

11th November 2019

The National Stock Exchange of India Ltd.
Exchange Plaza
Bandra-Kurla Complex,
Bandra (E), Mumbai-400 051.

Dear Sir/Madam,

Sub: Q2 - FY 2020 - Earnings Conference call transcript

This is further to our letter intimating the details of Investor/Analyst call on the unaudited financial results for the quarter and half year ended 30th September 2019 held on 5th November 2019.


In this regard, we are enclosing herewith the transcript of Conference Call hosted on 5th November 2019. The same will also be available in the Company's website <https://redingtongroup.com/>

Kindly acknowledge the receipt of our communication.

Thanking you,

Very Truly Yours,

For Redington (India) Limited



M. Muthukumarasamy
Company Secretary

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



Redington (India) Ltd

Q2 FY 2020 Results

Conference Call

Nov 5th, 2019



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

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Redington India Limited Q2 and H1 FY '20 Earnings Conference Call. This call may contain forward-looking statements about the company which are based on the beliefs, opinion, and expectation of the company as on the 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 '*' 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

Raj Shankar:

Thank you and Good Evening to one and all. I am very pleased to announce the results for our second quarter. Our consolidated revenue grew by 11%, EBITDA by 24%, PAT by 24%. Now, when you break this down between India and Overseas, both the theatres have done well. India grew revenue by 15%, EBITDA by 40%, and PAT by 37%. Now, while talking about India, I also want to bring your attention that we have placed a great emphasis on reducing our working capital and we have reduced it by 17 days in terms of working capital in our second quarter over the same period last year. Consequently, this has also resulted in an operating cash flow which is the highest in any quarter in India of about Rs.1,137 crores and a free cash flow of Rs.1,089 crores. Our Return on Capital Employed in India was 16.8%, highest in several quarters and our Return on Equity for the quarter was 18.4%. I am also pleased to share with you that our Net Debt to Equity was kept largely under control. In terms of at a consolidated level, it was 0.09 and as far as India is concerned it was 0.68. With regard to our inventory charge, it was a reversal of 28 bps, a clear testimony to the fact that we have managed to sell out some of our ageing inventory and that has come as a reversal and our provision for bad debt was 18 bps. Now, when you move to overseas likewise the growth in Revenue has been 9%, EBITDA growth of 13%, and the PAT growth of 17%. I am pleased

to share with you that our operations in Turkey did well for the quarter.

Overseas have managed their working capital very well for several quarters and I am once again pleased to share that there has been a further reduction of 5 days from 37 days to 32 days in the overseas entities. This had resulted in an operating cash flow of Rs.653 crores in overseas and a free cash flow of Rs.518 crores for the quarter. Overseas delivered Return on Capital Employed of 11.5% and the Return on Equity was a little shy of 11.0%. The more delightful news is that when we look at net debt, i.e., gross debt minus cash it was negative, so to that extent it has been extremely well managed and lot of financial discipline continues to be put in place. In terms of charge against ageing inventory, just like in India there was a reversal of 22 bps, again a testimony to the fact that we have managed to sell out some of our ageing inventory which has come as a reversal of our provision and the provision towards bad and doubtful debt was 10 bps, which is improved from 14 bps of Q2FY19. Now, therefore, when we look at a consolidated picture from a cash flow point of view, we have delivered free cash flow of Rs. 1,608 crores for the quarter and our net working capital has reduced from 41 days in Q2FY19 to 30 days in Q2FY20. Our Return on Capital Employed and Return on Equity is 13.5% and 12.9%, respectively, for the quarter at a consolidated level. Again, from a Gross Debt to Equity, at a consolidated level, it was 0.31 and Net Debt to Equity was at 0.09

Now, as we move to ProConnect, we did experience some challenges but for a start while the revenue grew by 19%, the EBITDA growth was 78% but PAT degrew by 68%. This is primarily on account of a loss that we had to suffer in our investment company which we made in East. Now, we therefore are trying to put the correction in place, we expect that this would take one or two quarters and while this is the large part of the reason for the degrowth, I also must confess that the shift in business from warehouse management to transportation, leading to a higher contribution coming from transportation has yielded a lesser gross margin and hence a lesser

