

September 29, 2021

Company Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	202		198	
Sales (Rs. m)	806,650	894,736	776,714	863,759
% Chng.	3.9	3.6		
EBITDA (Rs. m)	19,360	21,474	18,641	20,730
% Chng.	3.9	3.6		
EPS (Rs.)	16.1	17.6	15.8	17.2
% Chng.	2.3	2.2		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	569	682	807	895
EBITDA (Rs. bn)	13	17	19	21
Margin (%)	2.4	2.5	2.4	2.4
PAT (Rs. bn)	8	11	13	14
EPS (Rs.)	9.8	14.4	16.1	17.6
Gr. (%)	40.8	47.4	11.7	9.2
DPS (Rs.)	2.2	3.2	3.5	3.9
Yield (%)	1.5	2.2	2.4	2.7
RoE (%)	16.5	21.1	20.2	19.1
RoCE (%)	19.5	26.3	26.3	25.3
EV/Sales (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	6.2	4.8	4.0	3.3
PE (x)	14.8	10.0	9.0	8.2
P/BV (x)	2.3	2.0	1.7	1.5

Key Data

REDI.BO | REDI IN

52-W High / Low	Rs.178 / Rs.56
Sensex / Nifty	59,668 / 17,749
Market Cap	Rs.113bn / \$ 1,529m
Shares Outstanding	781m
3M Avg. Daily Value	Rs.790.89m

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	(5.1)	78.8	153.0
Relative	(10.7)	46.9	61.1

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Well placed to ride on digital tailwinds

Quick Pointers:

- Chip shortage is shifting supplies towards larger brands thus benefiting larger distributors like Redington
- EBIT margins expected to go up as revenue share of ProConnect and Cloud business increases over the long term
- Brightstar Turkey is attractively valued 0.1x EV/Sales and enables Redington to enter into mobility business in Turkey

We interacted with Redington management, Mr. Raj Shankar - Vice Chairman and Managing Director & Mr. S. V. Krishnan - Whole Time Director & CFO. Redington is capitalizing on demand led by accelerated digital adoption amidst work from home during pandemic. Though chip shortage is expected to limit industry growth, Redington being largest distributor for top global brands will benefit from larger share of supplies from these brands as reflected in top 5 brands revenue growth of 37% YoY and decline of 3% YoY in other brands as on Q1FY22. With strong growth potential in hybrid and private cloud management, management expects cloud business to grow at strong double digit rate in the medium term. (60% YoY in Q1FY22, 2% of revenues)

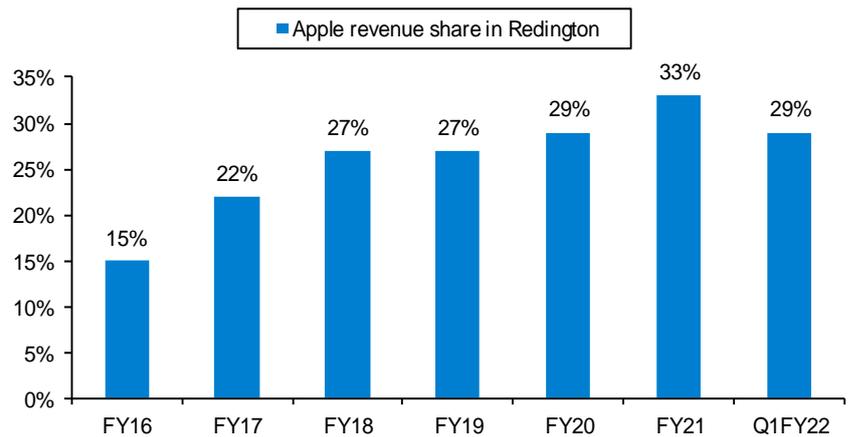
Management mentioned that steady state working capital is expected to be 30-35 days. We believe that supply shortage and strong demand momentum will reduce receivable days and help sustain lower working capital days in the near term (18 days in Q1FY22). We anticipate EBIT margin profile to improve over longer term as share of ProConnect and Cloud business (especially managed services component) increases. (EBIT margin at ~2.1% in FY21 vs 1.7-1.8% pre-covid)

