

27th May 2019

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

Dear Sir/Madam,

Sub: Q4- FY 2019- Earnings Conference call transcript

This is further to our letter intimating the details of Investor/Analyst call on the audited financial results for the quarter and year ended 31st March 2019 held on 22nd May 2019.

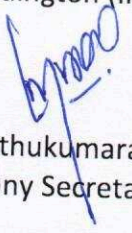
In this regard, we are enclosing herewith the transcript of Conference Call hosted on 22nd May 2019. The same will be also available in the Company's website <https://redingtongroup.com/>

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.

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Redington (India) Ltd

Q4 FY 2019 Results

Conference Call

May 22nd, 2019



MANAGEMENT : **MR. RAJ SHANKAR – MANAGING DIRECTOR – REDINGTON (INDIA) LTD**
MR. S. V. KRISHNAN – CFO & WHOLE TIME DIRECTOR- REDINGTON (INDIA) LTD
MS. SOWMIYA M – MANAGER, INVESTOR RELATIONS – REDINGTON (INDIA) LTD

Moderator:

Ladies and gentlemen, good day and welcome to the Redington India Limited Q4FY19 & 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, 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, Redington India Limited. Thank you and over to you, Sir!

Raj Shankar:

Thank you, Bikram. Good evening to everyone on the call. I am very delighted to share the results for Q4FY19 at a consolidated level. As all of you would have seen, our revenue has grown by double digit at 16%, EBITDA at 15% and our profit after tax by 18%. What is particularly interesting about Q4 is that both in India as well as outside India, our revenue and EBITDA grew by double digit. In India, the revenue grew at 24% and EBITDA at 17%. As far as profit is concerned, our profit in India grew by 6% and overseas by 23%.

I just want to make a small mention here that we had introduced an SAR program and therefore, thought the share price is well below the offer price of the SAR, we are compelled to take a charge in our P&L. If we, therefore, for a brief moment exclude the SAR charge, then our EBITDA growth for the quarter would have been 21% as against 17% in India and PAT growth would have been 11% as against 6%.

Now the other interesting part is, when you look at overseas, both META, which is Middle East, Turkey, Africa as well as Singapore & South Asia, both geographies have grown their profits considerably at 22% in META and 28% growth in Singapore & South Asia. Overall, from a contribution point of view, 74% of the total profits that was delivered in Q4, came outside India.

The other interesting aspect of this quarter is that every line of business grew. IT grew by 14% at a consolidated level, with growth of 22% in India and 9% in overseas. Mobility grew at 17% at a consolidated level, with growth of 28% in India and 13% in overseas.

Now with regard to IT, it is very interesting to note that in India, in particular, both the Enterprise and Consumer business grew by 22% each. From a Mobility standpoint, both India and overseas had a strong growth. As mentioned, Mobility segment in India grew by 28%, Overseas grew by 13%, resulting in a consolidated Mobility growth of 17%.

In spite of the fact that there was depreciation in Turkish lira against USD by 6%, Arena still managed to deliver decent set of numbers, though I must confess that from March 31, 2019 until today, the currency has depreciated by 9%. So this is something that we have to manage and we will take it one quarter at a time.

What we are particularly pleased about Q4 performance is the reduction in the working capital. Overall, for the quarter, at a consolidated level, we have managed to bring down the working capital by 7 days, almost about 13 days coming out of India in terms of reduction from 53 days to 40 days, and by 4 days out of overseas from 34 days to 30 days.

Now, the other highlight of this quarter is the free cash flow. I am very delighted to share with all of you that at a consolidated level, there was positive free cash flow of Rs.1,143 crores. This is approximately about Rs.744 crores coming out of India and Rs.398 crores coming out of overseas.

Given a strong performance of the working capital, our ROCE also has improved to 18.1% at a consolidated level for the quarter and the ROE is around 18%. All this has been done on the back of a strong financial discipline where our gross debt-to-equity is about 0.3. Our net debt-to-equity is 0.1.

