

August 16, 2021

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

Dear Sir/Madam,

Sub: Q1 - FY 2022 - 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 June 30, 2021 held on August 12, 2021.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on August 12, 2021. The same is also available in the Company's website: <https://redingtongroup.com/>

Kindly acknowledge the receipt of our communication.

Thanking you,

Very Truly Yours,

M. Muthukumarasamy
Company Secretary

Cc: BSE Limited
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001



Redington (India) Ltd

Q1 FY 2022 Results

Conference Call

Aug 12th, 2021

MANAGEMENT

MR RAJ SHANKAR

MR RAJIV SRIVASTAVA

MR S V KRISHNAN

MS SOWMIYA M

VICE CHAIRMAN & MANAGING DIRECTOR

JOINT MANAGING DIRECTOR

WHOLE TIME DIRECTOR & CFO

SENIOR MANAGER, INVESTOR RELATIONS

MANAGEMENT DISCUSSION SECTION

Moderator:

Ladies and gentlemen, good day and welcome to Q1FY22 earnings conference call of Redington (India) Limited. 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 involves risks and uncertainties that are difficult to predict. As a reminder, all participants' 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 – Vice Chairman & Managing Director of Redington (India) Limited. Thank you and over to you, Sir.

Raj Shankar:

Thank you, Margaret. Good evening to all participants and thank you for taking the time to be with us on this call. Before I get started, I hope all of you and your families are safe. From a Redington's standpoint, we had a little bit of a challenging quarter, but as we speak there are four employees who are currently going through the treatment for having tested positive for COVID-19 in India and as far as Overseas is concerned there are 11 of our employees who are currently going through the recovery process. And in terms of vaccination, just to give you a perspective, approximately about 55% of our employees have got either partially or fully vaccinated in India and about 70% of our employees in Overseas have got themselves either partially or fully vaccinated. I thought this was an important data point to share today.

As we quickly jump into our Q1FY22, I am very pleased to share with you that our revenue, EBITDA and PAT at a consolidated level have grown by a strong double digit. Revenue at 26% growth, EBITDA at 58% growth and PAT at 167% over Q1FY21. But just to be a little more prudent, we also did a comparison with Q1FY20 and our revenue grew by 15% against Q1FY20, EBITDA by 49% and PAT by 115%. The EBITDA margin at a consolidated level was 2.70% and our PAT was 1.76%. The revenue that we have delivered in Q1 is the highest revenue in Q1 for Redington in its entire history. Both the theaters, as in India as well as Overseas have delivered double-digit growth on the same set of parameters, which is revenue, EBITDA and PAT. In India, the total revenue including ProConnect grew by 57% against Q1FY21 and 31% against Q1FY20. EBITDA grew by 94% against Q1FY21 and 32% against Q1FY20 and our PAT grew by a whopping 359% against Q1FY21 and about 140% against Q1FY20. Now when you look at Overseas, the growth was 11%, 40% and 106% for revenue, EBITDA and PAT respectively, and that is against Q1FY21. Moreover, when you compare it with Q1FY20, we have grown by 7%,

63% and 100% again for revenue, EBITDA and PAT. Therefore, overall, if you see, both the theaters have really hit some record numbers on every financial parameter.

Just on a side note that we had a translation sort of impact to the extent of about 2.5%. So, in other words, if you look at Overseas, which grew by 11% in revenue against Q1FY21, if you look at it from a USD growth point of view, it was 13%. Likewise, when you look at it from a point of view of EBITDA, it was 4% higher. This is in spite of the decline in our operations in Singapore & South Asia (SSA). As I had already mentioned in my earlier calls, the more and more of our technology vendors are moving their business from Singapore to India, that is, from a USD transaction to an INR transaction. With this change, we continue to have a decline in both revenue and in profits in SSA operations, which is a disadvantage to our Singapore operations, but certainly, it is a big advantage to our India operations. A good part of the sales that was lost in Singapore has been reasonably made up by our India operations. Overall, India contributed to 40% of the revenue and 41% of the PAT and Overseas contributed to 60% of the revenue and 59% of the PAT.

The other interesting aspect is both the verticals, i.e., which is IT and Mobility grew double digit for last quarter. So, at a consolidated level, IT grew by 33%, Mobility grew by 11% and Services also grew by 11%, though the contribution is still very small. The real solid growth came out of India where IT grew by 72% largely on the back of IT Consumer, which grew by a triple digit. Mobility grew by 14% and Services grew by 11%. In Overseas, IT grew by 11% driven by IT Consumer, which grew by 27%. Mobility grew by 9%. So, both the theaters have done well. The industry verticals or the product categories of both IT and Mobility both have grown quite nicely. One point that I overlooked to mention, as we about talk about Overseas is that this profit growth of 106% in Overseas is after taking an impact of the currency depreciation of Turkish Lira against the USD, wherein the effective tax rate for Q1FY22 was 64%. In spite of a big setback on account of tax in Turkey, we have still managed to deliver a good profit growth.

