

November 10, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	213		202	
Sales (Rs. m)	7,96,344	8,84,354	8,06,650	8,94,736
% Chng.	(1.3)	(1.2)		
EBITDA (Rs. m)	20,410	22,109	19,360	21,474
% Chng.	5.4	3.0		
EPS (Rs.)	17.2	18.3	16.1	17.6
% Chng.	6.5	3.7		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	569	671	796	884
EBITDA (Rs. bn)	13	18	20	22
Margin (%)	2.4	2.7	2.6	2.5
PAT (Rs. bn)	8	12	13	14
EPS (Rs.)	9.8	15.8	17.2	18.3
Gr. (%)	40.8	61.7	8.4	6.3
DPS (Rs.)	2.2	3.5	3.8	4.0
Yield (%)	1.5	2.4	2.6	2.8
RoE (%)	16.5	23.0	21.2	19.4
RoCE (%)	19.5	28.2	27.5	25.6
EV/Sales (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	6.2	4.4	3.7	3.1
PE (x)	14.8	9.1	8.4	7.9
P/BV (x)	2.3	1.9	1.7	1.4

Key Data

REDI.BO | REDI IN

52-W High / Low	Rs.178 / Rs.58
Sensex / Nifty	60,433 / 18,044
Market Cap	Rs.113bn/ \$ 1,528m
Shares Outstanding	781m
3M Avg. Daily Value	Rs.525.89m

Shareholding Pattern (%)

Promoter's	-
Foreign	39.05
Domestic Institution	15.43
Public & Others	45.52
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.9)	62.5	137.4
Relative	(1.5)	32.3	67.3

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Strong Operational performance!

Quick Pointers:

- EBIT margin continues to improve, 2.6% in Q2FY22, +30bps QoQ & +74bps YoY
- Lowest ever working capital of 7 days (vs 18 days in Q1FY22 and 14 days in Q2FY21).

Redington's revenue growth of 11% YoY was below our and cons estimates (Ple: 15.4%, Cons: 14.3%) due to decline in overseas revenue, -0.4% YoY, while India business grew at strong rate of 30% YoY. Muted performance in overseas was led by decline of 23% YoY in SSA (7% of overseas revenue, due to ongoing shift of vendor business from Singapore to India initiated in 3Q21) and decline in Mobility business (32% of overseas revenue, -12% YoY). Enterprise IT continued to perform well in India (31% YoY) as well as overseas (41% YoY).

Overseas EBITDA margin grew 36% YoY despite flattish revenue growth. Overall EBIT Margin improvement is driven by – 1) shift in business mix towards IT (72% of revenue in Q2FY22 vs 68% of revenue in Q2FY21), 2) supply shortage and prudent buying by Redington has reduced margin leakage drastically. As supply shortages ease of, margins may come under pressure but management mentioned that margins are likely to increase over medium term as share of high margin services business (currently ~1% of revenue; Cloud, Pro-connect, implementation etc.) increases.

Extremely low working capital of 7 days is driven by 1) favourable creditor days due to higher share of Enterprise IT business and 2) low inventory days. Over a period of time working capital is expected to go back to pre-covid levels of 30-35 days as supply shortages ease off.

We have increased our EPS estimates by 9.7%/6.5%/3.7% for FY22/23/24E led by increase in margin estimates. We continue to value Redington on earnings multiple of 12x on Sep23 EPS of 17.7 to arrive at revised TP of Rs 213 (earlier: 202). Currently, Redington trades at 8.4x/7.9x on FY23/24E EPS of Rs17.2/Rs.18.3 respectively with Revenue CAGR of 14.8% and EPS CAGR of 7.3% over FY22-24E. Maintain BUY

- Miss in revenue:** Overall revenue came at INR 153 Bn, + 11% YoY, growth was below our and cons estimates (Ple: 15.4%, Cons: 14.3%) due to decline in overseas revenue, -0.4% YoY, while India business (43% of revenue) grew at strong rate of 30% YoY. In India business growth was led by IT segment (33% YoY) driven by IT Consumer segment while Mobility segment grew by 21% YoY.
- Overseas business declined** due to -1) decline of 23% YoY in SSA (7% of overseas revenue, due to ongoing shift of vendor business from Singapore to India initiated in 3Q21), most of the sales lost in Singapore have been made up in India operations, 2) 17% YoY decline in Arena (9% of overall revenue)

