

August 4, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	167		162	
Sales (Rs. m)	7,09,899	7,71,108	7,02,250	7,59,429
% Chng.	1.1	1.5		
EBITDA (Rs. m)	19,054	20,409	18,551	19,745
% Chng.	2.7	3.4		
EPS (Rs.)	16.2	16.8	15.5	16.2
% Chng.	4.4	3.6		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	569	626	710	771
EBITDA (Rs. bn)	13	18	19	20
Margin (%)	2.4	2.9	2.7	2.6
PAT (Rs. bn)	8	13	13	13
EPS (Rs.)	9.8	16.4	16.2	16.8
Gr. (%)	40.8	67.2	(1.2)	3.9
DPS (Rs.)	2.2	3.6	3.6	3.7
Yield (%)	1.7	2.8	2.8	2.9
RoE (%)	16.5	23.7	19.9	18.0
RoCE (%)	19.5	28.2	25.9	24.0
EV/Sales (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	5.2	3.5	3.6	3.6
PE (x)	13.0	7.8	7.9	7.6
P/BV (x)	2.0	1.7	1.5	1.3

Key Data

REDI.BO | REDI IN

52-W High / Low	Rs.179 / Rs.109
Sensex / Nifty	58,351 / 17,388
Market Cap	Rs.100bn/ \$ 1,262m
Shares Outstanding	781m
3M Avg. Daily Value	Rs.316.26m

Shareholding Pattern (%)

Promoter's	-
Foreign	38.74
Domestic Institution	16.51
Public & Others	44.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.6	(21.5)	(22.5)
Relative	(8.8)	(20.9)	(28.5)

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Strong Q1, expect demand to normalize ahead...

Quick Pointers:

- Strong revenue growth of 25% YoY led by broad-based growth across IT Enterprise and Mobility segment.
- Working capital increased to 28 days (vs 18 days in Q1FY22 and 35-40 days pre-covid), on expected lines.

Redington's revenue growth of 25% YoY was much above our estimate of 15% YoY growth. Growth was led by broad-based growth across IT (18.3% YoY) and Mobility (46.6% YoY). In terms of markets growth was led by SISA (37% YoY). RoW grew 15.6% YoY. Demand for IT from Enterprises, Governments and Schools was strong in Q1FY23 led by gradual shift to work from office, whereas demand from consumer segment was subdued. We expect demand to normalize going forward as both consumers and enterprises are likely to moderate spends given inflationary pressures and challenging macro environment. EBIT margin improved by 23bps YoY despite investments in talent and capabilities led by operational improvements (set-up of shared-services centre).

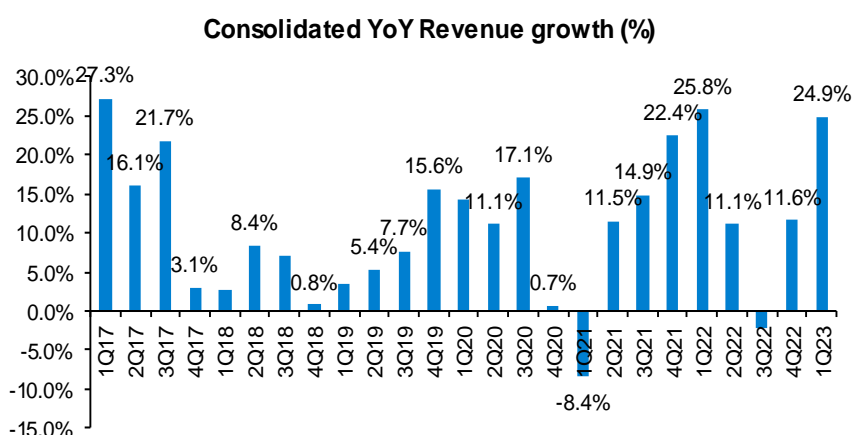
Our EPS estimates increase by 4.4%/3.6% for FY23/24E led by slight increase in revenue and margin estimates for FY23/24. We expect EBIT margin to be ~2.4% for FY23/24 lower than 2.6% for FY22 as benefit of lower discounts given to customers will fade away as supply shortages ease off, but higher than ~1.8% pre-covid, due to increasing share of Enterprise IT and operational improvements. In the long term, as high margin cloud, solar products and logistics services business scale up, it will also aid margins. We continue to value Redington on 10x on FY24 EPS of Rs 16.7 to arrive at revised TP of Rs 167 (earlier: 162). Currently, Redington trades at 7.9x/7.6x on FY23/24E EPS of Rs16.1/Rs.16.7 respectively with Revenue CAGR of 10.9% and low 1.1% EPS CAGR over FY22-24E. Maintain BUY on attractive valuations.

