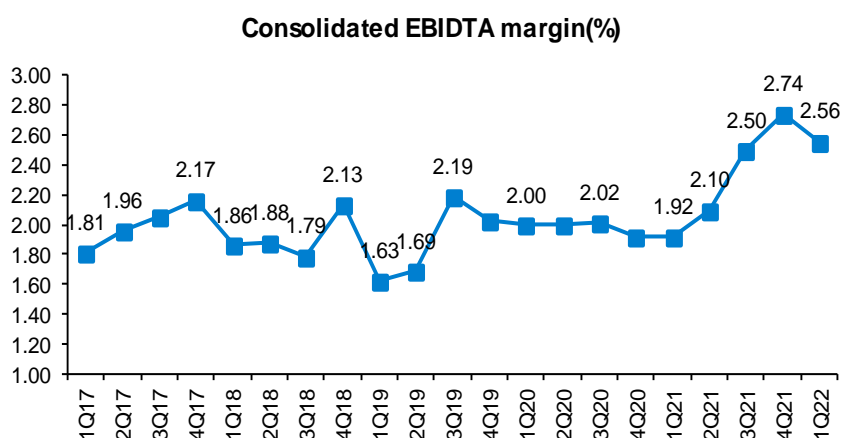
Source: Company, PL

Exhibit 2: Strong revenue growth momentum



Source: Company, PL

Exhibit 3: EBITDA margins maintained above 2.5%



Source: Company, PL

Exhibit 4: Top 5 vendor concentration at elevated levels vs pre-covid

Vendor mix (%)	1QFY22	4QFY21	1QFY21
Apple	29	36	26
HP Inc	14	12	12
Lenovo	8	6	7
Samsung	6	5	5
Dell	9	9	8
Others	34	32	42
Total	100	100	100

Source: Company, PL

Exhibit 5: Business Mix

Geo mix (INR mn)	1QFY22	4QFY21	QoQ gr.	1QFY21	YoY gr.
India	54,271	64,084	-15.3%	34,515	57.2%
Overseas	80,272	90,959	-11.8%	72,705	10.4%
Intersegment	2	4		1	
Total	1,34,541	1,55,039	-13.2%	1,07,219	25.5%