Margins are likely to increase as share of services (Cloud, Pro-connect, implementation etc.) increases.

led by de-growth in Mobility business in Turkey and West Africa (especially Nigeria). Over last few quarters Xiaomi has reduced supplies to Turkey as it no more considers Turkey as priority market. In West Africa Redington was consciously going slow due to recent currency devaluation and lack of availability of US dollars. Overseas IT Enterprise segment continues to perform well and has grown 41% YoY.

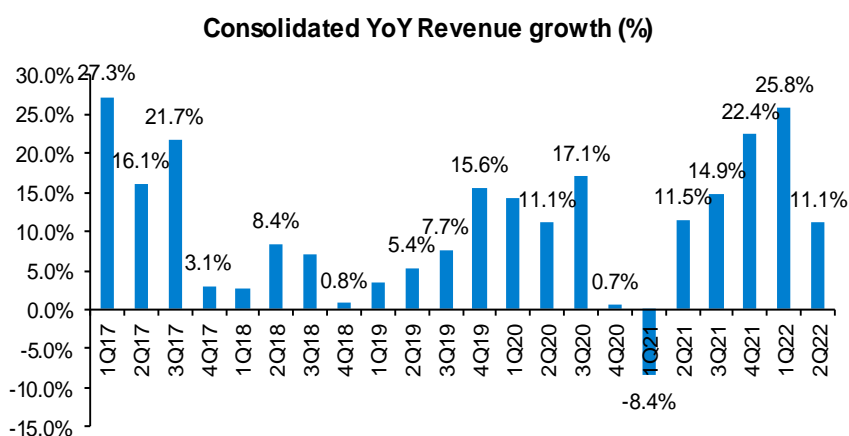
- **Strong growth in Enterprise IT across India and Overseas:** On a consolidated basis IT grew by 18% YoY (72% of revenue), while Mobility declined by 3% YoY (26% of revenue) mainly due to muted performance in Turkey and Africa. Services grew by 10% YoY. In India, growth was led by IT, 33% YoY (Enterprise IT grew 31% YoY, Consumer IT grew 35% YoY). India Mobility grew by 21% YoY and Services (excluding Ensure divested in Q1FY21) grew by 16% YoY. Overseas growth was also led by Enterprise IT (41% YoY). Overseas Mobility business declined by 12% YoY.
- **Strong improvement in margins:** EBIT margin came at 2.6% (Ple: 2.3%) expanded by 30bps QoQ & 74bps YoY led by lower employee costs (-20bps QoQ) and other expenses (-10bps QoQ). Segmental EBIT margins in India/Oversees were healthy at 2.6%/2.9% (vs 2.5%/2.4% in 1QFY21). Overseas EBITDA margin grew 36% YoY despite flattish revenue growth. Margin improvement is driven by – 1) shift in business mix towards IT (72% of revenue in Q2FY22 vs 68% of revenue in Q2FY21), 2) supply shortage and prudent buying by Redington has reduced margin leakage drastically.
- PAT came at INR 3072 mn (29.8% QoQ, 74.7% YoY) led by lower tax rate of 17.3% vs 20.6% in Q1FY22. On a consolidated level tax is expected to be between 23-24%.
- **Healthy growth in Proconnect India (PCS) business:** PCS revenues grew by 16% YoY but PAT degrew by 13% YoY on the back of RCS merger impact in the base quarter (excluding the same, PAT would have grown by 36% YoY). PCS registered EBITDA margin of 11% for the quarter.
- **Best ever working capital:** Working capital (WC) was at all-time low of 7 days (vs 18 days in Q1FY22 and 14 days in Q2FY21). In India WC was at all-time low of 3 days (vs 21 days in Q1FY22 and 14 days in Q2FY21). In overseas as well WC was low at 11 days (vs 17 days in Q2FY22 and 14 days in Q2FY21). Extremely low WC is driven by favourable creditor days due to higher share of Enterprise IT business. In enterprise products, Redington is able to negotiate credit terms with vendors given large back-to-back deals.
- **Over a period of time working capital is expected to go back to pre-covid levels** of 30-35 days given 1) increase in Inventory days from current 2.5 weeks to 4 weeks as supply shortage eases off and 2) Debtor days likely to increase by 5-7 days as contribution of Enterprise IT increases. However, Redington will continue to negotiate favourable creditor days.
- Capital efficiency continues to improve with ROCE is at new high of 74.6% in 2Q22 (vs 52.2% in 1Q22 and 36.5% in FY21). ROE has also improved to 23.8% in 2Q22 (vs 18.8% in 1Q22 and 16.4% in FY21).