- Q1FY23 performance:** In SISA market (Singapore, India and South East Asia), Mobility (110% YoY) led the growth, IT grew 24% YoY. In RoW (Rest of the world), Mobility grew 16% YoY and IT Enterprise and Commercial PC segments (11% YoY). ProConnect India grew 18% YoY led by good execution. Arena revenues grew by 56% YoY aided by Brightstar consolidation. In terms of vendors, growth was led by Apple (38% YoY)
- Key concall KTAs:** 1) Working capital increased sharply to 28 days' vs 18 days in Q1FY2, but this reversal is on expected lines in-line with guidance of 28-35 days and is led by increase in revenue share of Enterprise IT where receivables days are generally higher and higher inventory days due to supply chain challenges. 2) In Distribution business growth was led by increase in sale of high value products (30% YoY) and volumes grew 14% YoY. 3) Cloud business (~2-3% of revenue) grew 48% YoY and within cloud, managed services grew 62% YoY. 4) Redington has entered in to solar products distribution (inverters, solar panels etc.), 5) Invested in talent, technology and partner relationship including opex investments of Rs. 600-800 Mn.

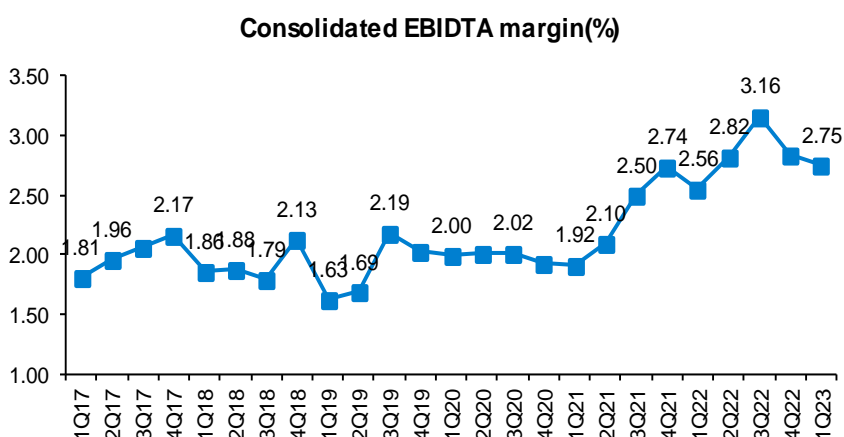
Exhibit 1: Q1FY23 Quick view on results

Y/e March (Rs mn)	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.	Ple	Variance
Revenues (in USD terms)	2165.4	2,338.08	-7.4%	1,824.03	18.7%	1994.3	8.6%
Revenues (in Rs)	1,68,031	1,73,018	-2.9%	1,34,541	24.9%	1,54,163	9.0%
EBIDTA	4,618	4,905	-5.9%	3,443	34.1%	4,317	7.0%
EBIDTA margin (%)	2.75%	2.84%	-9 bps	2.6%	19 bps	2.80%	-5 bps
EBIT Margin (%)	2.5%	2.62%	-9 bps	2.3%	23 bps	2.5%	3 bps
PAT	3,171	3,480	-8.9%	2,367	34.0%	2,780	14.1%
EPS	4.0	4.5	-9.3%	3.0	33.4%	3.6	13.5%

Source: Company, PL

Exhibit 2: Strong revenue growth led by broad-based growth


Source: Company, PL

Exhibit 3: EBITDA margin improved on YoY basis led by operational improvements.