In terms of inventory provision, at a consolidated level, it is 0.19%. It was higher than normal in India, though overseas was range bound. The reason for the inventory provision being high in India is attributed to a higher provision required for networking products, where we expected some of this

inventory to have got sold out in Q4, but between having to sell it at a lower price and compromising margin and having to, therefore, carry inventory and suffer inventory carrying cost, we decided to do the latter, and hence this has resulted in the inventory provision being higher in India.

As far as bad debt is concerned, about two to three quarters ago, we had an impact on account of IND AS 109 - Expected Credit Loss and we did tell you at that point in time that, within a quarter or two, we will be able to bring it back to about 0.14-0.15%. I am pleased to share with you that, for two quarters in a row, we have again managed to keep our bad debt provision in India at about 0.13%. Overseas continues its very strong performance at only 0.03% towards inventory provision.

With regard to ProConnect, the performance continues to be strong. We grew revenues by 16% and EBITDA by 8%. We had announced in the month of March that we have acquired Auroma Logistics, a company which is particularly strong in the warehousing and transportation business for consumer durable segment and we were forced to incur certain M&A cost towards the same. If we keep the M&A related costs out of the equation, the revenue growth would have been 16% and the EBITDA growth, instead of 8%, would have been 19%. Of course, we are very delighted with the acquisition of Auroma, and we believe that this should certainly augur well in terms of our foothold into consumer durable segment

In terms of Ensure India, our EBITDA margins are at 8% and PAT margins are at 4%.

For the full year, the consolidated revenue growth was 12%, EBITDA growth at 12% and PAT growth of 5%. We had an impairment charge in Q3FY19 on account of the serious depreciation of Turkish lira against USD, wherein we took hit to the P/L, to the tune of Rs.45 crores. If we consider that as one-off, then the PAT growth for the full year at a consolidated level would have been 11% instead of 5%. Therefore, India grew by 13% on the topline whereas overseas grew at 11%; and from a profit after tax point of view, India de-grew by 14% whereas overseas grew by 19%. Overseas contributed

close to 68% of the total profits of the company for the full year. And from revenue point of view, overseas contributed to about 63%.

In terms of business, IT, Mobility and Services, all grew quite strongly. At a consolidated level, IT grew at 9%, Mobility grew at 13% and Services at 22%. In terms of Services, the profit contribution of Services segment to FY19 profits in India was 28% as against 20% in FY18. Within India, the IT business grew by 13%, Mobility at 7% and Services at 32%. Within overseas, IT grew at 7%, Mobility at 15% and Services at 7%. Again, if you break down IT between IT Enterprise and IT Consumer, I am pleased to share that both have delivered a double-digit growth of 11% and 16%, respectively, in India. In overseas, IT Enterprise has showcased a strong growth of 25%, but IT Consumer de-grew by 2%. The Mobility business in India, Overseas and Consolidated grew at 7%, 15% and 13%, respectively.

When you look at the working capital on a full year basis, we managed to bring down the total consolidated working capital by 7 days from 44 days to 37 days. In India, we brought it down by a good 8 days from 55 days to 47 days and by 6 days in overseas from 37 days to 31 days. So you would have seen that we had taken upon ourselves an important mandate to bring down our working capital in India and overseas and at a consolidated level, I am pleased to share with all of you that we have been able to deliver that during FY19.

The other good news on a full year basis is that we have delivered free cash flow of Rs.732 Crores at a consolidated level with Rs.629 crores coming from overseas and Rs.103 crores of positive free cash flow coming from India. The ROCE at a consolidated level was 16.5% and ROE was ~14%. Again, the gross debt-to-equity and the net debt-to-equity are similar for the quarter at 0.3 and 0.1, respectively.

I just want to make a brief mention that I had said at the beginning of the financial year, when we had the Q4FY18 call, I had said that in FY19, we believe we will grow both revenue and profit than what we delivered in FY18 and I am pleased to share with you that actually if you look at it without the impairment, our revenue growth was 12% at a consolidated level, EBITDA

growth at 12% and a PAT growth of 11%. And I had also mentioned that our H1 will tend to be a little slow, but we will certainly rebound in H2. So I just thought, true to what we said, if you did a comparison of H2FY19 over H2 FY18 at a consolidated level, we grew revenue at 14%; EBITDA at 22%; profit after tax at 16%. And for a brief moment if you look at it sequentially, the growth in H2FY19 over H1FY19, at a consolidated level, our revenue grew by 18%, EBITDA by 45% and profit after tax by 62%.