The other interesting aspect, something that we feel proud is the fact that our working capital has been contained at 18 days. Now, when you look at the previous year at a consolidated level, it was 17 days. Please don't forget that when you look at the previous year, we had many vendors supporting us by giving extended credit period. So as an example, in Q1FY21 our creditor days was 69 days as opposed to only 50 days this time. So, we have 19 days of disadvantage, so to speak. However, that was more than offset by debtor days coming down from 58 days then to 46 days now, and the inventory days by 6 days from 28 days then to 22 days now.

So overall, I feel good about the fact that our working capital continues to be well maintained. This is true not only for Overseas which has consistently delivered over a protracted period of time, it's also true for India which again in the last many quarters have also consistently brought

down their working capital. India had a net working capital base of 21 days, Overseas had 17 days, and hence consolidated was 18 days.

Now in terms of cashflow, as you all know because we threw up over Rs.3,000 crores of positive free cash flow during FY21, it was certainly not possible for us to continue to generate cash this quarter, but as we have always explained to all of you, we would request you to consider or look at cashflow on an annualized basis rather than on a quarterly basis. However, having said that, our free cash flow was negative at Rs.317 crores, both India and Overseas were negative at Rs.127 crores and Rs.189 crores respectively.

What is very gratifying is the capital efficiency. Our ROCE has now hit a new high of 52%. Again, this is true for both India and Overseas. India delivered a ROCE that was little shy of 42%, whilst Overseas delivered ROCE of 63%. ROE was a little shy of 19%, and when you look at the previous year, we had done 8%, and Overseas delivered to a little less than 16%, whereas India delivered a north of 25%. Therefore, all the financial metrics and the capital efficiency certainly have been well managed during this last quarter.

During the pandemic, our playbook was about 7Cs. The first C is to do with cash flow and the second is to do with cost and so on and so forth and managing the liquidity well. Here again, I am very pleased to share with you that our net debt to equity was negative 0.49. If for a moment you look at gross debt to gross equity, it is 0.11. Again, we are seriously under leveraged. This obviously gives us a tremendous headroom to be able to look at growth going forward. Our overall networth has breached Rs.5,000 crores and is at Rs.5,224 crores and the total capital employed in the business was Rs. 2,852 crores.

There is one point that I must draw your attention to, which has to do with inventory provision. I want to certainly place on record that there is nothing adverse that has happened. In Overseas, we have recalibrated our provisioning policy for inventory. In other words, we have made it lot more aggressive than what was practiced in the past. So, had we adopted the erstwhile inventory provisioning norms, the inventory provision would have been a little shy of 0.13%. Whereas right now it is 0.41% and therefore that 28 bps is largely attributed to the change in the inventory provisioning policy. So, there is fundamentally nothing that you need to be worried about. As far as the bad debt is concerned, yes, it is higher than usual because in Overseas in particular, there are some receivables from some of our customers/partners in Africa where it has taken time and because it has breached the threshold level; therefore, we have made a 100% provision. We are very confident that the monies will be collected, but in order to be prudent from an accounting policy point of view, we have recorded a 100% provision and hence again I repeat there is no cause for concern here.

The other aspect is, some of you would recall that we really started to double down on our cloud business, which did well for last year. We continue to be executing well. I am again pleased to

share with you that we have grown about 60% in Q1FY22 over Q1FY21. And the other aspect is of course, the Managed Services, which is approximately about 6% of the overall cloud number. So, to give you a complete value, we have delivered about Rs.280 crores of cloud revenue in Q1FY22.

The last piece is about ProConnect. While we have come a long way, at the consolidated level, I am pleased to share that we grew by 36% in revenue delivering Rs. 110 crores of revenue. And our EBITDA margin was at 9%, about Rs. 10.1 crores in value terms and our PAT was Rs. 1.9 crores.

As all of you would know, we certainly had experienced many challenges, particularly in the month of May in India when the second wave certainly was a big negative impact to our business. However, to the credit of our ProConnect team, in spite of all the odds, they continue to execute very well, and I am actually very happy and proud about the fact that with such serious challenges and many difficulties that they have still been able to deliver a pretty decent growth and an EBITDA margin of 9%.

In summary, I would say we have had a great quarter. We executed well, whether you compare it in relation to Q1FY21, or even in relation to Q1FY20. I will take a pause here, circle it back to Margaret and hoping to get some of your questions and we will try our best to answer. Thank you.

