Redington
SEAMLESS PARTNERSHIPS

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02nd November 2018

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

Sub: Q2 FY19-Earnings Conference Call Transcript

Dear Sir/Madam,

This has reference to our letter dated 25th October 2018 intimating the details of Investor/Analyst call on the unaudited Financial Results for the quarter and half year ended 30th September 2018 scheduled on 30th October 2018.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on 30th October 2018. The same will also be made available in the Company's website www.redingtonindia.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

Q2 FY 2019 Results

Conference Call

October 30, 2018

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

Moderator: Ladies and gentlemen, good day and welcome to Redington India Limited Q2 and H1 FY19 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the 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 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 '*' and 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: Good evening to everyone on the call. So, for the quarter gone by, at a consolidated level, our revenue grew by 11%, our EBITDA grew by 2% whereas the profit after tax de-grew by 7%. Right at the outset, I would like to mention the positive development, that is, all the three theatres have registered a growth on revenue which is India, Middle East, Turkey, Africa and South Asia. During this quarter, the performance of overseas has been quite strong. If you look at overseas, the revenue grew by 10%, the EBITDA grew by 26%, the profit before tax by 25% whereas the profit after tax grew by 13%. The reason why you see that in spite of a strong growth on profit before tax of 25%, the profit after tax growth has been only 13% has been on account of the problem that we faced in Turkey, so let me spend a moment as far as the Turkey business is concerned.

Now, as far as Turkey is concerned, while in Turkish Lira terms, we had made a good profit; however, from a US dollar point of view, we had made a loss of $2.6 million. Actually, it was on account of the effective tax rate being a colossal 660%. Some of you would recall that on the fateful day of 10th of August, the Turkish Lira depreciated by close to 72% from the start of the year against the dollar. Now for the quarter, the currency depreciation was 32% and as some of you would recall that the way income tax is computed and also the fact that it gets aggravated when the Turkish Lira depreciates because our functional currency is US dollar is the only reason why in spite of a strong performance under these adverse situations in Turkish Lira, from a US dollar point of view, it shows a loss.

Just to continue when you look at India, our revenue growth has been 12%, our EBITDA degrowth has been 18%. Let me take a moment to explain to you what really happened. Now, our gross margin came down by close to 55 bps during this quarter. This is largely on account of a one-time hit, that we had to take to sell out ageing inventory which we were expecting support from the vendor and since that was not forthcoming, we had to take this call under distress. We have addressed almost 70% to 80% of this problem which has already got reflected in Q2. There would be another 20% to 30% of this inventory which we will sell out in Q3, though I hasten to add that it won't have a detrimental impact to our margin and hence EBITDA.

Now when you look at specifically on our industry verticals; IT grew at 12% and here, both India as well as overseas grew and I am very pleased to share that India growth continues to be strong at 19%. Overseas also grew at 7%, needless to mention, I want you to please keep Turkey in mind which in many ways was a drag not only to the bottom-line but also to the topline but in spite of Turkey, I repeat that our overseas performance has been strong. With regard to Mobility, we also grew by 5% at a consolidated level. The one that gives me the greatest pleasure is to share with you that the contribution of services, i.e., the ProConnect, Ensure, Cloud services etc. contributed to 5% of the India revenue, but contributed to over 29% of the profit after tax.

Now with regard to the Mobility business especially in India, I am pleased to share with you that some of the changes in the distribution landscape has already started to take effect. We are quite pleased and bullish in terms of the scale as well as the capital efficiency and growth in the way forward. With regard to ProConnect, I am pleased to share with you that the revenue grew by 30%, EBITDA grew by 24% for the quarter and the profit after tax grew by 21%, so it has been another quarter of very strong growth delivered by ProConnect. On a different note, I am also very pleased to share with you that at a consolidated level, the company has delivered an operating cash flow of INR 289 crores and a free cash flow of INR 113 crores, significantly coming out of our overseas operation. There has been a marked improvement in terms of working capital as far as India is concerned, though at a consolidated level, we had net working capital days of 41 in Q2 FY18 which is the same as Q2 FY19, but India managed to reduce the working capital by a good 9 days. We had one of the best net working capital days in India in the last 2 to 3 years.

