

June 15, 2020

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

Dear Sir/Madam,

Sub: Q4 – FY 2020 – Earnings Conference Call Transcript

This is in further to our letter intimating details of Investor/Analyst call on the Audited financial results for the quarter and year ended on March 31, 2020 held on June 11, 2020.

In this regard, we are enclosing herewith transcript of the Conference Call hosted on June 11, 2020. The same is also available in the Company's website <https://redingtongroup.com/>

Kindly acknowledge receipt of our communication.

Thanking you,
Very Truly Yours,

M. Muthukumarasamy
Company Secretary

CC: BSE Ltd.,
Floor 25, P.J Towers, Dalal Street,
Mumbai-400 001.



Redington (India) Ltd

Q4 FY 2020 Results

Conference Call

June 11th, 2020



MANAGEMENT : **MR. RAJ SHANKAR – MANAGING DIRECTOR**
MR. S V KRISHNAN –WHOLE TIME DIRECTOR & CFO
MR. SRIRAM GANESHAN – DIRECTOR & CFO, MEA OPERATIONS
MS. SOWMIYA M – SENIOR MANAGER, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Redington India Limited Q4 and FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion and expectation of the company as on date of this call. These statements are not 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 and 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raj Shankar, Managing Director. Thank you and over to you, Sir!

Raj Shankar: Thank you. Good evening to one and all. We are pleased to share with you the performance for Q4 FY2020 and FY2020. So let me start with Q4 though I would want to lay more emphasis on FY2020

The revenue grew for the quarter at a consolidated level by 1%, whilst the profit degrew by 29%. This was largely on account of the ProConnect performance being a big drag. We will talk about it in a short while, but for a moment we exclude ProConnect out of the equation, our revenue growth of course would have continued to be at 1%, but our profit decline would have been 3% with an EBITDA growth of 4%. Now when you break this down by geography, for Q4, India registered revenue degrowth of 7% and a profit de-growth of 74%, but again for a minute with your permission if I exclude ProConnect and look at our India Distribution business, the revenue degrowth was 7% whereas the profit after tax grew by an impressive 33%. Now when you look at overseas, overseas grew topline by 5%, EBITDA by 8% and the profit after tax degrew by 14%. This is largely on account of the interest cost being higher during this period and the higher tax rate in Turkey, which

impacted the profits. During the second half of March' 2020 being the COVID period, we had revenue impact in all our geographies. In India distribution biz, we lost sales of Rs.800 crores whereas in Middle East, Turkey & Africa (META), we lost about \$110 million of revenues and in Singapore & South Asia (SSA); we lost about \$27 million of revenues. These were confirmed orders but we were unable to execute because of lockdown. All put together, it totals to somewhere in the vicinity of about Rs.1800 Crores, which would have of course pushed the topline impressively by another 15%, and even the bottom-line from a distribution standpoint would have been at least in the vicinity of additional Rs.20 Crores to Rs.22 Crores. While talking about COVID I already shared with you on our call on April 30, 2020 that we did come up with a Redington playbook, which we called it as the "7Cs". This starts with making sure that our people are completely safe and protected. There have been very few positive cases, but we have managed to ensure that we continue to support them and their family and we hope and pray that this number does not increase.

The 7Cs relates to **cash flow**, which again I wish to share with you with a higher level of confidence today than on April 30, 2020 that we have managed to secure and have a very reasonably comfortable position with regard to our cash flow. Notwithstanding whether this COVID is going to play out to have a pessimistic, a negative impact or a severe impact, I think we are reasonably well prepared on the cash flow front. We are focusing a lot on **collections**. We are making sure that we are frugal on **costs**, wherein we also want to share that the management has taken a cut in the compensation with the clear objective that once we complete or pass over this COVID period we should be able to get the business back to its old glory.

From a **customer** point of view, we stay very closely connected with them and continue to be an important bridge between the vendor and the channel partner and very importantly, we have managed to ensure

that we have not lost a single **contract**. On the contrary, we continue to reinforce our engagement with our vendors. We have ensured that we put in all **controls** so that if at any point in time we know that there is a problem on account of any issue we have a contingency plan and a remedial plan in place. We also make sure that we **communicate** regularly to all our stakeholders particularly our employees to make sure that they follow all the hygiene conditions and practices. Sorry for the digression and coming back to our results.

