

18<sup>th</sup> February 2019

The National Stock Exchange of India Ltd  
Exchange Plaza  
Bandra-Kurla Complex,  
Bandra (E), Mumbai – 400051.

**Sub: Q3 & 9MFY19-Earnings Conference Call Transcript**

Dear Sir/Madam,


This has reference to our letter intimating the details of Investor/Analyst call on the Unaudited Financial Results for the quarter and 9 months ended 31<sup>st</sup> December 2018 held on 12<sup>th</sup> February 2019.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on 12<sup>th</sup> February 2019. The same is also available in the Company's website <https://redingtongroup.com/>

Kindly acknowledge the receipt of our communication.

Thanking you,

Very truly yours,

  
M. Muthukumarasamy  
Company Secretary.

cc : BSE Limited  
Floor 25, Phiroze Jeejeebhoy Towers,  
Dalal Street, Mumbai – 400 001





## **Redington (India) Ltd**

Q3 FY 2019 Results

Conference Call

**February 12, 2019**



**MANAGEMENT : MR. RAJ SHANKAR – MANAGING DIRECTOR – REDINGTON (INDIA) LTD  
MR. S. V. KRISHNAN – CHIEF FINANCIAL OFFICER - REDINGTON (INDIA) LTD  
MS. SOWMIYA M – MANAGER, INVESTOR RELATIONS – REDINGTON (INDIA) LTD**

**Moderator:**

Ladies and gentlemen, good day. And welcome to the Redington India Limited Q3 & 9MFY19 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raj Shankar from Redington India Ltd. Thank you and over to you, sir.

**Raj Shankar:**

Thank you very much. Thanks to all the participants for joining on this call. So, we had a very good Q3. At a consolidated level, as you would have observed, our revenue grew by 12%, our EBITDA by 31% and profit after tax by 14%.

Interestingly, both India and overseas did very well this quarter, needless to mention, overseas did exceptionally well. India grew top-line by 12%, and EBITDA by 5%, and profit after tax de-grew by 6%, while overseas grew 12% on revenues, 60% on EBITDA and 29% on profit after tax.

Now some of you would recall that Arena had a difficult time in the last quarter, given the steep depreciation of Turkish lira. We put out certain very clear action plans and we delivered on those action plans for our Q2. I am very pleased to share that Arena in this quarter has bounced back with a vengeance. While the revenue may have de-grown by 9%, their EBITDA grew by an impressive 27%. And this is essentially on account of the fact that we have been able to manage not only to expand our margins, but also manage to have a very strangled hold on the OPEX.

For a brief moment, if we switch gears and look at the picture on a nine months basis, the situation is also equally impressive. At the consolidated level our revenue grew by 11%, our EBITDA grew by also 11%, while

our profit after tax was just a little over 0.1%. India grew revenue by 10%, EBITDA and profit after tax de-grew by 11% and 20%, respectively. Overseas, again had a very strong nine months, with 11% growth on revenue, 36% growth on EBITDA, and 16% growth on profit after tax.

Now, the point I wanted to make is this growth that you see in the overseas, both for the quarter and for the nine months, is after taking an impairment of close to Rs. 45 crores on account of impairment to our investment in Arena.

Again, as all of you know, the steep depreciation of Turkish lira in August, as well as the overall country risk of Turkey, forced us to take an impairment. But I am overjoyed to share with you that even after taking an impairment of Rs. 45 crores, we managed to grow overseas' profit after tax by 29% and managed to grow the consolidated profit after tax for the quarter at 14%. Therefore in the context of this, if you look at the nine months picture without the impairment, we would have also delivered a much higher positive growth on the profit after tax.

Now each of the business verticals have done well for us in this quarter: IT grew by 9%; Mobility grew by 12%; Services grew by 25%. And again, when you look at nine months picture, IT grew by 8%, Mobility by 11%, and Services by 31%.

The good news, though, is that in India the IT vertical has had a strong double-digit growth of 17% for the quarter and when you look at the nine months picture, it has also grown by 12%. So IT vertical continues to hold well for us right through all three quarters.