Q&A SECTION

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan:

Hi! I had four questions actually. One is on ProConnect. Just wanted your thoughts on how we should think about these steady-state margins in this business and how the business has evolved? Two, wanted your thoughts on the Services business in Overseas, which appears to have rather fallen quite a bit this quarter. So, just wanted your thoughts on what exactly is happening there? The third is on the Brightstar acquisition in Turkey that they are actually looking at. Just wanted your thoughts on that and from an incremental capital allocation in Turkey, how are you thinking about that market in terms of incremental capital allocation? Finally, despite such high tax rates and negative tax rate implications from Turkey, our consolidated effective tax rates have actually been subdued. So, just wanted your thoughts on how we should think about that as well as we go forward. Now those are the four questions.

Raj Shankar:

Thank you, Nitin. As always, good set of questions. Let me take it one by one. Your first question was about ProConnect's margins. Our view is that we have narrowed down our focus on which industry verticals to participate to 5 and 6 industry verticals. We are doubling down on Warehouse Management Services and which is where we believe our core competency is and which is where we believe there is a higher margin proposition. With that, we can earn and slowly bring down on our Transportation business, which gives us top line, but not as much bottom line. We are also investing heavily in terms of technology and systems that will certainly bring down cost and improve the customer experience. Given all of this, our own view is that in the way forward you should see our EBITDA margin steadily go up. I will, at this point in time, Nitin hesitate to tell you a number, but trust me, you will see we will continue to drive the EBITDA margin upwards. The reason I am a little cautious while saying that is because we never expected as we got into Q1, that we would have a complete 35 days of so-called lockdown in the month of May which completely put us in a very difficult place. In addition, you know in this business, there are certain standstill cost, there are certain fixed cost. And to that extent, therefore it becomes a little difficult to predict, but we will certainly gradually take up the EBITDA margins upwards in the way forward. Now, your second question with regard to service business in Overseas. I do not know you made a statement that it has fallen, etc. Overseas grew by 11% on Services in Q1FY22 over the previous year. Contribution is 1%. And as far as the India is concerned, the Services business grew by 11% and the contribution is about 2% to the overall revenue. So, to us the Overseas business is essentially the Ensure business. And to some extent, there is a ProConnect business, which we have commenced not too long ago. So, it is still in early days. To your third question about this Brightstar, so currently Nitin, truth be told we are still going through this whole due diligence and the negotiations are still underway. It is a little premature to talk about that transaction at this stage. But all that I can say is from a Redington standpoint, there is not a single dollar of capital or any kind of financial security or guarantee that we are giving to Arena to be able to acquire this asset. Purely on the strength of the balance sheet of Arena and with the capital that they have, they will be in a position to be able to take a bank loan and fund this transaction as soon as we reach that stage. But it is certainly moving, it's moving in the right direction, but the pandemic has only made things a little slower than we would have liked. And with regard to the negative tax rate, Krishnan would you want to take that question?

S. V. Krishnan:

Sure. So, on a steady state basis, you have to take a tax rate of about 23%-24%. Yes, this time it has been low, it is mainly because of the mix. Last time we had reduced profits from India. In ProConnect there was a loss, and we could not carry forward some loss and because of which the PBT and PAT were same. So, this 20.6% in the current quarter is more an aberration, on a steady state basis we should take about 23%-24%.

Nitin Padmanabhan:

Sure. That's very helpful. Just one small clarification. I think there might be an error on my part, is the absolute number of Overseas Services business around Rs.80 crores?

Raj Shankar:

Let me tell you, you are right. So, it should be in the vicinity of about Rs. 80 crores because we did about Rs. 8,000 crores of Overseas revenue and the contribution of Overseas is about 1%. Sowmiya, I would need your help, but for now Nitin you can take it as Rs. 80 crores

S. V. Krishnan:

What I have as Q1FY21 revenues for Overseas Services is Rs. 145 crores[^]. I think that would be incorrect then.

Raj Shankar:

We have grown by 11%. So, I'll tell you what, please allow us to just check this out and circle back to you, Nitin. I don't have the data sheets in front of me. Allow us to circle back to you if it is fine.

Nitin Padmanabhan: Absolutely. No worries. Thank you so much and all the very best.

[^]Post call remarks: From Q3FY21 onwards, the Services vertical had been regrouped to represent only ProConnect revenues. Therefore, for both Q1FY21 and Q1FY22, Overseas Services contributed to 0.7% of Overseas revenues, resulting in 11% YoY growth

Moderator:

The next question is from the line of Pavan Alhuwalia from Laburnum Capital.

