

Redington (India)

Steady quarter, 2HFY18 to show strong recovery

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Madhu Babu
madhubabu@plindia.com
+91-22-66322300

Rating	BUY
Price	Rs157
Target Price	Rs180
Implied Upside	14.6%
Sensex	33,213
Nifty	10,335

(Prices as on October 31, 2017)

Trading data

Market Cap. (Rs bn)	62.9
Shares o/s (m)	399.8
3M Avg. Daily value (Rs m)	77.9

Major shareholders

Promoters	0.00%
Foreign	35.62%
Domestic Inst.	21.77%
Public & Other	42.61%

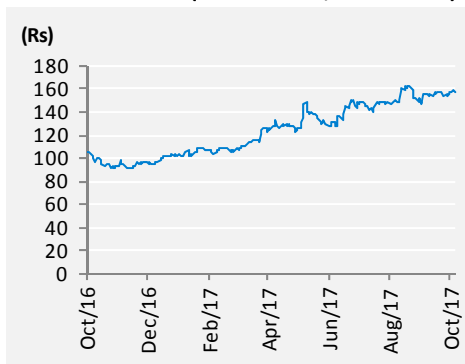
Stock Performance

(%)	1M	6M	12M
Absolute	0.8	26.6	51.8
Relative	(5.4)	15.6	32.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	12.5	12.3	1.7
2019	14.4	14.5	-0.5

Price Performance (RIC: REDI.BO, BB: REDI IN)



Source: Bloomberg

Redington's 2QFY18 results were above our estimates with a beat on revenues, EBIDTA and PAT. Revenues at Rs105.4bn were up 8.4% YoY and above our estimates (Rs101bn). Revenues from India came at Rs39.19bn up 6% YoY as company recovered from GST led destocking which has hurt growth in 1QFY18. Management guided that the worst from GST led headwinds are behind and sees improvement in revenue growth trajectory in India in 2HFY18. Revenues from Overseas geographies came at Rs66.2bn up 9.6% YoY. Consolidated EBIDTA margin at 1.88% was up 2bps QoQ and inline with our estimates. EBIDTA came at Rs1.98bn and beat our estimates (PL: Rs1.85bn). PAT at Rs1120mn was 12% above our estimates led by revenue and margin beat. IT products/ Mobility/ Services accounted to 69/28/3% of total revenues for 2QFY18. Within Brands, Apple product distribution accounted to 26% of total revenues. Redington remains bullish on prospects of growth in Apple and anticipates strong momentum for Iphone X which is scheduled to be launched in Nov 2017. Redington's logistics subsidiary Proconnect delivered revenues of Rs766mn for 2QFY18 up 96% YoY. Management guided that parent company (Redington) contributes to only 23% of Proconnect revenues with the rest of business derived from third party clients. Value unlocking of the logistics business can emerge as a key trigger for the stock in our view.

Led by 2Q revenue beat, we upgrade our revenue growth assumption and now model Redington revenues to grow by 6.4/11% for FY18/FY19E (vs 4.4/11% modelled earlier). We retain our EPS estimates at Rs12.5/14.5/sh for FY18/FY19E. Stock trades at 11.1x FY19E EPS. We have recently initiated coverage on Redington. Please find the report attached here ([Click on the Link for Detailed Report](#)). We value Redington on sum of parts with the core business valued at 12x FY19E EPS which yields a value of Rs162/sh. We value ProConnect at 20x FY19E EPS which yields a value of Rs17/sh. Sum of the parts yields a TP of Rs180/sh. Retain BUY.