EBITDA and lesser profit is also part of the reason as to why there is a significant decline in the profit after tax. With regard to the services contribution to the overall revenue, at a consolidated level it is 3%, for India it is 6% and overseas is 2%, however, from a profit standpoint, services contributed to 16% of the total India profits and to 11% of the consolidated profits. The other interesting aspect of this quarter was that all three lines of businesses whether it is IT, Mobility and Services all grew by 7%, 16% and 12%, respectively. Also, furthermore when you look at between India and overseas, I am again pleased to share that IT, Mobility, and Services have registered growth by 3%, 42% and 14% in India, and 10%, 5% and 9% in the overseas market.

Let us take a quick look at our H1 of the current financial year. We have registered revenue growth of 13%, EBITDA growth of 29% and profit after tax growth of 24%. Again, both India and overseas have registered a double-digit growth across all these three parameters, i.e., Revenue in India grew by 14%, EBITDA by 43%, profit after tax by 31%; Overseas grew revenue by 11%, EBITDA by 19%, and profit after tax by 20%. As I have already mentioned to you, Turkey has done reasonably well in both Q1 and Q2 and delivered profit growth. I am also pleased to share with you that for H1, all three lines of businesses that is IT, Mobility and Services grew at a consolidated level by 8%, 19% and 11%, respectively, with the India segments growing at 4%, 34%, and 16%, respectively and Overseas segments growing at 10%, 14%, and 2%. From a ProConnect standpoint, we registered a growth of 20% in revenue for H1, 69% growth in EBITDA, and 38% degrowth in profit after tax. This essentially comes out of the degrowth that we experienced in Q2 which I just briefly explained. The overall contribution at a consolidated level for services just to reiterate for H1 is 19% of the total India profit and 11% of the total consolidated profit. With this, I pause my narrative, I hand it over to you it for any questions that you may have. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya:

My first question is you have demonstrated exceptionally strong execution on working capital side, so just wanted to get a sense that how sustainable it is, should we expect this to remain at this level by end of the year or it can revert to normal levels of almost 40 odd days that we have seen earlier. Second question is on ProConnect, can you just give us a little more sense on what exactly is the problem, in the remarks you alluded to reduction in the margin, but if I look at EBITDA margin, EBITDA growth is fairly strong and possibly there could be some IND-AS 116 effect, but if you can give us EBITDA growth on a YOY basis on a like-for-like basis it will be helpful and in that if you can just brief us which part of below EBITDA line item is pulling down the profitability for ProConnect?

Raj Shankar:

To your question about working capital, I genuinely think at 30 days at a consolidated level is exceptionally good as you would agree and this is certainly not sustainable, but at the same time given our laser focus on managing working capital both in India and overseas, we certainly want to make sure that we get better and better. We currently have approximately 12 working capital turns and we believe that anywhere around 9 to 10 working capital turns is something that we will continue to strike. With regard to your other question on ProConnect, the EBITDA growth to a certain extent is inflated on account of IND-AS 116. The point to note here is, we had an arrangement as far as our operations in East is concerned, such that all the transportation needs and requirements for all our customers was essentially done through an exclusive arrangement where there were dedicated fleet of trucks that was made available at all times. For any number of financial and other reasons, this transportation service provider unfortunately was not able to cater to all the transportation needs and requirements and that resulted us in not being able to meet the SLA requirements of our customers, which certainly impacted the business as well as customer satisfaction.

Consequently, we try to salvage the situation by trying to engage some third-party company, which came at a significantly higher cost pushing down the margin, and therefore, this resulted in an aggravated situation where we went into a loss position as far as this operation is concerned in East.