In terms of provision, some of you would recall that last quarter, we had on account of the ECL, the estimated credit loss and the change in the business in the model of how provision is created, and there was a very high impact of 26 bps at a consolidated level. This time around at a consolidated level, it is 14 bps and if we have to decompose this between India and overseas, India was at 15 bps and overseas was 14 bps.

With regard to our Gross Debt to Equity, I am once again pleased to share with you that it is at 0.4 and at a Net Debt to Equity, it is 0.2. So, we have managed our debt levels quite strongly. The one last point that I wish to add here is when there was an analyst call that was held after the Turkish Lira depreciation, we had set out a few action points and we have delivered on some of those while some of the others are work in progress. We said that we will reduce the cost by 12% in terms of people cost and I am pleased to share that we have reduced it by 16%. In terms of number of full time equivalent, we reduced by 26 employees. We had also committed that we will reduce the working capital between $35 and $40 million. We manage to reduce the working capital by $29 million. I had indicated to you that for Q2, the estimated loss on account of the significant depreciation in Turkish Lira would impact approximately about 8.0% of the consolidated profit of Redington. In reality, it has turned out to be 8.7% and the very last point is that, we said we will keep our Debt to Equity at 0.4 to 1. I am pleased to share with you that we have delivered at 0.39 to 1. So, this would be broadly the highlights for the quarter. I am happy to take any questions if any of you have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: We had two questions. One was regarding Turkey and the second regarding the broader competitive environment. So, after you have taken whatever hit that you have taken this quarter, there is obviously residual inventory and receivables in Turkey and the reality is, given the magnitude of the depreciation, it is not clear that your counter parties will be in a position to even honour the obligations that they have. Is there any sense you have on the magnitude of further haircut you may have to take on the receivable side of things, do you have any estimates of what the haircut might be and over what time period would we get a proper estimate of that and further on Turkey, given what we went through in the last few months and given the President Erdogan's statements about banning American brands, is this really a geography where we want to be present going forward or are we better of just winding down our business there? On the non-Turkey side, specifically the India side, you obviously had a good strong quarter growth, but when we look on a 3-5 year horizon, our growth appears to be a little bit lower than that of the other top 4 or 5 distributors. So, I am just curious from a medium term perspective, how has our market share evolved and how do we see it evolving going forward?

Raj Shankar: Let me take your question first on Turkey. The first good news is that by far, that is for the quarter ended 30th September, 2018 we did not lose any money as far as the accounts receivables are concerned. So, the loss that we had to take had nothing to do with collections. It had everything to do only with the tax rate. As I mentioned, we in fact made profit even during this most difficult period in Turkey. With regard to what happened on the 13th of August, the total accounts receivable that we had was $85 million and we have been able to bring this down to $68 million. So, in other words, there have been some new businesses which also happened during this period and yet we have managed to bring down our collections. Now to your point about is there any haircut that we have to take on account of payments not coming or tending towards being bad - At this point in time, we do not see any potential bad debt; however, what we are clearly seeing is there is a delay on account of payments, but certainly we are not seeing any default or delinquency yet.

Now to your question about whether we should continue in Turkey given all the political, economic and all the other situations, we have a clear strategy in terms of how we should look at this business in the way forward. This is something that you will have to give us a quarter or two, but just to be transparent as you would know, we have 49.4% stake in Arena. Now, there is one legal case that has been going on for the last 6.5 years. This is from a shareholder who has very small quantity of shares, but who has raised an issue and moved to the court with regard to why Redington should not be forced to do a mandatory tender offer. Now, we have contested this case and I am pleased to share with you that we have got favorable judgment so far. Now, we are awaiting the final judgment from the top most court, though I have no idea as to when this final judgment would come, but we are extremely hopeful that this would be a favorable judgment. Once that happens, at this point in time without getting into inordinate details, the 100% market value of Arena which as you know is a listed company, is by my reckoning about $18 million and therefore if wishes were horses and we have a favorable judgment, then it certainly opens up more options and possibilities for how Redington should then continue to look at this investment, but at the same time let me also tell you even though the 100% market value is about $18 million, the net worth in the company is about $66 million as at 30th September,2018. So, as you can see, there are lots of options and we will evaluate it once we have a favorable judgment.

