

May 27, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	114		108	
Sales (Rs. m)	526,632	576,840	508,714	557,243
% Chng.	3.5	3.5		
EBITDA (Rs. m)	9,148	10,396	7,263	8,328
% Chng.	25.9	24.8		
EPS (Rs.)	13.8	16.2	10.7	12.7
% Chng.	28.8	27.5		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	435	465	527	577
EBITDA (Rs. bn)	8	9	9	10
Margin (%)	1.9	1.9	1.7	1.8
PAT (Rs. bn)	5	6	5	6
EPS (Rs.)	11.9	14.3	13.8	16.2
Gr. (%)	2.8	19.6	(3.4)	17.7
DPS (Rs.)	2.4	3.3	3.0	3.6
Yield (%)	2.4	3.3	3.1	3.6
RoE (%)	14.3	14.9	13.1	13.9
RoCE (%)	15.7	16.4	15.9	17.2
EV/Sales (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	6.0	4.7	4.9	4.3
PE (x)	8.3	6.9	7.2	6.1
P/BV (x)	1.1	1.0	0.9	0.8

Key Data

REDI.BO | REDI IN

52-W High / Low	Rs.139 / Rs.64
Sensex / Nifty	39,683 / 11,925
Market Cap	Rs.38bn / \$ 552m
Shares Outstanding	389m
3M Avg. Daily Value	Rs.68.61m

Shareholding Pattern (%)

Promoter's	-
Foreign	34.31
Domestic Institution	21.22
Public & Others	44.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.5	9.4	(19.4)
Relative	1.0	(2.1)	(29.1)

Aniket Pande

aniketpande@plindia.com | 91-22-66322300

Rajat Gandhi

rajatgandhi@plindia.com | 91-22-66322246

Growth triggers in place

Redington delivered strong result in Q4FY19 with broad based growth across segments, better operational performance led to expansion in margins and PAT. Both India business and overseas business delivered strong growth in FY19. Management is focused on growing its earnings in double digit in FY20E. In India, IT Enterprise and Mobility is expected to post double digit growth. In India segment, revenue growth might be lower for Q1/Q2 quarters given the general slowdown in the economy; however, Q3 onwards growth is expected to pick-up. From a revenue perspective, India should be able to post better growth versus overseas. With Redington India business showing strong growth & good performance from overseas, we believe Redington is in a comfortable position to deliver sustained earnings growth in FY20E. We maintain our buy rating with revised TP of Rs114 (7x FY21E EPS). Currently, Redington trades at 7.2x/6.1x FY20E/21E at an EPS of Rs13.8/Rs.16.2 for FY20E/21E respectively. Currency movements in overseas market remains a key risk to Redington.

Inline Revenues with beat on margins: Revenue came inline with our estimates at ~Rs126bn grew by 15.6% YoY. Gross margin stood at 5.8% down 20bps YoY (Ple: 5.5%). Cons. EBITDA came in at 2.03% down 16bps QoQ/ 10bps YoY with strong beat on our estimates (Ple: 1.6%). EBITDA margin came off ~10 bps YoY to 2.03% impacted by stock appreciation rights (SAR) related charges and tad higher provisioning.

Strong beat on PAT: PAT at Rs16bn grew by 18% YoY and beat our estimates (Ple: Rs11.6bn) led by beat on margins and higher other income. PAT was driven by overseas PAT growth of 23% YoY to Rs1.3bn, while India business PAT grew 6% YoY. Excluding charges of stock appreciation rights (SAR) in Q4FY19, India PAT grew 11% YoY.

Growth was across India & Overseas business- India business revenue grew ~24% YoY to ~Rs47.4bn, while EBIT grew 17.6% YoY to ~Rs1.1bn (Margin at 2.3%; -10 bps YoY). Overseas business revenue grew ~11% YoY to ~Rs78.5bn, while EBIT grew 13.7% YoY to ~Rs 1.6bn (Margin at 2%; flat YoY).