So I just wanted to sort of quickly add these two points because we had called out on this in our earlier earnings call and we have delivered on that.

As far as ProConnect is concerned, we grew 26% on revenue for the full year and 13% on profit after tax. Adjusting for the one-off costs related to M&A, the growth would have been approximately about 2% to 3% higher on profit after tax compared to what we delivered in FY18. As far as Ensure is concerned, EBITDA margin was 7% and profit after tax margin for the full year was 4%.

So in summary, in Q4, we have delivered some very strong numbers, in terms of all parameters, particularly working capital and free cash flow. And likewise when you look at on a full year basis, across all parameters, theaters and lines of businesses, we have delivered strong set of numbers.

Thank you. Over to you for your set of questions!

Moderator:

Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Nitin Padmanabhan from Investec India. Please go ahead.

Nitin Padmanabhan:

Congratulations on a very solid quarter. Just wanted to ask you a couple of questions, the first one being that if we look at the market, there is a lot of talk by a lot of companies about the liquidity tightness in the market. And in that context, is our very solid 24% kind of growth in India, a function of being significantly better placed than competition in this low liquidity scenario on the back of our solid balance sheet or alternatively is it primarily driven by the low base in the previous year? How do we really read the India growth?

Raj Shankar: Thank you, Nitin, for your question. So the first point I would like to make is, this growth that you see in India of 24% is across all lines of businesses. So IT, as I said, grew by 22%, Mobility by 28%, Services by 15%. So it has got very little or nothing to do with the liquidity challenge or crisis that other companies could be facing. So that is certainly not the case. And even within IT, if you recall, I mentioned both IT Enterprise and IT Consumer grew by a solid 22%. So it is really not to do also with the low base of the previous year because I just want to draw your attention that even the previous year, our revenue de-grew only by 4% for the quarter

Nitin Padmanabhan: Right. On the ProConnect business, after this acquisition that we have done, how it would add in terms of warehousing and transportation? How would this add to the capability and overall strength of the business? From a revenue and margin profile, could you provide us with the split of Rajprotim, ProConnect and the Auroma business?

Raj Shankar: Okay. So as far as Auroma is concerned, we did not even consolidate 1 full month, in Q4 for consolidation. So whatever we could consolidate was not so material for Q4. But to your point, if for a minute we look at without RCS and without Auroma, our revenue growth would have been 23%. But with RCS and Auroma, our growth was 16%. So first I want to add that our core business, as far as ProConnect is concerned, continues to be pretty strong. If that answers your question, Nitin

Nitin Padmanabhan: Yes. I think RCS has been soft for some time. Do you see that coming back on track? And are margins from Auroma better than RCS?

Raj Shankar: The margins are pretty similar. Just to give you an overall sense, our EBITDA margin is about 15%. Our PAT margin at a consolidated level is about 7%. And when you look at RCS, in particular, the PAT margin would probably be a little shy of 6%. So to that extent, yes, it is lower than what we are able to make in ProConnect. To your earlier question about the revenue contribution from various lines of businesses within ProConnect, rough and ready, about 1/2 of the total revenue for FY19 would come out of warehousing, about 1/3 would come out of transportation and the balance would be other services, including value-added services. Does that help you, Nitin?

Nitin Padmanabhan: Yes, sure. So I was actually trying to understand how Auroma strengthens the overall business in terms of the portfolio? So if it is 50% warehousing today, where does that go with Auroma in the overall proportion? Is Auroma more comparable to ProConnect margins or more comparable to RCS margins?