Now, on the other hand we also have a situation on our ProConnect let us say standalone business where there is significant shift in the business from the Warehouse Management services to Transportation services. Warehouse Management services used to be a major contributor and yields higher gross margin and when this shifted to the transportation business, which gives you a higher scale, you would see that our revenue has grown, but unfortunately the yield in this transportation business is low and it got further pushed down as some of the rates did not work well for us resulting in a situation where our margins really came down significantly to the point where EBITDA shows a growth whereas profit shows a degrowth. As I mentioned to you, on one hand that is the IND-AS 116 effect while on the other, there is also a significantly higher interest cost also on account of IND-AS and depreciation with the compounded problem of the challenge that I talked about in East resulting in a significant degrowth for the quarter. We hope to correct this situation in the next one, maximum two quarters because this is a complete shift from an arrangement which was working well for almost about eight quarters in a very seamless fashion. It is only the last two-three quarters that has been a very turbulent period and we are making alternate arrangements and we hope to make all the shift in maximum one to two quarters if that explains.

Pranav Kshatriya:

Sir, that explains but just a bit of a clarity required, so if you can help us for H1, what would be the EBITDA growth adjusted for IND-AS 116 and I was just thinking that if you have incurred higher cost relating to getting a third-party supplier or the penalties, should that not come as a part of the operating cost and hence should ideally lead to lower EBITDA on a year-on-year basis than impacting only PAT?

- Raj Shankar:** I think it is a very fair question, just to give you a perspective, when you look at H1 for ProConnect we grew top line by 20%, EBITDA by 69% but when you remove the benefit of IND-AS 116 then actually the EBITDA has degrown by 3%, and because of increase in interest cost and depreciation, on account of IND AS 116 resulted in a degrowth in profit after tax by 38%.
- Moderator:** Thank you. The next question is from the line of Nagraj Chandrashekar from Laburnum Capital. Please go ahead.
- Nagraj Chandrashekar:** Just had a couple of questions on Turkey. What is the working capital? As we are two-three quarters past stage of maximum stress in terms of CAPEX movement and working capital buildup, are there any further provisions required here? How has Turkey performed in the first half of FY20?
- Raj Shankar:** To a large extent, the working capital continues to be under control and our debt to equity is approximately about 0.55. With regard to the performance in the first half of FY20, just to give you a sense, our EBITDA and PAT growth was quite significant purely because the previous year same quarter we literally got thrown under the bus with the Turkish Lira devaluation etc., so it makes it look like the EBITDA growth is like 108%, but keeping that aside our EBITDA has done reasonably well at approximately about 2.4% margin and we have been profitable for the quarter which was not the case in the previous year
- Nagraj Chandrashekar:** Just following up on Turkey, in the last couple of weeks we have seen sort of a spat between India and Turkey regarding various issues, is there any risk to us as part owners of Arena in Turkey as a result of this?
- Raj Shankar:** The short answer is no.
- Nagraj Chandrashekar:** Then coming back to a follow up on ProConnect asked by the previous participant, just wanted to understand as our business moves more from warehouse leasing and managing space for clients towards

managing transportation & 3PL for customers, just wanted to ask given this experience and with the acquisition of Auroma we did last year, how are we thinking about capital allocation going forward? As the addition of business comes at lower margins and lower returns on invested capital, just wanted to get your sense of how you are thinking about growing this incrementally both organically and inorganically?

Raj Shankar:

I think that is a great question. For the last 25 quarters, we have been able to, pretty much consistently deliver a top line growth and a bottom line growth more often than not double digit growth as well. We have now come to the conclusion very clearly and are now redefining our strategy in terms of the way forward where we now want to be focused on let us say largely the warehouse management services and also want to make sure that we place greater emphasis on a margin expansion and a profitable business than driving scale. What has helped us so far is to be able to achieve a certain amount of operating leverage with scale, but the next part of the journey is more about focusing on a few industry verticals, focusing more on the warehouse management services using the power of technology and systems and be able to drive a more profitable growth than to drive scale and achieve operating leverage, so this is where there is going to be a definite shift in our strategy and we plan to roll this out next year

Nagraj Chandrashekar:

What does this strategy entail? Would it mean releasing more warehouse space and continuing to use 3PL fleets for transportation work or would it just be more of focusing on building our own warehouse assets and trying to become more of a warehouse owner and operator?