Growth was broad based across segments- Revenue growth for Mobility accounts to 17% under which mainly led by 28% growth in India mobility business as a result of change in competitive landscape. India IT business, too, recorded strong 22% YoY growth in Q4FY19, driven by both enterprise (on new large deal wins) and consumer segments. Management guided that mobility and enterprise to deliver double digit revenue growth going forward.

Working capital improvement: Working capital days reduced by 7 days during FY19 primarily driven by 13 days reduction in India business which in turn is led by lower inventory days, while Overseas business decrease by 4 days in WC.

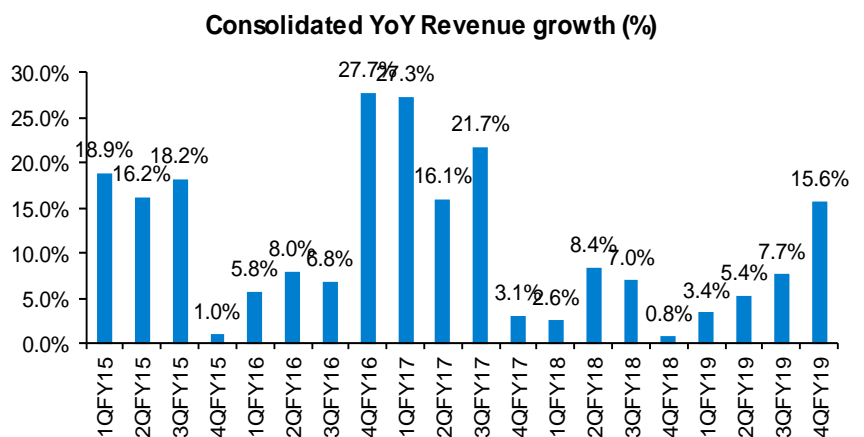
Exhibit 1: Q4FY19: Quick view on results

(Rs mn)	4QFY19	3QFY19	QoQ gr.	4QFY18	YoY gr.	Ple	Variance
Revenues (in USD terms)	1114.5	1,148.79	-3.0%	1,094.80	1.8%	1242.7	-10.3%
Revenues (in Rs)	125,827	126,301	-0.4%	108,801	15.6%	126,616	-0.6%
EBIDTA	2,554	2,766	-7.7%	2,321	10.1%	2,033	25.6%
<i>EBIDTA margin (%)</i>	<i>2.03%</i>	<i>2.19%</i>		<i>2.1%</i>		<i>1.61%</i>	
PAT	1,689	2,012	-16.0%	1,432	18.0%	1,164.20	45.1%

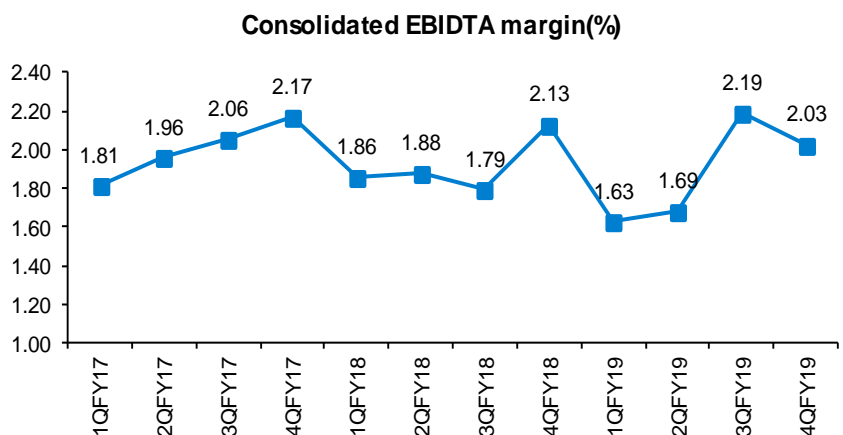
Source: Company, PL

Revenue (Rs) came inline with our estimates at ~Rs126bn grew by 15.6% YoY.