Brightstar acquisition provides multiple growth levers in Turkey– 1) entry in to mobility business with access to global brands in Turkey, 2) Arena (Redington's Turkish subsidiary) can cross-sell IT devices in Vodafone stores and 3) scale up Brightstar's mobility business via Redington Arena's network. Brightstar's CY20 revenue of USD 342 mn is ~4% of Redington's FY21 revenue. Our EPS estimates increase by 2.3%/2.2% for FY23/24E led by increase in revenue estimate by 4%/3.6% in FY23/24E because of the acquisition. We continue to value Redington on 12X on Sep-23 EPS of 16.9 to arrive at revised TP of Rs 202 (earlier: 198). Currently, Redington trades at 9x/8x on FY23/24E EPS of Rs 16.1/17.6 respectively with Revenue CAGR of 16.3% and EPS CAGR of 18.4% over FY21-24E. Maintain 'BUY'.

- Redington has leading market share:** Redington has a leading market share (Top1 or 2 position) for each of top 10 brands and each of their product categories. Apple contributes highest to revenue share because Redington has distribution rights to distribute all the product categories of Apple and also has Apple contracts in both India and few overseas markets. It also has leading market share for other brands such as HP, Dell, Lenovo, Samsung etc., however their revenue share is less than Apple because these brands have total 4-5 distributors unlike Apple which has only total 2 distributors. Redington is also top distributor for security product companies such as Symantec, Fortinet etc.

- Chip shortage to benefit large organized players:** Chip shortage will benefit large branded players as these players can garner larger share of chip supplies. Chip shortage has potential to limit industry growth rate but Redington being leading distributor for most of the branded players will in turn receive largest share of supplies from them, increasing Redington's market share. Redington's revenue (Apple, HP, Dell, Lenovo and Samsung) from top 5 brands increased 37% YoY in Q1FY22 v/s 3% decline in other brands.

Exhibit 1: Apple contributes highest share in revenue



Source: Company, PL

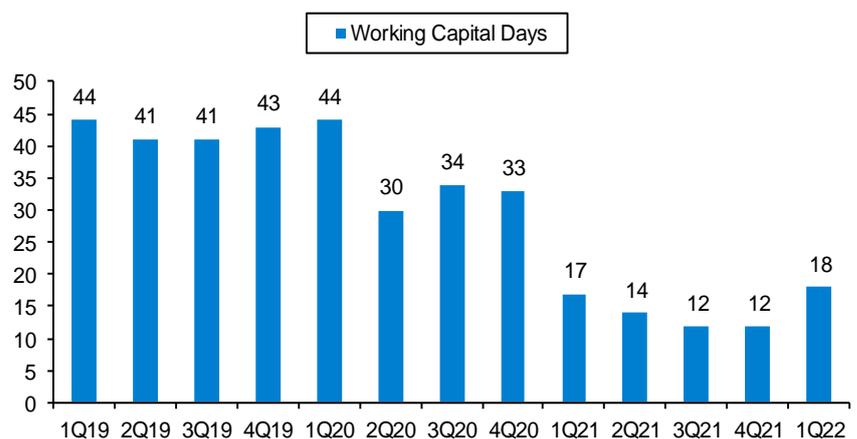
- Strong demand momentum to continue:** Management stated that strong demand momentum is expected to continue for IT and mobility products due to rising digital adoption triggered by pandemic. Apple's latest launch of iPhone13 may also boost revenues in coming quarters.
- Doubling down on cloud business:** Pandemic has led to accelerated cloud adoption and Redington is well equipped to capitalize this demand. It's cloud business has grown at around 60% YoY with revenue of INR 2800 mn (2% of overall revenue). Redington also has capabilities to provide managed cloud services (identification of workloads to be migrated, migrating to cloud, managing hybrid cloud platforms etc.) and currently caters to SMEs. Managed cloud services contributes to 6% of cloud revenue.
- Management mentioned that hybrid cloud and private cloud environment management are potential growth drivers in the long term. Cloud is expected to grow at much faster pace going forward and it is currently not cannibalizing traditional enterprise revenue.
- ProConnect business focusing on high margin warehousing business:** ProConnect logistics business was started in 2012. It has grown steadily and now caters to various industries with around 85% revenue coming from outside businesses. 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 ProConnect EBITDA margin is expected to go up.

