

27 May 2013

**BUY**

TP: INR 95.00

▲ 26.2%

## Redington India

REDI IN

### Structural story intact, valuations cheap; maintain Buy

**REDI remains one of the best plays on domestic IT consumption in our view. While the company has seen muted FY12/FY13 performance in India, we believe growth rates are closer to bottom as: (1) Blackberry headwinds fade out and (2) benefits from higher UID/government ordering flow in. While margin pressures remain, benefits from lower working capital and an easing interest rate cycle should help maintain overall profitability. Further valuations at 8.5x FY14 P/E are cheap on low expectations. Maintain BUY.**

- ➔ **India – growth rates closer to bottom:** REDI's growth rates in India have dropped from 28% in FY11 to 9% in FY13, in line with the overall slowdown in domestic economy. While the management continues to indicate an uncertain demand environment, we believe growth rates are closer to bottom, as headwinds from Blackberry and low government ordering fade out and tailwinds from Apple iPhone sales gain momentum in 1HFY14.
- ➔ **MEA and Turkey see healthy growth:** FY13 saw REDI deliver a healthy 16% growth in overseas markets, driven largely by opportunistic market share gains, despite weak demand. The company continues to expand into value segments in these markets, which should continue to drive growth outperformance.
- ➔ **EBIT margins under pressure, but adequate offsets available:** We expect EBIT margin pressures to persist through FY14/FY15, given the low growth expectations and a higher mix of Apple and MEA businesses. However, lower working capital (due to higher Apple mix) and an easing interest rate environment should provide adequate offsets at the net profit level and drive a 14% EPS CAGR (FY13-15).
- ➔ **Valuations cheap:** Valuations have moderated to 8.5x FY14 P/E and look cheap, particularly in view of the low growth expectations. We maintain our BUY rating on the stock with a Mar'14 target price of Rs 95 based on 9x forward P/E.

#### Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14E	FY15E
Revenue (INR mln)	172,156	214,438	241,645	269,374	301,139
EBITDA (INR mln)	4,526	6,042	6,370	7,091	7,954
Adjusted net profit (INR mln)	2,260	2,928	3,232	3,561	4,174
Adjusted EPS (INR)	5.7	7.4	8.1	8.9	10.5
Adjusted EPS growth (%)	21.8	28.9	10.1	10.0	17.2
DPS (INR)	1.1	0.4	0.4	0.7	1.0
ROIC (%)	14.3	15.2	14.1	14.0	14.3
Adjusted ROAE (%)	20.0	23.3	21.8	19.8	19.4
Adjusted P/E (x)	14.0	12.0	10.0	8.4	7.2
EV/EBITDA (x)	9.4	8.4	7.4	6.4	5.6
P/BV (x)	2.7	2.7	2.0	1.5	1.3

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (27 May 13)