Pavan Alhuwalia:

Thanks very much, Raj. Looks like the business is in good shape and as you indicated, many of the trends that we were wondering about as whether they were short-term trends really looks like they are holding up very nicely. Just a couple of questions from my side. One is on the India IT Enterprise side, you have talked very extensively in the past about the pivot to the cloud and how Redington in the medium to long term is going to be a very important pipe through which our small and medium enterprises access the cloud, and that makes complete sense and it's fantastic to see the traction there. I am just wondering on the core IT Enterprise spend side, we

have seen this to be sluggish for a few years now and our conventional and first cut answer has been that overall capex has been muted. I was going to say how much of this is cyclical and due to the economy as opposed to structural. While Enterprises move more and more to the cloud, the amount of spend that the Enterprise is doing on IT hardware is coming down. The second question that I had was around the new regulations that we have seen concerning online marketplaces and the extent to which they can use their proxies to be sellers in the marketplace. We have seen one very prominent JV between Amazon and a leading Indian business family basically come apart in the last few days. Based on your read of the regulatory landscape and I know Redington has traditionally had a more conservative view than a lot of people. Are we at a point where the government has made it clear to the Flipkarts and Amazons of the world that you are meant to function as marketplaces, and you can't actually be taking inventory yourself either directly or through your proxies? And if so, is that a sign of a relief for us as a business? This is because I know we have been worried about and considered as one big strategic potential threat is vendors selling directly to Amazon or Flipkart versus going through a distributor.

Raj Shankar:

Pavan, thank you for your questions. With regard to your first question on IT Enterprise in India, so let me first give you the comfort that, yes, you are right, the IT Enterprise business overall has been a little sluggish and especially the traditional business. So, the first two quarters of last year, almost from April through September, we did see a slowdown in that business, but we started to see a certain amount of recovery in Q3, and it started to pick up momentum in Q4 and also in Q1. So, the first point is we are still seeing high potential for us to continue to drive a double-digit growth on the IT Enterprise business. This is both the traditional, notwithstanding the fact that the cloud business will obviously have a much faster accelerated growth going forward. But to your question on whether the cloud business is somewhere cannibalizing the traditional enterprise business, we are not seeing that so far. We have the same concern running in our head, but I can tell you that has not played out so far. And we still see a good headroom for a double-digit growth through the rest of the year. I don't know if that answers your first part of the question, Pavan

Pavan Alhuwalia:

Yes. That answers it perfectly.

Raj Shankar:

Lovely. Thanks, Pavan. Now to the second question, Rajiv, would you want to take that question?

Rajiv Srivastava:

Yes, I can do that. I can do the question on marketplaces and whether the deal of Mr Narayana Murthy and Amazon is going to be a dampener or is it going to be helping to us? Look, I think you have to get to the strategic intent behind a marketplace sort of a model. What it does to us is a marketplace sort of a model allows to reach IT in many different parts of the country where it doesn't reach in a very good way right now. So, the marketplace model will be helpful to that extent and there is goodness and merit in that. Clearly the way the Amazon and that deal was structured, it is coming apart. We have been growing despite that and the way in which the whole shift to online has matured over time, it has come to a point where there is a certain amount of share, and that's pretty much the global phenomenon as well. The online business grows to a point that it matures and then it plateaus at that level, whichever that level could be for different categories of products, it will be 15%-20%-25% depending upon the category or degree and then it plateaus there. We have seen that plateauing happen in India and so we continue to grow to the point that our IT Enterprise business and our IT Consumer business, say our Commercial PC and Print business, as well as our Mobility business, that continues to grow because there is a plateau that has already taken place. So, marketplace is a good way of reaching many more customers, both partners as well as customers across the areas in the country where it does not reach today. And marketplace will be helpful to that extent. So, I think in some form or fashion, there will be a way in which the regulatory framework will allow the marketplace models to reach out to these Tier-3, 4, 5 cities across the country.

Raj Shankar:

Pavan, does that answer your question?

Pavan Alhuwalia:

No, I think I was approaching it from a different angle. See, when we have historically discussed with you on calls, what is the big potential threat to us from online? The threat is the vendor sells to Amazon directly, or a Flipkart directly. I am wondering with the Cloudbail venture having come down, is that an indicator that basically the government is saying, look guys, we are watching you and if you try and turn into actual purchasers of inventory, we are going to crack down because that's not our policy or intent to allow you to be purchasers as opposed to marketplaces. Does that then mean that this potential threat we were worried about where Amazon basically buys directly from say Apple and cut us out, is that a threat that the events of the last few days have made a less of a threat in some way?

Rajiv Srivastava:

I think, look, in a way it does. If that regulation follows through and the vendors can't sell to Amazon, through their proprietary venture that they have got, Cloudtail or whatever they have got, then it should eventually become a booster. However, the way that we've seen the maturities of online model is that there will be a certain amount of transactions taking place online and obviously they will be facilitated by people like us and we do it yet right now as well. We do it for both Amazon and Flipkart and they will continue to do this for a variety of equipment types, not necessarily Mobility devices, but also for a variety of equipment as we continue to facilitate that. And that should continue. If you're thinking that there'll be a huge sort of a boost in the way in which our revenues can scale up, it's just because that model is coming undone, I think you'll have to be really thoughtful about it as it goes forward, because all of these players they have got. Also, Pavan, you have seen in the last 5-6 years, the regulatory framework of online business in India has been undergoing many changes and every chain has been some positives and some negatives in net-net basis. So, over a course of 5-6 months it just matures and stabilizes at a point. I haven't seen so much of a huge, either positivity or negativity because of our regulatory sort of a change over the course of next, it just matures over a period of time.