When you look at from a Mobility perspective, at a consolidated level we grew by 12%, but this was essentially coming out of a strong double-digit growth in overseas of 21%.

Now, even if you look at working capital, at a consolidated level it appears that we have grown by four days. But I just want to mention here, when you look at each one of the last three quarters or last four quarters and

not year-on-year, actually the working capital has improved sequentially on every quarter.

However, when you compare it year-on-year, it appears that our working capital has gone up by four days. Just as a case in point, in Q4 of last year we had 42 days of net working capital at a consolidated level. It was also 44 days for Q1, reduced to 41 days in Q2, and we have managed to maintain this at 41 days in Q3.

Overseas has been a very strong contributor overall. As far as India is concerned, the working capital did go up to about 60 days in Q3, but this is essentially on account of the Enterprise business where we were forced to give longer credit period to some of the big deals, and this sort of precipitated the working capital position. And likewise, on the Mobility, we were saddled with a much higher inventory than usual. Put together, it has increased our working capital in India.

The free cash flow in overseas of Rs. 9 crores for the quarter and for nine months, it is Rs. 231 crores. However, in India the free cash flow was negative for the quarter, as also for the nine months. And hence when you look at a consolidated picture our free cash flow was negative for nine months at Rs. 411 crores and Rs. 610 crores for the quarter.

In terms of the performance of ProConnect, we have grown for the quarter by 36%, which is without RCS. So, overall, we have grown by 20% in terms of revenue for ProConnect, 18% by way of EBITDA and 17% by way of PAT. While for nine months we have grown 30% by way of revenue, 20% by way of EBITDA and 18% by way of profit after tax. So ProConnect for us continues to do well, both for the quarter as well as for the nine months.

In terms of our debt to equity, for the quarter, net debt to equity at a consolidated level was 0.4, and this was the same for the nine months period. So, in other words we have managed to continue to exercise a strong financial discipline.

The other point that might be of interest is with regards to the provisions for both inventory and bad & doubtful debts. For inventory, at a consolidated level, actually we have a reversal of the provision. So in other words, whatever provision that was created earlier we have managed to sell out that inventory, and whatever fresh provisions have been created have been less, such that actually that is a negative 0.08% as far as at a consolidated level.

With regard to the bad & doubtful debts, at a consolidated level, it is 0.12%. I would like to be very clear here that as far as India is concerned, we did mention in the past that we will try to contain it at less than 0.15%, so we have maintained for the quarter at 0.15%. Overseas is 0.10%, and hence, the consolidated level for bad and doubtful debts was 0.12%.

So I think, I have pretty much given most of the statistics for now. Just as a quick comment. It has been an exceptionally good quarter for us, largely on the back of a very strong performance by the overseas. In spite of taking an impairment hit of Rs. 45 crores, we have still managed to deliver a profit after tax growth at a consolidated level of 14%. ProConnect continues to be doing, again, very well in the last many quarters and many years. So overall, it has been a good quarter.

I now hand it over to you for any questions.

**Moderator:**

Thank you. Ladies & gentlemen, we will now begin with the Q&A session. The first question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

**Pranav Kshatriya:**

My first question is, my calculation suggest that the inventory write back will be to the tune of Rs. 180 million, is that broadly correct? Second, can you help us with the absolute net debt, which is there on the balance sheet currently? And my third question will be, if you can give some color on how you are seeing growth in different markets in IT, Mobility as well as service businesses in each of the geographies?

**Raj Shankar:**

So I will take the third one first. With regard to IT, as I mentioned to you both in India, particularly for the quarter and for the nine months, we have grown quite nicely. The momentum seems good. We would like to believe that this should continue also into Q4. As far as overseas is concerned, again, it has grown by a single-digit. Even though the market has degrown on PCs and a few other product categories, we continue to be growing, albeit by a single-digit. We think that should continue also into this quarter. As far as Mobility is concerned, overseas has had a very strong performance in Q3. When you look at the nine months period, it was 15% in terms of growth, and when you take only for Q3, it was 21%. So we would like to believe that this momentum should continue. And as far as services is concerned, I think, this is also been quite interesting for the quarter, with Services in India growing by 38% for the quarter and 39% for nine months. So overall, to give you a sense, in India, the IT growth momentum seems quite strong and the services segment seems to be doing very well. Outside India, the Mobility segment seems to be quite strong. So overall, it appears that there is a good momentum going forward.

