

19<sup>th</sup> August 2019

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

Dear Sir/Madam,

**Sub: Q1 - 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 ended 30<sup>th</sup> June 2019 held on 13<sup>th</sup> August 2019.

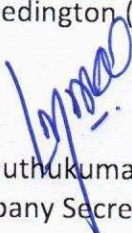
In this regard, we are enclosing herewith the transcript of Conference Call hosted on 13<sup>th</sup> August 2019. The same will also be available in the Company's website <https://redingtongroup.com/>

Kindly acknowledge the receipt of our communication.

Thanking you,

Very Truly Yours,

For Redington (India) Limited

  
M. Muthukumarasamy  
Company Secretary

CC: The Bombay Stock Exchange Ltd.,  
Floor 25, P.J Towers, Dalal Street,  
Mumbai-400 001.





## **Redington (India) Ltd**

Q1 FY 2020 Results

Conference Call

**Aug 13<sup>th</sup>, 2019**



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

**Moderator:**

Ladies and gentlemen, good day and welcome to the Redington India Limited Q1FY20 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 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 "\*" 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, Mr Raj Shankar!

**Raj Shankar:**

Thank you, Neerav. Good evening to all participants. I have some good set of numbers to share based on our Q1 results. As you would have observed, our revenue growth at a consolidated level was 14%, EBITDA growth of 35% and a PAT growth of 24% but adjusted for Ind AS 116, the EBITDA growth would have been 25% at a consolidated level. The good news is that both India as well as Overseas grew on all parameters.

In India, the revenue growth was 14%, EBITDA growth was 46% and the PAT growth was 23%, but when adjusted for Ind AS 116, EBITDA growth was 36%. Likewise, when you look at overseas, the revenue growth was 14%, EBITDA growth of 27% and the PAT growth was 25% but when adjusted for Ind AS 116, the EBITDA growth is 17%. The interesting aspect is not only has both India and Overseas done well across all parameters, all lines of businesses have also registered a growth. For e.g., IT grew by 9% at a consolidated level, Mobility at 22% and Services grew by 10%. Now when you break that down between India and Overseas, I am delighted to share that India grew IT by 6%, Mobility by 23% and Services by 18%. Overseas grew IT and Mobility at 11% and 21% respectively. Services in Overseas registered degrowth of 4% largely on account of degrowth on the after-sales support services.

Likewise when you further breakdown IT in India between Enterprise and Consumer, both have registered a growth, which is also true for the Overseas business. Now when you look at working capital, I am pleased to share that as compared to the previous year, our working capital remained the same at 44 days. This would represent about 8.3 working capital turns. Now when you further break that down between India and Overseas, in India the working capital went up by five days largely on account of inventory increase as also the AP days having come off, but in Overseas, the working capital days reduced by three days. Now from a free cash flow perspective, we had negative cash flow both in India and Overseas largely on account of spike in working capital and hence at the consolidated level, it was a negative free cash flow.

The two important parameters of ROCE and ROE have registered growth. On ROCE, both in India and in overseas there was a growth and at a consolidated level, we delivered 13.7%. Likewise in the case of ROE, both in India and in Overseas, there was growth compared to the previous period and at a consolidated level we delivered 11.2%. The Net debt to Equity was 0.43, so we still continue to keep our debt levels well below the total net worth of the company.

With regard to inventory provision, it was 0.35% at a consolidated level whereas for Q1FY19, it was 0.34%. The bad debt provision was nil largely on account of reversal of provision in the Overseas and about 8 bps as far as India is concerned. However, when compared to Q1FY19, it was 0.26% on the bad debt provision. With regard to ProConnect, they have registered a growth of 22% on the revenue. On the EBITDA, the growth was 57% however when adjusted for Ind AS 116, it was 27%. The profit after tax grew by 1%. This is largely on account of increase in interest as well as on the depreciation and amortization. The EBITDA margin, however, is at 16% at a consolidated level for ProConnect.