Source: Company, PL

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

Vendor mix (%)	1QFY23	4QFY22	1QFY22
Apple	31	31	28
HP Inc	13	13	14
Lenovo	7	7	7
Samsung	6	5	6
Dell	8	8	9
Others	35	36	36
Total	100	100	100

Source: Company, PL

Exhibit 5: Geo Mix

Geo mix (INR mn)	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.
SIS	80,458	83,819	-4.0%	58,785	36.9%
RoW	87,573	89,201	-1.8%	75,758	15.6%
Intersegment	-	2		2	
Total	1,68,031	1,73,018	-2.9%	1,34,541	24.9%

Source: Company, PL

Exhibit 6: Service Mix

Service mix (INR mn)	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.
IT	1,20,983	1,22,842	-1.5%	1,02,251	18.3%
Mobility	45,368	48,445	-6.4%	30,944	46.6%
Services	1,680	1,730	-2.9%	1,345	24.9%
Total	1,68,031	1,73,018	-2.9%	1,34,541	24.9%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	5,69,459	6,26,440	7,09,899	7,71,108
YoY gr. (%)	10.6	10.0	13.3	8.6
Employee Cost	5,38,010	5,88,550	6,67,531	7,26,795
Gross Profit	31,449	37,890	42,368	44,313
Margin (%)	5.5	6.0	6.0	5.7
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	13,434	17,917	19,054	20,409
YoY gr. (%)	31.3	33.4	6.3	7.1
Margin (%)	2.4	2.9	2.7	2.6
Depreciation and Amortization	1,482	1,413	1,719	2,313
EBIT	11,952	16,504	17,334	18,095
Margin (%)	2.1	2.6	2.4	2.3
Net Interest	1,564	1,156	1,474	1,474
Other Income	957	876	852	800
Profit Before Tax	11,345	16,224	16,712	17,422
Margin (%)	2.0	2.6	2.4	2.3
Total Tax	3,415	3,075	3,766	4,007
Effective tax rate (%)	30.1	19.0	22.5	23.0
Profit after tax	7,929	13,149	12,947	13,415
Minority interest	302	350	302	280
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,627	12,799	12,645	13,135
YoY gr. (%)	40.8	67.8	(1.2)	3.9
Margin (%)	1.3	2.0	1.8	1.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,627	12,799	12,645	13,135
YoY gr. (%)	40.8	67.8	(1.2)	3.9
Margin (%)	1.3	2.0	1.8	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,627	12,799	12,645	13,135
Equity Shares O/s (m)	778	781	781	781
EPS (Rs)	9.8	16.4	16.2	16.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	5,865	6,458	6,758	7,058
Tangibles	3,241	3,541	3,841	4,141
Intangibles	2,624	2,917	2,917	2,917
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	5,865	6,458	6,758	7,058
Tangibles	3,241	3,541	3,841	4,141
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	31,925	42,788	50,703
Trade receivables	68,007	74,812	87,522	1,01,406
Cash & Bank Balance	34,930	40,504	34,168	28,519
Other Current Assets	3,055	3,055	3,055	3,055
Total Assets	1,45,571	1,61,407	1,78,985	1,95,475
Equity				
Equity Share Capital	778	781	781	781
Other Equity	48,559	57,968	67,263	76,919
Total Networkth	49,337	58,749	68,044	77,700
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	80,304	89,467	97,181
Other current liabilities	11,983	12,083	12,183	12,283
Total Equity & Liabilities	1,45,571	1,61,407	1,78,985	1,95,475

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	11,281	15,874	16,411	17,142
Add. Depreciation	1,482	1,413	1,719	2,313
Add. Interest	1,564	1,156	1,474	1,474
Less Financial Other Income	957	876	852	800
Add. Other	(115)	(876)	(852)	(800)
Op. profit before WC changes	14,213	17,567	18,752	20,129
Net Changes-WC	23,339	(2,284)	(14,291)	(13,965)
Direct tax	(2,634)	(3,075)	(3,766)	(4,007)
Net cash from Op. activities	34,918	12,208	695	2,157
Capital expenditures	(131)	(400)	(400)	(399)
Interest / Dividend Income	548	876	852	800
Others	(5,385)	(40)	(40)	(40)
Net Cash from Inv. activities	(4,968)	436	412	361
Issue of share cap. / premium	-	-	-	-
Debt changes	(20,025)	(1,000)	(1,000)	(1,000)
Dividend paid	-	(3,390)	(3,349)	(3,479)
Interest paid	(1,436)	(1,156)	(1,474)	(1,474)
Others	(950)	-	-	-
Net cash from Fin. activities	(22,411)	(5,546)	(5,823)	(5,953)
Net change in cash	7,540	7,097	(4,716)	(3,435)
Free Cash Flow	34,687	11,808	295	1,757