With regard to your question about the net debt, at a consolidated level it was Rs. 1,848 crores

**SV Krishnan:**

The inventory provision write-back in terms of absolute amount will be about Rs. 10.2 crores for the quarter.

**Pranav Kshatriya:**

Okay. Krishnan, I just wanted to get a sense that how should we see this margin going forward? Because when we spoke last time, we had taken 26 and 28 basis points in provision for AR and inventory respectively in Q1 and it was expected to come down gradually over a period of time till Q4 and then it should normalize to current level is what the sense was at that point of time. It seems that there is a reversal, much earlier than predicted. Should there be some more volatility continuing in this or this is more like a normalized level and we should expect this to continue, going forward?

**SV Krishnan:** See, it is coming back to the normal level. Very clearly as Mr. Raj said, it is visible in the case of AR. Even in the case of inventory, for the first nine months, our inventory provision as a percentage of revenue is about 0.09%. So it is about 2 to 3 bps more than our long-term average. And as we move forward, this should come back to our long-term average level.

**Moderator:** Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

**Nagraj Chandrasekar:** If we look at the rise in working capital in the India business on both Enterprise and Mobility, is this a sort of new normal and we should expect to see you guys carry this level of working capital in order to do business? And are we basically taking the call that we wanted to drive growth, even if it comes at higher working capital terms and possibly take share from other people with weaker balance sheets, who are not able to put as much working capital to work? So potentially, we end up getting the growth, but it comes at inferior returns and capital relative to what we are historically used to in the India business? Second, could you take us through what or how you thought about the Arena impairment? And how you see Arena going forward in terms of both from a value of equity that you have employed there and profitability going forward?

**Raj Shankar:** First of all, the first question is a great question. So to give you a very candid answer, certainly, we are not trying to leverage our balance sheet. Now in both cases of Enterprise and Mobility, the reasons are different. In the case of Enterprise, for most of the transactions that we are now engaged in, there is a request for a longer credit period. I would attribute this to some of the other larger banking or non-banking related issues where liquidity and other problems have manifested itself, and hence, to us it is more a temporary situation, may be they are in the short-term, but this should correct itself from the medium to long-term. So to answer your question, in the case of Enterprise business, temporarily, we are forced to give a longer credit, but we make it very clear that any extended credit is sufficiently covered in terms of additional margin, so that the ROCE is not compromised. With regard to Mobility, again, I must confess



it appears to be more as an aberration for last quarter, where the sellout expected was much higher than whatever orders and inventories that we had bought. However, we think again, this should correct itself this quarter and hence, this is not a new normal. To your second question about impairment in Turkey. I will just put it in a simple way, there are two elements to this. One is goodwill and the other is trade name. So this was triggered largely because every quarter, and at every period, we do a valuation and test the investment that we have made for any impairment, and this is all done by external parties and subsequently audited by one of the big four audit firms. And therefore, the impairment value was actually \$10.2 million, and the share of this impairment that relates to Redington Gulf is \$6.5 million. And hence, when I mentioned in my narrative earlier, I said Rs. 45 crores is the impairment, so it is this \$6.5 million that I was referring to. Now to your follow-on question about how do we see Turkey going forward? My sense tells me that the worst appears behind us. As long as there is no one-off event or some black swan or extraneous events, we should look at the worst being behind us, and probably, better days being ahead. Hope that answers your question.

**Nagraj Chandrasekar:** Yes. Just one quick follow-up on the impairment. When the auditors did their test for goodwill, was there a recommendation to write down based on the market value of the asset as quoted on the Istanbul Stock Exchange or was the assessment based on the book value?

**Raj Shankar:** So it is more of the second. It has nothing to do with the price trading at the Istanbul Stock Exchange. And just for your information at the Istanbul Stock Exchange, the price has been trading at a low level for quite a long time. This is purely to do with Turkey environment, the one-off serious significant depreciation of Turkish lira, and the subsequent impact to the business.