Now to your other point about India business with regard to the growth being slower, actually if you look at it over the last 10 to 12 quarters or if you take it over 2.5 years, we have consistently grown topline and even for the quarter gone by, our India growth in terms of revenue is 12% and specific to IT, we have grown by 19%. So, the first point I want to make is yes, we are very much in the game, we have a decent market share but, in the way, forward, you would see us definitely double down as far as India is concerned in terms of our core business.

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

Nitin Padmanabhan: First question is in the context of what is happening on commercial papers in India and we having a lot of commercial papers as a source of funding, how do you see that impacting us and how is it progressing? How should we think about it from an overall perspective? The second question is from a margin standpoint. If you look at the second half, should second half margins be much better than what we have seen now in the context of the one-off that we have seen in first half?

S Jayaraman: With regard to your first question on commercial papers, the availability is pretty much good. Yes, the rates have tightened or hardened a bit, unlike a period of demonetization where funds were available at a cheaper cost. It has gone up now, but nothing to worry on that as we are in a comfortable situation

Raj Shankar: Thank you, Jayaraman. With regard to your second question Nitin, we certainly expect our second half of the year in terms of margins to be better and in fact we also expect to do much better in terms of growth and performance in India in H2 of FY18 compared to H2 of FY17.

Nitin Padmanabhan: On the margins again, during this quarter, there was a decline in gross margin by 55 bps because of the enterprise segment sell down, so in that context if you look at next quarter, should one assume most of that coming back or do you think because of the potential mix shift, would the margins be tempered?

Raj Shankar: So, what happened in Q2 is basically an one-off. This is on account of an inventory that we were carrying and looking forward to support from our vendor which was not forthcoming, therefore, we decided to take the call, so this is a separate event. But as far as the way forward is concerned, we now have a healthier situation and we are more than confident that our erstwhile margins should start to get reflected starting Q3 and going forward Q4.

Nitin Padmanabhan: Thank you so much. I will come for a follow up. All the best

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

Pranav Kshatriya: My first question is again regarding the margin. Last quarter you had 0.54% impact, it was the combination of the ECL and the inventory write-off. I think in the opening remark, you gave some clarity on the ECL part, can you just tell us that how much was the impact of the inventory write-off during the quarter?

S V Krishnan: So, inventory provision for the quarter overall at a consolidated level is about 0.05% that, when split into India is at about 0.10% and overseas at about 0.02%.

Pranav Kshatriya: So, basically inventory write-off is back to its normal level. So when can we expect the impact post ECL as well to come below the 0.10% i.e., to what it was earlier?

Raj Shankar: We expect that in the next couple of quarters.

Pranav Kshatriya: Can you quantify the inventory, basically you had that one-off ageing inventory coming down which impacted gross margin by 55bps, but was this on a consolidated basis or this was only for India?

S V Krishnan: This is at the India level, Pranav

Pranav Kshatriya: Can you quantify how much will the effect of this inventory on consolidated basis be for the remaining half year?

Raj Shankar: We will come back to you on this particular question but to give you a sense, if you look at it, we estimate this to be in the vicinity of about 7-8 bps typically, so we don't expect that to be significantly different but in the mean time we will also check and get back to you.

Pranav Kshatriya: And my last question is on ProConnect, there seems to be some lower tax rate for the quarter, any particular reason for that?

S V Krishnan: Pranav, from last budget there was a concession given for corporates with less than INR 250 crores turnover, thereby the effective tax rate had come down that had its impact in terms of reducing the ProConnect's effective tax rate for the quarter and this was the case even in Q1 also.

Moderator: Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead

Madhu Babu: On the India Mobility business, it seems to have not had a great growth in this quarter and also, it looks like your Apple revenues as such have shown some moderation in terms of growth momentum, so just your views on that?

Raj Shankar: With your permission, I would refrain to comment specifically to a particular brand, but just to give you a sense, I want you to look at it this way. Starting Q3 and beyond, since the total number of players had already come down from 5 to 3, therefore we clearly see this as an opportunity for us to scale the business, so just wait for or allow us to play out Q3 and Q4 and we hope that we will be able to deliver some good set of numbers on the Mobility business.

Madhu Babu: In the festive season, do you expect a pent up from your top brand?

Raj Shankar: We have had overall, across different product lines, some good traction and as there are also some interesting opportunities, both product related and launch related, I really don't want to as they say, count the chickens before they are hatched, we are hopeful of a good outcome in Q3 as also in Q4.