If we were to look at from a working capital perspective, for Q4, I am very pleased to share that at the consolidated level, we brought down the working capital by 3 days. Overseas continued to maintain their working capital at 29 days, in both Q4FY19 and Q4FY20 whereas in India there has been a significant reduction from 43 days in Q4FY19 to 33 days in Q4FY20. The other very gratifying part is that the company delivered positive free cash flow both at India and at overseas level delivering a positive free cash flow at a consolidated or global level of Rs.1,267 Crores. The return on capital employed at a net debt level works out to about 16.3% largely coming out of overseas, which delivered ROCE of 20.3%. Similarly, our gross debt-to-equity was 0.54 and net debt-to-equity is at 0.03

ProConnect has been a big setback for this year particularly for Q4 where we delivered revenue of about Rs.95 Crores, but degrew profits or made a loss of Rs.37 Crores. This is largely coming out of the trade advances that we have paid from our operations in East to RAPAL, the transport agency. Unfortunately, we had to take a provision because the agency did settle the trade advance and in the meantime, since COVID had come into place, we had to take a huge provision in that case. We also had to take an impairment at RCS and Auroma level, which resulted in the profit after tax being minus Rs.37 Crores.

If we switch gears and go to FY2020, the revenue growth was 11% and we are glad to share that we breached a revenue milestone of crossing Rs.50,000 Crores, by generating Rs. 51,514 Crores of revenues for FY20. We are happy that we could deliver this in a rather difficult year. In terms of the EBITDA, we grew by 10% and PAT grew by 1%. However, if we exclude ProConnect the PAT growth would be 20%.

As far as India is concerned, which includes Distribution and ProConnect, the revenue growth was 10% and the profit degrowth was 16%, but if for a moment you exclude ProConnect from India and only look at the India Distribution business, our topline grew by 10%, EBITDA by 17% and PAT by 45%. However, ProConnect on the other hand did deliver a turnover of Rs.432 Crores thereby growing at 7% YoY, but made a loss for the full year at Rs.57 Crores. Again, this was largely because of the provision towards the trade advance, the impairments and we had some of the contracts on which our margins came under pressure.

If we shift to overseas, for the full year the revenue grew by 11%, EBITDA by 17% and profit after tax by 10%. Turkey had a very good year and grew on all three fronts - Revenue, EBITDA and profit after tax for the full year.

If we look at it by business vertical as IT, Mobility and Services, I am pleased to share that all three businesses grew; IT at 2%; Mobility was very strong at 26%; and Services grew by 9% at a consolidated level. At an overseas level, again IT, Mobility and Services registered a growth of 7%, 18% and 6% respectively. In India, IT registered degrowth of 5%, but this was more than made up by Mobility, which grew by an impressive 51% and Services grew by 11%.

If we look at the working capital, at the consolidated level we brought down the working capital from 37 days for FY2019 to 31 days in FY2020. Overseas continued to be steady; however, they brought it down by 1

day from 31 days to 30 days. India had an impressive working capital reduction from 48 days in FY2019 to 31 days in FY2020. This resulted us in delivering positive free cash flow for the full year FY2020 at a consolidated level at Rs.967 Crores. This was contributed significantly by India at Rs.792 Crores and by overseas at Rs.175 Crores.

Again if you look at the return on capital employed, at a consolidated level on net debt basis, it was 18.1%, wherein overseas was a significant contributor at ROCE of 19.8% and India was at 15.8%. On return on equity, at a consolidated level we delivered 12.6%, which was 12.8% in the case of overseas and 12.1% in the case of India

In terms of provision, at a full year level the inventory provision was just 2 bps in the case of India, 8 bps in the case of overseas, thereby the inventory provision was about 6 bps. In the case of provision towards bad and doubtful debt, at a consolidated level it was 10bps with overseas at 2 bps and India at 22 bps.

I certainly share with a heavy heart and a tinge of sadness that ProConnect for the full year registered a growth of 7% turning over Rs.432 Crores, but made a loss of close to Rs.57 Crores and largely again coming out of the trade advance, which I have already mentioned. ProConnect had an impressive past where we grew the topline and bottom-line by six times in 6 years from 2013 to 2019. We grew revenue from Rs.65 Crores in FY2014 to Rs.404 Crores in FY2019 and PAT from Rs.4.4 Crores in FY2014 to Rs.29.5 in FY2019. We had an impressive track record, but I must confess that in spite of making a significant investment in the acquisition of the asset in East, the company was largely managed by the owner of the company and we should have taken all necessary steps towards changing the management and putting in all our systems, processes and controls. It was working well in the first couple of years and since the arrangement with the owner was such that they would provide all the transportation services for the entire

operations in East, we did not have to invest in anything to do with transportation. We thought that was a good arrangement to keep the business asset-light, but in the absence of not having our own management on the ground and not putting in effective controls, giving trade advances, which were not properly scrutinized, I certainly stand guilty in front of all of you as that we could have managed it better. The only thing that I want to tell you now is we certainly have put a complete rethink and have established a new plan in place. This year will be a year of correction and consolidation. A big part of the issue is already behind us as we have taken the necessary hit for the year gone by. We are bringing in many changes in terms of organization structure, business structure, putting in much better controls and making sure that we focus more on profits than on scaling the revenue.