**Moderator:** Thank you .The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan:** I had a couple of questions. I will just go one by one. The first one I think, is in your presentation you have highlighted how the distribution

food chain has sort of changed in IT Consumer and Mobility, and you have highlighted that basically, the sub-distributor appears to be no longer there. And we would distribute directly to the reseller, retailer and e-commerce players. I just wanted your thoughts on how things change in the context of margins, and the way you would look at your business in the context of these changes? And is the sub-distributor completely sort of eliminated at this point?

**Raj Shankar:**

So, Nitin, what we have shown in that presentation is purely a scenario, where we are not saying that the sub-distributor is completely eliminated. But clearly what is coming out is, the number of players in the food chain is reducing. So as a distributor, we are now forced to more and more look at a direct-to-retail model and a direct-to-customer model. So this is one opportunity, it is not something that manifests itself across all product categories, but this is something that we are seeing more on the Mobility space, it is more evidenced there than necessarily on the IT side, wherein we are seeing only traces of that in probably consumer PC.

**Nitin Padmanabhan:**

Sure. How do you think it would potentially impact the margin profile that was available to the distributor earlier and now?

**Raj Shankar:**

So it should result in, on one hand a relatively higher margin for the distributor, but it will also mean a higher Opex because to that extent, we will have to invest in terms of resources, and in terms of creating that platform to be able to go and reach to the last mile. So it would have a combination of both.

**Nitin Padmanabhan:**

So you are saying when the gross margin will be higher, the EBITDA margin on a net basis, do you think it will still be higher? Or it is difficult to call at this point?

**Raj Shankar:**

It is still early days, but our personal view is that, as this model starts to play out, we should start seeing EBITDA margins get better.

**Nitin Padmanabhan:**

Sure. I had two more if I may. One is, the IT business in India, in the context that sales were driven by large projects, leading to higher working capital, what is the nature of these end clients? Are they

government parties or private sector? How should one look at them overall? And what is your comfort with regard to the credit profile of these buyers?

**SV Krishnan:**

Nitin, this would be government or the PSU end customer, but we will be selling it through the channel partner. Therefore, as far as the credit risk is concerned, we are quite comfortable. And as Mr. Raj said, we are also looking at ways and means to reduce this AR through some bill discounting or a factoring method so that even DSO will come down in the balance sheet.

**Nitin Padmanabhan:**

Sure, great. That's helpful. And the last one was, if you look at both the India and overseas market, the Mobility piece seems to have reacted very differently in a very seasonally strong quarter. And in the context that the India business possibly also had some catalysts, just wanted your thoughts on what specifically happening in both those geos with regard to the off-take on mobility?

**Raj Shankar:**

So the first point is, the Mobility for us in India is largely to do with the one or two brands, whereas the Mobility business outside India, we have a portfolio of very enviable brands. The second is that within this, Africa part of the business tends to be a little more consistent and stable. It is the Middle East where we have recently acquired some contracts on the mobility space, which has given us this accelerated growth. So fundamentally, the difference is bigger portfolio outside India and a recent brand acquisition in the Middle East, which has really given us this high growth. In India, we continue to be largely dependent on one or two brands.

**Nitin Padmanabhan:**

Sure and this brand acquisition would be, in this particular quarter?

**Raj Shankar:**

Yes, it has started to play out this quarter.