Key financials (Y/e March)

	2016	2017	2018E	2019E
Revenues (Rs m)	354,421	411,147	437,923	486,250
Growth (%)	12.3	16.0	6.5	11.0
EBITDA (Rs m)	7,836	8,248	8,494	9,537
PAT (Rs m)	4,235	4,642	5,001	5,774
EPS (Rs)	10.6	11.6	12.5	14.4
Growth (%)	119.1	9.6	7.7	15.5
Net DPS (Rs)	2.1	4.4	2.8	3.2

Profitability & Valuation

	2016	2017	2018E	2019E
EBITDA margin (%)	2.2	2.0	1.9	2.0
RoE (%)	15.9	15.2	15.3	16.0
RoCE (%)	11.4	11.0	12.2	12.9
EV / sales (x)	0.2	0.2	0.2	0.1
EV / EBITDA (x)	10.2	8.6	8.2	7.2
PE (x)	14.9	13.6	12.6	10.9
P / BV (x)	2.1	2.0	1.8	1.6
Net dividend yield (%)	1.3	2.8	1.7	2.0

Source: Company Data; PL Research

Exhibit 1: 2QFY18 Result Table of Redington

(Rs mn)	2QFY18	1QFY18	QoQ gr.	2QFY17	YoY gr.	PL estimates	Variance (%)
Revenues	105,440	98,809	6.7%	97,256	8.4%	100,906	4.5%
EBIDTA	1,984	1,840	7.8%	1,905	4.1%	1,854	7.0%
<i>EBIDTA margin</i>	<i>1.9%</i>	<i>1.9%</i>		<i>2.0%</i>			
PAT	1,127	1,023.00	10.2%	1,003	12.4%	1004	12.3%

Source: Company Data, PL Research

Revenues beat estimates: Consolidated Revenues at Rs105.4bn were up 6.7% QoQ and 8.4% YoY and above our estimates (PLe: Rs100.9bn). Revenues from India were at Rs39.19bn were up 10% QoQ and up 6% YoY with GST destocking weighing on YoY growth. While India has shown substantial weakness in 1QFY18 led by GST destocking, Redington has shown a relatively stronger performance in 2QFY18. We note that 3Q would be the seasonal strong quarter for India owing to festive season and Apple's new iPhone launch. Overseas revenues at Rs66.2bn up 9.6% YoY led by traction in both IT products and Consumer segment.

Exhibit 2: Revenues by Geography

Rs mn	2QFY18	1QFY18	QoQ gr.	2QFY17	YoY gr.
India	39,191	35,611	10.1%	36,997	5.9%
Overseas	66,252	63,233	4.8%	60,467	9.6%
Intersegment	3	115		211	
Total	105,440	98,729	6.8%	97,253	8.4%

Source: Company Data, PL Research

Mobility Segment continues to drive growth on a YoY basis aided by robust traction in I-phone portfolio. Apart from India, Redington is also the distributor for Apple products in UAE and Kingdom of Saudia Arabia. Services business revenues of Redington include Logisitics, After Market Support Services.

Exhibit 3: Revenue by Product Category

Rs mn	2QFY18	1QFY18	QoQ growth (%)	2QFY17	YoY growth (%)
IT Products	72,754	69,166	5.2%	72,942	-0.3%
Mobility	29,523	27,667	6.7%	22,369	32.0%
Services	3,163	1,976	60.1%	1,945	62.6%
Total Revenues	105,440	98,809	6.7%	97,256	8.4%

Source: Company Data, PL Research

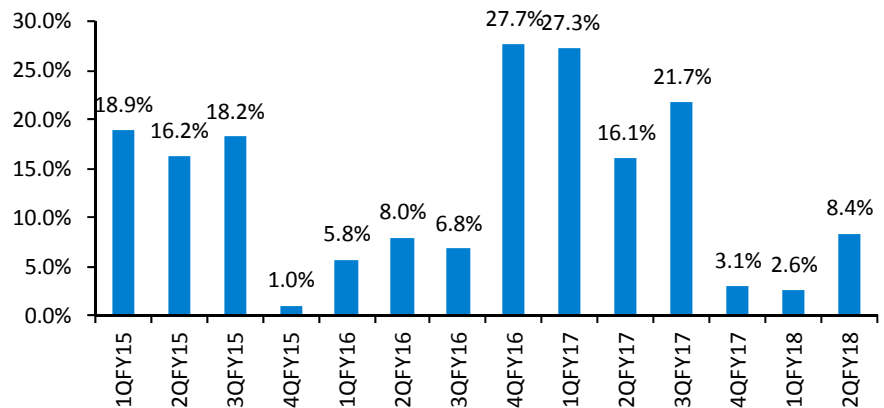
Exhibit 4: Contribution of Brands to Total Revenues (%)