Gross margin stood at 5.8% down 20bps (Ple: 5.5%). Cons. EBITDA came in at 2.03% down 16bps QoQ/ 10bps YoY with strong beat on our estimates (Ple: 1.6%).

Exhibit 2: Strong revenue growth momentum


Source: Company, PL

Exhibit 3: Recovery in margins sustained


Source: Company, PL

Key Highlights from Concall

Guidance:

- Management is focused on growing its PAT in double digit in FY20E. In India, IT Enterprise and Mobility is expected to post double digit growth. In India segment, performance in Q1 & Q2 to be soft owing to general slowdown in the economy and expected to recover in 2HFY20. From a revenue perspective, India should be able to post better growth versus Overseas.
- Both cloud solutions and health & medical businesses recorded strong double-digit revenue growth in FY19.

ProConnect

- ProConnect continued to report strong performance in Q4FY19, with 16% YoY revenue growth to Rs1,074mn and 9% YoY adjusted (for one-off M&A expenses) PAT growth. Acquisition of Aroma in Mar'19 led to the one-off M&A costs.
- ProConnect revenue grew 26% YoY in FY19 while PAT grew 14% YoY (higher by 200-300bps excluding one-off M&A costs in Q4FY19). Outside business contributed a record 84% to the revenues of ProConnect in FY19.
- Management expects ~15% upside to ProConnect revenues and profitability from Aroma acquisition going forward.

Inventory and Provisioning:

- In Q4FY19, there was higher build-up of inventory. In India, slightly higher due to higher provisioning on networking products however management does not expect this trend to be continued further
- Provision for bad and doubtful debts stood at 0.13% for Q4FY19 in India. Management expects it to gradually reduce to 0.10-0.12% over the next few quarters. Overseas bad and doubtful debt provision stood at 0.03% in Q4FY19.

Segment highlights:

- Arena Business:** During Q4FY19, Arena business registered revenue growth of 6% YoY and EBITDA growth of 41% YoY driven by control on operating expenses
- Ensure services:** Management is focusing on building the Cloud and security business and being a managed service provider. Defocusing from warranty/ post warranty services.
- Aroma:** Management believes key growth will be driven by following factors- 1) Additive business 2) New set of Clients 3) TCs point of view 4) Addition of warehouses.
- Apple:** Apple comprises 27% of Redington's consolidated revenues. Management does not expect any negative impact of Apple experience store to be opened in India. Management believes that this in turn will increase

demand of the product. Any sale of product through Apple store will be direct and not through its distribution channel.

Other Key Highlights:

- Contribution of Services in India profitability stood at 28% in FY19 versus 20% in FY18.
- In FY19, India IT revenue grew by 13% YoY with the Enterprise segment growing by 11% YoY and the Consumer segment growing by 16% YoY.
- On Volatility in tax rates, management cited that tax would be steady going forward.

Exhibit 4: Top 5 vendors consolidated of Redington

Vendors	4QFY19	3QFY19	4QFY18
Apple	24	29	23
HP Inc + HP Ent	15	13	17
Lenovo	6	5	7
Dell	9	8	11
Others	55	53	53
Total	100	100	100

Source: Company, PL

Exhibit 5: Segment wise Revenue mix

(Rs mn)	4QFY19	3QFY19	QoQ gr.	4QFY18	YoY gr.
IT	91,854	83,358	10.2%	79,425	15.6%
Mobility	30,198	39,153	-22.9%	26,112	15.6%
Services	3,775	3,789	-0.4%	3,264	15.6%
Total Revenues	125,827	126,301	-0.4%	108,801	15.6%