Source: Company, PL

Exhibit 6: Service Mix

Service mix (INR mn)	1QFY22	4QFY21	QoQ gr.	1QFY21	YoY gr.
IT	96,869	97,675	-0.8%	72,741	33.2%
Mobility	36,326	55,814	-34.9%	33,161	9.5%
Services	1,345	1,550	-13.2%	1,070	25.8%
Total	1,34,541	1,55,039	-13.2%	1,06,971	25.8%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	5,69,459	6,71,920	7,76,714	8,63,759
YoY gr. (%)	10.6	18.0	15.6	11.2
Employee Cost	5,38,010	6,32,737	7,33,995	8,16,252
Gross Profit	31,449	39,183	42,719	47,507
Margin (%)	5.5	5.8	5.5	5.5
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	13,434	16,340	18,641	20,730
YoY gr. (%)	31.3	21.6	14.1	11.2
Margin (%)	2.4	2.4	2.4	2.4
Depreciation and Amortization	1,482	1,501	2,017	2,591
EBIT	11,952	14,839	16,624	18,139
Margin (%)	2.1	2.2	2.1	2.1
Net Interest	1,564	1,120	1,120	1,120
Other Income	957	798	798	798
Profit Before Tax	11,345	14,517	16,302	17,817
Margin (%)	2.0	2.2	2.1	2.1
Total Tax	3,415	3,383	3,912	4,276
Effective tax rate (%)	30.1	23.3	24.0	24.0
Profit after tax	7,929	11,134	12,389	13,541
Minority interest	302	85	80	80
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,627	11,049	12,309	13,461
YoY gr. (%)	40.8	44.9	11.4	9.4
Margin (%)	1.3	1.6	1.6	1.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,627	11,049	12,309	13,461
YoY gr. (%)	40.8	44.9	11.4	9.4
Margin (%)	1.3	1.6	1.6	1.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,627	11,049	12,309	13,461
Equity Shares O/s (m)	389	389	389	389
EPS (Rs)	19.6	28.4	31.6	34.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	9,062	9,762	10,462	11,163
Tangibles	4,502	5,202	5,902	6,603
Intangibles	4,560	4,560	4,560	4,560
Acc: Dep / Amortization	5,556	7,057	9,075	9,075
Tangibles	3,514	4,611	6,086	6,086
Intangibles	2,042	2,446	2,989	2,989
Net fixed assets	3,506	2,705	1,388	2,089
Tangibles	988	591	(184)	517
Intangibles	2,518	2,114	1,572	1,572
Capital Work In Progress	9	9	9	9
Goodwill	183	183	183	183
Non-Current Investments	205	225	245	265
Net Deferred tax assets	262	262	262	262
Other Non-Current Assets	1,939	1,959	1,979	1,999
Current Assets				
Investments	-	-	-	-
Inventories	29,021	34,243	39,583	44,019
Trade receivables	68,007	80,243	92,758	1,03,153
Cash & Bank Balance	34,930	41,048	46,073	50,674
Other Current Assets	3,055	3,055	3,055	3,055
Total Assets	1,43,212	1,65,948	1,87,550	2,07,724
Equity				
Equity Share Capital	778	778	778	778
Other Equity	48,559	56,681	65,730	75,625
Total Network	49,337	57,460	66,508	76,404
Non-Current Liabilities				
Long Term borrowings	46	46	46	46
Provisions	1,270	1,290	1,310	1,330
Other non current liabilities	1,289	1,289	1,289	1,289
Current Liabilities				
ST Debt / Current of LT Debt	4,889	3,889	2,889	1,889
Trade payables	73,000	86,134	99,568	1,10,726
Other current liabilities	11,983	12,083	12,183	12,283
Total Equity & Liabilities	1,45,571	1,65,948	1,87,550	2,07,724

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	11,043	14,432	16,222	17,737
Add. Depreciation	1,482	1,501	2,017	2,591
Add. Interest	1,564	1,120	1,120	1,120
Less Financial Other Income	957	798	798	798
Add. Other	(957)	(798)	(798)	(798)
Op. profit before WC changes	13,132	16,255	18,561	20,650
Net Changes-WC	24,360	(4,203)	(4,302)	(3,553)
Direct tax	(3,415)	(3,383)	(3,912)	(4,276)
Net cash from Op. activities	34,076	8,669	10,347	12,821
Capital expenditures	(5,539)	(800)	(800)	(800)
Interest / Dividend Income	957	798	798	798
Others	2,637	(40)	(40)	(40)
Net Cash from Invst. activities	(1,945)	(42)	(42)	(42)
Issue of share cap. / premium	-	-	-	-
Debt changes	(20,441)	(1,000)	(1,000)	(1,000)
Dividend paid	(2,020)	(2,927)	(3,260)	(3,566)
Interest paid	(1,564)	(1,120)	(1,120)	(1,120)
Others	(381)	-	-	-
Net cash from Fin. activities	(24,407)	(5,047)	(5,380)	(5,686)
Net change in cash	7,724	3,580	4,924	7,094
Free Cash Flow	28,537	7,869	9,547	12,020