	2QFY18	1QFY18	2QFY17
Apple	26	25	18
HP Inc	16	14	17
Lenovo	8	7	8
Samsung	5	6	4
Others	45	48	53
Total	100	100	100

Source: Company Data, PL Research

Apple distribution continue to see strong traction and now account for 26% of Redington’s total revenues. Redington is among the largest distributor of Apple Products in India. Management indicated that it is well diversified within Apple with distribution of multiple products (Iphone, Ipad, Apple Watch) as well as across geographies (India, UAE, Saudi Arabia).

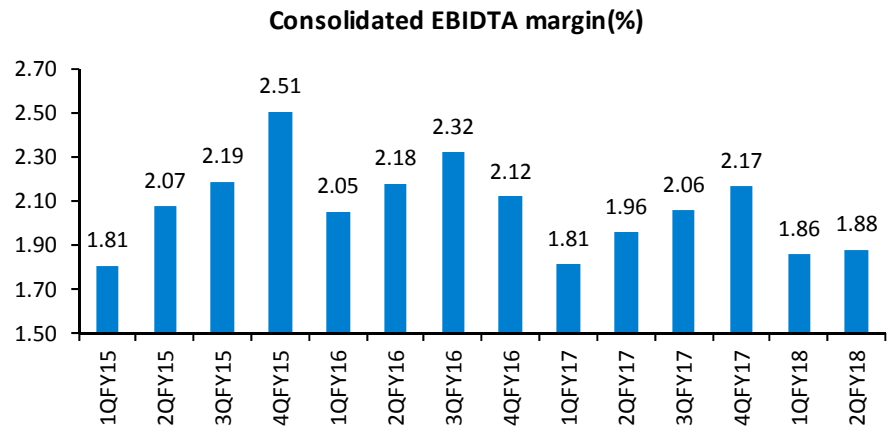
Revenues growth shows strong recovery in 2QFY18: We note that Redington Consolidated Revenues have been muted in 1QFY18 led by GST destocking which hurt the India business. However, 2Q has seen a recovery on the growth front with the company’s consolidated revenues growing by 8.4% YoY. Management indicated that 2HFY18 is likely to remain strong on growth front (Both in India and Overseas).

Exhibit 5: Redington’s Consolidated Revenue Growth


Source: Company Data, PL Research

Margins remain stable on a sequential basis: Redington’s consolidated EBIDTA margins came at 1.88% up 2bps QoQ and remained stable on a sequential basis. We note that higher traction in Mobility Products (which have a relatively lower margins) is leading to moderation in consolidated margins for the company.

Exhibit 6: Consolidated EBIDTA margins of Redington(%)



Source: Company Data, PL Research

Working Capital Cycle showing strong Improvement: Redington continues to show strong improvement in working capital led by higher traction in Mobility (which has lower WC cycle compared to IT products). Management guided that Net Debt on Balance sheet stands at Rs10.15bn as on 2QFY18.

Exhibit 7: Working Capital Cycle

Working Capital Cycle	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Inventory days	40	35	36	30	33	35	33	26
Debtor days	58	52	53	54	52	52	50	49
Creditor days	38	39	38	38	42	39	39	35
WC days	60	48	51	46	43	48	44	40

Source: x, Company Data, PL Research

Performance of Logistic Subsidiary: Redington’s logistics subsidiary Proconnect delivered revenues of Rs766mn up 96% YoY led by strong organic growth as well as impact of consolidation of Rajprotim Supply chain Solutions acquisition. Proconnect’s EBIDTA margin stood at 15.3% for 2QFY18 down 550 bps YoY owing to consolidation of Rajprotam acquisition.