- Provision for inventory (as % of sales) was contained at 5bps at consolidated level reflecting efficient inventory management. Bad debt (as % of sales) at consolidated level was just 2bps.
- Cloud business continues to grow at strong pace:** Cloud business grew 30% YoY in Q2FY22 (India 31% YoY, Overseas 28% YoY) and 42% YoY in H1FY22 (India 31% YoY, Overseas 54% YoY). Cloud revenue of INR 3100 mn in Q2 accounts to 2% of overall revenue. Managed cloud services revenue for the quarter is INR 80 mn. Redington is investing in developing cloud capabilities and resources. Cloud revenue is expected to grow at strong rate and in turn improve overall margins.

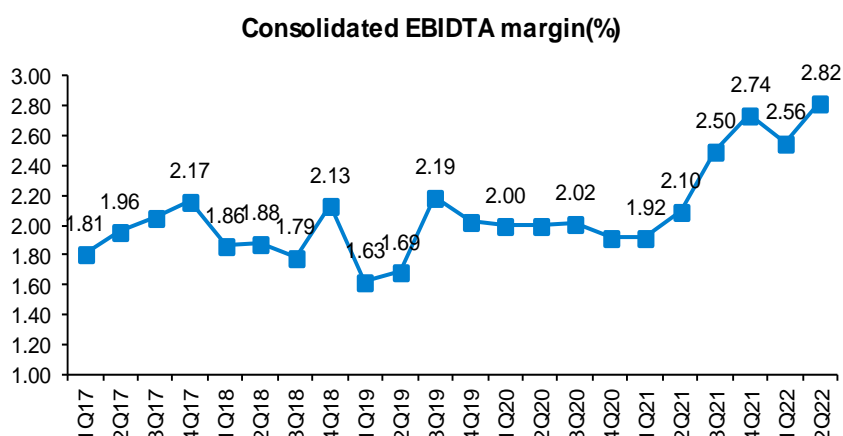
Exhibit 1: Q2FY22 Quick view on results

Y/e March (Rs mn)	2QFY22	1QFY22	QoQ gr.	2QFY21	YoY gr.	Ple	Variance
Revenues (in USD terms)	2065.9	1,824.03	13.3%	1,849.99	11.7%	2145.7	-3.7%
Revenues (in Rs)	1,52,875	1,34,541	13.6%	1,37,639	11.1%	1,58,780	-3.7%
EBIDTA	4,316	3,443	25.4%	2,888	49.4%	3,970	8.7%
EBIDTA margin (%)	2.82%	2.56%	26 bps	2.1%	72 bps	2.50%	32 bps
EBIT Margin (%)	2.6%	2%	29 bps	2%	74 bps	2.3%	34 bps
PAT	3,072	2,367	29.8%	1,758	74.7%	2,634	16.6%
EPS	3.9	3.0	29.8%	2.3	74.1%	3.4	16.6%

Source: Company, PL

Exhibit 2: Lower revenue growth driven by muted performance in overseas


Source: Company, PL

Exhibit 3: EBITDA margin continues to improve


Source: Company, PL

Exhibit 4: Top 5 vendor concentration at remains at elevated levels

Vendor mix (%)	2QFY22	1QFY22	2QFY21
Apple	29	29	27
HP Inc	14	14	8
Lenovo	8	8	7
Samsung	6	6	5
Dell	9	9	8
Others	34	34	45
Total	100	100	100