With this, I will now want to hand it over to all of you for your questions. Before I do that, I just want to share with you that I have on this call my colleague who is the CFO for our overseas operations, Mr Sriram Ganeshan. Sriram is a chartered accountant and has been working with Redington for 20 years. I would say he has been very instrumental in helping the company through this whole evolution from being a small company in the first year of operation at revenues of \$35 million to breaching the revenue milestone of \$4 billion last year. He has set up the complete operations, taking care of the Center of Excellence in India and taking complete ownership and accountability. He is an amazing individual, extremely knowledgeable, very analytical and very mature. We took your feedback that it would be good to have somebody from overseas, which has been a significant contributor to the top and bottom-line of the company for the last several years if not a full decade. We thought it might be a good idea to have him on this call. Therefore, if there are any questions relating to META, which is Middle East, Turkey & Africa, Sriram would be delighted to answer that. Sriram, please introduce yourself before I hand it over for questions from the investors.

Sriram Ganeshan: Sure Sir. Thank you for the kind words. Hello everyone. Wish you a very good evening and I hope all of you are keeping safe. As Mr. Raj Shankar said, I have been working with this great institution for the last 20 years and I am responsible for finance and the Center of Excellence operations for Redington Gulf. So happy to address any questions that you may have.

Raj Shankar: Thank you Sriram. Back to you.

Moderator: We will now begin the question and answer session. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Hope you are all safe and well. I just had two questions. The first one is if you could give some color on the three businesses within logistics, which is ProConnect, Auroma and Rajprotim. What are the changes that you are looking at strategically within those businesses? I am sure ProConnect on its own is doing pretty well, but if you could give some color on each of those. Also, do you think there is a need for capex-heavy model for the transportation business?

Raj Shankar: Thank you Nitin for your question. Krishnan, I will take your help subsequently. Let me just give a perspective and then if Nitin has a follow on question you may want to add. Nitin, when you look at the three businesses just to give you a sense the RCS did approximately about Rs.73 Crores as far as FY2020 is concerned, but however delivered a loss a little shy of Rs.50 Crores. Now when you look at Auroma we did about Rs.82 Crores and delivered a profit of about Rs.3.4 Crores. The balance comes out of ProConnect. Our biggest challenge has been that since a good part of the capital was invested in funding RCS and Auroma, there was a huge burden on ProConnect in terms of interest cost. So in terms of our plan and strategy in the way forward, the first thing that we would want to do is completely relook, reassess our RCS operations where we have brought in a completely new team and it is already in

place. All the contracts are now being vetted and validated and we believe that in the next one quarter notwithstanding COVID we should be able to put this RCS business at being efficient and at least starting to breakeven. However, we are also evaluating the opportunity if there are any other possibilities of unlocking value, but I will for a moment leave that just as a point for you to note though I may not be in a position to dwell into detail. On the other hand, as far as Auroma is concerned while the company is doing reasonably well and profitable, what we intend to do is to merge it during the course of the year and make it as a part of ProConnect so that we have One ProConnect. There will be no more of RCS and Auroma, but One ProConnect so that it becomes very clearly one company having operations on a Pan-India basis. The primacy to warehouse management and mission-critical services is what is going to be the focal point. Transportation businesses will only be a part of the total logistics solution. As transportation business tends to be yielding very low-margin and profits, we have therefore decided to completely downsize that part of the business. There was an endeavor towards doing the transportation business in the past purely because it helped us to scale the topline, but it is certainly a drag as far as the bottom-line is concerned. Fundamentally, we also want to make sure that ProConnect continues to deliver best-in-class service to Redington, which continues to be an important anchor customer. So in summary, in the way forward it is going to be focus on profits and not on topline; focus on making sure business hygiene is taken care of; focus on ensuring that we bring about One ProConnect whether it means merging Auroma or even RCS, if we cannot find any other solution that we think is attractive or compelling; focus a lot on warehouse management and mission-critical services, which is core to what we know, what we understand and where we believe the value proposition lies. Nitin, I hope that gives you a reasonable color.

Nitin Padmanabhan: Yes it does. That is very helpful actually. By the end of the year, we should be in a position to really get back to the normal mode of business and growth for this entity?

Raj Shankar: So that is exactly the plan, Nitin. We believe this is a business, which is core to Redington. Yes, we had it wrong, we have learned, we know what went wrong and now, we have started to put all the fixes in place. Therefore, to your question, we are confident that we will be able to correct it, consolidate it and once again put this company back on the growth mode by the end of the year.

Nitin Padmanabhan: Sure. That is very helpful. Just one last one from my side. Is there anything that you are planning in the near to medium term with regard to Turkey? I ask this because the Arena stock price is up 15%.