Within segments, Warehousing/Transportation/others contributed to 66/26/8% of total revenues of Proconnect. **Management indicated that it aims to triple the PAT of Proconnect business over a five-year period. We believe that Proconnect can drive value unlocking for Redington. Possible listing of Proconnect is a key trigger for the stock in our view.**

Exhibit 8: Consolidated Model sheet of Redington

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Revenues (Rs mn)	212,220	242,104	279,992	316,227	354,763	411,658	438,021	486,250	548,246
Growth (%)	26.9%	14.1%	15.6%	12.9%	12.2%	16.0%	6.4%	11.0%	12.7%
Segmental Break up of Revenues									
IT Products (PC, Laptops, Servers, Storage etc)	78.9%	81.8%	79.8%	76.8%	74.9%	70.9%	68.0%	66.1%	65.1%
Mobility (Smart Phones)	19.0%	16.0%	18.0%	21.0%	23.0%	27.0%	27.9%	29.5%	30.1%
Services	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	4.1%	4.4%	4.8%
Gross Profit									
Gross Profit	12,582	14,266	16,551	18,263	20,703	22,902	24,509	27,196	30,444
GPM(%)	5.93%	5.89%	5.91%	5.78%	5.84%	5.56%	5.60%	5.59%	5.55%
EBIDTA Profit									
EBIDTA Profit	6,044	6,385	6,594	6,931	7,836	8,248	8,494	9,537	10,798
EBIDTA margin (%)	2.85%	2.64%	2.36%	2.19%	2.21%	2.00%	1.94%	1.96%	1.97%
PAT									
PAT	2,927	3,231	3,366	3,865	4,235	4,642	5,001	5,774	6,693
PAT Margin (%)	1.4%	1.3%	1.2%	1.2%	1.2%	1.1%	1.1%	1.2%	1.2%
EPS									
EPS	7.34	8.08	8.65	9.67	10.59	11.50	12.50	14.44	16.74
EPS Growth (%)									
EPS Growth (%)	29.2%	10.2%	7.0%	11.8%	9.5%	8.6%	8.7%	15.5%	15.9%
P/E									
P/E	21.8	19.8	19.0	16.5	15.1	13.8	12.8	11.1	9.6
EV/EBIDTA									
EV/EBIDTA	13.2	12.6	11.7	11.2	10.5	8.7	8.3	7.3	6.3
ROE									
ROE	22.7	21.8	18.4	17.6	16.4	15.6	15.3	16.0	16.4
ROCE									
ROCE	13.9	12.9	12.8	12.5	11.9	11.8	13.2	13.6	14.3
Dividend Payout Ratio (Including Dividend tax)									
Dividend Payout Ratio (Including Dividend tax)	7.2	5.8	12.5	23.4	23.5	45.6	26.5	26.5	26.5
Dividend Per Share									
Dividend Per Share	0.4	0.4	0.9	1.9	2.1	4.4	2.8	3.2	3.7
Dividend Yield (%)									
Dividend Yield (%)	0.3%	0.2%	0.6%	1.2%	1.3%	2.8%	1.7%	2.0%	2.3%
Consolidated Balance sheet (Rs mn)									
Networth	13,225	16,407	20,213	23,742	27,853	31,479	34,054	38,298	43,219
Net Debt on Balance Sheet	15,768	16,680	13,016	13,352	17,986	7,946	6,438	5,376	3,977
Net Debt as a % of Mcap	24.7%	26.1%	20.4%	20.9%	28.1%	12.4%	10.1%	8.4%	6.2%
Consolidated Cash Flows(Rs mn)									
Cash Flow from Operations	2,584	2,877	2,413	2,568	(1,421)	13,486	6,339	4,692	5,222
Capex	(521)	(1,574)	(569)	(506)	(573)	(640)	(850)	(850)	(850)
Acquisitions	-	-	(74)	-	(381)	(76)	-	-	-
Free Cash Flow	2,063	1,302	1,770	2,063	(2,376)	12,770	5,489	3,842	4,372