Raj Shankar: We think it is going to be an additive business with Auroma in the picture. We have new set of clients, which is certainly something that we are excited about. Their margins would be more in line with PCS from a profit after tax point of view. And last, but not the least, this would give us an additional 24 warehouses at about 1 million square feet of warehouse space. Does that help?

Nitin Padmanabhan: Yes, that helps a lot. Just one last question, if I may. If we look forward into next year, what would be your priorities and how you would see growth for both the segments, which is India and overseas?

Raj Shankar: So we see the potential to grow is present in both India and overseas. The only point that we have to keep in mind is, if there is any black swan event, like what happened in the case of Arena, Turkey on the fateful day of 14th of August when the Turkish lira had depreciated by ~70% since the beginning of the year, and you would also recall that in Q3FY19, if my memory serves right, because of the huge depreciation of the Turkish lira, we had a 660% effective tax rate. Now some of those can completely disrupt or change the perspective. Notwithstanding some of these serious aberrations, we would like to believe that for FY19, both regions should offer us good growth opportunity. We particularly want to focus more on the hygiene of the business in terms of managing working capital, making sure that our earnings growth tends to be a double digit notwithstanding exactly whatever is the top line growth that comes with it.

Nitin Padmanabhan: Sure. Thank you so much. We will get back in the line.

Moderator: Thank you Sir. We have next question from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: Thanks for the opportunity. Congratulations on a good set of numbers. Sir, my first question is regarding the accounts receivable and inventory provisioning. For FY19, it was expected that it was higher in the first half and that it will normalize in the second half. I was expecting that for FY19 as a whole, we should see this in the similar range, but provision for accounts receivable at 0.14% and provision inventory at 0.12% is possibly highest in the last 5 years. So what exactly is causing that? Secondly, you did allude to the acquisition of Auroma, but I just wanted to understand what sort of growth you can see because in the press release issued on Auroma, it showed a very insignificant growth in FY18. How has this business grown in FY19? And lastly, tax rate has been volatile, partly can be attributed to Turkey. But what is the reason for a reasonably low tax rate in this quarter as well as the last quarter, and how should we see this going forward?

Raj Shankar: I will just take the second part of your question and then I will hand it over to Krishnan, who will probably give the answer to your first and third question. With regard to Auroma, so for FY20, our sense is that this should definitely give us a good opportunity to bring about anywhere between 15% to 20% in terms of uplift to the top line and something around 15% as an uplift to the bottom line as well, just to give you a very high sense on this. There is lot more work to be done, while we are excited with this opportunity, but at this point in time, we are trying to bring in lot of best business and management practices. We are also trying to make sure that some of our technical interfacing such as warehouse management systems, etc. is also carried out. We would be busy with such integration activities for maybe a little more than 1 quarter. But having said all of that, we think this should give us uplift to the growth by about 15% to 20% on the top line and about 15% on the bottom line. Krishnan, over to you on the other two questions.

Pranav Kshatriya: Raj, if I can just follow-up for a minute. So are we talking about ~15% growth in FY19 on Auroma's revenue in FY18 of Rs.60 Crores and Auroma's PAT margins of ~7% or we should consider this growth on the entire ProConnect base?

Raj Shankar: The entire ProConnect base.

S. V. Krishnan:

With respect to the provision for AR and inventory, Pranav, the earlier provision that had got created in Q1 will get normalized, but it cannot get normalized immediately, that is why in the first quarter during the call, we had said we expect for the rest of the year to range between 0.14-0.15% and we could maintain it within that. But as we move forward, we will start tracking the long-term average. With respect to the provision for inventory, as you may know, in the last 2-3 quarters, we have been talking about some inventory buildup in one part of the business and there are two choices - One of the choices available for us is to liquidate at a lower price or wait for the right time. And where you choose to wait for the right time, it will result in part of inventory provision to come into the P&L. So this, again, we think is more an one-off, but as you can see from the performance that there is a bounce back that is happening. So I am sure, as we move forward, this again will get set right. Second, with respect to the tax rate, see, on a steady state basis, it will be better to project a weighted average tax rate of between 23% to 25%, because in India, the overall tax still is about 35% to 36% and in overseas, the biggest variation will come in assessing the Turkey biz, Arena, where the tax rate is conditional to the currency fluctuation. In this quarter, it is lower, which has resulted in the tax rate to come down by 3-4% for Q4.