Raj Shankar: Honestly, Nitin I have still no idea what ignited the stock price, but all that I can say is the company is doing very well contrary to what most people think. People may have some bad memories of the currency going through a serious depreciation, but I want to tell you that FY2020 they have delivered remarkable numbers. Every single quarter they grew top and bottom-line. We have generated positive free cash flow. In the marketplace today, I probably am a little audacious to say that we are the leading player from an IT distribution standpoint. We are extremely well placed, so we therefore want to continue to put our nose to the ground and continue to drive this business

Nitin Padmanabhan: Sure. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Good evening Mr. Raj Shankar, Mr. Krishnan, and Mr. Sriram Ganeshan. I genuinely hope that everyone at your end especially the Redington family is all doing well. Sir, three questions from my end. Firstly, I just wanted

to get your understanding on if there is a change in terms of the narrative by some of our key vendors, say HP, Dell, Apple, etc., in the post Covid situation. Are they looking to modify their earlier targets and if so what is the quantum of the decline? Question number two is can you dwell a little more in terms of reduction in terms of our working capital? Is the reduction structural? If you could help us understand what the working capital was, let us say on March 15, 2020 or on May 30, 2020, that would be helpful.

Raj Shankar:

Excellent, I will take the working capital question first. So you would probably have seen as far as the working capital for overseas is concerned, it has been quite stable and steady over the last four years or over the last 20 quarters. It is somewhere in the vicinity of ~29 to ~33 days. I think over a period of time we have managed to keep the working capital under check and control and it has worked out well as far as overseas is concerned. Now with regard to India, this was something where we wanted to make sure that we put all the fixes in place. In India, the working capital of 48 days in FY2019 came down to 31 days in FY2020, but if you look at the individual components, the debtor days, which used to be 67 days came down to 57 days. The inventory days, which used to be 36 days has come down to 23 days and of course the creditor days because we did not buy as much during the second half also came down by 6 days from 55 days to 49 days. Thus, the reduction is an all-rounded improvement whether it is in terms of debtor days, inventory days or creditor days.

Aditya Bagul:

That is quite impressive, Sir.

Raj Shankar:

Yes, thank you. So now I also want to mention here the Mobility business, which registered absolutely wonderful performance was certainly a big contributor to the capital efficiency. Therefore, we want to continue to drive and scale that business because there is a huge merit in continuing to pursue the mobility business because it is working capital

efficient and ROCE interesting. That is what is going to continue to be an important factor to make sure that this is just not a flash in the pan. Now, 31 days may be a very aggressive number, but I would believe that something like about 5 to 5 and a half weeks is where we want to really focus and make sure that we peg it at that level or less at all times

Aditya Bagul: That is quite impressive so what you are saying is that on a structural basis our working capital at the India business has come down from ~49-50 days to about ~40 days.

Raj Shankar: Absolutely or less, correct.

Aditya Bagul: Perfect. Understood, Sir. My second question was trying to understand whether there was a change in narrative by some of these clients?

Raj Shankar: Before I answer that question in a pointed fashion, I must tell you that it has never happened for us in India that our accounts receivable is equal to accounts payable. The vendors have been supportive and we have negotiated hard with them and at the same time ensuring that we stand by them to make sure that their objectives are met. So the first thing is there is a very nice equitable relationship and it has worked well on both sides. Now with regard to the narrative this current quarter, they fully understand that the business would tend to be a little soft, but again I do not want to spill the beans. Our own internal view, we had looked at three scenarios, which is moderate impact, sort of a significant impact and severe impact. We planned everything based on significant impact. It appears that we are going to be now somewhere landing between moderate and significant if the current trend is anything to go by for the current quarter or for the current half year. So for the next quarter, as far as the vendors are concerned they believe that while the business will not bounce back to normal, they believe that the pickup should start and things should start to progressively get better. Q2 will be definitely better

than Q1 and they all expect that the real bounce back and the business being normal would more happen in Q3 and beyond.

Aditya Bagul: Understood Sir. That is quite candid Sir. I will come back in the queue. Thank you.

Moderator: The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Just two questions. One is on the competitive environment. Obviously, this has been an industry where Redington and Ingram Micro have been the leaders and then there are maybe three or four mid-sized players in the market and then a long tail of smaller-sized players. Are there any early signs on how this might evolve, either the midsized players or the smaller distributors starting to potentially throw in the towel or be less active or anything like that? My second question is in terms of credit risk. As you look at the portfolio right now, are you worried about potential credit issues on the receivable side? For example, let us say smaller shops that may not be able to sustain closure for a month or two as we have seen in the lockdown. Is there any sort of analysis you have done in terms of what we can expect best?