Raj Shankar:

So Pavan just in short, I'll give you one numerical first, a sharp answer to your question. Yes, we believe it should be a positive, but it is still a wait and watch, but yes, you're right. We have the same inkling as what you said. Now one statistical data for whatever it's worth E-commerce contribution to our India distribution business for Q1FY22 was 20%. If that means anything, I'll just leave that point with you.

Moderator:

The next question is from the line of Chirag Setalvad from HDFC AMC.

Chirag Setalvad:

Two questions from my side, one was in terms of AR provisioning and inventory provisioning, if you could give it in percentage terms on a consol basis for this quarter and the previous quarter and also the absolute numbers for both the accounts receivable as well as inventory? So that was my first question. My second was in terms of margins, which we saw about 2.50% in both India and Overseas business. Do you see these margins as sustainable? And if I can squeeze in a third question in the IT business, what was the mix of IT Enterprise and IT Consumer for India and Overseas separately?

Raj Shankar:

Great. I'll take your last question first, if that's fine with you. The contribution of IT Enterprise business in India to our IT revenues in India was 44%, IT Consumer contributed the balance 56%. In terms of Overseas, IT Enterprise contributed to 30% of IT revenues in Overseas, whereas IT Consumer contributed to the balance 70%. That helps?

Chirag Setalvad:

That's perfect.

Raj Shankar:

Wonderful. Now, can I request Krishnan to answer or respond to inventory provisioning and AR provisioning please?

S.V. Krishnan:

Sure. I will do that, Mr. Raj. As far as inventory is concerned for the quarter, the total provision percentage was 0.33%. And for Q1FY21, it was 0.05%. In the case of AR, for the current year it is at 0.16%, vis-à-vis for last year 0.07%.

Chirag Setalvad:

What would be the normalized level for both of these?

S.V. Krishnan:

If you take the last 15 years, it has broadly been within a range. Inventory provisions would be about 0.05 to 0.06%, in the case of AR it would be about 0.10%.

Chirag Setalvad:

Right. And, in terms of absolute numbers for AR provisioning and inventory provisioning?

S.V. Krishnan:

Yes. I have AR provisioning, sorry I don't have the inventory provisioning amount, but I can get you that. AR provision amount is about Rs. 22 crores.

Raj Shankar:

Krishnan, I think it would be fair to say that it is Rs. 43 crores for inventory provision so that we can also complete that a response to that. Yes, please, your last question.

Chirag Setalvad:

What is the sustainable level of margins?

Raj Shankar:

Okay. So, you did mention that we delivered 2.50% or something of that sort. I just wanted to clarify, our EBITDA at consolidated level, what we delivered in Q1FY22 was 2.70%. Now our own personal view what we have said in the past is, this is something which is at the top end. So, we believe that it could move plus, it could move anywhere $\pm 5-6\%$ lower at first and then be probably $+2-3\%$, that would be the range. If I have to be a little more specific, I would say $\sim 2.5-2.6\%$ would be EBITDA at a consolidated level

Moderator:

The next question is from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda:

Some commentary on the demand also should be helpful, you mentioned that IT should continue to grow double-digit is what you mentioned. If we include IT Enterprise, IT Consumer business and Mobility, at aggregate level what kind of growth do you see? I think in the last 5-6 quarters there was very strong tailwinds. Do you see that to continue?

Raj Shankar:

The short answer is we believe there are lots of opportunities for us to grow both on IT and Mobility and to also showcase double digit growth rate. I'll tell you the reason why I'm not being a little specific, but all that I can say for sure is that we will continue to drive a double-digit growth. The reason is that on certain products from certain vendors, we are seeing a little bit of supply constraint. While I also hasten to add here that being one of the largest distributors for each one of the technology vendors that we deal with, we are confident that whatever is the allocation that the vendor is able to organize for India or for the META region, we will get the lion's share, that we are confident, but how much are they able to get from there global pool, it's something that we are not getting a good visibility. Sometimes as they say when it rains, it pours. So at times we are able to get more, and all the backlog is cleared but there are times

also when we are not able to get what we want. Therefore, I'm a little hesitant to give you a number other than to say, we will continue to drive a double-digit growth on both IT and Mobility.

Pritesh Chheda:

Just a clarification here, should IT Consumer grow faster than the IT Enterprise and should Mobility grow faster than IT Enterprise?