INR 75.30

MARKET CAP

INR 29,827 mln

USD 537 mln

SHARES O/S

396.1 mln

FREE FLOAT

39.3%

3M AVG DAILY VOLUME./VALUE

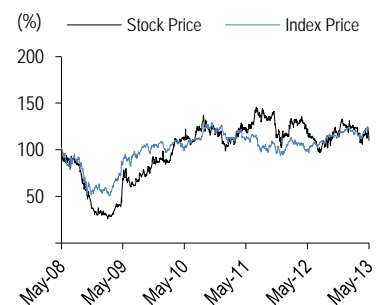
0.3 mln/ USD 0.5 mln

52 WK HIGH

INR 91.35

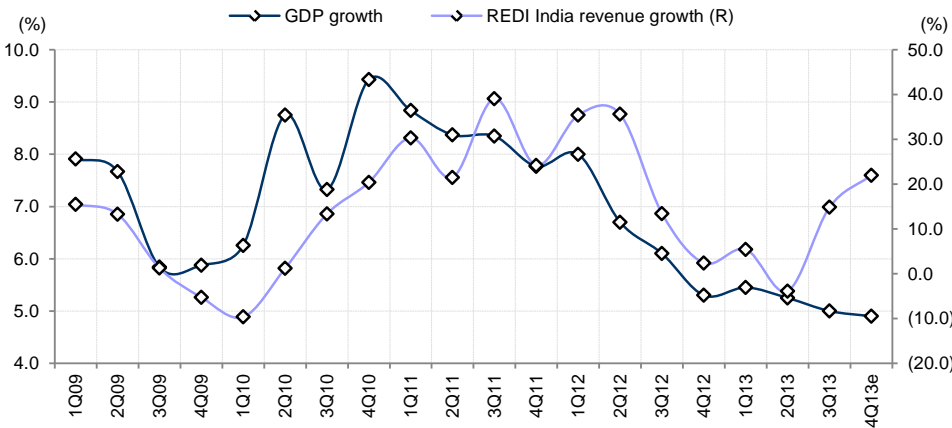
52 WK LOW

INR 66.40





**Fig 1 - India GDP growth v/s Redington India revenue growth (YoY)**

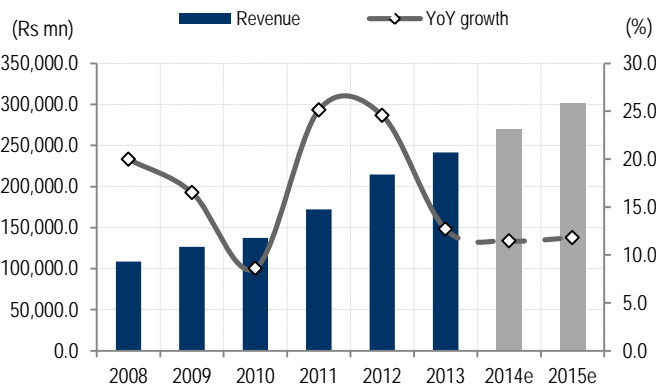


Source: Company, RCML Research. Note: 4QFY13 GDP is consensus expectation

Fading Blackberry/government headwinds, and traction from Apple iPhone helped improve growth in 2HFY13

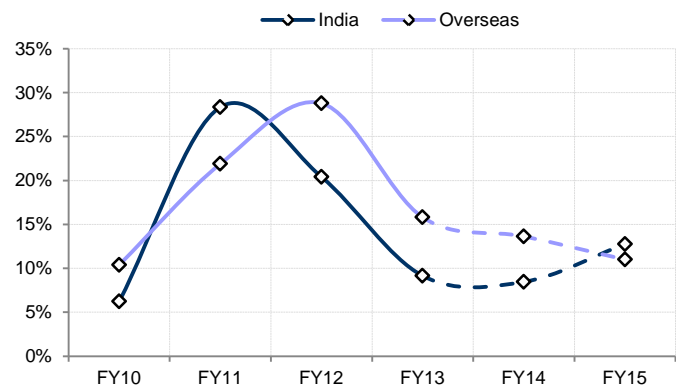
**Expect growth rates to bottom out**

**Fig 2 - REDI: revenue growth**



Source: Company, RCML Research

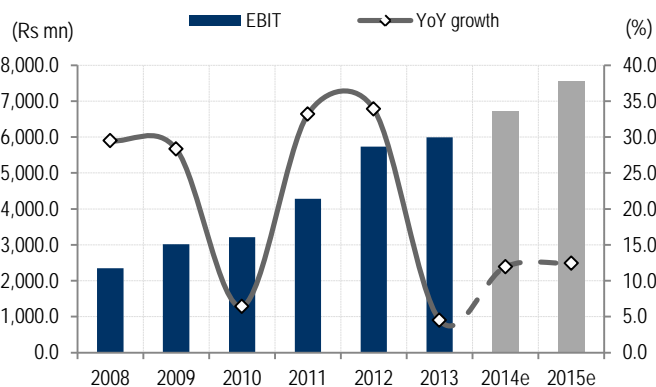
**Fig 3 - REDI: India and Overseas growth**