Raj Shankar: Krishnan, would you want to take the question on credit risk?

S. V. Krishnan: Yes. As Mr. Raj Shankar explained, one of the 7Cs that we have been pursuing in a focused manner is the collections. I can say during this period of lockdown if at all we are only positively surprised with the collections that had happened vis-à-vis our expectation. As we speak now, we have not had any lone case of any issues as far as the ARs are concerned. The collections have been good and we want to focus on the partners who have good customer bouquet, who have been having good credit history and sound financials. We shall structure certain financial solutions by tying up with financial institutions wherein the partners can

be provided more funds to handle the current COVID situation. So broadly we are comfortable and we do not foresee any challenge in this.

Pavan Ahluwalia: Can I have just one follow-up? So that was for India. I am curious about internationally as well. As you look at the portfolio today, are there any areas where you are concerned that we may have credit issues or you feel pretty satisfied that despite this big disruption we are not likely to see credit quality issues in significant measure across the portfolio?

Raj Shankar: So I will certainly give you that feedback and I want Sriram to comment about overseas. Here is my comment, Pavan. Absolutely truth be told, I was nervous, I may not have given that impression that I was worried. But, I can tell you now looking at the way the collections have happened through April, through May and until today definitely we are far better placed. Things are just very quickly coming back to normal, so we are not seeing any signs of worry or concern. I do not want to give the impression that everything is hunky-dory, but all that I can tell you is this was worrisome about a couple of months ago, but looking at the way that our team has managed to do the collections, it is extremely satisfying. The other point I wanted to mention about overseas in particular, which may not be true for India is that a good part of our sales comes out of online and offline stores where largely payments are not a real risk, but having said that I would like Sriram to comment.

Sriram Ganeshan: In terms of the Middle East, Turkey, Africa, while in the initial phase of lockdown, there were some delays in terms of collection coming in from customers for obvious reasons. I think subsequently since late May collections are absolutely on track. As Mr. Raj Shankar mentioned, we are quite pleasantly surprised that the collections are flowing in very well. At the moment, there are no concerns on collectability or delinquency from a customer standpoint. One other point, which may be of interest is since some of our receivables are also insured, our credit insurers have continued to maintain the credit limits that are offered for customers for

Redington's business, placing comfort on our strong credit management policy. To summarize, at the moment collections are largely on track and there are no concerns on collectability

Raj Shankar: Sriram, one question that Pavan asked in the call held on April 30th, 2020, which you may want to clarify now. What percentage of the business that we do in the Middle East is credit insured?

Sriram Ganeshan: From a Middle East standpoint, UAE and Saudi Arabia are our largest markets and ~93% to 94% of our receivables is insured for these two markets.

Raj Shankar: Thank you, Sriram. Pavan, does that give you a perspective on credit and collections?

Pavan Ahluwalia: Yes. Thank you very much.

Raj Shankar: Excellent. To your first question, at the moment it is still early days Pavan. We have no good feedback in terms of some of the mid and the small channel partners probably finding themselves in the cash flow pressure, etc. It is still early days because effectively business started on May 11, 2020 and even there you would know there are still a lot of red zones, etc. Probably a quarter from now we would be in a better position to give you a better feedback, but my guess is that things will change so there would be a scope for consolidation.

Pavan Ahluwalia: Got it. Thank you very much.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Aditya Birla Sun Life. Please go ahead.

Jayesh Gandhi: You have done a real commendable job on the net cash flow from operations, which has been very strong this year. I am really glad to hear the management commentary about collections coming in, which is also

good. However, what is surprising to me is our outflow on finance cost has really not gone down this year. I understand the business will get impacted in the first quarter, but hopefully comes back in Q2 and Q3 and thereon. So how do we see the overall finance cost for the next few years will it go down or do you see it remaining at this level?

Raj Shankar:

Great question. Krishnan, do you want to take a stab at that?

S. V. Krishnan:

Sure. So first, as part of our exercise to bring in efficiency, the capital allocation has been an important component of our decision now. So we would want to rationalize capital and channelize that to the businesses where it is higher ROCE generating and more strategic in nature. We think we will be able to rationalize the working capital and not let the current improved working capital situation slip and with this, we think our working capital utilization and debt levels will be in control. There could be some small increase in the interest rate because of the current situation. While the working capital efficiency can lend itself in reducing the interest cost but considering the situation, we would keep higher positive cash balance and hence, this can possibly add on to some interest costs. To sum it up, I do not expect worsening of this, but there may not be some substantial reduction in the interest cost and that is very conscious, just wanted to be safe and this is something that can happen as we move forward in the future years.

Jayesh Gandhi:

Sorry to reiterate this point, but interest outgo for the whole year on a consolidated basis is nearly Rs.200 Crores whereas our net debt levels are significantly lower. Infact, the interest costs outgo is higher than the net debt level as on March end and so I am just wondering is there something better that we can do?