India public cloud market is estimated to reach Rs 630 Bn by 2025. Small & Medium Businesses (target market for Redington) can account for 30% of India's public cloud market

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

- Growth in E-commerce will not disintermediate distributors:** Management mentioned that e-commerce players are more likely to deal with distributors directly as it's much easier for them to source through distributors than OEMs. Margins in e-commerce channel is similar to other channels, but as value of shipments is high they benefit from operating leverage and reduction in working capital requirement. E-commerce channel currently contributes 20% to their revenue.
- Working Capital improvement:** Working capital days increased slightly to 18 days (vs 12 days in 1Q21), but is well below pre-covid average of 33-35 days. Redington had improved working capital from 43-44 to 33-34 days through consistent improvement in collection efficiency. It further reduced to 12-14 days in FY21. Management expects steady state working capital to be 33-35 days and it will take few quarter to go back to those levels. We believe that supply shortage and strong demand momentum will reduce receivable days and help sustain lower working capital days in the near term.

Exhibit 2: Working Capital days much below pre-covid levels



Source: Company, PL

- Markets offering long-term growth potential:** Management mentioned that given India's favourable macro trends it provides very high growth opportunity over the long term. In Africa, digital & IT penetration is quite low but risk reward is not yet favourable. As and when economy opens up in Africa and demand situation gains momentum, this region will also offer high growth potential.
- Redington does not have any plans to enter retailing business as it would create conflict with their channel partners

Brightstar Turkey Acquisition

- Acquisition contours:** Redington's Turkish Subsidiary Arena (49.4% stake) has entered in binding agreement to acquire 100% stake in Brightstar Turkey. Arena will pay a consideration of USD 35 mn in cash valuing Brightstar at inexpensive valuation of 0.1x EV/Sales (CY20 revenue of USD 342 Mn). Acquisition is expected to close by end of Q3FY22.

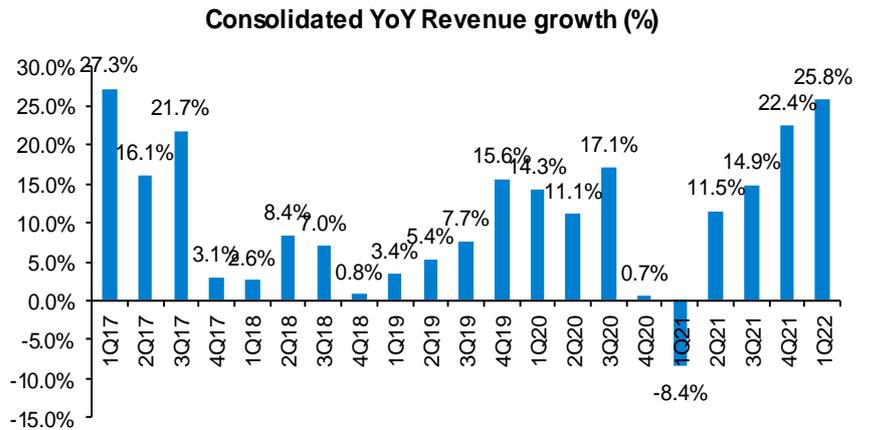
- **Expansion in to mobility distribution in Turkey:** Arena currently distributes only IT devices and not mobility (smartphones) devices in Turkey. Through this acquisition Redington will enter into mobility distribution as Brightstar has partnership with Vodafone Turkey and distribute all global smartphone brands in Turkey.
- **Arena to scale up Brightstar's revenue:** Brightstar's revenue halved from CY18 to CY20 (CY18: USD 690 Mn, CY19: USD 430 Mn, CY20: USD 342 Mn) because earlier Brightstar was the sole distributor for Vodafone Turkey till 2018, but as Vodafone's business scale increased it brought in a second distributor in CY18. Plus, revenue decline in CY20 was due to impact of pandemic. Redington management aims to arrest this de-growth and scale up revenues via – 1) cross-selling of Arena's IT devices in Vodafone stores and 2) Taking Brightstar's portfolio of global mobile brands beyond Vodafone stores.
- **Growth opportunity in Turkey:** Average age in Turkey is less than 30 years with very technology savvy population. Therefore, overall business opportunity is growing. Adoption of 5G and IoT will help in expanding the market further.
- **Acquisition is EPS accretive:** This acquisition is EPS accretive given 1) Brightstar has slightly higher operating margins compared to Arena's business and 2) Brightstar's business is profitable (PAT positive).
- **Tax rate:** Brightstar Turkey's functional currency is Turkish Lira, therefore tax rate for it will be fixed at 22% (corporate tax rate in Turkey). Unlike Arena whose functional currency is USD and therefore faces higher effective tax rate (94% in Q3FY21 and 64% in Q4FY21) due to inflation and currency volatility in Turkey. However, Arena is profitable at operating level (Arena contributes 9% to revenue and 4% to bottom-line).