**Moderator:**

Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

- Riddhesh Gandhi:** Just had a few quick questions. On the India piece, have the impact of the consolidation in Apple played out in this quarter or would it be expected to play out actually from Q4 onwards?
- Raj Shankar:** Overall, the distribution landscape has started to come down. It has definitely given some advantage in Q3. It will become more pronounced in Q4 and beyond.
- Riddhesh Gandhi:** On the India angle, are there any other brands also who we are expecting or pitching to with regards to tying up? Or is it going to continue to be just two or three brands, where we're strong at?
- Raj Shankar:** So we are currently in discussion with a couple of vendors. They are at different stages of consummation. But we are certainly trying to expand our brand portfolio on the Mobility space in India.
- Riddhesh Gandhi:** Is the decrease in profitability in the India business, primarily driven by higher interest costs because of the increase in working capital?
- Raj Shankar:** Absolutely correct.
- Riddhesh Gandhi:** Can we expect this to actually reverse from Q4 onwards?
- Raj Shankar:** Yes, absolutely.
- Riddhesh Gandhi:** Is the inventorial write back taken linked to the inventorial provision which we have taken in H1 of this year?
- SV Krishnan:** Yes, it is mostly related to the inventory provision that we have taken in the first half.
- Riddhesh Gandhi:** Did the client agree to compensate us for the loss?
- SV Krishnan:** Either the product would have got sold or would have got returned to the vendor, which did not necessitate creating the inventory provision
- Riddhesh Gandhi:** With regard to overseas business, the growth in both the revenues and profitability is extremely strong, but is it something that is sustainable

and if you could throw some light and color on the reason why the overseas business continues to be growing at this level?

**Raj Shankar:**

Overseas business did well in FY18 and also FY17. But FY19 has been particularly good, purely because we had some very good brand acquisitions or existing brands that we managed to get into new geographies. So that has definitely given us a boost. And the good part of the overseas is, it is a very balanced picture. We have still IT consumer continuing to do well. The IT Enterprise part of the business is growing at double-digit for the last many quarters and continues to grow at double-digit. And our Mobility business is growing at double-digit largely through brand acquisition, or existing brands for new geographies. So overall, it has been a good growth story. We expect that the business will continue to deliver a good set of numbers. Now I do not know whether we can repeat what we have done in Q3 in particular, but overall, I would like to believe that we continue to have a very strong leadership position in the Middle East and Africa for all brands and products both in Mobility and in IT.

**Riddhesh Gandhi:**

Thanks and the last question is with regards to India. Are you seeing the actually comparative intensity among the distributors reducing as smaller players are falling off or is the competitive intensity continuing to be extremely high? And therefore, should we expect the margins and the return ratios to be slightly lower in India?

**Raj Shankar:**

So that is a great question. Our profound view is that in the overall IT ecosystem, we're seeing a lot of consolidation taking place. It is taking place at the vendor level, at the distributor level and at the retail levels. So our own view is that in distribution, this consolidation, while it may not be very conspicuous now, but we think in the way forward, this should definitely help a company like Redington.

**Riddhesh Gandhi:**

Okay, but are you actually seeing it happening on the ground or is this something that you would expect to play off over the next few years?

**Raj Shankar:**

See, the reason why I could not be very specific on this is, if you take IT in India, approximately the top two players, one of this being Redington,

together have about 65% to 70% of the total business opportunity. After that, there are one or two players and then, there is a long tail. So our view is that this long tail over a period of time will get consolidated. There are some changes that we are seeing, but like I said, it may not be very conspicuous now but we expect this consolidation to play out over time. At the moment, we're seeing traces of it, but it may not be conspicuous.

**Riddhesh Gandhi:**

Can we expect Q4 and onwards to be back on track as we have seen in Q3 as well?

**Raj Shankar:**

So in Q4 in particular, you will see a very strong performance from India market. Overseas will grow, may not be as strong as we did in Q3. So overall, we expect a strong growth momentum to continue, but in Q4, driven largely by India.

**Moderator:**

Thank you. The next question is from the line of Alekh Dalal from One Thirty Capital. Please go ahead.

**Alekh Dalal:**

On the Turkey side, what is our current position of receivables and inventories? Where do we stand in respect of our plan to work them down? Secondly on overall free cash flow for FY19, do we think that we'll be positive in FY19? And thirdly, could you just give some color on why ProConnect has sort of slowed down on a relative basis on a year-on-year growth trajectory?

**Raj Shankar:**

So on the first question with regard to Turkey, I don't have the inventory and receivable details, but suffice it to say, that our debt to equity is approximately above 0.55%. So we have about US\$70 million of capital and our debt level was less than \$40 million, at \$39 million if I recall well. So overall, our debt to equity continues to be at a good level. With regard to free cash flow, in the nine months picture, we are at Rs. 410 crores negative. But we believe that this coming quarter, we will be able to deliver a free cash flow. We would require a little more time before we can get a little more clarity on whether it will be good enough to wipe out the negative cash flow that we have had for nine months. But for sure, in Q4, we will deliver a free cash flow both India as well as consolidated. The third question that you had was on ProConnect. So

while I did not fully comprehend your question, we have grown for the quarter by 20% on revenue, 18% on EBITDA and 17% on profit after tax.