Source: Company, PL

Exhibit 5: Business Mix

Geo mix (INR mn)	2QFY22	1QFY22	QoQ gr.	2QFY21	YoY gr.
India	68,357	54,271	26.0%	52,529	30.1%
Overseas	84,776	80,272	5.6%	85,111	-0.4%
Intersegment	2	2	0.0%	1	109.1%
Total	1,53,131	1,34,541	13.8%	1,37,639	11.3%

Source: Company, PL

Exhibit 6: Service Mix

Service mix (INR mn)	2QFY22	1QFY22	QoQ gr.	2QFY21	YoY gr.
IT	1,10,070	96,869	13.6%	93,595	17.6%
Mobility	41,276	36,326	13.6%	42,668	-3.3%
Services	1,529	1,345	13.6%	1,376	11.1%
Total	1,52,875	1,34,541	13.6%	1,37,639	11.1%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	5,69,459	6,71,124	7,96,344	8,84,354
YoY gr. (%)	10.6	17.9	18.7	11.1
Employee Cost	5,38,010	6,31,919	7,51,247	8,34,830
Gross Profit	31,449	39,205	45,097	49,524
Margin (%)	5.5	5.8	5.7	5.6
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	13,434	17,934	20,410	22,109
YoY gr. (%)	31.3	33.5	13.8	8.3
Margin (%)	2.4	2.7	2.6	2.5
Depreciation and Amortization	1,482	1,477	2,070	2,653
EBIT	11,952	16,458	18,340	19,456
Margin (%)	2.1	2.5	2.3	2.2
Net Interest	1,564	1,187	1,200	1,200
Other Income	957	898	880	880
Profit Before Tax	11,345	16,169	18,020	19,136
Margin (%)	2.0	2.4	2.3	2.2
Total Tax	3,415	3,518	4,325	4,593
Effective tax rate (%)	30.1	21.8	24.0	24.0
Profit after tax	7,929	12,651	13,695	14,543
Minority interest	302	274	280	280
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,627	12,377	13,415	14,263
YoY gr. (%)	40.8	62.3	8.4	6.3
Margin (%)	1.3	1.8	1.7	1.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,627	12,377	13,415	14,263
YoY gr. (%)	40.8	62.3	8.4	6.3
Margin (%)	1.3	1.8	1.7	1.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,627	12,377	13,415	14,263
Equity Shares O/s (m)	778	781	781	781
EPS (Rs)	9.8	15.8	17.2	18.3

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	34,202	40,584	45,069
Trade receivables	68,007	80,148	95,102	1,05,613
Cash & Bank Balance	34,930	37,908	40,867	46,017
Other Current Assets	3,055	3,055	3,055	3,055
Total Assets	1,45,571	1,66,825	1,91,859	2,12,746
Equity				
Equity Share Capital	778	781	781	781
Other Equity	48,559	57,657	67,519	78,005
Total Networkth	49,337	58,439	68,301	78,786
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	86,032	1,02,084	1,13,366
Other current liabilities	11,983	12,083	12,183	12,283
Total Equity & Liabilities	1,45,571	1,66,825	1,91,859	2,12,746

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	11,043	15,895	17,740	18,856
Add. Depreciation	1,482	1,477	2,070	2,653
Add. Interest	1,564	1,187	1,200	1,200
Less Financial Other Income	957	898	880	880
Add. Other	(957)	(898)	(880)	(880)
Op. profit before WC changes	13,132	17,661	20,130	21,829
Net Changes-WC	24,360	(4,170)	(5,164)	(3,594)
Direct tax	(3,415)	(3,518)	(4,325)	(4,593)
Net cash from Op. activities	34,076	9,973	10,642	13,643
Capital expenditures	(5,539)	(800)	(800)	(800)
Interest / Dividend Income	957	898	880	880
Others	2,637	(40)	(40)	(40)
Net Cash from Invt. activities	(1,945)	58	40	40
Issue of share cap. / premium	-	-	-	-
Debt changes	(20,441)	(1,000)	(1,000)	(1,000)
Dividend paid	(2,020)	(3,278)	(3,553)	(3,778)
Interest paid	(1,564)	(1,187)	(1,200)	(1,200)
Others	(381)	-	-	-
Net cash from Fin. activities	(24,407)	(5,465)	(5,753)	(5,978)
Net change in cash	7,724	4,566	4,928	7,705
Free Cash Flow	28,537	9,173	9,842	12,842