The emerging businesses are small and continue to be a relatively smaller number, but I am happy and pleased to share that they have registered a growth of 23%, with a strong growth in the cloud business at 47%. The Services profit contribution to the India profit was 23% for Q1FY20 as

against 30% in Q1FY19 and at a consolidated level, the Services profit was 12% compared to 15% in Q1FY19

Overall, we have grown both India and overseas as well as on every line of business and working capital has remained flat at 44 days. This is pretty much the summary. I turn it over to you for any questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Pranav Kshatriya from Edelweiss Securities Limited. Please go ahead.

**Pranav Kshatriya:** Thanks for the opportunity. A couple of questions. Considering the overall weakness in the economy, do you think that the strong growth in India would be sustainable and the second question is inventory provision has remained high while we were anticipating it to come down a bit. Kindly help us understand the same. Thank you!

**Raj Shankar:** So I would agree with you that we are approaching the current quarter of Q2 and probably one more quarter to the end of the calendar year with a little more of a cautious outlook. Given the various liquidity crisis that is there in the market, we are witnessing delays with regard to receivables and collections, which is also one of the reasons why you are seeing the working capital having gone up. So what we have only tried to demonstrate is we are extremely mindful of the risk. We are extremely mindful of also the opportunity and hence we are taking a very cautious approach. For example, we have walked away from a number of opportunities, particularly on the Enterprise business, where we felt that there can be a bit of a challenge with regard to credit period and collection and to that extent therefore we could have compromised on growth, but we certainly want to make sure that the business that we do is profitable and at the same time capital efficient. To your other question about inventory provision, particularly for Q1FY20, the inventory levels was much higher than we had anticipated and this is on account of the general elections and the code of conduct, leading to slowdown in the business. It was more conspicuous than we had anticipated, so this lead to some of the inventory pile up, but we are more

than reasonably confident that we should be able to bring the inventory levels down and more importantly the ageing inventory down so you should see improvement in the provisions towards inventory and stock obsolescence going forward.

**Pranav Kshatriya:** Thank you for the detailed answer on the India part. I just have a couple of follow up questions. If you can just elaborate how are you seeing demand for the IT Enterprise, IT Consumer and Mobility vertical in India and secondly should we expect this low provision to remain low for the entire year or it should normalize to the average of 10 basis points?

**Raj Shankar:** I will take your second question first. Yes, the bad debt levels would get normalized more in the vicinity of around 10 bps. So with regard to how we look at the opportunity in India, on the IT Consumer segment, we expect a sort of a single digit growth. We are not seeing a great bullish trend though typically this quarter tends to be a strong quarter for various festival reasons. As far as IT Enterprise is concerned, opportunities are there, but for us we are extremely cautious, in terms of our decision on the participation in certain deals and projects. So there is opportunity and demand on the IT Enterprise, but we are being extremely cautious as we do not want to risk capital. Wherever we think there is a requirement for a long credit period, we are clearly walking away from such transactions. Wherever we are not able to get a commensurate credit period and a credit support from our vendors, we are clearly not participating in such transactions. We are attaching a lot more importance to profitability and capital efficiency than necessarily on revenue growth if that answers your question.

**Pranav Kshatriya:** That answers, but just a small follow up. Can you say that these growth opportunities are largely in the Government side or on the private side?

**Raj Shankar:** So I will say that probably about a third is on the government and about two thirds is on the private, but the bigger reference that I was making was more to the one third of the business, which is the government related and not necessarily the two thirds, which is private.

**Pranav Kshatriya:** Thank you so much. This is very helpful.

**Moderator:** Thank you. The next question is from the line of Rajesh Khater, an Individual Investor. Please go ahead.

**Rajesh Khater:** Good evening, Sir. I just wanted to understand what is the impact of our depreciating INR when it depreciates gradually over a period of time and when it depreciates sharply in a short period, so for example in the last few days it has moved sharply from Rs.68.7 to Rs.71.4. What is the impact in both the scenarios?