Pranav Kshatriya:

Okay. So on account receivable, should we assume that the new normal is 0.13% because I was under the impression that, that excess provisioning which was done in the first 2 quarters will be reversed as the collections will come in. And on inventory again, how much of the inventory is already written off or will it keep coming because there will be new inventory, which will get added in the segment?

S. V. Krishnan:

Okay. With respect to provision for doubtful debts, it will come back, as I have said, to the long-term average as we move forward. But you need not take this 0.13-0.14% as a steady state one; it will slowly come down to what we had earlier, which is about 0.10-0.12%. With respect to the inventory, we do not expect any further buildup of inventory. Whenever we are able to liquidate what has been created so far, it will come back into the system.

Pranav Kshatriya: So the new normal will be under 0.10% because that is what you have been reporting earlier or is there a possibility of this product or some other inventory, can appear for write off?

S. V. Krishnan: Unlikely, Pranav. I think you can take that the new normal will be the steady state that was there on a historical basis.

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

Vishal Desai: Congratulations on a great performance. Just to delve deeper in terms of the India performance, which was very strong in this quarter, could you throw some light in terms of what exactly drove the pickup in the IT Enterprise segment as well as the Mobility segment? And secondly, in terms of outlook, when we talk about both the geographies, that is India and overseas, do you expect this kind of momentum to continue in the IT Enterprise as well as the Mobility segment, particularly in India, given that in the past we have said that IT Enterprise segment has seen some amount of offshoots, but not really a very big material uptake. So some kind of commentary on that in terms of details would be helpful.

Raj Shankar: With regard to the IT Enterprise business in India, we grew at 22% for the quarter. And from a full year perspective, we grew at about 11%. We had some good wins in terms of participating in certain large deals in Q4. There are some opportunities that we are very carefully selecting in terms of some large projects, which has certainly give given us a boost to the growth in the IT Enterprise business. So in the way forward, IT Enterprise business should be poised for a double-digit growth, now I am unable to tell you with a certain amount of surety whether it will be at this kind of a pace, but certainly we expect the IT Enterprise business to have a double-digit kind of growth

Vishal Desai: Sure. And on the Mobility side, if we could have some sense in terms of how the quarter transpired, what led to the strong growth as well as the outlook going forward in terms of sustainability of the movement?

Raj Shankar: So you would recall that there were some changes to the distribution landscape in the Mobility business in India, which came into play in full force

in Q4. That certainly helped us to be able to pick up a bigger share and a bigger slice of the opportunity, resulting in a very strong growth of 28% in the Mobility space in India for Q4. And when you look at the full year, it was at about 7%. Our sense is that we think a double-digit growth opportunity should be possible in the Mobility business in India. We see there is a good amount of traction and demand. We should be able to at least deliver on a double-digit growth notwithstanding whether it is a weak or a strong double digit.

Vishal Desai: Great. Krishnan, just one small clarification. Our EBITDA margin during the quarter stood at around 2% at a consolidated level versus Q4FY18, which was at around 2.1%. Was it related to the SAR charge or was there something else to that?

S. V. Krishnan: SAR is one of the factors why the EBITDA percentage has got impacted in the current year.

Vishal Desai: So excluding this, would it be fair to assume that margin would have probably recorded a growth on YoY basis?

S. V. Krishnan: We would have recorded growth. However, I will confirm in percentage terms

Moderator: Thank you. We have a next question from the line of Deepak Agrawal from Impetus Advisors. Please go ahead.

Deepak Agrawal: What led to this 360-degree turnaround in the working capital or free cash flow situation from Q3 to Q4?