Raj Shankar:

It is a very fair question. Let me try and articulate. So I believe your question is notwithstanding this quarter or next quarter as contingency measure for COVID, should we see the finance cost as a trend coming

down? I am keeping that aside for a moment. On a steady state should you should look at finance cost coming down as our working capital is also coming down and I believe that our interest rates will also come down. Overall, we should look at a reduction in finance cost. So, conceptually this is the way you should look at it. Krishnan, would that be fair?

S. V. Krishnan: Should be fine, yes.

Jayesh Gandhi: Yes. Since we are at this point, do you look at the interest cost as a percentage of sales or as an overall cost in the business. How does the management look at it?

Raj Shankar: Wow fantastic Sir. I really appreciate. We used to look at it as a cost. Now it is an important item, which is factored as a percentage of sales and is taken into consideration when we do the pricing. If there are transactions, where the credit period given to the customer is longer than the credit period that we enjoy from the suppliers then we want to make sure that we factor for that cost of capital while doing the pricing. The whole approach now has changed and so the answer to your question will be that going forward, it is more as a percentage of sales.

Jayesh Gandhi: Wonderful. Good to know that, Sir. My last question is on the international operations. In the case of Turkey, I always thought that we had an opportunity to reduce the capital employed there by getting some money back either in form of dividend or buyback of our shares, etc. I understand Turkey is doing well, but I guess a lower capital employed in the overseas market would be helpful, right?

Raj Shankar: It is a fair point, but since you have raised that I am a little keen to share something with you and I hope I have the time and I am not eating into somebody else's questions. In overseas, I just want to tell you for FY2020, the cost of debt capital was 5.4% whereas the return on capital employed was 19.9%. Of course, I must mention that we have taken net

debt into consideration. There is therefore a value creation of around 14%. So, the first point is that often times there is a mistaken notion that overseas does not give the right kind of return on capital employed as India. Therefore, I believe that the right way to look at it is in India, the cost of capital and the borrowing is in Indian rupees, therefore returns are to be measured in relation to that whereas in Overseas, the borrowing is in US dollars and the currency and the equity is in US dollars, therefore the return on capital employed needs to be seen accordingly. If we take these figures for the year prior to FY20, the cost of debt capital was 5.5% overseas whereas return on capital employed was 18.2%, which you will agree is approximately about ~13%. In summary, overseas has been giving an interesting return on capital employed in the last few years but that does not take away the fact that we can deploy capital even more efficiently to maximize return. I am with you on that, but I just thought it might be helpful to probably understand this perspective.

Jayesh Gandhi: No. Thanks for it. I thought we had a plan to reduce it. That is why I thought I would ask you this.

Raj Shankar: You are absolutely right. As per the question asked by Nitin, since then the stock price has run-up, the currency had depreciated and a few other things has happened and so it is looking a little different from what it was earlier. At the moment, allow me to only say so much but we are evaluating all options let me continue to say there is nothing off the table except that it is not looking as attractive as it once was.

Jayesh Gandhi: Wonderful, all the very best. Thank you.

Moderator: Thank you. The next question is from the line of Dharmesh Gupta from Maximal Capital. Please go ahead.

Dharmesh Gupta: Sir related to this COVID crisis one thing, which a previous participant was alluding to was that there might be consolidation in favor of larger

players in the industry, but then there might be a consolidation in terms of your customer base as well. That is one kind of trend but another trend is the possibility of down trading because of lower income. There might be down trading in terms of the brands that people use and Apple is one of your major brand, which is much more pricier compared to many other brands that you do not have. How do you see the interplay of these three trends on your business for this year and going forward? The second question is on the working capital days reduction in India business, which has come down quite sharply. Is this sustainable because this frankly increases the return on capital employed by almost a factor of ~20-25%? If so, what are the reasons behind the sharp decrease?

Raj Shankar:

So on the last question with regard to working capital I did mention that while it has certainly come down to 31 days for last year, what one should look at is somewhere in the vicinity of about 5-5.5 weeks, which is somewhere around 37-40 days. In our opinion for India, this would be a good target to assume because this will be approximately about 9-10 working capital turns and to that extent it makes the ROCE that much more interesting and this is clearly what we are focused on.

Dharmesh Gupta:

Is that a sustainable working capital level, which is much lower than the previous years?