Raj Shankar:

Okay great question. At the moment you're absolutely right. IT Consumer is seeing a lot of high demand and that too sustained demand. So we believe that as long as we can continue to get supplies, we should be able to drive a strong growth on IT Consumer. As far as Mobility is concerned, it all again depends on allocation. If we are able to get the supplies, I would not say it can be significantly be better than IT, but it has also a strong possibility for us to have a good double-digit growth.

Moderator:

The next question is from the line of Rahul Gupta from Fidelity.

Rahul Gupta:

Actually, my first question is on India Mobility business. It has done 14% growth this quarter YoY which feels a bit subdued because last year at the same time it declined around 8-9% and if you look at Apple's own commentary about India has been pretty strong and if you look at third party sales data also, I think Apple has grown a lot. So just trying to understand what is the disconnect between our Mobility growth versus what the industry data is coming out.

Raj Shankar:

This is one of the brands where we have had a challenge in terms of getting deliveries or getting supplies. So, it certainly has slowed down our business, but on a side note, Rahul, I must mention that as we speak, even for last quarter, we have done more than our competition. So, all that I can tell you is that we are managing to get slightly higher allocation than competition, but there is a challenge with regard to being able to get the supply and allocation the way we want.

Rahul Gupta:

So, you are trying to say that basically, the India supply has been impacted at an overall level? However, your overall Apple sales have gone up 40% YoY this year, right? If I look Apple is now contributing 25% of the value versus 26% last year...(Line unclear)...

Raj Shankar:

You are absolutely right, Rahul. If you look at our own growth for last year, we just grew massively. In fact, the contribution of this particular vendor to our overall revenue was significant as high as close to about 38-40%. We also, have grown quite nicely for last year. Whatever I'm saying is specific to last quarter and specific to a particular period, I'm not in saying, yes, there have been batches of supply constraints in the past, but it's a little more, I don't want to use the word acute, but it has been a little more pronounced in last quarter than we have seen in the past. That's the only point I'm making.

Rahul Gupta:

Why are the supplies impacted? Is it like semi-conductor issue or other issues which are impacting overall supply for Apple, or would you have any insight into what is happening?

Raj Shankar:

That is largely the reason. Plus, I also want you to look at the positive side of it. We are all hoping that this year, hopefully with the New Product Implementation (NPI), though we don't have an idea exactly when it is going to get launched, last year it was in October towards the last week, this year we are hoping that it would happen in September. That would in turn, give a strong impetus again, provided we are able to get supply and be able to get all the shipments and so on. Keeping our fingers crossed, we see that the demand is there and we see tremendous headroom for growth. We are one amongst the two players and we are certainly higher than the competition. In every sense, we feel good about where we are, as long as we get the supply and shipments the way we want.

Rahul Gupta:

Then the second part is on IT, you said IT Consumer has grown up 100% plus. Is this because of the industry level growth? I don't think that the industry demand would also be below that. So can you highlight on how much of this growth is on account of market share gains?

Raj Shankar:

Well, I think you hit a very, good point. We have grown much faster than the industry, so that is the good news. I feel good about the fact that on a consolidated basis, PC shipments grew at about 35%. Sowmiya, you could probably correct me wherever I'm wrong. Whereas if you look at how the industry has grown, it has grown by just a weak double digit. So, we've grown pretty nicely. And we continue to gain share.

Rahul Gupta:

Is it specific to certain brands where you're gaining share or is it like all across?

Raj Shankar:

It is across all brands, though there are some which have a much higher velocity, but just to give you a perspective, at a global level as you would know Rahul, the worldwide PC shipments grew at 13% in Q1FY22 over Q1FY21 whereas for us, it was a nice 35% growth as I mentioned, and this is across all brands. There are some which have a much subtle velocity.

Moderator:

The next question is from the line of Pranav Kshatriya from Edelweiss.

Pranav Kshatriya:

Hi, my first question is if I look at the growth, it is largely driven by the top five brands. How should we read this and does that have any implications on the working capital cycle? My second question is on margins. If I look at the 35bps delta on the EBIT margin, clearly margin have expanded meaningfully, adjusting for these one-offs. What has led to the decline in the other cost, or should we see this as a normalized cost? Is there a cost which has come down significantly? And in that light should we see this EBIT margin guidance of around 2%, a little conservative, because I think your margins are significantly higher than that currently?

S.V. Krishnan:

In terms of the working capital intensity, across the top five vendors, that is, Apple, HP, Samsung, Dell and Lenovo, broadly the working capital has been more or less similar to what it was in the past. That will not create any significant difference as far as we are concerned. Yes, the percentage of business from these vendors have gone up in the current quarter. With respect to expenses, we had been very conscious in terms of the expenses and our objective has always been to grow the expenses at a pace lower than the revenue growth and that coupled with the

COVID related savings had helped us in terms of managing our expenses definitely much better. This is across all the business units, be it India, Overseas and within that, India distribution ProConnect, META or Singapore, we have seen that the gross margin has been better than the revenue and the Opex has been lower than both the revenue as well as gross margin growth.