Raj Shankar: Okay. So I just want to give you a sense that when you look at 4 quarters in a row, there has been a consistent improvement in working capital in both India and overseas. So to give you a sense, our net working capital days in Q1 was 44 days, Q2 was 41 days, Q3 was 41 days and Q4 at 33 days. So there has been sort of an improvement quarter-on-quarter, though there has been a sharp improvement from Q3 to Q4. Now specific to your question, we managed to bring down our inventory by about 5 days, so this 8 days difference that you see between Q3 and Q4 that is 41 days to 33 days, almost about 5 days is coming out of inventory. And this reduction in inventory is

largely in India. Again, to give a color to that, the inventory in India in Q3 was 44 days, came down by about a good 12 days to 32 days. In overseas, it was 29 days and came down by 1 day to 28 days. So in summary, this reduction is largely attributed to higher sellout and hence lower inventory.

Deepak Agrawal: Okay. But if I look at the absolute amount of inventory on a consolidated basis, it is same at the end of Q3 and at the end of Q4, with no material change in revenues. So how has this reduction happened?

Raj Shankar: Are you saying that you are not able to see reduction of 5 days inventory between Q3 and Q4?

Deepak Agrawal: Yes. Because our revenues and inventories are at the same level in Q3 and Q4 end. The reduction could have come only in trade payables. I mean there is an increase in trade payables, so that contributes to the improved working capital, but the receivables and the inventory are at the same level.

Raj Shankar: Allow me to check because the data I have in front of me very clearly says that in Q3, the inventory days was 44 days, which has come down by 12 days to 32 in Q4

S. V. Krishnan: With respect to the inventory days, in fact the inventory value between end December and end March has come down, which is why this reduction in terms of number of days from 34 days to 29 days on a consolidated level.

Deepak Agrawal: Fine, fine. I am sorry. I was comparing it with end September. Just one more question I had was what will be the impact on Apple locating its store in India?

Raj Shankar: We have shared this before that we believe if a vendor would open their own, what we call is the, experience store, this is only going to bring more customers and therefore, it will actually be a catalyst to the distribution business. Oftentimes people think otherwise and going by the examples in other countries where we find that every time when the vendor would open any kind of a new store, this really raises the total demand and the interest of the consumers and hence, it has a positive effect to distribution business as well.

Deepak Agrawal: But won't the sales in the stores be done directly and not routed through distributors?

Raj Shankar: No. So without getting into too much of details, in some of the other markets where we distribute, where the vendor also has opened their own stores, not one but two to three stores, our business has not suffered. In fact it has only raised the number of people interested in the product. So there is an overall increase in demand. Yes, that particular sale that happens in the store will not be routed through a distributor. But I think the larger point I am making is that our experience tells us every time a vendor would open a store, the demand goes up.

Moderator: Thank you. We have next question from the line of Rishabh from Enam Holdings. Please go ahead.

Rishabh Chudgar: Congratulations on a good set of numbers. Sir, just taking the working capital question a little bit forward, since you have reduced the working capital across India and overseas, are these days sustainable going into FY20 or do you see them increasing going forward or is it going to be the new normal in the business?

Raj Shankar: Okay. So I would like to say that what we have delivered in Q4 is definitely of a very high order. To have delivered at a consolidated level of 40 days would represent about 9 working capital turns. I just want to draw your attention that in the past we have indicated that in our business if you are able to do about 7.75 to 8 working capital turns, which is about 45 to 48 days that would be more like being normal. This is something, which is exceptionally good. So I am not trying to say that we will relax the norms, we will continue to work hard and play hard to make sure that we try and keep it at good levels, but indicative working capital turns is about 7.75 to 8.

Rishabh Chudgar: Okay. And sir, just coming for the growth outlook for FY20, do you still see overseas business outgrowing India business, or say like this year, you will have India definitely growing higher than overseas? Going into FY20, do you see a similar kind of growth momentum for India and overseas or do you see overseas outdoing India?

Raj Shankar: Okay. Both regions are likely to demonstrate good performance. But again, I just want to once again caution or add by saying that there are always some black swans that can completely upset the whole equation. So notwithstanding what would happen in Turkey or probably even in some of the other markets in Africa, we believe the propensity for growth is stronger in India than the propensity for growth in overseas. But we expect both regions to do well.

