

Redington

PC recovery gains further momentum

The recovery in domestic PC sales continued in Q2FY10 with volumes increasing 24% QoQ to 2.2mn units. Although YoY volumes remain weak, registering a 3.4% decline, the current trend suggests an entry into positive territory in Q3FY10. The improvement in PC volumes is a key positive for Redington as the company derives ~40% of its revenues from the PC segment. We expect the company's growth rate to pick up to 16.8% YoY in H2FY10 driven by the recovery in hardware sales. We maintain our Buy recommendation on the stock with a target price of Rs 335.

Domestic PC sales grow 24% QoQ: According to IDC, the recovery in PC sales gained further momentum in Q2FY10, with shipments increasing by 24% QoQ. This compares favourably with the 5.1% QoQ growth witnessed in Q1FY10. Though YoY growth remained in negative territory with a 3.4% dip, the rate of decline was lower than the 15.3% YoY fall witnessed in the previous quarter. More importantly, PC shipments – at 2.2mn units in Q2FY10 – are back to the pre-Lehman levels.

Growth in Q3FY10 PC sales likely to be higher: After remaining suppressed for several quarters, commercial PC shipments grew 21% QoQ in Q2FY10 buoyed by sales to the government. Going forward, PC sales in India are expected to increase as enterprises look to refresh their IT systems and gear up to meet the demands of improving macroeconomic conditions. For FY10, we have factored in a 7% YoY increase in PC shipments to 8.1mn, as compared to the 8.1% decline witnessed in FY09. This implies that H2FY10 shipments must total 4.2mn units, an increase of 5.3% over H1, which in our view is conservative.

PC recovery a positive for Redington: The company derives ~40% of its revenues from PC sales and was severely affected by the decline in PC volumes over the past year. For instance, in Q1FY10, Redington's revenues from India declined by 10% YoY, coinciding with the 15.4% YoY drop in domestic PC volumes. The recovery in hardware sales suggests that the company's revenue growth trajectory too will continue to improve in coming quarters.

Maintain estimates and target price: We are keeping our FY10 and FY11 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 292	Rs 335	BUY	HIGH

BSE	NSE	BLOOMBERG
532805	REDINGTON	REDI IN

Company data

Market cap (Rs mn / US\$ mn)	22,935 / 489
Outstanding equity shares (mn)	79
Free float (%)	19.2
Dividend yield (%)	1.4
52-week high/low (Rs)	325 / 80
2-month average daily volume	188,559

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Redington	292	10.7	25.4	23.3
BSE Midcap	6,313	2.5	8.4	28.9
Sensex	16,632	1.7	5.4	17.9

Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	16.7	14.2	12.0	9.6
P/E @ Target	19.2	16.3	13.8	11.0
EV/EBITDA @ CMP	10.8	8.5	7.3	5.8

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

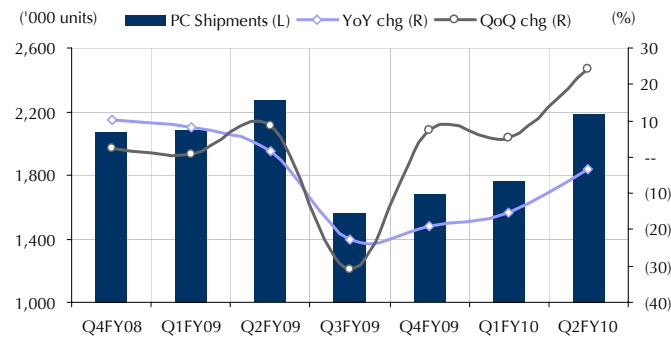
Profitability and return ratios

(%)	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



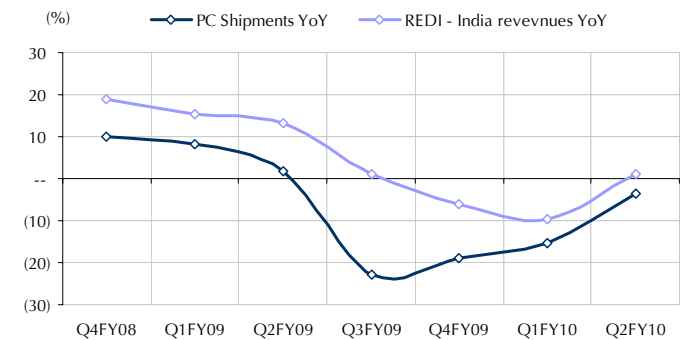


Fig 1 - PC shipments continue down the recovery path....