Exhibit 3: Key financial metrics

	FY21	FY22E	FY23E	FY24E
Organic Revenue (USD mn)	7,770	9,132	10,268	11,266
<i>YoY gr.</i>			12.4%	9.7%
Brightstar acquisition revenue (USD mn)		85	346	353
<i>YoY gr.</i>				2%
Total revenue (USD mn)	7,770	9,217	10,614	11,620
<i>YoY gr.</i>		18.6%	15.1%	9.4%
EBIT margin (%)	2.1%	2.2%	2.1%	2.1%
EPS (Rs.)	10.6	14.4	16.1	17.6
<i>YoY gr.</i>		35.8%	11.8%	9.3%

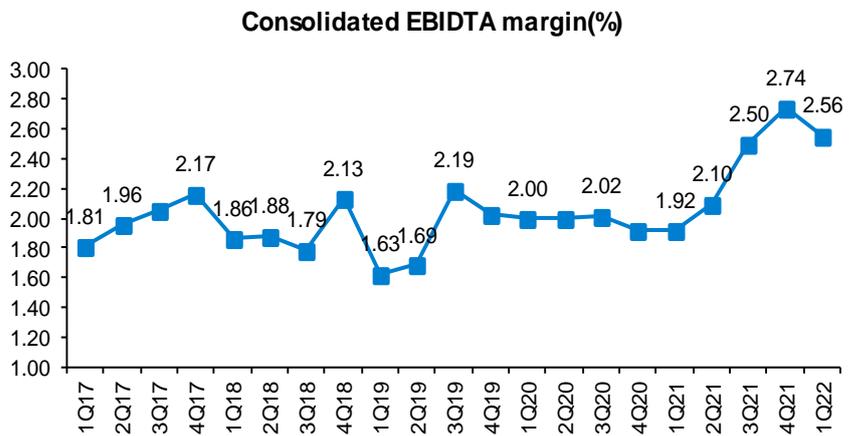
Source: Company, PL, Note: Brightstar revenue in FY22 is considered only for Q4FY22 as acquisition is expected to close by end of Q3FY22

Exhibit 4: Strong revenue growth momentum



Source: Company, PL

Exhibit 5: EBITDA margins maintained above 2.5%



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	569,459	681,634	806,650	894,736
YoY gr. (%)	10.6	19.7	18.3	10.9
Employee Cost	538,010	641,728	762,284	845,525
Gross Profit	31,449	39,905	44,366	49,210
Margin (%)	5.5	5.9	5.5	5.5
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	13,434	16,732	19,360	21,474
YoY gr. (%)	31.3	24.6	15.7	10.9
Margin (%)	2.4	2.5	2.4	2.4
Depreciation and Amortization	1,482	1,522	2,096	2,684
EBIT	11,952	15,210	17,264	18,789
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	14,888	16,942	18,467
Margin (%)	2.0	2.2	2.1	2.1
Total Tax	3,415	3,472	4,066	4,432
Effective tax rate (%)	30.1	23.3	24.0	24.0
Profit after tax	7,929	11,416	12,876	14,035
Minority interest	302	135	280	280
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,627	11,281	12,596	13,755
YoY gr. (%)	40.8	47.9	11.7	9.2
Margin (%)	1.3	1.7	1.6	1.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,627	11,281	12,596	13,755
YoY gr. (%)	40.8	47.9	11.7	9.2
Margin (%)	1.3	1.7	1.6	1.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,627	11,281	12,596	13,755
Equity Shares O/s (m)	778	781	781	781
EPS (Rs)	9.8	14.4	16.1	17.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	5,865	6,858	7,558	8,259
Tangibles	3,241	3,941	4,641	5,342
Intangibles	2,624	2,917	2,917	2,917
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	5,865	6,858	7,558	8,259
Tangibles	3,241	3,941	4,641	5,342
Intangibles	2,624	2,917	2,917	2,917
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	34,738	41,109	45,598
Trade receivables	68,007	81,403	96,333	106,852
Cash & Bank Balance	34,930	36,659	39,023	43,797
Other Current Assets	3,055	3,055	3,055	3,055
Total Assets	145,571	167,366	191,772	212,295
Equity				
Equity Share Capital	778	781	781	781
Other Equity	48,559	56,852	66,111	76,223
Total Network	49,337	57,633	66,892	77,004
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	87,379	103,405	114,697
Other current liabilities	11,983	12,083	12,183	12,283
Total Equity & Liabilities	145,571	167,366	191,772	212,295