**Alekh Dalal:**

The question was that on a relative basis, the revenue trajectory growth is going down. So first few quarters you have been growing at sort of 43%, then at the rate of 29% and now this quarter, it is 20%. So I am just trying to understand any specific reasons why the relative growth rate, although still pretty solid, is coming off a bit.

**Raj Shankar:**

Okay, this particular quarter was essentially due to the fact that one of our investment companies, RCS that you would know, unfortunately, did not do as well. There was a de-growth in the business. So if for a moment, if I have to consider the growth of ProConnect without RCS, the revenue growth was 30%. So just want to give you the comfort that ProConnect is still on a good growth trajectory

**Alekh Dalal:**

Okay. And just coming back to the free cash flow question. The Enterprise business in India seems to have grown, however, there has been revision in the working capital terms. Should we take the current levels as the stabilized levels, since it has increased by about 9 days sequentially or is this just a mix issue? In case it is only on account of Enterprise business, then should we expect the same to start cycling back through in one or two quarters?

**SV Krishnan:**

Yes, it is mainly because of the DSO ask in the marketplace going up for the Enterprise biz and this is because of the large orders from various government departments. We think that would continue, but we are confident that it will be able to derive more margins, and we will find a way in terms of factoring this without recourse. This will help us to restrict our working capital deployment in this business. So we will find a way in terms of bringing this down.

**Moderator:**

Thank you. The next question is from the line of Rishindra Goswami from Locus Investments. Please go ahead.

**Rishindra Goswami:** So just two questions, one on the India IT business, can we get the split between the government and non-government revenue mix? And how have the DSOs moved on the government piece?

**Raj Shankar:** First, let me give you a slightly different perspective. Overall when you look at IT in India, within IT between Enterprise and Consumer, it is 51% to 49%. Within the Enterprise, my sense is what could be government or government linked, it should be about 25% to maximum 28%. But please allow us to reconfirm in case these numbers are inaccurate. Again, just to be sufficiently clear, we do not sell directly to the government. We only sell to a partner, who in turn sells to the government

**Rishindra Goswami:** Okay, and on Arena side, would you have a sense of where the DSOs and inventory days are running?

**Raj Shankar:** I am sorry, for this call I am a little ill prepared on that question. But I can only give you the comfort. I was there not too long ago. The receivables is coming down and we are able to collect. So we have no cause for concern, but I am sorry, I don't have the specific number. Allow me to come back to you separately by mail if that is fine with you.

**Moderator:** Thank you. The next question is from the line of Gagan Thalreja from Kotak Investment. Please go ahead.

**Gagan Thalreja:** First question is generic in nature. We've seen the recent changes in the e-commerce policy. And you are already seeing some impact of that on the e-commerce platforms. I am just trying to understand, what could be the second order impact of that on the retailers, brick-and-mortar, and consequently, on you in your business?

**Raj Shankar:** So see, this whole thing is evolving. Right now, the business for our kind of scale, has got less impacted. So I must tell you, we actually see this as an opportunity. The reason is that we expect, in addition to the e-commerce business or the online business, we would also see the off-line business continue to grow. So that is where we clearly see an opportunity in the way forward. So at the moment it is still early days. I think, various companies are trying to figure out, some solution, but our



own internal view is, if at all for Redington, it must be overall a net advantage.

**Gagan Thalreja:**

Okay, secondly, on the free cash flow situation, you did give some reasons largely I think, pertaining to liquidity issues in the system. I would presume that holds true for the Indian part of your business, but for the non-Indian piece, if you could elaborate a little more and delve into the causes of the free cash flow issues? And also, give us an understanding of how things have been shaping up over the last, let's say, two quarters, and your view on that going ahead?

