July 28, 2022

Redington (India) Limited: Long term rating upgraded; short term rating 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	455.0	750.0	Upgraded to [ICRA]AA+ from [ICRA]AA; outlook revised to 'Stable' from 'Positive'
Short-term - Fund-based facilities	1,031.0	931.0	[ICRA]A1+; reaffirmed
Short-term Non-fund based	50.0	50.0	[ICRA]A1+; reaffirmed
Long-term/Short-term - Unallocated facilities	214.0	19.0	Upgraded to [ICRA]AA+ from [ICRA]AA; outlook revised to 'Stable' from 'Positive' / [ICRA]A1+ reaffirmed
Total	**3,650.00**	**3,650.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action considers the sustained improvement in the performance of Redington (India) Limited (REDIL/the company) during FY2022 and expectation of stable growth in revenues and earnings over the medium to long-term. For FY2022, REDIL reported a 10% YoY growth in operating income with domestic revenues rising by 19% and overseas revenues by 4%. The performance was supported by strong demand for information technology (IT) products on the back of higher spend on IT infrastructure across end-segments amid thrust on digitalization, remote working etc.

The ratings also draw comfort from REDIL's strong business profile marked by its leading market position in the IT and mobility products segments in India, the Middle East, Turkey, and Africa, vast experience of management and robust risk management practices. 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 consumer and enterprise segments. REDIL's financial profile remains strong marked by healthy cash accruals, sharp improvement in working capital intensity, strong liquidity profile, and comfortable debt protection metrics. Its consolidated operating and net profit margins expanded to 3.0% and 2.1% respectively in FY2022 (from 2.5% and 1.4% in FY2021) on the back of improving product mix, and strong IT demand amidst tight supplies. REDIL's working capital cycle improved sharply in the last two years (from 29 days in FY2020 to 16 days in FY2022) with change in product mix, relatively lower levels of stocking, and better management of collections and supplier payments. However, the working capital cycle is likely to normalize once the supply scenario improves, and accordingly the cash reserves shall witness moderation.

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 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. ICRA also notes that the company's revenues in FY2022 from mobility segment was partly affected by the change in GTM strategy of one of its key vendors and accordingly REDIL remains susceptible to the strategies and performance of its key vendors.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to maintain a healthy financial and business risk profile.

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 is a significant distributor of IT and mobility products across the geographies of its operations, namely India, the Middle East, Turkey and Africa. Around 56% and 61% of revenues and profits, respectively were generated from overseas operations in FY2022. Supported by its well-established relationships with OEMs, early mover advantage and a strong distribution network (39,500+ active channel partners, 70+ sales offices, 200+ warehouses), 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. A wide range of brands and large product portfolio enables REDIL to sustain its market position even in a changing demand environment.

Strong financial profile characterised by healthy revenue growth, low gearing, strong cash balances and comfortable coverage metrics - REDIL's consolidated revenues rose by 10.0% YoY in FY2022 aided by a 19% and 4% growth in revenues from domestic and overseas operations, respectively. With favourable economies of scale, REDIL's operating and net margins expanded to 3.0% and 2.1% respectively in FY2022 (from 2.5% and 1.4% in FY2021). The company's gearing and TOL/TNW ratio remained strong at 0.1x and 2.0x respectively due to low working capital debt utilization. Adjusted for cash reserves, the net TOL/TNW was ~1.4x. The liquidity position is strong with cash and bank balances of Rs. 3,646.8 crore as of March 2022 supported by improved earnings and efficient management of working capital cycle. ICRA expects that REDIL will sustain its healthy financial profile given its large product offerings, and strong association with vendors both in India and overseas.

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 contributed to ~64% of revenues in FY2022. The share of Apple among the vendors is the highest at 30% in FY2022. The well-established relationships with vendors aid REDIL towards favourable credit periods, which reduces its working capital intensity. Further, comprehensive contracts with vendors de-risk REDIL from any risks of product and technology related obsolescence.

Robust credit appraisal and recovery systems which enable tight control over the operations - 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 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 distribution business, REDIL's profit margins remain low but has seen improvement, with operating and net margins at 3.0% and 2.1%, respectively in FY2022. Going forward, the margins are expected to remain range bound. The company's working capital intensity was traditionally high because of stocking requirements, given its wide reach, scale and credit sales, as inherent in the distribution business. Nevertheless, tighter control on credit terms and inventory holding amidst favourable demand conditions has resulted in a steady reduction in working capital days over the last 2 years. However, working capital cycle would normalize over the next few months with changes in the demand-supply dynamics.

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 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. 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.

Liquidity position: Strong

The liquidity position is strong with a robust cash and bank balance of Rs. 3,646.8 crore as of March 31, 2022. Steadily improving accruals and moderate capex plans shall support the liquidity profile going forward even considering the expected increase in working capital intensity. Moreover, REDIL enjoys strong financial flexibility with lenders resulting in an ability to raise debt at a short notice.

Rating sensitivities

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

Negative factors – 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 22% and/or net TOL/TNW at above 1.75x 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, 2022. It had 59 subsidiaries/associates; of these, 4 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.

Key financial indicators (audited)

REDIL (Consolidated)	FY2021	FY2022
Operating income	56,945.9	62,644.0
PAT	788.5	1,314.9
OPBDIT/OI	2.5%	3.0%
PAT/OI	1.4%	2.1%
Total outside liabilities/Tangible net worth (times)	1.7	2.0
Total debt/OPBDIT (times)	0.4	0.4
Interest coverage (times)	6.4	10.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Jul 28, 2022	July 08, 2021	June 28, 2021	November 06, 2020	November 01, 2019
1	Commercial Paper	Short Term	1900.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Unallocated facilities	Long Term / Short Term	19.0	-	[ICRA]AA+(Stable) / [ICRA]A1+	[ICRA]AA(Positive) / [ICRA]A1+	[ICRA]AA (Positive) / [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/[ICRA]A1+
3	Fund based facilities	Short Term	931.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund based facilities – Cash Credit	Long Term	750.0	-	[ICRA]AA+(Stable)	[ICRA]AA(Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA(Stable)
5	Non-fund based facilities	Short Term	50.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term– Fund Based/CC	Simple
Short Term Fund Based	Very Simple
Short Term Non - Fund Based	Very Simple
Commercial Paper	Very Simple
LT / ST - 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: www.icra.in