

27 September 2012

HOLD

TP: INR 90.00

▲ 20.8%

Redington India

REDI IN

Macro weakness persists; expect a muted quarter

We interacted with the REDI management for a business update on operations. Key takeaways are: 1) India business muted on sluggish government/ corporate business even as retail demand is largely unaffected and 2) Apple continues to do well for REDI, while Blackberry remains steady. While valuations have moderated (9x FY13E P/E), we believe macro conditions remain tough and REDI could see another muted quarter with slower-than-usual seasonality. Key trigger, in our view, would be deal announcements with other top smartphone vendors (most notably iPhone).

- ➔ **India business muted:** India business remains muted as government/corporate (~35% of mix) business is weak. However, contrary to our expectations, retail demand is still holding up as OEMs have not passed on the impact from rupee depreciation onto the customers. In non-IT, Apple continues to grow but blended growth rates could moderate as growth in Blackberry begins to flatten. Overall, we expect another muted quarter from REDI as regards the India business with a weaker-than-normal seasonality in Q2.
- ➔ **Africa – Samsung seeing good traction:** Samsung is seeing strong traction in Africa and we believe the net impact from loss of Nokia would be limited to ~3% in FY13.
- ➔ **iPhone 5 through distributors?:** As per blogs (*BGR*), Apple is looking to launch iPhone 5 in India through distributors, unlike the operator-driven strategy currently. While there is no official confirmation, we believe REDI has a strong relationship with Apple (already selling iPad and iPod) and is likely to be a key beneficiary should Apple look to adopt the distributor channel for iPhone.
- ➔ **Valuations have moderated:** While valuations now look reasonable trading at 9x FY13E earnings and 1.8x P/B, we believe macro remains weak and Blackberry could be a drag on non-IT growth rates. However, on a structural basis, we continue to like REDI – investors with a long-term view should accumulate on dips.

Financial Highlights

Y/E 31 Mar	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (INR mln)	137,578	174,585	216,485	227,709	252,132
EBITDA (INR mln)	3,448	4,521	6,042	6,674	7,460
Adjusted net profit (INR mln)	1,843	2,260	2,928	3,346	4,012
Adjusted EPS (INR)	4.7	5.7	7.4	8.4	10.1
Adjusted EPS growth (%)	15.3	21.8	29.0	14.1	19.9
DPS (INR)	1.0	1.1	0.4	0.7	1.0
ROIC (%)	14.1	14.3	15.2	14.4	14.8
Adjusted ROAE (%)	17.7	20.0	23.3	22.7	22.3
Adjusted P/E (x)	15.8	14.0	12.0	8.9	7.4
EV/EBITDA (x)	10.1	9.5	8.4	6.8	5.9
P/BV (x)	2.7	2.7	2.7	1.8	1.5

Source: Company, Bloomberg, RCML Research



REPORT AUTHORS

Rumit Dugar

+852 3586 5060

rumit.dugar@religare.com

Udit Garg

+91 22 6766 3445

udit.garg@religare.com

PRICE CLOSE (26 Sep 12)

INR 74.50

MARKET CAP

INR 29,510 mln

USD 551 mln

SHARES O/S

396.1 mln

FREE FLOAT

51.6%

3M AVG DAILY VOLUME./VALUE

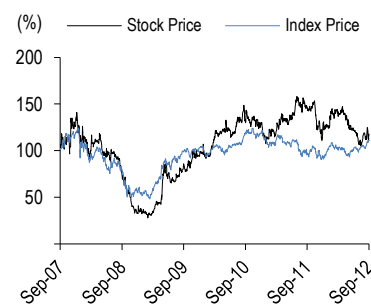
0.4 mln/ USD 0.5 mln

52 WK HIGH

INR 97.00

52 WK LOW

INR 66.40





Per Share Data

Y/E 31 Mar (INR)	FY10A	FY11A	FY12A	FY13E	FY14E
Reported EPS	4.7	5.7	7.4	8.4	10.1
Adjusted EPS	4.7	5.7	7.4	8.4	10.1
DPS	1.0	1.1	0.4	0.7	1.0
BVPS	27.4	30.1	33.3	40.8	49.8