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	9.8	15.8	17.2	18.3
CEPS	11.7	17.7	19.8	21.7
BVPS	63.4	74.8	87.4	100.8
FCF	36.7	11.7	12.6	16.4
DPS	2.2	3.5	3.8	4.0
Return Ratio(%)				
RoCE	19.5	28.2	27.5	25.6
ROIC	43.2	52.6	45.9	42.6
RoE	16.5	23.0	21.2	19.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Debtor (Days)	44	44	44	44
Valuation(x)				
PER	14.8	9.1	8.4	7.9
P/B	2.3	1.9	1.7	1.4
P/CEPS	12.4	8.2	7.3	6.7
EV/EBITDA	6.2	4.4	3.7	3.1
EV/Sales	0.1	0.1	0.1	0.1
Dividend Yield (%)	1.5	2.4	2.6	2.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	1,69,808	1,55,039	1,34,541	1,52,875
YoY gr. (%)	14.9	22.4	25.8	11.1
Raw Material Expenses	1,60,400	1,45,769	1,26,525	1,43,940
Gross Profit	9,408	9,271	8,015	8,935
Margin (%)	5.5	6.0	6.0	5.8
EBITDA	4,241	4,251	3,443	4,316
YoY gr. (%)	42.2	74.3	67.7	49.4
Margin (%)	2.5	2.7	2.6	2.8
Depreciation / Depletion	374	362	349	361
EBIT	3,867	3,889	3,094	3,955
Margin (%)	2.3	2.5	2.3	2.6
Net Interest	312	305	280	307
Other Income	223	264	200	259
Profit before Tax	3,779	3,848	3,014	3,907
Margin (%)	2.2	2.5	2.2	2.6
Total Tax	1,697	814	622	676
Effective tax rate (%)	44.9	21.2	20.6	17.3
Profit after Tax	2,083	3,034	2,392	3,231
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,717	3,034	2,392	3,231
YoY gr. (%)	66.0	139.4	141.7	77.2
Margin (%)	1.6	2.0	1.8	2.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,717	3,034	2,392	3,231
YoY gr. (%)	66.0	139.4	141.7	77.2
Margin (%)	1.6	2.0	1.8	2.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,717	3,034	2,392	3,231
Avg. Shares O/s (m)	389	389	389	389
EPS (Rs)	7.0	7.8	6.1	8.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-21	BUY	202	146
2	29-Sep-21	BUY	202	145
3	13-Aug-21	BUY	397	330
4	06-Aug-21	BUY	301	331
5	02-Jul-21	BUY	301	279
6	28-May-21	BUY	267	183
7	05-Apr-21	BUY	189	184
8	04-Jan-21	BUY	138	133
9	23-Nov-20	BUY	138	138

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,411	1,123
2	Coforge	BUY	5,596	5,069
3	Cyient	BUY	1,315	1,160
4	HCL Technologies	BUY	1,386	1,251
5	Infosys	BUY	2,004	1,709
6	L&T Technology Services	BUY	5,621	5,132
7	Larsen & Toubro Infotech	BUY	6,710	5,906
8	Mindtree	BUY	4,804	4,364
9	Mphasis	BUY	3,674	3,396
10	Persistent Systems	BUY	4,641	4,060
11	Redington (India)	BUY	202	146
12	Sonata Software	BUY	994	918
13	Tata Consultancy Services	BUY	4,113	3,936
14	TeamLease Services	BUY	4,892	4,645
15	Tech Mahindra	BUY	1,862	1,524
16	Wipro	BUY	728	673
17	Zensar Technologies	BUY	539	453

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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