Raj Shankar:

What we intend to do as a first step in our whole engagement, we have today definitely leased a lot of warehouses on a pan-India basis. Our whole endeavor next is not about building and operating warehouses but more in terms of investment and how do we make some of these warehouses into smart warehouses using more

emphasis on technology and systems. There would be definitely transportation requirements that would get met, but we would engage third-party companies as our bigger part of the focus will be on how do we convert some of these warehouses into smart warehouses and through that get better traction from customers with an expanded margin and higher profitability.

Nagraj Chandrashekar: Would there be any sort of peer either in India or abroad we could sort of look at as a direct comparable for where you see ProConnect in the future?

Raj Shankar: There are couple of companies but there is nobody who is working on a complete or even a similar kind of model that we have in mind, so in fact some of our own strategic investors in Redington have built some really state-of-the-art or world-class logistics center using advanced storage retrieval systems etc. Of course, these are at a completely different scale, but to answer your question there is nobody prima facie that we are trying to benchmark though there are companies in different places be it in Singapore, be it in Taiwan, or in some places in Germany that have got some really smart warehouses.

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

Ritesh Poladia: Sir, my question pertains to Slide 19 of free cash flow statement in your presentation, is the direct tax paid amounting to Rs.514 crores in H1?

S. V. Krishnan: No, it has got interchanged, it is the working capital deployment which should have been Rs. 514 crores. This is mainly on account of the reduction in the working capital that had happened between March and now

Ritesh Poladia: Again, from the cash flow statement in your published financials, your net cash generated from operating expenditure in consolidated for

half year is Rs. 311 crores but it is showing as Rs. 941 crores in the presentation. What is the mismatch on this?

S. V. Krishnan:

In the published financials, there are factoring that gets done sometimes in the quarter end which would impact the cash flow. However, in the earnings presentation, we eliminate these balance sheet related factoring to showcase the pure business performance. From the business performance perspective, there is a reduction of Rs. 514 crores in the working capital which has resulted in free cash flow of Rs.673 crores for the half year. If we eliminate the factoring impact then you can map it with the balance sheet

Ritesh Poladia:

So where is the factoring amount shown in the financials?

S. V. Krishnan:

It would be part of Accounts receivables in the balance sheet. There was factoring in the March end, however there was no factoring that was done as of end of September, so that difference will be there which should be approximately Rs.630 crores

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 how the company thinks about the key strategies for growth in the core distribution business. For example, there has been no progress in the company in terms of obtaining the distribution rights of the Chinese Mobility brands and gradually the market share of those brands is increasing, that is one thing I wanted to sort of understand how does Redington think about organically growing the business?

Raj Shankar:

Let me first clarify, the contribution of Mobility at a consolidated level to Redington's revenue is 28%, which you will agree is quite significant for a business vertical. Likewise, when you look at India in particular, 24% of the India revenues came out of Mobility and 30% of the Overseas revenues came out of Mobility, so the first point I want to share with you is both in India as well as outside India there is a significant contribution from Mobility. Now to your point about

vendors of different origin, you would probably have seen this announcement in the last couple of weeks that I am pleased to share that Redington has now been appointed as the distributor for One Plus. We have been appointed as an off-line distributor for a number of markets in North and East region. Now, we are seriously excited with this opportunity and this is just to give you a sense that we are building and adding brands to our portfolio in India. Similarly, when you look at outside India, we have a very nice balanced portfolio where the contribution coming from outside of Apple is almost about 40% to 45% in terms of revenue if not more just to give you a sense.

Sachit Khera:

Is the company thinking in terms of expanding let us say the product categories

Raj Shankar:

While I certainly do not want to give a very general answer, but it is important that you understand that over the last 10-15 years, there are four growth vectors that we have identified and we continue to participate in each one of them at different points in time. We grow by adding brands to our portfolio. Imagine a company like ours having close to 200+ brands in our portfolio, which comprised of all technology and mobility brands that you can think of. Second, we address about 30 markets across the emerging markets of India, South Asia, Middle East, Turkey, and Africa, thus growing through an extensive and expansive network of markets. Third vector is by gaining and growing the market share of acquired/existing brands wherein we continuously strive towards increasing our market share to become the number one or a high number two player for that brand in that market, and last but not the least, we continuously keep looking for how do we get into new product categories and new business adjacencies. Over the last 15 years especially post-listing, we have continuously sort of been straddling across these four growth vectors which is the reason why post listing the company has been able to deliver a 15% revenue CAGR and a 14% profit CAGR.

