

## Redington (India)

### Recovery cycle gains traction

**Revenues resume growth trajectory:** Redington's Q2FY10 results are in line with our expectations. Revenue growth was back on track, increasing 5.3% YoY and 17.8% QoQ after bottoming out in Q1FY10. We expect the growth momentum to gather pace in coming quarters as technology spending in India and the MEA returns to normal seasonal patterns. Seasonally, the second half of the financial year is the strongest for the company and contributes 55% and 60% of revenues and profits for the year respectively, on an average.

**India revenues recover:** After declining 10% YoY in Q1FY10, revenues from India grew 1% YoY. The decline in India revenues has been a concern for Redington as contribution from the geography slid from 51% in Q1FY09 to 46% in Q1FY10. Overseas revenues grew 10.4% YoY in Q2FY10 due to depreciation of the rupee against the UAE dirham. Excluding currency benefits, revenues in the overseas segment were flat YoY as compared to the decline witnessed in Q1FY10 on a YoY basis.

**Margins remain flat YoY:** The EBITDA margin remained flat YoY at 2.1% and was lower than our estimate by 25bps. This is a quarterly aberration in our view and the expansion in profit margins should resume in coming quarters as volumes pick up and the share of non-IT segments increases. Segment-wise, the EBIT margins for India and the overseas business stood at 2.7% and 1.7% respectively, unchanged YoY.

**Net profit grows 19% YoY:** Net profit for the quarter stood at Rs 408mn, up 18.9% YoY. However, the numbers are not strictly comparable on a YoY basis due to minority interests related to equity dilution in Redington International Holdings. Excluding this, net profit would have grown 37.6% YoY.

**Maintain estimates and target price:** We are keeping our FY10 and FY11 revenue and earnings estimates unchanged for the company. We expect revenue and earnings to grow 10% and 19% respectively in FY10 led by a stronger second-half performance. We maintain our Buy recommendation on the stock with a target price of Rs 335. At our target price the stock would trade at 13.8x and 11x on its expected FY10 and FY11 earnings respectively.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 256	Rs 335	BUY	HIGH

BSE	NSE	BLOOMBERG
532805	REDINGTON	REDI IN

#### Company data

Market cap (Rs mn / US\$ mn)	20,136 / 425
Outstanding equity shares (mn)	78
Free float (%)	24
Dividend yield (%)	1.6
52-week high/low (Rs)	297 / 80
2-month average daily volume	336,910

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Redington	256	2.0	23.9	85.6
BSE Midcap	5,828	(6.4)	3.7	61.5
Sensex	15,492	(8.3)	(0.7)	29.5

#### Valuation matrix

(x)	FY08	FY09E	FY10E	FY11E
P/E @ CMP	14.7	12.5	10.5	8.4
P/E @ Target	19.2	16.3	13.8	11.0
EV/EBITDA @ CMP	9.7	7.6	6.5	5.2

#### Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	108,701	126,683	139,281	162,832
Growth (%)	20.0	16.5	9.9	16.9
Adj net income	1,360	1,597	1,909	2,404
Growth (%)	33.4	17.4	19.6	25.9
FDEPS (Rs)	17.5	20.5	24.4	30.5
Growth (%)	13.4	17.4	18.9	25.2

#### Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	2.3	2.5	2.6	2.8
EBIT margin	2.2	2.4	2.5	2.7
Adj PAT margin	1.3	1.3	1.4	1.5
ROE	20.2	18.5	17.8	19.3
ROIC	15.0	15.3	15.3	16.1
ROCE	14.0	13.5	12.8	13.6





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenues	34,411	33,955	1.3
EBITDA	739	815	(9.2)
EBITDA margin (%)	2.1	2.4	(25bps)
Adj net income	408	431	(5.3)