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	1,37,639	1,69,808	1,55,039	1,34,541
YoY gr. (%)	11.5	14.9	22.4	25.8
Raw Material Expenses	1,30,614	1,60,400	1,45,769	1,26,525
Gross Profit	7,026	9,408	9,271	8,015
Margin (%)	5.1	5.5	6.0	6.0
EBITDA	2,888	4,241	4,251	3,443
YoY gr. (%)	16.6	42.2	74.3	67.7
Margin (%)	2.1	2.5	2.7	2.6
Depreciation / Depletion	350	374	362	349
EBIT	2,538	3,867	3,889	3,094
Margin (%)	1.8	2.3	2.5	2.3
Net Interest	348	312	305	280
Other Income	222	223	264	200
Profit before Tax	2,412	3,779	3,848	3,014
Margin (%)	1.8	2.2	2.5	2.2
Total Tax	589	1,697	814	622
Effective tax rate (%)	24.4	44.9	21.2	20.6
Profit after Tax	1,823	2,083	3,034	2,392
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,823	2,717	3,034	2,392
YoY gr. (%)	35.3	66.0	139.4	141.7
Margin (%)	1.3	1.6	2.0	1.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,823	2,717	3,034	2,392
YoY gr. (%)	35.3	66.0	139.4	141.7
Margin (%)	1.3	1.6	2.0	1.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,823	2,717	3,034	2,392
Avg. Shares O/s (m)	389	389	389	389
EPS (Rs)	4.7	7.0	7.8	6.1

Source: Company Data, PL Research

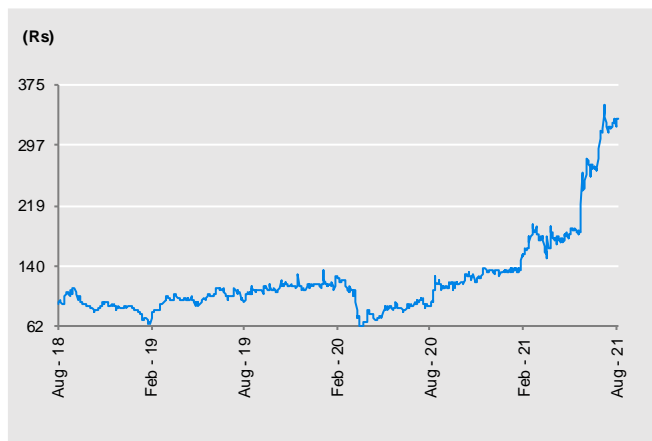
Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	19.6	28.4	31.6	34.6
CEPS	23.4	32.2	36.8	41.2
BVPS	126.8	147.6	170.9	196.3
FCF	73.3	20.2	24.5	30.9
DPS	4.3	6.2	7.0	7.6
Return Ratio(%)				
RoCE	19.5	25.7	25.4	24.5
ROIC	43.2	55.9	54.1	49.8
RoE	16.5	20.7	19.9	18.8
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Debtor (Days)	44	44	44	44
Valuation(x)				
PER	16.8	11.6	10.4	9.5
P/B	2.6	2.2	1.9	1.7
P/CEPS	14.1	10.2	9.0	8.0
EV/EBITDA	7.3	5.6	4.6	3.8
EV/Sales	0.2	0.1	0.1	0.1
Dividend Yield (%)	1.3	1.9	2.1	2.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Aug-21	BUY	301	331
2	02-Jul-21	BUY	301	279
3	28-May-21	BUY	267	183
4	05-Apr-21	BUY	189	184
5	04-Jan-21	BUY	138	133
6	23-Nov-20	BUY	138	138
7	05-Oct-20	BUY	146	117

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	5,393	4,790
2	Cyient	BUY	1,088	967
3	HCL Technologies	BUY	1,239	1,050
4	Infosys	BUY	1,847	1,650
5	L&T Technology Services	BUY	4,018	3,697
6	Larsen & Toubro Infotech	BUY	5,416	4,763
7	Mindtree	BUY	3,450	2,842
8	Mphasis	BUY	3,348	2,695
9	Persistent Systems	BUY	3,603	3,118
10	Redington (India)	BUY	301	331
11	Sonata Software	BUY	927	842
12	Tata Consultancy Services	BUY	3,807	3,310
13	TeamLease Services	BUY	4,716	3,954
14	Tech Mahindra	BUY	1,509	1,265
15	Wipro	BUY	665	598
16	Zensar Technologies	BUY	424	429

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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