Pranav Kshatriya:

Does that mean that these benefits are sustainable and hence basically the current quarter margin plus 35bps delta should be the sustainable margins hereon or there can be some cost escalation which can happen?

S.V. Krishnan:

Per se significant part of this cost saving should be possible to continue. Of course, once if the travel etc. are back, some of these costs could go up, but having said that, Pranav, you need to understand in order to scale up the business for future, and also invest on technologies, there are some new investments that are being planned, this could step up the cost a bit, but having said that you should be confident that our expense increase will not be significant. There'll be some expenses that will come in because of some new investments that we are trying to make.

Pranav Kshatriya:

Some color on why this growth is lopsided towards these five vendors and not really on an overall portfolio?

Raj Shankar:

The way you should look at it is, if you look at overall from an industry standpoint, there are these five vendors who are the mighty giants in the technology space, you look at their own revenue, look at their global market share and everything else. They simply stand out. Now, as we look at, there are lots of vendors we deal with on the security space. There are lots of vendors we deal with on the software, why, even on the cloud, but some of those don't give you the kind of revenue and scale, as what you can make from these vendors who sell whether it is smart phones or whether it is PCs, because this is what is in demand today and largely on account of the pandemic, given the work from home and learn from home, this continues to still have a very high demand. So, we believe that, these product categories and these vendors will continue to rule the roost, but you know very well that from a Redington standpoint, honestly, we are agnostic to whether it is Brand A or Brand B and whether it is this product category or that product category, we want to make sure to all our partners and customers, we are able to give them the complete offering, but naturally so, there are some brands and some models and some products which sell at insane velocity as compared to the others. I don't want you to be

overly concerned whether there is any concentration risk because finally business is concentrated with five vendors who give us ~50% plus of the revenue. I can tell you take the top five distributors globally; you will see a similar phenomenon play out. It doesn't matter whether it is Redington or any of the global top five or even the top 10, the same scenario will play out. Please, you can put your mind to rest. This is the nature of the beast.

Moderator:

The next question is on the line of Rakesh Kumar from BNP Paribas.

Rakesh Kumar:

My first question was around the market share bit, where you had mentioned that you have gained market share in this quarter. Part of it would be driven by the chip shortage and you would be benefiting from that. My understanding is that would also be helping on the mix as well in those vendors, they would be prioritizing the products that there is better realization and margin. Within that, my question is that you have seen quarter-on-quarter, very strong gross margin performance sequentially, typically in this quarter the gross margin comes down, but we have maintained our last quarter gross margin. Is that being led by this market share and mix improvement and that could reverse, once the chip shortage normalizes or is this something which we are structurally seeing our gross margin improving? The second is around the cloud business. In the last quarter you had talked about that cloud business had now become INR 10bn business. Can you just update us what is the size of that business now and the growth YoY? Also, whether Cloud business is the reason for the ROCE of the overall business to be more than 50%? Is the ROCE of Cloud biz even higher than 50%?

Raj Shankar:

First of all thank you for your question. With regard to cloud, we had mentioned earlier on the call that we delivered Rs. 280 crores of cloud revenue during the last quarter, this when compared with Q1FY21, which was Rs. 174 crores, represents a 60% growth YoY. To your point about whether this ROCE which was about 52% at a consolidated level, whether the ROCE for the cloud business would be higher, it would be high. I don't know very specifically if it would be higher than 50%, but certainly I must tell you that cloud business tends to be capital-efficient compared to our rest of the businesses. To your earlier question about gross margin. So, the way I want you to look at it as follows. One, in the past we had the 80-20 rule generally playing out. In other words, 80% of the times or 80% of the inventory, we are able to sell at the normal price and make our normal margin. But there's always a 20% that we would have to sell at lower margin or even at cost and on some occasion seven below cost. So, that brings down the blended margin for the 100%. But fortunately for us, I think I did mention this on a few occasions earlier, we have really clamped down on our purchases to make sure that we buy what

we can sell this week or next week. In the past, we used to buy and stock and sometimes it would stay in inventory longer than one month or even two months. Now we are being extremely prudent in terms of our buying. We don't have to sell any of the products for lower margins or rather whatever we sell. for lower margin would be far and few in between. So, the answer to your question is because we have been able to deliver and sell out all our products at the standard margin, so we are not therefore having to discount or having to reduce and compromise on our margin, like which used to happen pre-pandemic. This is point number one. Point number two, to your point about the fact that there is a shortage, therefore, probably you are carrying an impression that we are making much higher margin. We do make a small, teeny weeny higher than probably what we used to before, but we are using it more in terms of ensuring there is a high sales velocity, there is a very high throughput, and that is important for us. Yes, we do make a little more than what we used to make in the past. Now, when you take the first and the second together, there is no more 80-20 that is playing out. So, there is no more of that 20% of the quantities which we have to discount and the fact that we are able to get our standard margins and sometimes a little more, allows us to be able to have a good, sustained margin. I hope Rakesh Kumar, I would have answered your question on the margin.