Source: Company Data, PL Research

Key Financial Metrics

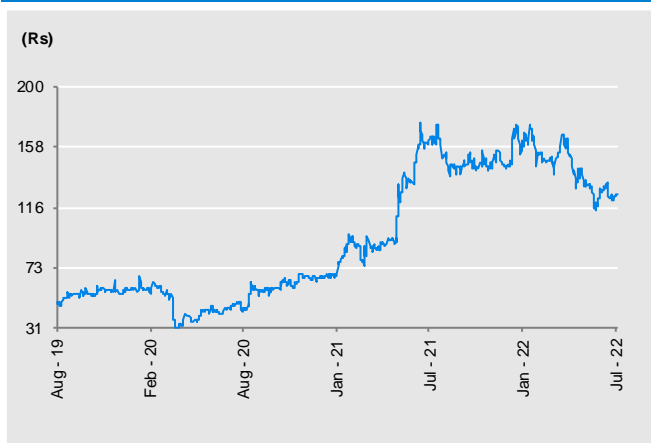
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	9.8	16.4	16.2	16.8
CEPS	11.7	18.2	18.4	19.8
BVPS	63.4	75.2	87.1	99.5
FCF	44.6	15.1	0.4	2.2
DPS	2.2	3.6	3.6	3.7
Return Ratio(%)				
RoCE	19.5	28.2	25.9	24.0
ROIC	43.2	60.3	36.5	27.3
RoE	16.5	23.7	19.9	18.0
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.3)
Debtor (Days)	44	44	45	48
Valuation(x)				
PER	13.0	7.8	7.9	7.6
P/B	2.0	1.7	1.5	1.3
P/CEPS	10.9	7.0	7.0	6.5
EV/EBITDA	5.2	3.5	3.6	3.6
EV/Sales	0.1	0.1	0.1	0.1
Dividend Yield (%)	1.7	2.8	2.8	2.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	1,52,875	1,66,007	1,73,018	1,68,031
YoY gr. (%)	11.1	(2.2)	11.6	24.9
Raw Material Expenses	1,43,940	1,55,675	1,62,410	1,57,581
Gross Profit	8,935	10,332	10,608	10,450
Margin (%)	5.8	6.2	6.1	6.2
EBITDA	4,316	5,253	4,905	4,618
YoY gr. (%)	49.4	23.8	15.4	34.1
Margin (%)	2.8	3.2	2.8	2.7
Depreciation / Depletion	361	337	366	365
EBIT	3,955	4,915	4,539	4,253
Margin (%)	2.6	3.0	2.6	2.5
Net Interest	307	239	331	368
Other Income	259	191	227	252
Profit before Tax	3,907	4,867	4,435	4,137
Margin (%)	2.6	2.9	2.6	2.5
Total Tax	676	897	880	873
Effective tax rate (%)	17.3	18.4	19.8	21.1
Profit after Tax	3,231	3,971	3,556	3,263
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,231	3,971	3,556	3,263
YoY gr. (%)	77.2	85.0	17.2	36.5
Margin (%)	2.1	2.4	2.1	1.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,231	3,971	3,556	3,263
YoY gr. (%)	77.2	85.0	17.2	36.5
Margin (%)	2.1	2.4	2.1	1.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,231	3,971	3,556	3,263
Avg. Shares O/s (m)	389	389	389	389
EPS (Rs)	8.3	10.2	9.1	8.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	BUY	162	127
2	05-Apr-22	BUY	200	150
3	04-Jan-22	BUY	215	147
4	10-Nov-21	BUY	213	145
5	05-Oct-21	BUY	202	146
6	29-Sep-21	BUY	202	145
7	13-Aug-21	BUY	397	330
8	06-Aug-21	BUY	301	331

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,342	1,009
2	Coforge	BUY	4,031	3,726
3	Cyient	Hold	776	799
4	HCL Technologies	Hold	982	928
5	Infosys	Accumulate	1,630	1,506
6	L&T Technology Services	Hold	3,184	3,093
7	Larsen & Toubro Infotech	Accumulate	4,280	3,874
8	Mindtree	Accumulate	3,131	2,901
9	Mphasis	Hold	2,382	2,276
10	Persistent Systems	Hold	3,500	3,633
11	Redington (India)	BUY	162	127
12	Sonata Software	Hold	704	750
13	Tata Consultancy Services	Accumulate	3,607	3,265
14	TeamLease Services	Hold	3,573	3,763
15	Tech Mahindra	Hold	1,042	1,017
16	Wipro	Hold	418	412
17	Zensar Technologies	Hold	279	270

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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