**S. V. Krishnan:** As a concept whenever there is a gradual depreciation that should not have an impact. Whenever there are spikes for some period, there could be an impact and over a period of time, it will get covered. But in the specific case that happened in the recent past, there was an appreciation that was also steep and there was corresponding depreciation, which is over a 60 day period, and since this is our working capital cycle, it is not a major issue, as this would be part of our pricing. Therefore, as far as the recent movement in rupee was concerned, it had a neutral impact as far as the pricing and margins in India are concerned.

**Raj Shankar:** So just to add to what Krishnan said I just want you to keep in mind that approximately about 75%, but tending towards 80% of all purchases are billed by vendor in INR, so in many ways we are agnostic to whether the rupee has appreciated or depreciated. Of course to the extent of 20%, please take cognizance of what Krishnan said. Thank you.

**Rajesh Khater:** I have seen your company's quarterly performance over the last few years. This quarter results are fantastic but typically Q1 is always relatively weak for us whereas Q2, Q3 and Q4 are stronger comparatively. Why is it always like that?

**Raj Shankar:** The reason is if you look at Q4, it tends to be normally a bumper quarter for us. If you look at the past, my sense is that approximately Q4 would contribute to something like 33% or almost 32% to 33% of the total company's annual revenue or profits because that is the case, generally therefore Q1 for us tends to be a little soft because we have really maxed out in the previous quarter. This is more the historical trend.



- Rajesh Khater:** Sir, in the case of ProConnect, profits were impacted by the interest cost and depreciation due to Ind AS 116. Will we similar impact in any other quarter of this year?
- S. V. Krishnan:** There are actually two aspects to it. One is the increase in interest cost and increase in depreciation cost on account of Ind AS 116. This impact will be visible in the next three quarters also because this had come into effect from April 1, 2019, so whenever we make a YoY comparison there will be a spike in the interest cost and depreciation for the next four quarters vis-à-vis the last year.
- Rajesh Khater:** We have shared a guidance targeting ROCE of 16% to 18% by FY20-21. What is the target ROE? Will it be in the range of 13% to 14%? The historical ROE at used to be in the range of 18% to 21%
- Raj Shankar:** Typically our expectation is between 16% and 18%
- Rajesh Khater:** That is on the ROCE, right?
- Raj Shankar:** I am talking about the ROE, wherein our expectation is around 16% to 18%.
- Rajesh Khater:** Thank you so much
- Moderator:** Thank you. The next question is from the line of Vishal Desai from Axis Capital Limited. Please go ahead.
- Vishal Desai:** Thanks for the opportunity and congratulations to the Management on a strong quarter. Sir, you have outlined the outlook for the Indian IT business. Similarly, could you give some sense on India Mobility as well as on Overseas business, in terms of IT and Mobility?
- Raj Shankar:** As far as Mobility is concerned, we expect that as long as there are no changes to the distribution landscape, we should continue to see a good growth momentum going forward. As far as outside India is concerned, again on the Mobility piece, there are some regions, which are doing well, particularly Africa. There are some regions, which are a little slower than how it was the previous year, which is in the Middle East largely because



the distribution landscape has undergone a change where we used to be one of three players but now there is an addition of one more player, so we expect the Mobility business in Overseas to register modest growth. As far as IT is concerned, the IT Enterprise part of the business in Overseas continues to show good traction. We expect that to continue. On the IT Consumer side of the business in Overseas, it is largely dependent on the growth of PCs, which to a good extent has been muted, so if that gives you a perspective.

**Vishal Desai:**

Sure. Thanks, Mr Raj Shankar and just to get some sense in terms of the overseas performance in Turkey while I believe this time the growth has been flattish from whatever you have mentioned in the investor deck, but the spike in the tax rate is largely to do with the Turkish Lira deprecating a little more aggressively than expected?

**Raj Shankar:**

So overall to give you a perspective, in Turkey, there was revenue growth and also strong double digit growth on EBITDA and in the previous year we had reported loss, but this year, we have generated profits. Overall, while the business continues to be at a low ebb in terms of the overall size of the opportunity, I think we have managed to make sure that our profitability is still protected and as we had said one year ago, we are making sure that our capital is deployed effectively and the receivables are under control and our inventory is also within norms. Thus, overall working capital management is under control and also there is a higher focus on profitability than on revenue growth.