Raj Shankar:

No. Like I said, 31 days is something that is honestly too good to be true. So which is why I want to just sort of set the expectations right that if we are able to do around 37-40 days, which is doable and we are extremely focused on this target. We are allocating capital accordingly and trying to maximize returns on it. Now to your earlier question, the consolidation can happen at the partner level, but it is finally who is the last man standing and we believe that we are extremely well placed. We have a very clear opportunity for us. So we believe when there is a distributor consolidation if it happens there would also be a partner consolidation

that could happen I cannot argue against it, but that should not take away the opportunity for those who will continue to play the game. So I believe that in the way that we have positioned ourselves as a very strong distributor playing both the consumer and the enterprise space, both on IT and Mobility, we should be able to continue to drive this business profitably. You had one more question. My apologies I do not remember.

Dharmesh Gupta: Sir, it was about the down trading.

Raj Shankar: Yes. Now honestly it may be difficult for me to give you too much of input. Contrary to what you said, the Mobility business is really showing a lot of traction and momentum, once again for this year at least in the last one month since the commerce is possible. While the IT Enterprise and the IT consumer is also catching up, the one that is leading the game for us is the Mobility and I have absolutely every reason to believe that this will be another good, solid year for Redington in the Mobility space without a doubt. I am sorry I am sounding extremely overconfident, but I feel very bullish going by what we have been able to deliver for the last five quarters and continuing into this year.

Dharmesh Gupta: Understood, Sir. Are your margins lower for less expensive brands and vice versa?

Raj Shankar: Margin as a percentage will be higher, but when you look at it in absolute value there will be a stark difference between what you make out of one device of a mid to high end phone and what you make of a mid to low end phone

Dharmesh Gupta: Understood. So what are your thoughts on down trading?

Raj Shankar: See it may happen. It will be very inappropriate of me to say that it will not happen. It could happen, but that is for a certain point in time, but I think soon the dust will settle down and then you will see that. The way

some of these companies are positioning themselves now is very different from the way they positioned themselves in the past. Therefore, you would see that the recent launches done by some of the global brands are extremely attractively priced and they have very good functionality and features makes it a very compelling and an attractive proposition for consumers. Trust me I am probably repeating myself if the last one month is anything to go by I think it is certainly giving me even more a stronger conviction that this will play out. This down trading may happen for some time I cannot disagree, but it will eventually normalize itself.

Dharmesh Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss Securities. Please go ahead.

Pranav Kshatriya: My question is with regards to this COVID-19 led disruption in the call, which was hosted on April 30, 2020 you had expected around 15% to 20% kind of a decline can happen in Q1 and then subsequently recovery taking us back to the normal level in two quarters. Given the lockdown has extended and the number of cases are also increasing, do you see risk to this number? Any update on that would be helpful

Raj Shankar: Sowmiya, I would request you to step in because I do not recall mentioning 15%. Could you please check the record?

Sowmiya M: Sure, Sir. In the call held on April 30, 2020, we had made a mention that there is probably a likelihood of that kind of decline rate to happen for the H1 and not Q1

Raj Shankar: Okay. So here is what I would tell you. Our initial projections was that we would for this month or for this quarter we would probably degrow let us say about 40% or so, but I can tell you as we speak that the degrowth will be lesser than that. On the other hand, as we look at Q2 we are

expecting Q2 to be better than Q1, so this should improve as we go into Q2. Like I said earlier, I expect things to get back to normal starting Q3 and of course, Q4 will be absolutely back to our heydays.

Pranav Kshatriya: That is it from my side. Thank you so much.

Moderator: Thank you. Next question is from the line of Aasim Bharde from IDFC Securities Limited. Please go ahead.

Aasim Bharde: Sir just one question. Can you talk about the IT business outlook for FY21? In FY20, it was negative and in this quarter, actually there has been a lot of noise about IT enablement for work from home and all so what would be the outlook for the segment this year?

Raj Shankar: Okay. For India so because I wanted to first clarify that IT grew for us last year at a consolidated level albeit by just 2%, overseas grew by 7% and India degrew by 5%. Since your question is specific to India how do we look at it given all this work from home opportunity very clearly we see that as a positive opportunity. There are times when we want sometimes supply and availability can be a constraint. At this point in time certainly there is demand and probably a pent-up demand to be served, so the next few months and few quarters is certainly going to be interesting so we do see this as a positive opportunity.

Aasim Bharde: Does that mean there should be growth this year?

Raj Shankar: Now the word "growth" has a bit of a catch to it because the whole of April was a lockdown. It was in May when we could technically start business, in some places on May 11, 2020 and in others, May 18, 2020 onwards. So how much ever we try to do, the word growth when it is not on a like-for-like comparison may not be a right way to look at it. However, Redington is well poised to capture this newfound opportunity on account of work from home towards various mobile devices, whether

it is tablets, iPads, PCs, laptops and the mobile printers and so on. This is something that we are certainly driving and pushing for.

Aasim Bharde: Okay. Sure. Sir just one final question. On Rajprotim, have you provided for all the trade advances?