Source: x, Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	354,421	411,147	437,923	486,250
Cost of raw materials	333,718	388,245	413,414	459,054
Gross Profit	20,703	22,902	24,509	27,196
Employee Cost	5,398	6,272	6,616	7,511
Other Expenses	7,469	8,381	9,399	10,148
EBITDA	7,836	8,248	8,494	9,537
Depr. & Amortization	468	547	561	575
Net Interest Expense	1,805	1,570	1,557	1,250
Other Income	340	414	398	360
Profit before Tax	5,902	6,545	6,774	8,072
Total Tax	1,462	1,778	1,634	2,099
Profit after Tax	4,440	4,767	5,140	5,974
Ex-Od items / Min. Int.	205	125	140	200
Adj. PAT	4,235	4,642	5,001	5,774
Avg. Shares O/S (m)	399.8	399.8	399.8	399.8
EPS (Rs.)	10.6	11.6	12.5	14.4

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	(1,421)	13,486	6,339	4,692
C/F from Investing	(641)	(635)	(850)	(850)
C/F from Financing	2,313	(11,302)	(4,882)	(3,279)
Inc. / Dec. in Cash	250	1,549	607	563

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	12.3	16.0	6.5	11.0
EBITDA (%)	13.0	5.3	3.0	12.3
PAT (%)	9.6	9.6	7.7	15.5
EPS (%)	119.1	9.6	7.7	15.5
Profitability				
EBITDA Margin (%)	2.2	2.0	1.9	2.0
PAT Margin (%)	1.2	1.1	1.1	1.2
RoCE (%)	11.4	11.0	12.2	12.9
RoE (%)	15.9	15.2	15.3	16.0
Balance Sheet				
Net Debt : Equity	0.6	0.3	0.2	0.1
Valuation				
PER (x)	14.9	13.6	12.6	10.9
P / B (x)	2.1	2.0	1.8	1.6
EV / EBITDA (x)	10.2	8.6	8.2	7.2
EV / Sales (x)	0.2	0.2	0.2	0.1
Earnings Quality				
Eff. Tax Rate	24.8	27.2	24.1	26.0
Other Inc / PBT	5.8	6.3	5.9	4.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	29,493	31,479	34,054	38,298
Total Debt	22,396	15,158	13,158	12,658
Other Liabilities	3,674	3,615	3,754	3,955
Total Liabilities	55,564	50,252	50,967	54,911
Net Fixed Assets	2,047	1,964	2,253	2,528
Goodwill	3,071	2,800	2,800	2,800
Investments	—	48	48	48
Net Current Assets	49,381	44,241	44,668	48,337
Cash & Equivalents	5,506	7,212	6,720	7,283
Other Current Assets	93,560	87,438	94,856	102,983
Current Liabilities	49,685	50,409	56,908	61,929
Other Assets	1,064	1,198	1,198	1,198
Total Assets	55,564	50,251	50,967	54,911

Quarterly Financials (Rs m)

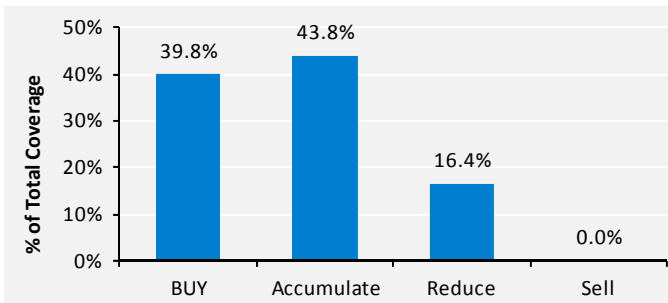
Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	109,610	107,950	98,809	105,440
EBITDA	2,257	2,340	1,840	1,984
% of revenue	2.1	2.2	1.9	1.9
Depr. & Amortization	142	138	139	142
Net Interest	348	378	415	392
Other Income	90	182	80	78
Profit before Tax	1,857	2,006	1,366	1,528
Total Tax	599	472	293	371
Profit after Tax	1,182	1,484	1,023	1,127
Adj. PAT	1,182	1,484	1,023	1,127

Source: Company Data, PL Research.

**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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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
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Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
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