Source: Company, PL

Exhibit 6: Business Mix

Mix of Business	4QFY19	3QFY19	QoQ gr.	4QFY18	YoY gr.
India	47,365	44,508	6.4%	38,188	24.0%
Overseas	78,463	81,794	-4.1%	70,614	11.1%
Intersegment	1	1		2	
Total	125,827	126,301	-0.4%	108,801	15.6%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	434,594	465,362	526,632	576,840
YoY gr. (%)	5.7	7.1	13.2	9.5
Employee Cost	410,566	438,128	497,390	544,567
Gross Profit	24,028	27,233	29,243	32,272
Margin (%)	5.5	5.9	5.6	5.6
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	8,165	8,987	9,148	10,396
YoY gr. (%)	(1.0)	10.1	1.8	13.6
Margin (%)	1.9	1.9	1.7	1.8
Depreciation and Amortization	569	634	648	611
EBIT	7,595	8,353	8,500	9,785
Margin (%)	1.7	1.8	1.6	1.7
Net Interest	1,680	2,042	1,500	1,500
Other Income	391	632	360	360
Profit Before Tax	6,306	6,944	7,360	8,645
Margin (%)	1.5	1.5	1.4	1.5
Total Tax	1,462	1,389	1,914	2,248
Effective tax rate (%)	23.2	20.0	26.0	26.0
Profit after tax	4,844	5,555	5,447	6,398
Minority interest	69	-	80	80
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,775	5,555	5,367	6,318
YoY gr. (%)	2.9	16.3	(3.4)	17.7
Margin (%)	1.1	1.2	1.0	1.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,775	5,555	5,367	6,318
YoY gr. (%)	2.9	16.3	(3.4)	17.7
Margin (%)	1.1	1.2	1.0	1.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,775	5,555	5,367	6,318
Equity Shares O/s (m)	400	389	389	389
EPS (Rs)	11.9	14.3	13.8	16.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	5,949	6,649	7,349	8,049
Tangibles	2,864	3,564	4,264	4,964
Intangibles	3,085	3,085	3,085	3,085
Acc: Dep / Amortization	1,460	2,094	2,741	3,352
Tangibles	1,004	1,467	1,940	2,387
Intangibles	456	627	801	966
Net fixed assets	4,489	4,555	4,607	4,696
Tangibles	1,860	2,097	2,323	2,577
Intangibles	2,629	2,458	2,284	2,120
Capital Work In Progress	204	378	378	378
Goodwill	213	220	220	220
Non-Current Investments	212	257	277	297
Net Deferred tax assets	236	386	386	386
Other Non-Current Assets	1,026	1,941	1,961	1,981
Current Assets				
Investments	35	70	70	70
Inventories	31,066	38,592	43,673	47,836
Trade receivables	60,726	62,786	71,052	77,826
Cash & Bank Balance	5,413	8,772	5,939	5,008
Other Current Assets	3,065	3,384	3,384	3,384
Total Assets	108,648	124,439	135,047	145,181
Equity				
Equity Share Capital	800	778	778	778
Other Equity	34,505	38,282	42,227	46,871
Total Network	35,306	39,060	43,005	47,649
Non-Current Liabilities				
Long Term borrowings	42	245	245	245
Provisions	817	971	991	1,011
Other non current liabilities	2	70	70	70
Current Liabilities				
ST Debt / Current of LT Debt	14,536	12,829	11,829	10,829
Trade payables	46,840	59,049	66,823	73,194
Other current liabilities	7,503	8,521	8,621	8,721
Total Equity & Liabilities	108,648	124,207	135,047	145,181

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	6,306	6,944	7,280	8,565
Add. Depreciation	569	634	648	611
Add. Interest	1,680	2,042	1,500	1,500
Less Financial Other Income	391	632	360	360
Add. Other	136	(632)	(360)	(360)
Op. profit before WC changes	8,692	8,987	9,068	10,316
Net Changes-WC	(5,324)	2,309	(5,453)	(4,447)
Direct tax	(1,512)	(1,389)	(1,914)	(2,248)
Net cash from Op. activities	1,856	9,907	1,701	3,622
Capital expenditures	(409)	(673)	(800)	(800)
Interest / Dividend Income	211	632	360	360
Others	8	(1,111)	(40)	(40)
Net Cash from Inv. activities	(191)	(1,152)	(480)	(480)
Issue of share cap. / premium	17	-	-	-
Debt changes	716	(1,504)	(1,000)	(1,000)
Dividend paid	(1,107)	(1,541)	(1,422)	(1,673)
Interest paid	(1,653)	(2,042)	(1,500)	(1,500)
Others	36	69	-	-
Net cash from Fin. activities	(1,990)	(5,017)	(3,922)	(4,173)
Net change in cash	(325)	3,738	(2,700)	(1,032)
Free Cash Flow	1,194	9,235	901	2,822