Sachit Khera: Secondly, just a small data point, could I know the accounts receivable base for the Indian as well as the overseas market for Redington, I do not know if it is already given in the slides?

Raj Shankar: I could still do it, very quickly as far as DSO in India is concerned it is 57 days, DSO for overseas is 44 days, thus consolidated DSO days is 49 days. Last year consolidated DSO days was 55 days, so there is a reduction of six days.

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

Rohit Balakrishnan: Sir, just wanted to understand if in the future, do you see the geography mix of revenues between India versus overseas change, with the share of India going up over the next two to three years from where it is currently?

Raj Shankar: We do see the contribution definitely expand. Just to give you a sense, if you look at last year the revenue contribution from India was 35% and by logical conclusion overseas was 65%. For this particular quarter, India contribution has increased to 39%. Now similarly when you look at for the half-year, India contribution again from 34%-35% has gone up to 38%, so to answer your question over time we clearly see that the contribution coming from India will continue to be on a rising mode.

Rohit Balakrishnan: In the case of Services, especially with regard to ProConnect, do you see that the margins of ProConnect has been sort of declining compared to last year given that our mix is now changing towards more transportation, leading to margin decline? I could not fully understand this change. Also, from a Return on Capital point of view, how does the current business stand and with the change in mix, will the Return on Capital be dilutive or is it accretive?

Raj Shankar: To give you a sense if you look at ProConnect a couple of years ago, we were able to deliver a profit after tax of anywhere around 8% which you will agree for a logistics business is probably at the higher

end, but at that time significant part of the contribution came out of Warehousing Management services. Now, in the recent past and especially post-GST as you can imagine, there has been a significant spike in the transportation needs and requirements which has certainly given us a quick opportunity to be able to engage with customers, but transportation business as compared to warehouse management services is a lower yielding business. Just for the purpose of discussion, the profit margins that we could possibly make out of warehouse management services is somewhere in the vicinity of about let us say at a net level of about 10% whereas it is about 4% in the case of transportation business.

With a significant shift in the business in the last few quarters, now we see that the transportation business is allowing us to scale the business all right but it is also yielding us lower margins and hence the point I was making is that when you look at for half year, our profit margin is about 4% whereas in the past until about a couple of years ago, it used to be close to 8% I think essentially this was the point I was making. Now, what we are trying to do is we are telling ourselves that look we do not want to just drive scale and try to achieve operating leverage just by doing more and more of transportation business. Our core competency and serious differentiator we believe is in our warehouse management services capability and now by bringing in smart warehouses through technology and system, we believe that we can once again restore our margin and hence our profitability

Rohit Balakrishnan:

Just on this point, does this mean increase in our value addition to the customer in terms of the services that we offer or the stickiness that we have with the customers?

Raj Shankar:

Yes, it is a great question, so one of the thought process that we had was it does not matter if a customer has got a transportation requirement, let us use to get the association or engagement going and then we will strive to improve the stickiness by upselling, cross selling, deep selling etc., but then in the bargain while it takes a little

time for us to be able to engage with that customer into other logistics services, which can be more margin yielding and profit yielding, but that takes time, so we are telling ourselves that even in the interim while we want to be the supply chain arm or the logistics arm of our customer, we want to place a greater emphasis growing forward by focusing more on Warehouse Management services rather than on transportation, so I am not saying that we are taking a binary approach. We have thus far in the last few quarters focused more on transportation because we thought that could give us a foot in the door and hence scale, but we are having a complete rethink on our strategy where we want to now focus more on Warehouse Management services, even though it may not give a scale in the short-term, but over the medium to long-term, it will give us a higher margin and hence a much better profit.