Madhu Babu: So, you are expecting the new model which has been launched recently, to have good traction from your top mobile selling brand?

Raj Shankar: I appreciate your conclusion. With your permission, can I request for your next question please?

Madhu Babu: And just one last thing. Sir, the value-added businesses, ProConnect, Ensure and the new areas which we talked of entering, solar products distribution and others, can you give us an update on how the progress is happening?

Raj Shankar: First of all, as far as the Cloud business is concerned, I am extremely pleased with the progress we have made. Just to let you know for the quarter, we more than doubled the business in terms of revenue, so the traction is definitely getting better. Now both on health and medical equipment and solar, we have grown this quarter compared to the previous year, although the business is still suffering from scale. So, particularly, in solar after the implementation of the safeguard duty on panels and solar cells, this has certainly dampened the business, so our outlook for solar at this point in time is definitely subdued. Health and medical equipment is definitely picking up momentum. The growth actually for the quarter Q2FY'19 was 33% over Q2FY '18 but having said that it is still to get the kind of scale we would like

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

Riddhesh Gandhi: Could you just highlight a bit on inventory led liquidation issue and how do we know that it is not going to be repeated again in the future and that it is actually a kind of an exceptional item?

Raj Shankar: So, just to share with you two particular set of incidents happened, which we have always managed in the past, but this time around, it certainly impacted, so our business is where typically in this case we would buy the inventory and stock it and sell it which definitely helps us to be able to sort of get more access and opportunity to win, what we call the back to back business. So, what really happened is typically in the past the vendor would give some rebates in order to help us to sell out the inventory. For various reasons, the vendor had withdrawn the rebate and this completely spoiled the price points in the market and there was a mayhem in the market, so we decided for a start to stay on the side lines waiting for the mayhem to settle, but unfortunately we were saddled with inventory and we had to take this call of having to sell it below cost. Now in the past, this is something that we could manage because subsequently, the vendor would have supported us, in some way or the other, but this time around since the rebates were withdrawn and there was also a change in the organization at the vendor side, all this led to a precipitous situation where we had to take this distressed call**.** To your question, how do we make sure that this does not repeat itself in the future, we have put some controls in place now in terms of our ordering, in terms of our whole engagement with the vendor, that in the event that there are rebates or anything else that is denied or deprived, then we have to take a decision whether we want to play that quarter or take a larger call on whether to still continue to engage with the vendor. So, we are now putting some of those guiding principles in our company. In the past, we could manage, but this time the magnitude was much larger.

Riddhesh Gandhi: And the other question is with regards to the Turkey, given the exchange rate now isn't slipping anymore and assuming that the exchange rate remains steady, do we still expect to see any incremental losses happening in Q3.The other question is from a cash flow perspective of the Turkish entity. I just wanted to confirm if the entity is completely independent and also if any incremental capital has been invested by the company or by any of the subsidiaries?

Raj Shankar: So, I will take the second point first. Redington has not invested any capital directly or indirectly after the initial investment and the company also has not issued or provided any collateral or any security for Arena, so you can be absolutely at peace on that point. With regard to the first question on the exchange rate, even though the currency has depreciated as long as the currency tends to be range bound, then I don't see any impact especially to the income tax rate. It is only if it further depreciates let us say by 20%, 30% or 40%, yes there could be a detrimental impact to the income tax rate, but I hasten to add here one more time which I already did in my initial briefings that in the Turkish lira terms, the company has delivered profit.

Riddhesh Gandhi: And last question is from the ECL perspective. You had mentioned after Q1 that most of the impact of this year was already behind us and on a continued basis we would have to take a hit on the margins and you also indicated earlier that it might actually roll over into Q3 and Q4. Can you just highlight with a little more color on that and how we should get a comfort on the impact of ECL adjustment and also detail on why this is actually exceptional and ultimately will be behind us?

Raj Shankar: Fair question. So, the first point is, at a consolidated level as I shared with you earlier, the provision towards bad and doubtful debt, on the basis of ECL model is 0.14% and at India level it is 0.15% and overseas is at 0.14%. Now I had indicated on the last call that going forward in a few quarters, we should see that this should normalize to our erstwhile provision levels which was about 0.10% to 0.12%. So, we believe that we have got this particular credit and collection under check and control and we are reasonably confident that it should continue to be hovering around between 0.10% to 0.14% levels as far as India is concerned.