**Vishal Desai:**

One last if I may, while your outlook in the overall business context has been taking a cautious stance given the overall liquidity crisis just from a very high level understanding, is there any of the accounts or any of your deals, which you think there could be a potential selection issue due to which you are sounding a little cautious despite the strong performance in this quarter?

**Raj Shankar:**

First of all, the answer is no. There are delays, but we do not expect any defaults that worry or concerns us. The reason for just giving a cautious outlook is only because there are so many uncertainties that you are aware

of and given these very uncertain times and with lots of these liquidity crisis challenges, we just want to make sure that we are not putting a higher focus on driving revenue growth, which is not what we want to do in these times. We would much rather make sure that the business is profitable and we are capital efficient and that is clearly the focus and hence, I do not want to you to over read into my cautious statement any more than that we are giving profitability and capital efficiency higher priority than revenue growth and market share priority in these times. That is the message.

**Vishal Desai:** Much appreciated, Sir. Thanks guys and all the best for the year to come.

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

**Nitin Padmanabhan:** Thanks for taking my question and congrats on a great quarter. Just a couple of things. One is on whether raising funds through the Commercial Papers is as same as before and what is the contribution of Commercial Papers to the overall debt number as well as the cost of debt please?

**S. V. Krishnan:** It is definitely smooth for us. There were some issues as far as the CP market was concerned, mainly in Q3 and then starting from Q4, it got eased out, but I can say very clearly the risk appetite in the market is less, so to that extent obviously there can be some small issues, but overall we have no challenge. A very significant part of our debt in India is constituted by CP and if you take our recent rates, the recent rates are at about 7%.

**Nitin Padmanabhan:** Sure. The second was, this quarter I think we would have got the residual sort of revenues from integration of Auroma. What is the revenues from Auroma in Q1FY20?

**S. V. Krishnan:** In Q1FY20, we have got a revenue of about Rs.21 crs and profits of about Rs.1.2 crs from Auroma

**Nitin Padmanabhan:** Sure and lastly if you look at the Overseas business, we are basically seeing much lower growth in the IT Enterprise, so just wanted your thoughts on why are we seeing such similar behavior in both the markets and secondly do you think that there could be comeback in terms of the IT segment there

and finally how would you characterize that market today and what is the risk that you see in that market?

**Raj Shankar:** Nitin, I do not know how you have picked up this point about IT Enterprise being slow in Overseas. On the contrary for Q1FY20, they registered a strong double digit growth. Even in the previous year, in the Overseas it was the IT Enterprise business which again grew double digit

**Nitin Padmanabhan:** Apologies, I meant the entire IT segment and not just IT Enterprise

**Raj Shankar:** In lighter vein, Nitin, if you consider a 11% growth in IT Overseas as being a little anemic then probably we will have to talk again, but on a serious note, I think given that almost 60% of the business comes out of IT Consumer in the Overseas markets and as you know if PC is a barometer for IT Consumer biz, PC growth has been pretty muted across the globe and more so in this part of the world of Middle East, Turkey and Africa and in spite of that, if we have been able to deliver 11% growth for the quarter, I would like to believe we have a pretty good lead and pole position in the market place, if that explains.

**Nitin Padmanabhan:** Sure that explains pretty well. Thanks a tonne and all the best.

**Moderator:** Thank you. The next question is from the line of Ashwin Bala Subramaniam from HSBC. Please go ahead.

**Ashwin Bala S:** Just wanted to know in terms of this working capital change in the cash flow statement, what will be the contribution firstly from India and from overseas? Out of the changes in working capital of Rs. 1071 crs in Q1FY20, how much would be between India and Overseas and within India like what would be the sort of mix between receivables, inventory and payables? I can see that from your P&L, the inventory seems to have actually come down as the change in inventory is a decrease of Rs.115 crs. So, I just wanted to know which of the items has actually contributed to this sort of increase