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	11,043	14,753	16,662	18,187
Add. Depreciation	1,482	1,522	2,096	2,684
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	16,597	19,080	21,194
Net Changes-WC	24,360	(4,613)	(5,155)	(3,597)
Direct tax	(3,415)	(3,472)	(4,066)	(4,432)
Net cash from Op. activities	34,076	8,512	9,858	13,165
Capital expenditures	(5,539)	(800)	(800)	(800)
Interest / Dividend Income	957	798	798	798
Others	2,637	(40)	(40)	(40)
Net Cash from Inv. 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)	(2,988)	(3,336)	(3,643)
Interest paid	(1,564)	(1,120)	(1,120)	(1,120)
Others	(381)	-	-	-
Net cash from Fin. activities	(24,407)	(5,108)	(5,456)	(5,763)
Net change in cash	7,724	3,362	4,360	7,359
Free Cash Flow	28,537	7,712	9,058	12,364

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	9.8	14.4	16.1	17.6
CEPS	11.7	16.4	18.8	21.0
BVPS	63.4	73.8	85.6	98.6
FCF	36.7	9.9	11.6	15.8
DPS	2.2	3.2	3.5	3.9
Return Ratio(%)				
RoCE	19.5	26.3	26.3	25.3
ROIC	43.2	46.8	42.6	40.6
RoE	16.5	21.1	20.2	19.1
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.5)
Debtor (Days)	44	44	44	44
Valuation(x)				
PER	14.8	10.0	9.0	8.2
P/B	2.3	2.0	1.7	1.5
P/CEPS	12.4	8.8	7.7	6.9
EV/EBITDA	6.2	4.8	4.0	3.3
EV/Sales	0.1	0.1	0.1	0.1
Dividend Yield (%)	1.5	2.2	2.4	2.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	137,639	169,808	155,039	134,541
YoY gr. (%)	11.5	14.9	22.4	25.8
Raw Material Expenses	130,614	160,400	145,769	126,525
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

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Aug-21	BUY	397	330
2	6-Aug-21	BUY	301	331
3	2-Jul-21	BUY	301	279
4	28-May-21	BUY	267	183
5	5-Apr-21	BUY	189	184
6	4-Jan-21	BUY	138	133
7	23-Nov-20	BUY	138	138
8	5-Oct-20	BUY	146	117

Record date of 1:1 bonus issue on August 20, 2021

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	7,023	5,174
2	Coforge	BUY	5,393	4,790
3	Cyient	BUY	1,088	967
4	HCL Technologies	BUY	1,239	1,050
5	Infosys	BUY	1,847	1,650
6	L&T Technology Services	BUY	4,791	4,339
7	Larsen & Toubro Infotech	BUY	5,416	4,763
8	Mindtree	BUY	3,450	2,842
9	Mphasis	BUY	3,573	3,251
10	Persistent Systems	BUY	3,603	3,118
11	Redington (India)	BUY	397	330
12	Sonata Software	BUY	927	842
13	Tata Consultancy Services	BUY	3,807	3,310
14	TeamLease Services	BUY	4,716	3,954
15	Tech Mahindra	BUY	1,509	1,265
16	Wipro	BUY	665	598
17	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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