Riddhesh Gandhi: And last question with regards to given that we are at the end of H1, is there any revision to your FY19 guidance that you had given in terms of growth?

Raj Shankar: So, I had indicated earlier that as far as H2 is concerned and particularly as far as India is concerned, we will deliver growth numbers both on the top as well as on the bottom-line. So, we continue to hold on to that view.

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

Rishindra Goswami: Just a quick question on Arena again, just in terms of debt we wanted to know if the debt is dollar denominated and what is the interest cost that debt is carrying and has Redington guaranteed that debt in any form?

Raj Shankar: 95% of the borrowings are in dollar, so it is a dollar denominated debt. There is only 5% would be Turkish lira debt and that is more towards expenses. Now as far as the weighted average cost of debt capital on US dollar is concerned, it is approximately 5.6% and it recently got uplifted from 4.2%. Now the biggest advantage we have is because of the fact that we have a good capital base of $66 million, we therefore are trying to see how we can limit our borrowing and we are also trying to speed up on the collection, which is why when you see for the quarter ended 30th September, our debt levels continue to be at 0.39 to 1. With regard to giving any security to these banks, we have absolutely no security whether given by Redington Gulf or by the parent company. So, whatever facilities that we enjoy for Arena is on the strength of the balance sheet of Arena.

Rishindra Goswami: And could you just quantify what is the total debt as of September 30th, 2018 of Arena?

Raj Shankar: It is $26 million, I am just taking it out of my head, I don't have it readily, but I should be broadly right because $66 million was the total net worth and

40% was debt. So, mathematically speaking it should be above $26 million. In case, I am wrong, I will certainly correct it, give me a little time.

Rishindra Goswami: So, it has come down from December 2017 level, is it correct?

Raj Shankar: Yes, as far as debt levels are concerned, we are feeling reasonably confident that our debt or working capital is coming under control. So, we have no cause for concern at least at this stage.

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

Vishal Desai: Most of my questions have been answered. Just would appreciate if you could give some more color in terms of H2 or in terms of going forward for FY19 and probably little bit into H1 of FY20. How are we seeing growth in the India and overseas business, split if possible, on the IT and the Mobility segments?

Raj Shankar: As I had mentioned earlier, we will grow India both on top and bottom-line in H2 and we also expect to continue this momentum for India into H1 of FY20. As far as overseas is concerned, we would also like to believe that there would be growth but as you would know, they are pretty much at a very high level of market share and their contribution currently in terms of top and bottom-line is in the vicinity of between 60% and 65%. So, our sense is therefore going forward we should be able to, if not grow at the same levels we have grown thus far, as far as overseas is concerned, it will be growth of a high single digit. In terms of IT and Mobility, yes we are seeing strong traction as far as Mobility is concerned both in India as well as outside India. For us, IT has done well this year in H1FY'19 and in Q2FY'19 in India and we expect that to continue in the second half of this year.

Vishal Desai: Any sense you actually could provide in terms of the enterprise segment, we have been talking about the CAPEX picking up, has there been any signs of green shoot or is it still too early to call out?

Raj Shankar: There is clearly an opportunity in the enterprise space, but this is apart from the corporate refresh. This is more on the PSUs, the government projects, the smart cities, etc. where our whole strategy has been to pick and choose the ones that we think is something that we can create and deliver value. Very clearly there is an opportunity and we are also being very selective in our approach.

Vishal Desai: If I understand what you are saying, it is too early to call out that we are seeing some kind of recovery in that segment?

Raj Shankar: No, the point I am making is there is recovery. If you use the phrase green shoot, no that may not be the case, but the point I am making is how this PSU and the government projects, etc. are pretty large. The opportunity is quite big, but our endeavor is instead of just jumping and taking every opportunity that comes our way, we are being a little cautious and selective, purely because these tend to have long credit cycles and they also tend to have payment delays and therefore we have to be very cautious as we participate in this space. As far as corporate refresh is concerned, it is happening but it has not yet become very significant.

Vishal Desai: And could you just help me with the provision for inventory numbers on consolidated basis as well as India and overseas number please?