Valuation Ratios

Y/E 31 Mar (x)	FY10A	FY11A	FY12A	FY13E	FY14E
EV/Sales	0.3	0.2	0.2	0.2	0.2
EV/EBITDA	10.1	9.5	8.4	6.8	5.9
Adjusted P/E	15.8	14.0	12.0	8.9	7.4
P/BV	2.7	2.7	2.7	1.8	1.5

Financial Ratios

Y/E 31 Mar	FY10A	FY11A	FY12A	FY13E	FY14E
Profitability & Return Ratios (%)					
EBITDA margin	2.5	2.6	2.8	2.9	3.0
EBIT margin	2.3	2.4	2.6	2.8	2.8
Adjusted profit margin	1.3	1.3	1.4	1.5	1.6
Adjusted ROAE	17.7	20.0	23.3	22.7	22.3
ROCE	11.7	12.9	14.0	12.9	13.2
YoY Growth (%)					
Revenue	8.6	26.9	24.0	5.2	10.7
EBITDA	9.6	31.1	33.7	10.5	11.8
Adjusted EPS	15.3	21.8	29.0	14.1	19.9
Invested capital	15.9	40.3	14.6	9.5	7.7
Working Capital & Liquidity Ratios					
Receivables (days)	43	46	45	47	46
Inventory (days)	25	28	29	31	31
Payables (days)	27	33	34	35	35
Current ratio (x)	3.0	2.6	2.6	2.6	2.6
Quick ratio (x)	2.2	1.7	1.8	1.7	1.7
Turnover & Leverage Ratios (x)					
Gross asset turnover	148.9	142.9	132.9	119.0	116.7
Total asset turnover	4.1	4.0	4.1	3.9	4.0
Net interest coverage ratio	4.8	4.4	3.8	3.5	4.3
Adjusted debt/equity	1.1	1.3	1.6	1.3	1.0

DuPont Analysis

Y/E 31 Mar (%)	FY10A	FY11A	FY12A	FY13E	FY14E
Tax burden (Net income/PBT)	66.8	64.4	65.0	70.6	70.6
Interest burden (PBT/EBIT)	85.8	82.1	78.6	74.9	80.1
EBIT margin (EBIT/Revenue)	2.3	2.4	2.6	2.8	2.8
Asset turnover (Revenue/Avg TA)	413.4	404.3	411.8	394.1	397.9
Leverage (Avg TA/Avg equities)	320.3	381.2	418.5	392.2	351.7
Adjusted ROAE	17.7	20.0	23.3	22.7	22.3



Income Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
Total revenue	137,578	174,585	216,485	227,709	252,132
EBITDA	3,448	4,521	6,042	6,674	7,460
EBIT	3,214	4,275	5,732	6,335	7,095
Net interest income/(expenses)	(664)	(961)	(1,520)	(1,828)	(1,648)
Other income/(expenses)	209	195	292	236	239
Exceptional items	0	0	0	0	0
EBT	2,759	3,510	4,504	4,742	5,686
Income taxes	(639)	(862)	(1,113)	(1,328)	(1,592)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(277)	(388)	(463)	(68)	(82)
Reported net profit	1,843	2,260	2,928	3,346	4,012
Adjustments	0	0	0	0	0
Adjusted net profit	1,843	2,260	2,928	3,346	4,012

Balance Sheet

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
Accounts payables	11,694	18,815	20,020	22,351	24,618
Other current liabilities	0	0	0	0	0
Provisions	0	0	0	0	0
Debt funds	11,486	15,897	20,603	20,603	20,603
Other liabilities	2,403	3,413	1,263	1,263	1,263
Equity capital	786	793	797	797	797
Reserves & surplus	9,971	11,103	12,428	15,449	18,997
Shareholders' fund	10,757	11,896	13,225	16,246	19,794
Total liabilities and equities	36,339	50,021	55,111	60,463	66,278
Cash and cash eq.	5,826	4,806	4,834	4,975	5,956
Accounts receivables	18,164	25,483	27,920	30,478	32,824
Inventories	9,828	15,833	17,000	19,050	20,983
Other current assets	1,519	2,359	2,835	3,177	3,500
Investments	0	0	0	0	0
Net fixed assets	968	1,476	1,783	2,043	2,278
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	34	63	81	81	81
Other assets	0	0	657	657	657
Total assets	36,339	50,021	55,111	60,463	66,278