Rishabh Chudgar: Okay. And sir, can you share the net worth, gross debt and the capital employed for the India and the overseas business?

Raj Shankar: In India, it is Rs.1,114 crores of networth with about Rs.2,054 crores of capital employed. In Overseas, it is Rs.2,792 Crores of networth with Rs.3,504 Crores of capital employed and hence at a consolidated level it is about Rs.3,906 Crores of network at Rs.5,558 Crores of capital employed.

Rishabh Chudgar: Okay. And this is including factoring or excluding factoring?

Raj Shankar: Excluding factoring.

Moderator: Thank you. We have a next question from the line of Rajesh Khanna an individual investor. Please go ahead.

Rajesh Khanna: Good evening. Sir, I have three questions. One is on the Ensure business, like is there any scope to improve the business performance because the business does not seem to be performing too well? The second question is on the Turkey investment. Like we keep hearing in so many concalls that there is a drag and there are so many black swan events, which keep happening there. So like what exactly is the return on investment since the beginning in Arena. Can you highlight that?

Raj Shankar: As far as Ensure business is concerned, our whole business model has undergone a change. For last many years, the whole business focus was on, what we would call, as the warranty support services or the break/fix services. But we have then completely decided to reposition this company and move up the services food chain by trying to position ourselves as, let us say, a managed security service provider or a managed service provider on the

cloud. Now I must confess that it is work-in-progress, so on one hand, we are slowly been focusing on the traditional business of our repair services, while on the other hand we are trying to build capability, skill sets and competency around moving into security and cloud services. So in the interim, you are seeing that this business has been sort of performing in a subdued fashion.

Now with regard to Turkey, to your question, I do not have a sharp answer in terms of what is the total return we have made on our investment, but suffice it to say that we have probably had high single-digit return on that particular business, if one had to look at total return, including the dividend, yield, etc., As far as Arena, Turkey is concerned, on one hand Turkish lira depreciation has a serious impact to the demand, and on the other hand, because our functional currency for Arena is USD, so oftentimes when you look at EBITDA level, they seem to be doing well, but at a PAT level there would always be some surprises where because of the effective tax rate, which can completely go up or down so the resultant performance does not look good. But just for a minute if we were to look at Arena for the quarter gone by, that is in Q4, just at a high level, the revenue growth was 6% and EBITDA growth was 41%. For the full year, the revenue degrew by 7% because once the currency depreciates, then it also has impact when you do all the translation to USD and when you look at profit after tax, of course, we have grown, but largely it all depends on what the tax rate is

Rajesh Khanna:

Yes. That is fine, Sir. And just one more question on the emerging businesses, like solar, health & medical equipments and 3D. When can we expect contribution from these businesses?

Raj Shankar:

Okay. So of all the businesses, we are now reprioritizing and for us, cloud is very clearly the number one, and that is growing at a breakneck speed. So we are extremely delighted with the way that quarter after quarter we have been able to grow double digit as far as the cloud business is concerned. And even there, we are trying to extend and expand the scope of the business beyond the cloud resell opportunity and therefore, in the way forward, it will start to become margin interesting as well. And in terms of the second area of business, digital print is doing very well for us. Last year turned out to be a good year where we, again, grew double digit on top and bottom line. So

that is doing well and that is our second priority. And the other priority that we have is the health and medical equipment, which may have had a delayed start and now in the last few quarters, we can see there is a strong ramp up happening and that has also grown by a very high double digit though on a low base. So this is how we are trying to reprioritize some of our emerging businesses.

Rajesh Khanna: Sir, should we expect the returns from these businesses in another 3 to 4 year time or in what time frame will they contribute significantly to the consolidated business?

Raj Shankar: Yes, it will be starting this year. The word significant is something that would take a little time. Now just on a side note, as you would know, about 28% of the India profits comes from services, which includes, of course, ProConnect, Cloud, Digital print services, Ensure, etc. Now with regard to health and medical equipment, as I said, it will start to deliver some profits this year. But once the ramp up in terms of scale happens, it will also become interesting.