Source: Company, RCML Research

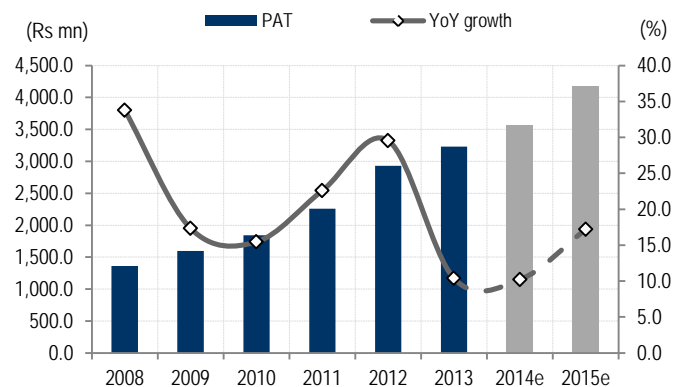
**Expect pressure on operating margins; however, benefits from lower working capital and interest rates to cushion net profitability**

**Fig 4 - REDI: EBIT growth**



Source: Company, RCML Research

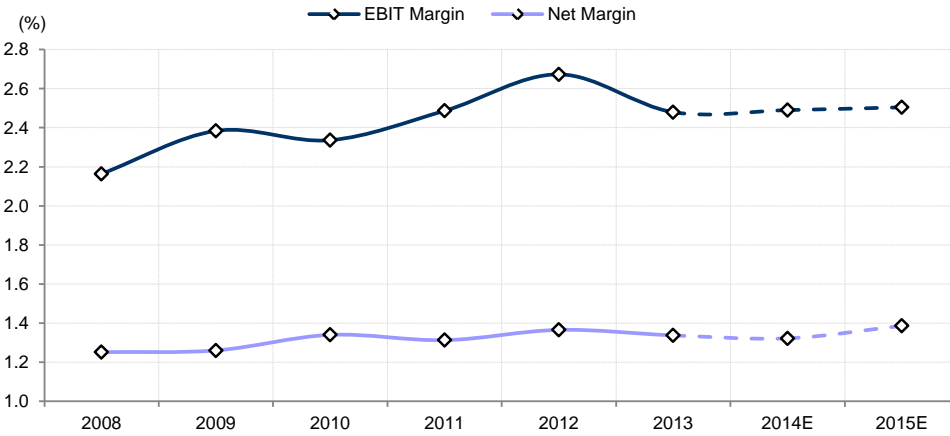
**Fig 5 - REDI: Net Profit growth**



Source: Company, RCML Research



**Fig 6 - REDI: margins trend**



Source: Company, RCML Research

Net margins have been in a narrow band historically

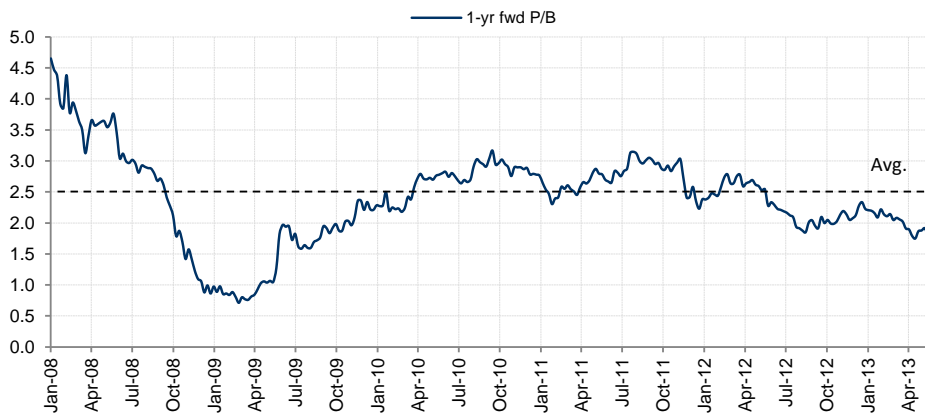
**Valuations cheap**

**Fig 7 - REDI: 12-m fwd P/E bands**



Source: Company, RCML Research, Bloomberg

**Fig 8 - REDI: 12-m Fwd P/B**



Source: Company, RCML Research, Bloomberg

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▲ 26.2%

**Redington India**

REDI IN



Company Update

**INDIA**

INFORMATION TECHNOLOGY

**Fig 9 - REDI: Estimate revisions**

Rs m	New		Earlier		Change (%)	
	2014E	2015E	2014E	2015E	2014E	2015E
Sales	269,374	301,139	261,007	291,721	3.2	3.2
Gross profit	15,509	17,381	15,211	17,120	2.0	1.5
EBIT	6,707	7,541	6,732	7,643	(0.4)	(1.3)
EBITDA	7,091	7,954	7,097	8,036	(0.1)	(1.0)
PBT	5,218	6,115	5,276	6,238	(1.1)	(2.0)
Net profit	3,561	4,174	3,472	4,105	2.6	1.7
<b>EPS (Rs)</b>	<b>8.9</b>	<b>10.5</b>	<b>8.7</b>	<b>10.3</b>	<b>2.3</b>	<b>1.4</b>
<b>Margins</b>						
Gross Margin (%)	5.76	5.77	5.83	5.87		
EBIT Margin (%)	2.49	2.50	2.58	2.62		
EBITDA Margin (%)	2.63	2.64	2.72	2.75		
Net margin (%)	1.32	1.39	1.33	1.41		

Source: RCML Research



## Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13A	FY14E	FY15E