**Raj Shankar:**

Okay. So let me then address it in two ways. First is when I look at overseas, our net working capital for the quarter was 30 days. And last year, the same time, it was 29 days. Now, when you look at this working capital for the preceding three quarters, which is in Q2FY19, it was 37%; in Q1FY19, it was 39% and in Q4FY18, it was 34%. So when you look at over the last three quarters, notwithstanding the fact that in Q3FY19, our net working capital of 30 days, which is close to 12 working capital turns, while it is too good to be true, but there has been a systematic improvement in the last three quarters sequentially. Does that answer your question?

**Gagan Thareja:**

Yes. And how does your outlook stand on this going ahead?

**Raj Shankar:**

We consider the steady state levels at somewhere between 35 to 38 days

**Moderator:**

Thank you. The next question is from the line of Vishal Desai from Axis Capital. Please go ahead.

**Vishal Desai:**

I had just one query regarding the India business, while this quarter, we have seen a de-growth on the Mobility segment on a year-on-year basis, could you outline to us, how do we see growth coming in the next few quarters? And secondly, what drove the de-growth and how has Apple done particularly in this quarter, please?

**Raj Shankar:**

Okay, so as you would be aware, our own view is that with the change in the distribution landscape, we would like to believe that the true effect

of that is something that would start to play out in Q4 onwards. So if we are expecting that therefore, the Mobility business will start to show a certain amount of traction, a certain amount of growth, it is essentially on the backdrop of this assumption. And, with your permission, I would like to avoid any specific point with regard to any specific vendor, as you would know, it would be a little inappropriate. But allow me to say that overall, when you look at the mobility business, while for the quarter, it has de-grown by 7%. For nine months it has de-grown by 1%. My sense tells me that for the quarter, we should grow nicely in Q4, and this momentum is something that we're hoping should continue given the change in the distribution landscape.

**Moderator:**

Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

**Rohit Balakrishnan:**

So sir, I had two or three questions. So first was if we look at slightly longer term performance over the last five to six years, I have seen that your overseas business has picked up in the business, with what used to 50% contributor in revenue has now gone to almost two-thirds in terms of your overall contribution. At the same time, your ROEs have compressed from high-double-digits, close to 18% or 19% to now close to 15% to 16%. So I just wanted to understand first off, is structurally, is overseas business a low ROE business and if there are any levers to improve that going forward?

**Raj Shankar:**

All right. So I think, it is a very fair question, but let me give you my perspective. In India, the ROE tends to be higher typically about 17% to 18%, purely because here it is rupee-denominated. When you look at overseas, where it is largely dollar-denominated, if you are able to give a return on equity like you said, 13% to 14%, I am not saying it is best-in-class, but it is a much higher return for a dollar investment. So the way you need to look at is to look at the India piece, look at what kind of returns are we giving on the investment in India and what kind of dollar returns are we giving for the dollar investment overseas. When you do that, my sense tells me that you will find that in both these regions,

we are giving a reasonably good return. Though, our endeavor going forward, is to try and improve this.

**Rohit Balakrishnan:** And sir, are there any specific levers in the overseas business, where you can improve your margins and/or working capital, which can then help you improve your ROCE and ROE?

**Raj Shankar:** See fundamentally, while we can get into a detailed discussion on this, in India, the entire dividend is paid out of the capital in India. So when we are talking on return on equity, the total dividend that is paid and any other amounts that are paid, is all going from the India capital. Whereas outside India, the capital and the profit is continued to be retained in that region. So to that extent, we have lot more capital, probably than what we need, which is one of the reasons why you see that the debt-to-equity outside India is a fraction, like for this quarter in Q3, it was 0.01 debt-to-equity. So naturally, the return on equity would get compromised because we have little or no borrowing. Whereas when you compare that with India, the net debt-to-equity is almost 1.69, if that would explain.