Source: RHH

**Fig 2 - Quarterly performance**

(Rs mn)	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
<b>Net revenues</b>	<b>32,676</b>	<b>31,175</b>	<b>33,569</b>	<b>29,221</b>	<b>34,411</b>
YoY growth (%)	22.9	20.1	7.7	(0.1)	5.3
QoQ growth (%)	11.7	(4.6)	7.7	(13.0)	17.8
Cost of revenues	31,087	29,413	31,691	27,615	32,743
Gross profit	1,588	1,762	1,878	1,606	1,668
Other operating expenses	885	992	820	919	929
<b>EBITDA</b>	<b>704</b>	<b>770</b>	<b>1,058</b>	<b>687</b>	<b>739</b>
<b>EBITDA margin (%)</b>	<b>2.2</b>	<b>2.5</b>	<b>3.2</b>	<b>2.3</b>	<b>2.1</b>
YoY growth (%)	21.4	39.0	31.9	11.6	5.1
QoQ growth (%)	14.4	9.5	37.4	(35.1)	7.7
Depreciation	31	34	37	32	41
<b>EBIT</b>	<b>672</b>	<b>737</b>	<b>1,022</b>	<b>654</b>	<b>699</b>
YoY growth (%)	21.2	40.7	31.8	11.1	3.9
QoQ growth (%)	14.1	9.6	38.7	(36.0)	6.8
Interest expenses, gross	263	286	262	164	152
Other income	45	41	45	64	56
<b>PBT</b>	<b>454</b>	<b>492</b>	<b>804</b>	<b>554</b>	<b>603</b>
Income taxes	111	117	172	120	130
Minority interests	--	19	75	61	64
<b>Reported net profit</b>	<b>344</b>	<b>356</b>	<b>557</b>	<b>374</b>	<b>408</b>
YoY growth (%)	7.9	19.3	18.3	9.9	18.9
QoQ growth (%)	1.0	3.6	56.5	(33.0)	9.3

Source: RHH, Company

Revenues and net profit in line, but EBITDA margin below expectations

Revenues back on growth trajectory after being sluggish for last two quarters

EBITDA margin flat YoY; should expand in coming quarters as volume growth increases

Net profit grew 19% YoY; excluding minority interests growth was 37.6%



Fig 3 - Segmental data

(Rs mn)	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
<b>India revenues flat YoY; overseas revenues grew 10.4% due to currency benefits</b>					
<b>Segmental revenues</b>					
India	16,603	13,708	15,766	13,539	16,777
Growth YoY (%)	13.3	1.2	(5.9)	(9.7)	1.0
Overseas	16,142	17,546	18,136	15,795	17,823
Growth YoY (%)	32.8	41.1	23.9	9.5	10.4
Less: Inter-segment revenues	70	79	184	50	185
Net revenues	32,676	31,175	33,718	29,284	34,415
<b>Segmental EBIT margin (%)</b>					
India	2.7	3.6	4.0	3.2	2.7
Overseas	1.6	1.6	2.4	1.8	1.7
<b>Segmental capital employed</b>					
India	3,817	4,037	4,332	4,248	4,498
Growth YoY (%)	11.8	15.6	25.4	16.4	17.8
Overseas	4,164	7,658	8,467	8,222	8,508
Growth YoY (%)	48.4	155.5	162.5	126.9	104.3
Total capital employed	7,982	11,694	12,800	12,469	13,006
Growth YoY (%)	28.3	80.2	91.6	71.5	63.0

Source: RHH, Company



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Revenues</b>	<b>108,701</b>	<b>126,683</b>	<b>139,281</b>	<b>162,832</b>
Growth (%)	20.0	16.5	9.9	16.9
<b>EBITDA</b>	<b>2,466</b>	<b>3,147</b>	<b>3,661</b>	<b>4,579</b>
Growth (%)	26.3	27.6	16.3	25.1
Depreciation & amortisation	100	127	163	212
EBIT	2,366	3,020	3,498	4,367
Growth (%)	30.1	27.6	15.8	24.8
Interest	720	978	1,007	1,210
Other income	125	149	219	272
EBT	1,771	2,190	2,710	3,429
Income taxes	410	500	621	810
Effective tax rate (%)	23.1	22.8	22.9	23.6
Extraordinary items	-	-	-	-
Min into / inc from associates	-	94	180	215
Reported net income	1,361	1,597	1,909	2,404
Adjustments	1	-	-	-
<b>Adjusted net income</b>	<b>1,360</b>	<b>1,597</b>	<b>1,909</b>	<b>2,404</b>
Growth (%)	33.4	17.4	19.6	25.9
Shares outstanding (mn)	77.9	77.9	78.3	78.6
<b>FDEPS (Rs) (adj)</b>	<b>17.5</b>	<b>20.5</b>	<b>24.4</b>	<b>30.5</b>
Growth (%)	13.4	17.4	18.9	25.2
DPS (Rs)	3.5	4.0	5.0	6.0

### Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	1,461	1,724	2,072	2,616
Non-cash adjustments	259	179	97	215
Changes in working capital	(2,898)	(3,604)	(1,429)	(4,169)
Cash flow from operations	(1,178)	(1,701)	740	(1,338)
Capital expenditure	(367)	(257)	(450)	(400)
Change in investments	(27)	-	-	-
Other investing cash flow	(1)	(5)	-	-
Cash flow from investing	(395)	(262)	(450)	(400)
Issue of equity	-	3,440	62	63
Issue/repay debt	1,827	1,990	792	2,868
Dividends paid	(228)	(319)	(442)	(533)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	26	3,149	703	660
Closing cash & cash eq	1,830	6,024	6,727	7,387

### Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	11.9	13.2	13.0	13.0
ROIC (%)	15.0	15.3	15.3	16.1
Invested capital (Rs mn)	13,648	16,726	18,532	22,979
EVA (Rs mn)	424	354	428	709
EVA spread (%)	3.1	2.1	2.3	3.1

### Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	1,830	6,024	6,727	7,387
Accounts receivable	10,788	14,046	14,461	19,769
Inventories	7,188	7,794	8,726	10,259
Other current assets	1,070	1,467	1,832	2,107
Investments	-	-	-	-
Gross fixed assets	1,026	1,241	1,671	2,121
Net fixed assets	676	763	1,032	1,269
CWIP	34	115	135	85
Intangible assets	538	-	3	3
Deferred tax assets, net	0	4	6	8
Other assets	-	-	-	-
<b>Total assets</b>	<b>22,124</b>	<b>30,212</b>	<b>32,923</b>	<b>40,887</b>
Accounts payable	4,681	5,224	4,977	7,432
Other current liabilities	1,966	2,239	2,687	3,090
Provisions	423	485	567	657
Debt funds	7,840	9,830	10,622	13,490
Other liabilities	-	2,413	2,593	2,809
Equity capital	779	779	783	786
Reserves & surplus	6,436	9,243	10,693	12,624
Shareholder's funds	7,215	10,022	11,476	13,410
<b>Total liabilities</b>	<b>22,124</b>	<b>30,212</b>	<b>32,923</b>	<b>40,887</b>
BVPS (Rs)	92.7	128.7	146.6	170.5

### Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	2.3	2.5	2.6	2.8
EBIT margin	2.2	2.4	2.5	2.7
Net profit margin	1.3	1.3	1.4	1.5
ROE	20.2	18.5	17.8	19.3
ROCE	14.0	13.5	12.8	13.6
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	31	36	37	38
Inventory (days)	24	23	23	23
Payables (days)	15	15	14	15
Current ratio (x)	3.1	3.9	4.1	3.8
Quick ratio (x)	1.9	1.9	1.9	1.9
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	125.9	111.8	95.7	85.9
Total asset turnover	5.5	4.8	4.4	4.4
Interest coverage ratio	3.3	3.1	3.5	3.6
Adjusted debt/equity	1.1	1.0	0.9	1.0
<b>Valuation ratios (x)</b>				
EV/Sales	0.2	0.2	0.2	0.1
EV/EBITDA	9.5	7.4	6.4	5.1
P/E	14.3	12.2	10.2	8.2
P/BV	2.7	1.9	1.7	1.5