Rakesh Kumar:

Yes, that is absolutely useful. Thanks a lot for that.

Moderator:

The next question is from the line of Deepak Khadwani from Girik Capital.

Deepak Khadwani:

My question is a continuation to the previous participant's questions on the cloud business. If you can quantify the margins in the cloud business and what is the growth plans and what you expect would be the normal growth rate for us to assume in this business?

Rajiv Srivastava:

I think that's a great question about cloud and cloud is seriously the part of business which is growing all across. And as Raj clarified as part of the earlier question that the cloud revenues of Redington grew by 60% YoY in Q1FY22, wherein the Cloud resell biz, which is the product part of the business grew by 59% YoY and the Managed Services portion grew 88% YoY. The cloud industry expects to grow at an overall rate of about ~25% thereabouts. We are clearly far outstripping the market growth just because the way in which we are trying to position ourselves and the segments of market that we are trying to capture, capitalize on the ones which are leading us to a higher growth. So, we see ourselves outstripping the market. Without putting a

number to that growth, but clearly much in excess of the market growth that we should try and continue to be growing. The second question of yours about how the margins play out on the cloud business and the margin profile is different for cloud product resell versus a cloud managed services. The managed services clearly comes at a margin in excess of ~30%, depending upon the nature of services that you provide, whether you provide Services on the infrastructure or you provide services on transition management Services, the profile of margin could be of course excess of ~30%. Whereas on the cloud resell biz, just the product portfolio you will get a gross margin in the range of about ~6% or thereabouts.

Deepak Khadwani:

If I may squeeze in one more question on the cloud business itself. What is the go-to market strategy and how do you market the cloud business so to say?

Rajiv Srivastava:

At a multiplicity of levels. See the cloud business is heavily predicated on creating capabilities. The more capabilities you create, the better it becomes for you to engage with customers or partners who are providing services to customers. So, our market model is at two levels. One, create a platform which allows people to come and engage with you and through you, with the customers through the platform that we have got. And that's a cloud managed platform which will allow partners and customers to come and engage, take a look at our offerings of both product and services and take that to the customer. The second go-to-market model is engaging with a whole range of partners to expand the coverage in the SMB and the mid-market and upper mid-market space to take traditional offerings, which is a cloud resell. The first one was cloud services, second is cloud resell. Take a whole range of cloud resell products of Amazon, Microsoft, Google and similar to the mid-market and upper mid-market customers and SMB customers through the range of partners that we have got across the country. So those are the two predominant models. The one which works at the backend of this is to have extremely good connect and relationships with the hyperscalers and also with the SAS, which has you know the SAS vendors of the nature of Salesforce and Zohos and so many of them, Adobe and Workday, etc. You work with them; you work with the hyperscalers, and you work with the implementation partners. So, those are the three activities which need to be done besides the technology platform of the cloud managed platform.

Deepak Khadwani:

So, an extension to that. So, the partners that you are talking about, they are the partners who work with you in the distribution business itself or are these other partners that you have acquired over the course post commencement of the cloud business?

Rajiv Srivastava:

Look, the way the whole industry has come up is a lot of partners who were doing enterprise level Services earlier, they stepped up to gain or acquire capabilities in one specific domain of cloud, whether it is a SAS implementation or it is a security implementation, or it is a hardware provisioning. So, you work with those same partners. There are very few number of only cloud specific partners who are born in the cloud native cloud partners, whether they are the ISVs or they are implementation. So, you work with the ISVs, the native implementers, or the traditional enterprise who have migrated to adding capabilities for deployment in the cloud. All three sets of partners exist.

Moderator:

Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now hand the conference over to Mr. Raj Shankar for closing comments.

Raj Shankar:

Thank you, Margaret. Thank you once again to all the participants for having joined us on this call. I thought we had some great set of questions. In conclusion, I feel that we had another good quarter for our first quarter of FY22. We delivered a double-digit growth across revenue, EBITDA, PAT, both in India and in Overseas, and hence at a consolidated level. Both IT, Mobility as well as Services grew all double digits. We have once again a very strong working capital which was managed at 18 days. And even ProConnect continues to be driving growth in spite of all the difficulties and delivering EBITDA margins, which should start to scale up in the way forward. So overall, it has been a very satisfying quarter. And once again, thanks to everyone for your participation. Good day, stay safe and good night.

Moderator:

Thank you. On behalf of Redington (India) Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

The document has been edited for readability purposes and for factual errors