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

Vishal Desai: Just quickly if I could understand whether we are talking about a strong double-digit growth outlook, at least, for FY20 in both the geographies, just wanted to get a sense if we are expecting this momentum to continue in the IT Enterprise segment, which typically is margin-rich. Is it fair to assume that margins on a consolidated basis as well will move up from the 2%, which we are seeing currently? And if so, what would be the key drivers, if any, further than this that could drive margin performance upwards?

Raj Shankar: Just wanted to make a small sort of, not a correction, but an amendment, in terms of the strong double-digit growth that you talked about in both the geographies, I just wanted to mention whenever we are talking about the way forward and we are saying, yes, we want to deliver a double-digit growth, for us, it is about earnings growth, which is the one that we are focusing because topline is something which depends on many factors. So sometimes we may take a conscious call not to participate in certain business opportunities, but we are very clearly focused on making sure that the bottom

line, that is the earnings growth, tends to be double digit. So this is one point. To your question, can the margins in terms of percentage get better with this shift? The answer is, with higher contribution coming from the services part of the business, this is certainly going to help in 2 ways; one, the margin percentage and hence the margin should get rich in terms of both at a gross margin level as well as at an operating income level; at the same time, it will also require relatively lower working capital and hence it should make the ROCE also interesting.

Moderator: Thank you. We have next question from the line of Pranav Kshatriya from Edelweiss Capital. Please go ahead.

Pranav Kshatriya: So just wanted some color on the outlook that you just mentioned. So if what we are seeing overall in the economy is that there is a bit of slowdown and the volume growth for most of the industries is dipping down. Do you think that will play out on the IT Enterprise growth and is there any hint of that happening already or will that impact going forward?

Raj Shankar: It is very wrong while you asked the question and I owe you a response, I completely forgot to mention during my opening remarks that our Board has decided to offer a 25% dividend, and this would mean approximately Rs.3.30 per share. The reason why we are doing 25% though historically you would recall that 20% on the profits of the company is what we normally declare, the reason is having completed 25 years of Redington since inception, we felt this will be a good milestone and therefore to commemorate this 25 years of our business and entrepreneurship, we thought we should do this. I am sorry, Pranav, I am using this opportunity to convey this message. I should have done it at the opening. I got so carried away with the rest of the highlights that I forgot to mention this

Pranav Kshatriya: No problem, Sir. So I was just trying to understand that, so are you baking in some sort of slowdown in the economy, especially the volume growth for many industries is slowing down. In that context, I mean is there a risk in the IT Enterprise business slowing down, given the challenges in the macroeconomic environment?

Raj Shankar: Yes. So great question, Pranav. So that is one of the reason why I was being a little cautious when I am talking about the topline growth purely for that reason that, yes, there are opportunities but there is also this general slowdown, and our own sense tells us that probably for a couple of quarters there may be a certain amount of slowdown in the economy. This is just our own internal view. And yes we have baked that into our numbers. So this is the reason why I keep oftentimes reminding that, for us, the growth is more about the earnings growth in terms of double-digit growth and not so much about the topline growth.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Sir, over to you, please go ahead.

Raj Shankar: Thank you, Bikram. Thanks to each and every one who participated on the call today. I once again apologize for not having really said at the outset in the opening remarks. I am actually very happy and excited to share with all of you that the Board has declared dividend at 25%, which would represent about Rs.3.30 per share and this is to commemorate the 25 years since Redington came into existence. On the other concluding remarks, Q4 has been an exceptionally good quarter, not only that we grew all the parameters and financial ratios on a double-digit basis, we also managed to bring down our working capital, generated positive free cash flow both in India as well as outside India, and this is true for the full year as well. So we are extremely happy that we managed to finish the year on a very high note, though we had a slow beginning in Q1 and Q2. And we look at the way forward with a sense of optimism, though we expect maybe a quarter or two to be a little slow and sluggish, but once again the momentum should pick up in the latter part of the year. Thanks to everyone once again.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Redington India Limited, that concludes this conference call. Thank you for joining with us

The document has been edited for readability purposes