Raj Shankar: As far as consolidated is concerned, it is 0.05%; India is 0.10%; Overseas is 0.02%

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

Alekh Dalal: The first question is - I just wanted some more color on this gross margin hit. If we didn't get support from the vendor, does that mean that we are basically taking up proprietary position in these products, when in fact our role should be just to pass through as a distributor and if we are doing that, how do we mitigate this? I also don't understand the business model and is this pertaining to products or was it something of a promise from the vendor and the promise was not fulfilled?

Raj Shankar: As I had explained, typically what happens is with some of these products, there are rebates that are attached to it and historically we have been getting those rebates and that has helped us to be able to improve the sellout velocity as well as to be able to also make some economic gains, but this time around the rebates were pulled back and therefore we were confronted with the situation where in the absence of the rebates and with some of the competitors starting to sell way below cost, even though we tried to refrain for some time, we were then compelled because we were saddled with inventory and we also had to get rid of it rather than keeping it for a long time, so it was more circumstantial than something which is fundamental.

Alekh Dalal: But I am sure this happens in regular course, so don't you have some process which kind of mitigate this across the board that when the rebates goes away, the manufacturer has to reimburse you or any other mitigation strategy, because you wouldn't want to end up taking the hit in a market similar to this as this is not your role as a distributor?

Raj Shankar: You are right. It is a very valid point, but without getting into some details, but just to give you a high level perspective, in some cases what the vendor does is, say a certain portion of the business, it could be about 25% to 30% of the business, they would expect the distributor to stock and sell and such transaction is not a structured transaction or a back to back transaction. Vendor would typically give rebates and help to sell out but only if we have participated in this opportunity. Does it then give us a chance to be able to get the back to back business? As you rightly said is all stitched and we are able to secure our rightful margins. However, in this particular case, with the vendor, there were some organizational changes and others, so the vendor decided to arbitrarily pull back on the rebate and as there have been issues giving these rebates for a long time, we were hopeful that even if they have withdrawn for a period, they will reinstate it and as that didn't happen, we didn't want to continue to keep that inventory with the hope that the rebates will get reinstated. So, we have gone ahead, taken the decision to sell out even at a low cost, but at the same time, we have also represented with the vendor so that they know fully that this is the kind of loss that we had to suffer.

Alekh Dalal: And your book value for share now is Rs.96 and seems to have gone up. Is it on account of currency depreciation?

S V Krishnan: It is on account of both profits accrual as well as partly on account of currency because the extent of overseas balance sheet, it gets converted at the closing rate, so there will be some parts which will be on account of currency translation as well

Alekh Dalal: And in terms of your Debt to Equity levels, you stated that you are comfortable at 0.4. What is the thinking behind the 0.4 level and I have seen in the past you operated at close to 1:1, so has something changed in the market to make you more comfortable in terms of operating at less leverage?

Raj Shankar: So, one of the important aspects is we wanted to make sure while the company has got reasonable growth capital, we wanted to be prepared for a certain amount of acquisition capital, we therefore wanted to keep that elbow room so that if there are any interesting opportunities especially with regard to ProConnect, it was important to have that cushion so that if there is anything that is interesting, we can probably leverage on this better.

Moderator: Thank you. The next question is from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera: Sir, I wanted to know whether your overseas business has some element of Forex gains and EBIT?

S V Krishnan: In the India part of the business, there is a large portion of the business which is a back to back business, so when I say back to back business, there will be an order that we will first receive and then we will place the order with the vendor and we will receive the material and then bill the customer. As we first close the order with the customer, the order gets locked first and at that point in time, an exchange rate is considered for the purpose of the price fixation and the margins are also assumed accordingly. We will immediately take up forward cover on that, so that the effect of exposure is fully taken care of. Then subsequently when the material arrives, you would have seen in the last 3 to 4 months, there is a big spike in terms of the USD vs INR exchange rate. So, the material gets inwarded, it gets inwarded at a higher rate. I am just giving you an example. Assume on Day 1, when I get the customer order, it was Rs. 70 and the forward premium for the period it is Rs. 1, I would have negotiated Rs. 72 with the customer and the margin should be Rs. 1 and the contract will get booked accordingly. When the material is received from the vendor, assume on that day, the spot rate has become Rs. 71.5, the cost of goods sold will be Rs. 71.5, and the margin will be only Rs. 0.5. The remaining Rs. 0.5 will come at the time of payment where by using forward contract, I make the payment and there is a gain of Rs.0.5. That Rs.0.5 is an exchange gain but in literal sense it is a margin replica which is appearing as a forward gain in the P&L

Sachit Khera: Sir, this example that you gave is for the India business or the overseas business?