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
Net income + Depreciation	2,078	2,505	3,238	3,686	4,377
Interest expenses	664	961	1,520	1,828	1,648
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,490)	(7,072)	(2,892)	(2,620)	(2,333)
Other operating cash flows	277	388	463	68	82
Cash flow from operations	528	(3,218)	2,329	2,962	3,774
Capital expenditures	(323)	(754)	(617)	(600)	(600)
Change in investments	0	0	(657)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(323)	(754)	(1,274)	(600)	(600)
Equities issued	(643)	(614)	(1,414)	(0)	0
Debt raised/repaid	1,656	4,411	4,706	0	0
Interest expenses	(664)	(961)	(1,520)	(1,828)	(1,648)
Dividends paid	(465)	(507)	(186)	(325)	(464)
Other financing cash flows	(288)	622	(2,612)	(68)	(82)
Cash flow from financing	(404)	2,951	(1,026)	(2,221)	(2,194)
Changes in cash and cash eq	(198)	(1,020)	29	141	980
Closing cash and cash eq	5,826	4,806	4,835	4,975	5,956

RESEARCH DISCLAIMER

Important Disclosures

This report was prepared, approved, published and distributed solely by a Religare Capital Markets ("RCM") group company located outside of the United States (a "non-US Group Company"), which excludes Religare Capital Markets Inc. ("RCM Inc.") and Religare Capital Markets (USA) LLC ("RCM USA"). This report has not been reviewed or approved by RCM Inc. or RCM USA. This report may only be distributed in the U.S. to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through RCM Inc. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or FINRA or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Subject to any applicable laws and regulations at any given time, non-US Group Companies, their affiliates or companies or individuals connected with RCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. Any particular arrangements or relationships are disclosed below. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of RCM which includes investment banking revenues.

Stock Ratings are defined as follows

Recommendation Interpretation (Recommendation structure changed with effect from March 1, 2009)

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

Expected absolute returns are based on the 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.

Stock Ratings Distribution

As of 1 September 2012, out of 303 rated stocks in the RCM coverage universe, 174 have BUY ratings (including 4 that have been investment banking clients in the last 12 months), 79 are rated HOLD and 50 are rated SELL.

Research Conflict Management Policy

RCM research has been published in accordance with our conflict management policy, which is available at <http://www.religarecm.com/>

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject RCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to RCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of RCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of RCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. RCM has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. RCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or

investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that RCM believes to be reliable, but RCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. RCM accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to RCM. This report is not to be relied upon in substitution for the exercise of independent judgment. RCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by RCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in India by Religare Capital Markets Limited, which is a registered intermediary regulated by the Securities and Exchange Board of India. Where this report is distributed by Religare Capital Markets (Europe) Limited ("RCM Europe") or Religare Capital Markets (EMEA) Ltd, those entities are authorised and regulated by the Financial Services Authority in the United Kingdom. In Dubai, it is being distributed by Religare Capital Markets (Europe) Limited (Dubai Branch) which is licensed and regulated by the Dubai Financial Services Authority. In Singapore, it is being distributed (i) by Religare Capital Markets (Singapore) Pte. Limited ("RCMS") (Co. Reg. No. 200902065N) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to RCMS when providing any financial advisory service to an accredited investor, or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact RCMS in respect of any matters arising from, or in connection with this publication/communication. In Hong Kong, it is being distributed by Religare Capital Markets (Hong Kong) Limited ("RCM HK"), which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In Australia, it is being distributed by RCMHK or by RCM Europe, both of which are approved under ASIC Class Orders. In South Africa, this report is distributed through Religare Capital Markets (Pty) Ltd and Religare Noah Capital Markets (Pty) Ltd. Religare Capital Markets (Pty) Ltd is a licensed financial services provider (FSP No. 31530). Religare Noah Capital Markets (Pty) Ltd is a licensed financial services provider (FSP No. 7655) and a member of the JSE Limited. In Sri Lanka, it is being distributed by Bartleet Mallory Stockbrokers, which is licensed under Securities and Exchange Commission of Sri Lanka. If you wish to enter into a transaction please contact the RCM entity in your home jurisdiction unless governing law provides otherwise. In jurisdictions where RCM is not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Religare Capital Markets does and seeks to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by Religare Capital Markets. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's estimates and views and does not represent the views of RCM and RCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness and RCM has included such reports or made reference to such reports in good faith. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on RCM's own website, RCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to RCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or RCM's website shall be at your own risk.

Special Disclosures (if applicable)

Not Applicable