**Raj Shankar:** So let me give you a quick consolidated picture. At a consolidated level, if you recall what I said was that it was 44 days in Q1FY20 and we have the

same working capital days of 44 days in Q1FY20. Now when you look at inventory days it is almost similar. In Q1FY20, it is 34 days and in Q1FY19, it is 33 days. Now what has happened is while the debtor days have come down by a good one week from 56 days to 49 days so has the creditor days from 45 days to 39 days, so essentially because of the fact that we played cautiously on the IT Enterprise space, which is where we typically have to give longer credit period to the customers on one hand and we also have a longer credit period from the vendors. But during this quarter, our Mobility business grew quite strongly where our receivables and payables are much lower compared to what it is for IT Enterprise and hence you are seeing this difference. Does that explain?

**Ashwin Bala S:** Well I am talking from a sequential perspective. If I look at your cash flow statement it is still about Rs.1070 Crores working capital change, so from that perspective just wanted to understand like sequentially what is contributing to this increase and if you could split this between India and Overseas?

**S. V. Krishnan:** If you take a split of this about Rs.350 crs would be the negative cash flow from India and about Rs.590 crs from overseas and as Mr. Raj Shankar mentioned, it is primarily on account of the reduction in the creditor days and marginal increase in the inventory days. Debtor days has come down in this period so that had no effect as far as the cash flow is concerned.

**Ashwin Bala S:** Has the Debtor days in both India and overseas come down during this period?

**S. V. Krishnan:** Yes

**Ashwin Bala S:** What will be your total India debt?

**S. V. Krishnan:** Debt in India is Rs.1770 crs

**Ashwin Bala S:** Thank you.

**Moderator:** Thank you. The next question is from the line of Rajesh Khater an Individual Investor. Please go ahead.

**Rajesh Khater:** Thanks for the follow up. I have two questions. One is on the Apple and now that Apple has only two distributors in India, what is your market share in India specific to Apple's iPhone sales. Also, we keep hearing that iPhone sales are down and so wanted to understand how much does Apple sales in India contribute to our revenues and PAT as a percentage of consolidated revenues and PAT?

**Raj Shankar:** With due respects, we would have to refrain from giving any specific numbers for any specific brand, so apologies for the same. What I could tell you is as follows. The growth of Mobility business in India was 23%. The growth of Mobility in Overseas was 21%, so one is growth and the other thing that I would want to tell you is in the Mobility space we have grown on every brand and overall it has been a good quarter. I am afraid and constrained to give you any specific numbers. Appreciate your question.

**Rajesh Khater:** I just wanted to understand whether the market share in the brand you are dealing has grown, even if you cannot give absolute numbers.

**Raj Shankar:** I can tell you overall the brand has grown and grown quite nicely. One has to take it in the context of the price and the market share within that price range. It may not be fair to compare a brand in the overall mobility opportunity. It is important to compare the brand specific to pricing and in that price segment they have a good market share and it is growing.

**Rajesh Khater:** Alright, Sir. Sir, my second question is like is there any opportunity to tie up with any of the Chinese brands in mobile phones, which are seeing very strong sales?

**Raj Shankar:** The effort is on. The only challenge we have is that the Mobility business, by nature, does not lend itself to a margin as good as we make in IT business, however the working capital efficiencies could be better, so we always want to moderate how much of business we want to do on the Mobility space and within that, which brands we want to do where we can grow our margins and at the same time, we have the capital efficiency as per our internal norms.

**Rajesh Khater:** Thank you so much.

**Moderator:** Thank you. As there are no further questions, I will now hand the conference to Mr Raj Shankar for closing comments.

**Raj Shankar:** Thank you Neerav, so once again very delighted with the set of results for Q1, which is a double digit growth on revenue, EBITDA, and PAT even adjusted for Ind AS 116 at a consolidated level. We grew every line of business at the consolidated level as well as in India and overseas. We managed to keep the working capital at the same level. ProConnect has once again delivered a strong double digit growth in revenue & EBITDA and our ROCE and ROE have improved compared to the previous year. Thank you and a good day to all.

**Moderator:** Thank you very much. On behalf of Redington India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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