S V Krishnan: This is only for India business and the change that you are talking about is only in the India business.

Sachit Khera: As regards the overseas business, since the functional currency is US Dollar, there is no forex gain element. Is my understanding, right?

Krishnan: Yes.

Sachit Khera: Also you mentioned that the debt level in Turkey, that is, $26 million figure, is hedged or kept open?

Raj Shankar: That is the working capital, so that is the loan which we have borrowed at the bank just like we do in India or in Middle East or in Africa. What I was referring to is that, our purchases are in dollars and our liability is also in dollar. This is only a short term debt.

Sachit Khera: As the lira was depreciating, did you have to book the Forex loss on that working capital loan?

Raj Shankar: No, the point I am making is when my purchase is in dollar, my sale is in dollar, my collection is in dollar and my bank liability is in dollar. So, there is no impact here to Forex.

Sachit Khera: I thought your sales are in Turkish lira, my apologies.

Raj Shankar: No problem, it is linked to the dollar.

Sachit Khera: Sir, last question or rather a suggestion, if I am reading the numbers correctly, we have about INR 200 crores odd intangible assets which are directly attributable to our Turkish business, either in trademarks or brands. The figure is above INR 210 crores. Basically my limited suggestion was, can we consider sort of taking an impairment charge on that to a certain degree because it would reduce our overall capital employed figure in the overseas business because right now even though we are performing very well in the overseas market, I don't feel that the representation of the return ratio is quite accurate and I think it can be better. This is a suggestion if you guys would consider that.

Raj Shankar: Certainly. I think what you say make sense, so we will certainly evaluate that. Thank you so much for your suggestion.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir what explains the increase in inventory to the tune of 50%, in the standalone balance sheet, from Rs.1100 crores as on March 31st, 2018 to Rs.1,651 crores, as on September 30th, 2018?

S V Krishnan: We had few new product launches that happened towards the end of September and because of which, there were large purchases and a significant part of it got sold towards the end and the balance in the month of October. So, this is quite usual and there is a corresponding accounts payable resulting in non-impact to the working capital.

Ritesh Poladia: If I see even on a longer period like from, say first half of 2015 the revenues have grown by about 27%, your receivables is almost 2x, your inventory is up by about 60%, definitely there is a corresponding increase in payable but how do we read this in terms of business wise? I am talking of standalone only.

S V Krishnan: See, you have to look at our investment in working capital in conjunction with the payable because there will be lot of instances where we may have to give higher credit days, we may have to hold more inventory, but so long as we are able to convince the vendor for higher credit days, we are quite okay because at the end of the day, ROCE is what we keenly look at. So, long as the net working capital is under control which you would have seen in this quarter, has come down by 9 days vis-à-vis Q2FY18

Moderator: Thank you. Ladies and gentlemen that was the last question. I would like to hand the conference back to the management for the closing comments. Thank you and over to you.

Raj Shankar: Thank you. For the quarter gone by, we had grown our revenue both in India as well as overseas and at a consolidated level. Overseas had a very strong performance in spite of the setback in Arena which as all of us know was largely an account of the Turkish lira depreciation and hence it had impacted the tax. The working capital days in India significantly reduced by 9 days. We generated operating cash flow and free cash flow at a consolidated level largely coming out of overseas and with regard to ProConnect, it continues to deliver another quarter of good set of numbers, both topline, EBITDA as well as bottom-line. With all these developments in Turkish lira, we managed to deliver profits and whatever are the action points that we had set out, we had delivered some of them and the rest are work in progress. We look forward to H2 with a higher sense of confidence in terms of our business in India which is slated to grow both on top-line and bottom-line. Thank you once again to all of you for having joined us on this call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Redington India Limited, we conclude this conference call. Thank you all for joining us and you may now disconnect your lines

This document is edited for readability purposes