Rohit Balakrishnan:

Sir, just last question from my side, from a medium-term point of view, say one-two year from now, do you see that ProConnect sort of being a listed entity or do you still see it as part of Redington for the foreseeable future?

Raj Shankar:

We always see ProConnect as continuing to be an important asset of Redington. Firstly, 100% of Redington's logistics requirement is completely serviced by ProConnect in the last seven years and which we wanted to continue into the foreseeable future and thereby continue to derive benefit on account of efficiency as well as cost optimization, so that is very fundamental. The whole idea or thought process of establishing ProConnect was leveraging the deep capability and infrastructure that we had built in warehouse management services over a protracted period of time, to cater to third-party or 3PL business and that is what has got us into ProConnect in the last six to seven years where we have built a very enviable customer base of about 180+ customers and we have almost about 6.7 million square feet of warehouse space on a pan India basis, so this essentially is how we see ourselves the way forward. Now, could we therefore see ourselves in terms of having for instance a strategic tie-up or partnership with someone who has

got a very high capability in the area of smart warehouse and technology etc., which is very much Artificial Intelligence (AI) and Machine Learning (ML) enabled then we would seriously evaluate such an opportunity, but at the same time keeping the two objectives that I just described above

Rohit Balakrishnan:

I just wanted your quick comment. In terms of shareholder value creation, can we expect ProConnect to become a listed entity or maybe a spin-off or something like that, in a medium to long term point of view?

Raj Shankar:

We would certainly evaluate all possibilities. At this stage you will agree with me, last year ProConnect turned over Rs. 403 crores in terms of top line. We are still in terms of size and scale not big enough. There is lot more work that needs to be done, so we want to now spend a lot of our time putting our nose to the ground, building really a sort of good world-class company in ProConnect and if it means having a strategic tie-up and if at a point in time we think sort of there are ways in which we can unlock value for our shareholders except we would certainly consider all of that, but at the moment we are putting our nose to the ground and making sure that we build and scale this business it to make it a world-class company.

Moderator:

Thank you. The next question is from the line of Aasim Bharde from IDFC Securities. Please go ahead.

Aasim Bharde:

Sir, first question depreciation expense is high due to at a consolidated level even if you compare it QOQ, could you call out onto what has led to this sharp rise?

S. V. Krishnan:

It is mainly on two counts, one, we discussed about IND-AS 116 while there were some carve-outs available, we identified few more leased assets which had got moved from the lease rental to depreciation in the current quarter, so that had impacted the Q2. Second, we have got this SAP implemented in India that has added to additional depreciation cost in India.

Aasim Bharde: In the next couple of quarters, this Q2 figures should be the ideal run rate?

S. V. Krishnan: Yes, in a way of speaking.

Aasim Bharde: Sir, second question could you talk about how IT Enterprise business has done in Q2 and H1 and what is the visibility for the rest of the year?

Raj Shankar: In terms of our IT Enterprise business, we have decided to put greater emphasis on working capital, so therefore instead of driving growth in market share, we have now put a little bigger emphasis on getting our working capital in order, so we have by design walked away from a number of big deals because wherever there was an extended credit period or a risk that we felt was beyond our risk appetite, we have shied away. Consequently, our IT Enterprise business therefore has been a little muted. It did better outside India than India both for the quarter as well as for the half year, but in India, we are very well poised from going forward in order to be able to gradually scale this business and both in terms of top and bottom line, but being very mindful of our working capital norms.

Aasim Bharde: Should I assume that given the fact that you are going to focus on say for example your mobility part of the business in the near-term at least for FY '20 your consolidated gross margins would be lower YOY?