Raj Shankar: Absolutely. Sorry, Krishnan, would you want to take that question please?

S. V. Krishnan: Yes. It is completely done.

Aasim Bharde: Okay sure. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rishabh Chudgar from ENAM Holdings. Please go ahead.

Rishabh Chudgar: I hope you and the team are safe. I actually just had one quick question. Will it be possible to share what will be the ROCE from the Mobility business now? This is because I am seeing that incrementally your ROCE levels are increasing and a lot of your revenue CAGR in the Mobility business across India and overseas is also higher. So has there been a change in the ROCE level in the Mobility segment?

Raj Shankar: Okay. Krishnan do you want to take that?

S. V. Krishnan: Okay. So it will be better. Our threshold ROCE level is about 16% that is something that we keep it as a fundamental ROCE. Definitely, what we earn from the Mobility business is much better than the 16%. I am not specific in percentage here, but it is definitely much better than the rest of the businesses.

Rishabh Chudgar: Thank you so much.

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

Ritesh Gandhi: Congratulations on a performance given the COVID situation especially on the Distribution side. Sir, on the backdrop of potential OEMs possibly having challenges on their own profitability, do you think there is a risk that brands like Apple might move to kind of direct distribution with the online players like an Amazon or Flipkart, which could in turn impact us, given in other global markets they do go directly to Amazon?

Raj Shankar: Okay. First of all, in the case of your first question on if, the vendors are going to come under pressure and go directly to online players, the answer is very unlikely. One can never rule out who can do what, but I will tell you that this very unlikely and this is something that we have demonstrated over the last 5 years. When some of the online players were really shaking the market and therefore there was this worry and concern whether the vendors will go direct and thereby completely disintermediate the distributors. However, if the last 5 years is anything to go by trust me we have hardly lost any business on account of this business model or a change in the business model. The vendors need us because if they want reach, coverage and they want to make sure their products are available at arm's length of demand, they need a player like Redington who has a Pan-India presence, who has the ability to take products and deliver that at arm's length of demand. The online players do not want to carry inventory as well and they prefer to be working capital light. To that extent, they also want to make sure that there is a distributor who is able to give them credit and they are able to sell on cash. If you deal directly with the vendors, vendors have their own set of conditions like a standby letter of credit with specific terms and conditions, minimum order quantity and so on and so forth. A distributor would be able to accept these conditions because they are able to amortize their cost on a Pan-India basis, which any one company will be finding it difficult to do so, more so when they dabble in so many million products. It would just not make sense to be able to go to them and do this. Therefore, for both the online companies and the vendor, there is an absolutely clear role of a distributor without a doubt. Trust me there is

absolutely no way that a distributor can be disintermediated. Whether the business from online can go to offline and vice versa, that may be possible, but we believe that our business is pretty solid and has a long shelf life.

Ritesh Gandhi: Are our profit margins identical in online vs offline transactions? Say, we sell iPhone to a retail stores vs online player

Raj Shankar: The word identical may not be the right term to use. However, if one were to look at the quantity, as in buying large quantities, secured payment terms and so on and so forth, the risk adjusted margin that we would earn and for the capital, that we invest in that particular transaction would be similar to a large extent

Ritesh Gandhi: Got it. The last question is do vendors like Apple, etc go directly to Amazon or are they still using global American distributors just because of the importance and the role effect?

Raj Shankar: See there are two ways of looking at it. The online players have direct and indirect model. The indirect is the marketplace and obviously, there is no question of going direct. Infact more and more of our partners who buy from us are really going to the online marketplace and selling their products. There is a certain amount of direct business to that extent with the online companies, as they more often than not prefer to work with the distributor who can take care of all their shipments, logistics, deliveries, etc. For them they want someone to manage their entire operation so that they can continue to pamper the consumers.

Ritesh Gandhi: Thank you and all the best.

Moderator: Thank you. Due to time constraint, I now hand the conference over to Mr. Raj Shankar for closing comments.

Raj Shankar: Thank you. Thanks to each and every one for joining us on the call today. Like I said for the full year, I am extremely pleased that the Distribution business both in India and overseas did exceptionally well. I am extremely happy more so with the India distribution in terms of the bottom-line. I am also very gratified by the fact that we threw up positive free cash flow both for the quarter as well as for the full year. We were very focused on getting our working capital under check and control, which was accomplished in both India and Overseas. The one sore point was ProConnect. Thank you for your continued support, trust us that we know what went wrong, we have put some of the fixes in place, we will correct and consolidate it this year, we will get it back to the growth mode before the end of this year that is exactly what we are focused on. Once again thank you for your time and good day to you and please stay safe.

Moderator: Thank you. Ladies and gentlemen, on behalf of Redington India Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

The document has been edited for readability purposes