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	11.9	14.3	13.8	16.2
CEPS	13.4	15.9	15.5	17.8
BVPS	88.2	100.4	110.5	122.5
FCF	3.0	23.7	2.3	7.3
DPS	2.4	3.3	3.0	3.6
Return Ratio(%)				
RoCE	15.7	16.4	15.9	17.2
ROIC	13.1	15.4	12.8	13.5
RoE	14.3	14.9	13.1	13.9
Balance Sheet				
Net Debt : Equity (x)	0.3	0.1	0.1	0.1
Debtor (Days)	51	49	49	49
Valuation(x)				
PER	8.3	6.9	7.2	6.1
P/B	1.1	1.0	0.9	0.8
P/CEPS	7.4	6.2	6.4	5.5
EV/EBITDA	6.0	4.7	4.9	4.3
EV/Sales	0.1	0.1	0.1	0.1
Dividend Yield (%)	2.4	3.3	3.1	3.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	102,140	111,085	126,301	125,827
YoY gr. (%)	3.4	5.4	7.7	15.6
Raw Material Expenses	96,035	104,788	118,748	118,557
Gross Profit	6,105	6,297	7,553	7,270
Margin (%)	6.0	5.7	6.0	5.8
EBITDA	1,663	1,874	2,766	2,554
YoY gr. (%)	(28.3)	12.7	47.6	(7.7)
Margin (%)	1.6	1.7	2.2	2.0
Depreciation / Depletion	152	166	163	152
EBIT	1,511	1,707	2,603	2,402
Margin (%)	1.5	1.5	2.1	1.9
Net Interest	440	471	558	573
Other Income	139	238	108	270
Profit before Tax	1,210	1,474	2,153	2,099
Margin (%)	1.2	1.3	1.7	1.7
Total Tax	360	513	142	374
Effective tax rate (%)	29.8	34.8	6.6	17.8
Profit after Tax	850	961	2,012	1,725
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	850	961	1,301	1,725
YoY gr. (%)	(20.8)	(16.9)	3.1	20.2
Margin (%)	0.8	0.9	1.0	1.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	850	961	1,301	1,725
YoY gr. (%)	(20.8)	(16.9)	3.1	20.2
Margin (%)	0.8	0.9	1.0	1.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	850	961	1,301	1,725
Avg. Shares O/s (m)	389	389	389	389
EPS (Rs)	2.2	2.5	3.3	4.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-18	BUY	175	113
2	5-Oct-18	BUY	140	92
3	7-Jan-19	BUY	140	86
4	5-Apr-19	BUY	108	98

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Accumulate	621	579
2	HCL Technologies	BUY	1,186	1,087
3	Hexaware Technologies	Reduce	325	333
4	Infosys	Accumulate	782	748
5	L&T Technology Services	Accumulate	1,835	1,691
6	Larsen & Toubro Infotech	BUY	1,981	1,678
7	Mindtree	Reduce	873	972
8	Mphasis	Accumulate	1,090	975
9	NIIT Technologies	BUY	1,539	1,268
10	Persistent Systems	Hold	618	636
11	Redington (India)	BUY	108	98
12	Sonata Software	Accumulate	400	346
13	Tata Consultancy Services	BUY	2,312	2,013
14	TeamLease Services	Hold	3,203	3,031
15	Tech Mahindra	BUY	847	770
16	Wipro	Hold	247	281
17	Zensar Technologies	Accumulate	260	246

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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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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