### Quarterly trend

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Revenue (Rs mn)	32,676	31,175	33,569	29,221	34,411
YoY growth (%)	22.9	20.1	7.7	(0.1)	5.3
QoQ growth (%)	11.7	(4.6)	7.7	(13.0)	17.8
EBITDA (Rs mn)	672	737	1,022	654	699
EBITDA margin (%)	2.1	2.4	3.0	2.2	2.0
Adj net income (Rs mn)	344	356	557	374	408
YoY growth (%)	7.9	19.3	18.3	9.9	18.9
QoQ growth (%)	1.0	3.6	56.5	(33.0)	9.3

### DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	80.1	76.8	72.9	70.4	70.1
Interest burden (PBT/EBIT)	69.9	74.8	72.5	77.5	78.5
EBIT margin (EBIT/Revenues)	2.0	2.2	2.4	2.5	2.7
Asset turnover (Revenues/Avg TA)	587.6	546.9	484.1	441.2	441.2
Leverage (Avg TA/Avg equity)	291.4	295.1	303.6	293.7	296.6
<b>Return on equity</b>	<b>19.3</b>	<b>20.2</b>	<b>18.5</b>	<b>17.8</b>	<b>19.3</b>

### Company profile

Redington is the second largest distributor of IT products in India, whereas it is No. 1 in the MEA markets. Redington's value addition in the distribution segment includes the process of demand forecasting, placing orders with suppliers, stocking at various warehouses, supplying to channel partners with possible credit, collecting receivables and finally rendering warranty and post warranty repairs. In addition to these functions, it also provides third-party logistic (3PL) services to select customers and commercial finance, through a subsidiary, to channels in the IT ecosystem.

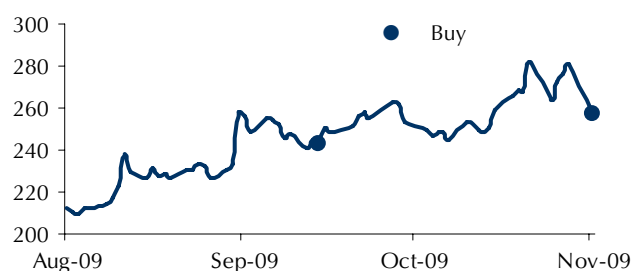
### Shareholding pattern

(%)	Mar-09	Jun-09	Sep-09
Promoters	43.5	43.2	43.2
FIs	50.8	50.9	43.0
Banks & FIs	0.1	0.2	3.5
Public	5.6	5.7	10.3

### Recommendation history

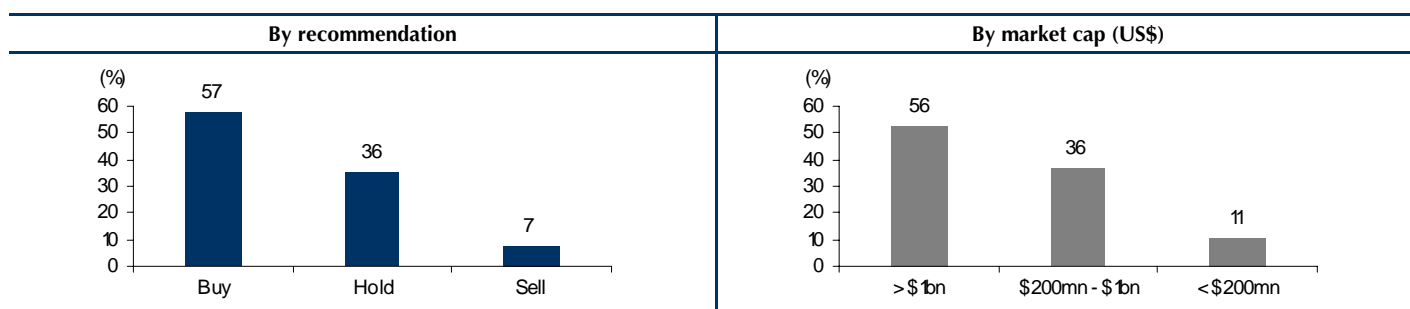
Date	Event	Reco price	Tgt price	Reco
16-Sep-09	Initiating Coverage	243	335	Buy
04-Nov-09	Results Review	256	335	Buy

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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