Reported EPS	5.7	7.4	8.1	8.9	10.5
Adjusted EPS	5.7	7.4	8.1	8.9	10.5
DPS	1.1	0.4	0.4	0.7	1.0
BVPS	30.1	33.3	41.2	49.2	58.5

## Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13A	FY14E	FY15E
EV/Sales	0.2	0.2	0.2	0.2	0.1
EV/EBITDA	9.4	8.4	7.4	6.4	5.6
Adjusted P/E	14.0	12.0	10.0	8.4	7.2
P/BV	2.7	2.7	2.0	1.5	1.3

## Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14E	FY15E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	2.6	2.8	2.6	2.6	2.6
EBIT margin	2.5	2.7	2.5	2.5	2.5
Adjusted profit margin	1.3	1.4	1.3	1.3	1.4
Adjusted ROAE	20.0	23.3	21.8	19.8	19.4
ROCE	12.9	14.0	12.8	12.7	12.6
<b>YoY Growth (%)</b>					
Revenue	25.1	24.6	12.7	11.5	11.8
EBITDA	31.3	33.5	5.4	11.3	12.2
Adjusted EPS	21.8	28.9	10.1	10.0	17.2
Invested capital	40.3	14.6	10.4	9.6	9.6
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	46	45	47	48	47
Inventory (days)	29	30	29	29	29
Payables (days)	33	34	36	39	39
Current ratio (x)	2.6	2.6	2.3	2.3	2.3
Quick ratio (x)	1.7	1.8	1.6	1.6	1.6
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	140.9	131.6	101.2	85.2	86.4
Total asset turnover	4.0	4.1	4.0	3.9	3.9
Net interest coverage ratio	4.5	3.8	3.3	3.6	4.0
Adjusted debt/equity	1.3	1.6	1.2	1.1	1.0

## DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13A	FY14E	FY15E
Tax burden (Net income/PBT)	64.4	65.0	69.9	68.3	68.3
Interest burden (PBT/EBIT)	82.0	78.6	77.2	77.8	81.1
EBIT margin (EBIT/Revenue)	2.5	2.7	2.5	2.5	2.5
Asset turnover (Revenue/Avg TA)	398.7	407.9	401.6	391.6	392.7
Leverage (Avg TA/Avg equities)	381.2	418.5	406.1	381.7	356.7
Adjusted ROAE	20.0	23.3	21.8	19.8	19.4



## Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
<b>Total revenue</b>	<b>172,156</b>	<b>214,438</b>	<b>241,645</b>	<b>269,374</b>	<b>301,139</b>
EBITDA	4,526	6,042	6,370	7,091	7,954
EBIT	4,281	5,732	5,991	6,707	7,541
Net interest income/(expenses)	(961)	(1,520)	(1,827)	(1,845)	(1,862)
Other income/(expenses)	190	292	459	356	436
Exceptional items	0	0	0	0	0
EBT	3,510	4,504	4,624	5,218	6,115
Income taxes	(862)	(1,113)	(1,151)	(1,409)	(1,651)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(388)	(463)	(242)	(248)	(290)
<b>Reported net profit</b>	<b>2,260</b>	<b>2,928</b>	<b>3,232</b>	<b>3,561</b>	<b>4,174</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,260</b>	<b>2,928</b>	<b>3,232</b>	<b>3,561</b>	<b>4,174</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Accounts payables	18,815	20,020	27,000	29,377	32,834
Other current liabilities	0	0	0	0	0
Provisions	0	0	0	0	0
Debt funds	15,897	20,603	19,899	21,399	22,899
Other liabilities	3,413	1,263	1,931	1,931	1,931
Equity capital	793	797	798	798	798
Reserves & surplus	11,103	12,428	15,609	18,844	22,553
Shareholders' fund	11,896	13,225	16,407	19,642	23,351
<b>Total liabilities and equities</b>	<b>50,021</b>	<b>55,111</b>	<b>65,237</b>	<b>72,349</b>	<b>81,015</b>
Cash and cash eq.	4,806	4,834	4,821	6,342	8,028
Accounts receivables	25,483	27,920	33,701	36,933	40,827
Inventories	15,833	17,000	19,532	21,251	23,589
Other current assets	2,359	2,835	3,445	3,749	4,190
Investments	0	0	0	0	0
Net fixed assets	1,476	1,783	2,995	3,332	3,639
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	63	81	85	85	85
Other assets	0	657	657	657	657
<b>Total assets</b>	<b>50,021</b>	<b>55,111</b>	<b>65,237</b>	<b>72,349</b>	<b>81,015</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Net income + Depreciation	2,505	3,238	3,610	3,945	4,587
Interest expenses	961	1,520	1,827	1,845	1,862
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(7,072)	(2,892)	(1,948)	(2,878)	(3,215)
Other operating cash flows	388	463	242	248	290
<b>Cash flow from operations</b>	<b>(3,218)</b>	<b>2,329</b>	<b>3,731</b>	<b>3,159</b>	<b>3,524</b>
Capital expenditures	(754)	(617)	(1,591)	(720)	(720)
Change in investments	0	(657)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(754)</b>	<b>(1,274)</b>	<b>(1,591)</b>	<b>(720)</b>	<b>(720)</b>
Equities issued	(614)	(1,414)	137	(0)	(0)
Debt raised/repaid	4,411	4,706	(704)	1,500	1,500
Interest expenses	(961)	(1,520)	(1,827)	(1,845)	(1,862)
Dividends paid	(507)	(186)	(186)	(326)	(465)
Other financing cash flows	622	(2,612)	426	(248)	(290)
<b>Cash flow from financing</b>	<b>2,951</b>	<b>(1,026)</b>	<b>(2,154)</b>	<b>(919)</b>	<b>(1,118)</b>
<b>Changes in cash and cash eq</b>	<b>(1,020)</b>	<b>29</b>	<b>(14)</b>	<b>1,521</b>	<b>1,687</b>
<b>Closing cash and cash eq</b>	<b>4,806</b>	<b>4,835</b>	<b>4,821</b>	<b>6,342</b>	<b>8,028</b>

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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.

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