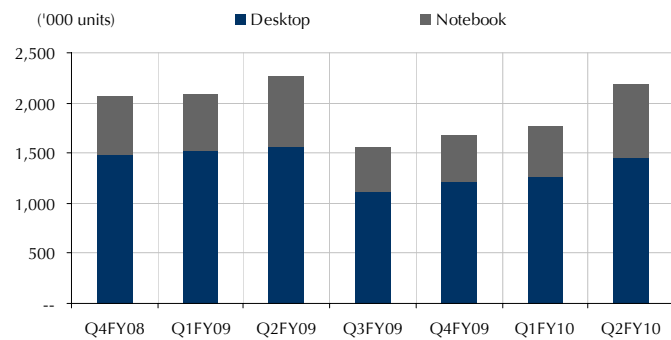
Source: IDC India, RHH

Fig 2 - ...positive for Redington due to high correlation



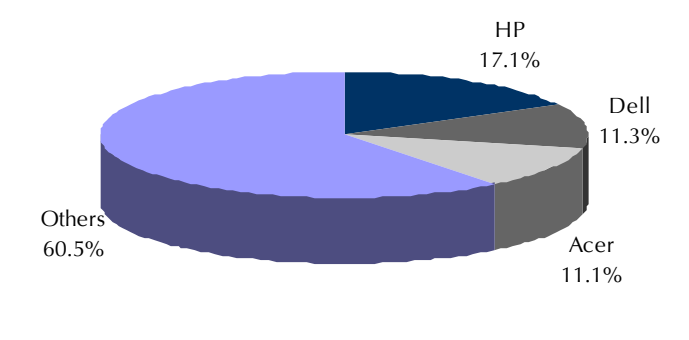
Source: IDC India, RHH

Fig 3 - Both desktop and notebook segments witness growth



Source: IDC India, RHH

Fig 4 - HP continues to be the leader with 17% market share



Source: IDC India, RHH



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	108,701	126,683	139,281	162,832
Growth (%)	20.0	16.5	9.9	16.9
EBITDA	2,466	3,147	3,661	4,579
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	-	-	-
Adjusted net income	1,360	1,597	1,909	2,404
Growth (%)	33.4	17.4	19.6	25.9
Shares outstanding (mn)	77.9	77.9	78.3	78.6
FDEPS (Rs) (adj)	17.5	20.5	24.4	30.5
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	-	-	-	-
Total assets	22,124	30,212	32,923	40,887
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
Total liabilities	22,124	30,212	32,923	40,887
BVPS (Rs)	92.7	128.7	146.6	170.5

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
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

Working Capital & Liquidity ratios

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

Turnover & Leverage ratios (x)

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

Valuation ratios (x)

EV/Sales	0.2	0.2	0.2	0.2
EV/EBITDA	10.8	8.5	7.3	5.8
P/E	16.7	14.2	12.0	9.6
P/BV	3.2	2.3	2.0	1.7



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
Return on equity	19.3	20.2	18.5	17.8	19.3

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.

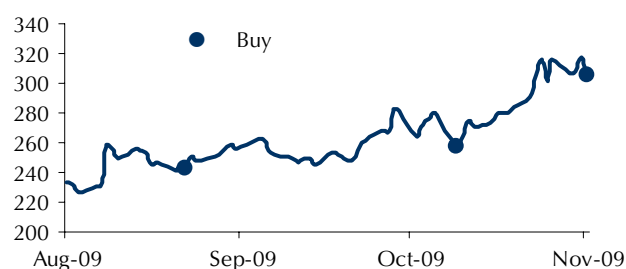
Shareholding pattern

(%)	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

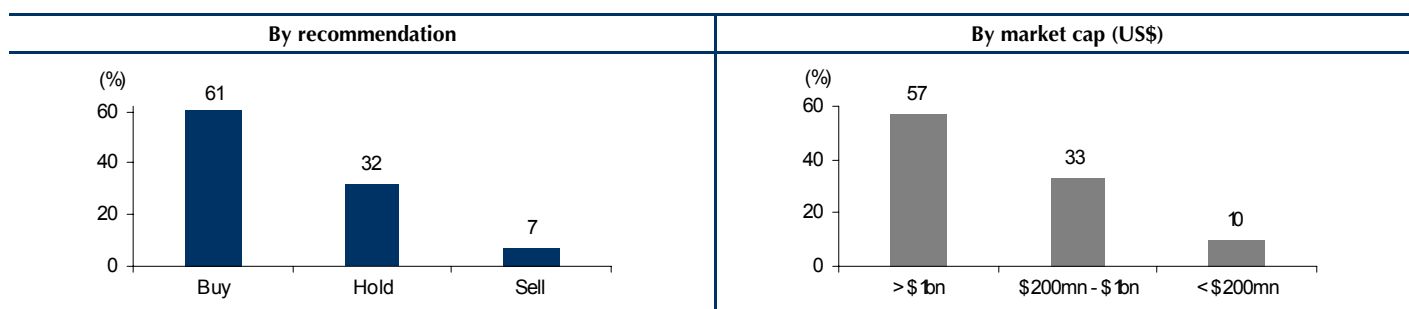
Date	Event	Reco price	Tgt price	Reco
16-Sep-09	Initiating Coverage	243	335	Buy
4-Nov-09	Results Review	256	335	Buy
27-Nov-09	Company Update	292	335	Buy

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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