Raj Shankar: If you look at gross margin from a percentage point of view, you are right. Just to give you a sense, for Q2 FY '20 our gross margin was 5.6%. Now, we believe that this is by and large sustainable and if you look at H1 of FY '20, the gross margin was about 5.7% because the point you need to keep in mind is we do a fine balancing between Mobility on one hand which in terms of margin percentage could be lower than IT, but IT Enterprise definitely has a much higher margin propensity but on the contrary Mobility gives you a much better Return on Capital Employed because the amount of credit that you need to deploy would be far less as opposed to the IT Enterprise

business which would also be in line with our expectations, but Mobility would be at a much higher level, so the point I am only making here is I urge you to look at gross margin but also look at ROCE and that would give you a complete picture, so when you look at ROCE for, FY19, ROCE was 12% in the India Mobility business and I mentioned to you that in H1 of the current year, the Mobility contribution in India has been on the rise and yet when you look at our ROCE it is 19.9% for half year, this is as far as India is concerned, does that make sense?

Aasim Bharde: Yes, it does, point taken. Sir, third question can you just give out guidance on what your full year tax rate will be for this year?

S. V. Krishnan: It would be about 20%-21%, India being at about 27%-28%, overseas at about 15% overall.

Aasim Bharde: Does that mean you will not be adapting the new tax rate that was announced by the Finance Ministry this year for the India business?

S. V. Krishnan: No, we are adopting that, but after eliminating the disallowances, the tax rate is coming to about 28% for the India part of the business.

Aasim Bharde: Sir, finally could you just give some more details on this One Plus partnership, is this just pure distribution or do you help set up or manage One Plus stores, and also is this an exclusive tie-up in the North and East market?

Raj Shankar: One is certainly they are looking at Redington as an off-line distributor and they have considered our candidature for North and East. We are not managing their stores, but it is a different business model that we are engaging as far as the off-line is concerned, but I would much rather as they say I do not want to count the chickens before they are hatched, this is a very recent relationship less than 10 days to two weeks old, so give us a little more time before we can give a little color and context to this, but the good news is it is a brand which has got a terrific pull and we are therefore excited with this partnership

and we see a good opportunity for us to be able to drive growth and capital efficiency.

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

Nitin Padmanabhan: Sir, just wanted a clarification on the standalone P&L, it looks like there is a huge other income of Rs. 142 crores, what does that pertain to?

S. V. Krishnan: It is the dividend that is received from our overseas operations during Q2. What we have done this year is whatever dividend that we have paid to the shareholders, the similar amount we have got as a dividend from our overseas subsidiaries, we found it to be tax effective and this amount is what has got funded for our dividend payment and hence in the standalone it is coming there as an income.

Nitin Padmanabhan: Would that mean that overall from our capital structure perspective, the overseas let us say return ratios should be better and is this something you will continue to do going forward considering that business is usually highly capitalized?

Raj Shankar: If I could take that question, now to that extent if you see the free cash flow, earlier this dividend amount would get reduced from India's free cash flow, so this time around, this amount has got reduced from the overseas cash flow. Therefore, it is important to note that overseas has delivered positive free cash flow for the quarter, after accounting for the dividend amount of Rs. 136 crores. Second, to the point that Krishnan made, we have found a very interesting but a tax efficient way of being able to use the capital which we have overseas. As regards improvement in return ratios, Overseas has delivered ROCE of 11.5% for the quarter which is dollar Return on Capital Employed and ROE of 10.9%, which once again is dollar Return on Equity. Therefore, the point I want to make is returns have been good provided you looked at dollar cost of capital and the dollar return on the same. Now, with the dividend getting paid out from overseas, it will improve our Return on capital employed but

ROE would get compromised to the extent where our interest would go up because our borrowings will go up to that extent

Moderator:

Thank you. As there are no further questions, I now hand the conference over to Mr. Raj Shankar, Managing Director, for closing comments.

Raj Shankar:

Thank you once again to all for participating on this call, so we had a very good quarter driven by both India and overseas showing a very strong performance, i.e., double-digit growth revenue, EBITDA, and profit. I am truly delighted that we have delivered a significant positive free cash flow coming essentially out of managing our working capital very well. ProConnect is one area where we are now going to put a greater emphasis in terms of rethink on strategy and we will make sure that in the next one or two quarters, we give it the thrust that it requires to once again make it into a profitable growth business. Thank you once again to one and all.

Moderator:

Thank you. Ladies and Gentlemen, 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