**Rohit Balakrishnan:** Sure. So sir, just as a follow-up on this, I am actually looking at, I mean I am looking at it from an ROCE point of view, and there is a difference between both these businesses. So I appreciate the fact that, while there is no leverage in the overseas business and to that extent, the ROE is slightly different. But there is a fair amount of difference, even at the ROCE level. So adjusted for debt also, I mean, there is a significant difference between the return on capital employed, between these two businesses. So I understand your point on cost of capital being different in some of these geographies and on a dollar-denominated basis, and you should look at that, but at a company level, we were close to 17% to 18% ROE business or even ROCE business, which has sort of trended down, and in that sense, the valuation that the market also has an impact on account of that. So, structurally, overseas, while we have grown there, but is it a lower return metric business? And/or if you are trying to improve that, are there any levers to that? I would like to have a call to understand this point specifically, if I understand it is a slightly more

nuanced point, so I also request if you can do a call on this separately to understand it in a little more detail.

**Raj Shankar:** Just one point. For Q3, the ROCE in India was 17.4% and for overseas, it was 17.3%. I rest my case.

**Rohit Balakrishnan:** Sure, sir. So sir, the second question was more around, I mean Apple and them not doing so well in India now, and while I understand that they have consolidated their distributors and we should see some impact of that positively in the next few quarters. But on an overall basis, I mean, how do you see for us in terms of growth, because they have not been able to sustain their market share or they have not been able to grow their market share, so how does that impact us going forward from that piece?

**Raj Shankar:** See, it is important that we must understand that we have a complete portfolio of products. We are not dealing with just one product with the brand but we are dealing with the entire portfolio. Whether it is their PCs, whether it is their tablets, whether it is the phone, whether it is the accessories, we have a complete suite of products. And if truth be told, there are some products within that portfolio, within that brand, which are very interesting from both top line and bottom line. Yes, it could be that there is a product, which may not be doing at a particular point in time, as well as we would like, but our sense tells us that in this new changed circumstances, as long as we continue to play it right, we have a lot more to gain and there is an advantage for Redington. Now whether it will manifest itself into the kind of results, all of it in Q4, or it will happen over a period of time, that time will tell. But I can tell you that compared to any time in the last two to three years, I think, I look at this period and the way forward, with a huge sense of optimism.

**Rohit Balakrishnan:** Sir, I wanted to know for the Apple portfolio, in terms of your revenue, how much is from the Mobility and non-Mobility piece, only for Apple, not for the company per se?

**Raj Shankar:** Can I make a polite request that I would have to refrain from giving this number as it may not be appropriate to provide this level of detail? So

allow me to say two things. One, the contribution of Mobility is 31% at a consolidated level, and for India, contribution is 22%. And a significant part of that largely comes out of one vendor. I will leave it at that.

**Rohit Balakrishnan:**

Sure. And sir, just one last question again from an overall perspective, I mean if you look at some of the Chinese vendors like OnePlus or even Xiaomi, they have tried to do direct distributions, and sort of tried to do some kind of a direct model there. So how do you see this space, this whole piece evolving, since both these brands have got some good traction in the last few years. So I just wanted to get your perspective on this.

**Raj Shankar:**

See, there are a lot of moving parts and a lot of regulatory changes. Some of them who are doing very well are now currently finding themselves a little bit vulnerable. Some of them who are not doing as well, are suddenly seeing opportunity. So our point of view is that there is still a lot of things are still fluid right now, but suffice it to say, that we are currently pursuing like I said, with a couple of vendors in the Mobility space, and if that fructifies, it will probably put us in an even stronger position in the way forward.

**Moderator:**

Due to time constraint, this was the last question of the conference. I would now like to hand the conference over to the management for closing comments.

**Raj Shankar:**

Thank you. So in summary, Q3 was a very good quarter overall, driven largely by excellent set of results by our overseas operations. Even though, we took an impairment hit of Rs. 45 crores, we managed to grow double-digit at a consolidated level of close to 14%. And even on a nine months basis, we have grown both revenue and EBITDA by double-digit. ProConnect continues to be a very strong growth story. And we have managed our working capital reasonably well at a consolidated level. We expect that Q4 and beyond, this growth momentum should continue, and largely driven particularly in Q4 by a good growth coming out of India. Thank you once again for participating on this call.

**Moderator:** Thank you. On behalf of Redington India Limited, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.

***The document has been edited for readability purposes***