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Redington Limited
(Formerly Redington (India) Limited)
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August 8, 2023

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

Symbol: REDINGTON

BSE Limited
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai — 400 001

Scrip: 532805

Sir/Madam,

Sub: Q1 - FY 2023-24 Earnings Call Transcript

This is further to our letter dated July 24, 2023, intimating the details of Investor/Analyst call on the unaudited financial results for the quarter ended June 30, 2023. In this regard, we are enclosing herewith the transcript of the conference call hosted on August 2, 2023.

The same is available in the Company's website: https://redingtongroup.com/wp-content/uploads/2023/08/Q1FY24-Earnings-Call-Transcript.pdf

We request you to kindly take the above information on record.

For Redington Limited

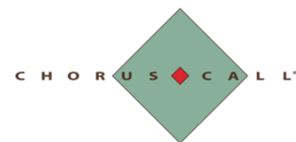
M. Muthukumarasamy
Company Secretary

Encl: a/a

"Redington Limited Q1 FY '24 Earnings Conference Call"

August 02, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 2nd August 2023 will prevail



MANAGEMENT: **MR. RAJIV SRIVASTAVA – MANAGING DIRECTOR – REDINGTON LIMITED**
MR. S.V. KRISHNAN – GLOBAL CHIEF FINANCIAL OFFICER – REDINGTON LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Redington Limited Q1 FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajiv Srivastava, Managing Director, Redington Limited. Thank you, and over to you, sir.

Rajiv Srivastava: All right. Thank you. Good morning, everyone, and a very warm welcome to our earnings call for Q1 FY '24. With me in the room, I've got my Global Chief Financial Officer, S.V. Krishnan, and I've also got Deepika, who is the Chief Analyst over here on this call.

S V Krishnan: Good morning.

Rajiv Srivastava: So I'm going to just give you a bit of a summary on how the quarter went by and how we see the market over the near term. And then we can open it up for Q&A if that is okay.

We are pleased to report another strong quarter of sales and gross profit growth, supported by solid execution across businesses and geographies. Redington continues to gain share and secure new opportunities in the markets that we compete in. At INR 21,251 crores, our overall global revenues have been the highest ever for any Q1, growing by a very strong 26% Y-o-Y. And at INR 1,248 crores, we have registered our highest ever Q1 gross profit with a 17% Y-o-Y. Our EBITDA degrew by 1%. Our PAT degrew by 21%.

This quarter has been clearly a tale of 2 geographies for every financial parameter, and let me give you the figures for the 2 geographies that we operate in, namely SISA, which is Singapore, India and South Asia; and ROW, which is the rest of the world, all the other countries, the Middle East, Africa, Turkey, that we operate in.

So our revenue for SISA grew 24%. The rest of world revenue grew 29%. Our gross profit for SISA grew 24%, and the rest of world gross profit grew 11%, so both at a very, very positive sort of an outlook there.

Our EBITDA for SISA at INR 266 crores grew 19%. Our rest of world EBITDA at INR 217 crores was a degrowth of 17%. Our SISA EBIT of INR 246 crores is a 17% growth. The rest of the world EBIT at INR 194 crores is a 19% degrowth. And PAT of SISA at INR 149 crores is a 2% growth, and the rest of the world PAT at INR 99 crores is a 41% degrowth.

So clearly, like I explained, the 2 geographies had behaved differently.

Okay. All right. I will do that. Yes. Thanks so much, and great -- good morning, and welcome to everyone for joining this call. Our apologies for this technical glitch early morning. I was going on reading my commentary and I didn't realize that we were disconnected. I hope you can hear me loud and clear, and let me just give you a sense of what and how the quarter went by.

Like I said, we are pleased to report another strong quarter of sales and gross profit growth. Supported by solid execution across businesses and geographies, Redington continues to gain share and secure new opportunities in the markets that we compete in.

At INR 21,251 crores, our overall global revenues have been the highest ever for any Q1, growing by very strong 26% Y-o-Y. And at INR 1,248 crores, we have registered the highest ever Q1 gross profit with a 17% Y-o-Y growth. EBITDA degrew by 1%, and PAT degrew by 21%.

Now this quarter has been a tale of 2 geographies pretty much across every financial parameter that we measure. And let me give you the figures. Revenue for SISA, we report results around SISA and rest of the world. SISA is Singapore, India and South Asia. Revenue for SISA grew by 24%. Revenue for rest of the world grew by 29%. Gross profit, SISA was 24%. Rest of the world was 11% growth.

EBITDA for SISA at INR 266 crores was a growth of 19%. EBITDA for rest of the world at INR 217 crores is a negative 17%. EBIT for SISA at INR 246 crores is a plus 17%, and EBIT for rest of the world at INR 194 crores is a negative 19%. SISA -- PAT at INR 149 crores for SISA is a 2% growth, and PAT at INR 99 crores for rest of the world is a negative 41% growth.

We did achieve record revenue and profit margin for Q1 of the year as our continued investments in improving our tech capabilities, building deeper partner relationships, making the breadth of our offerings more comprehensive and innovations and business models begin to pay off. We made significant changes to our business model as well.

For the first time ever, we've had 5 consecutive quarters of 25-plus percent growth. But delivery has been broad-based with all our operating regions contributing to growth. All our theatres, India, Middle East, Africa, Turkey, have been pretty robust from a revenue growth perspective.

PAT is down 21% Y-o-Y due to increased interest and factoring cost that we've seen due to all the financial disruption that we are going through. Outside of that, our PAT would have grown by 9% if you take the downsides away. And it is largely impacted in the rest of the world, while SISA has delivered a PAT growth of 2%.

Just to give you a bit of a color on this, Redington's digital transformation has been a key factor of regrowth catalyst as we transition from the role of a traditional distributor of supplying products to a much more technology aggregator, becoming a more holistic tech solutions provider. We are addressing the market demand for consumer devices and smartphones for hybrid work and hybrid learn environments, for small and medium businesses, for enterprise

technology solutions, including cloud infrastructure for servers, storage, networking and security.

We are also responding very strongly to the emerging technology environment fuelled by the growing adoption of 5G, Internet of Things, Edge computing and generative AI. And you all know generative AI has been so disruptive already, and we see many impacts of that happening, and it's only fair for us to have a very strong pivot on generative AI.

While technology distribution has been our core value proposition, we are focused on building competencies and capabilities to provide managed services for private and public cloud security and audits. Our initiatives ensure that we continue to increase, enhance the value that we offer to our customers, thereby serving them better and gaining share and accelerating our growth momentum.

Business dynamics during the quarter has been mixed. Technology demand of -- related to work from home and learn from home has been subdued. It has actually, in fact, degrown. You would have followed the IDC results for global PC industry that came out very recently, and that PC industry globally has declined 13.4% year-on-year. Smartphone shipments have declined globally by about 15%. In fact, PC and smartphone industry now pretty much is at 2014 levels, which is way back, and I'm hoping that, that tide will swing and turn in the positive territory shortly.

However, the demand has been very robust for data centre infrastructure products for servers, storage, networking, software and security and also for cloud products. As we will get back to office -- so back to office has already necessitated data centre procurements to happen. Migration to cloud has been obviously a very strong catalyst. So hence, our improved engagements with enterprises, with mid-market and SMB customers and partners more than made up for the device drop in market size that we saw. And so we have grown our enterprise products by about 40%, and we have grown cloud by 44% in Q1. So obviously, in our portfolio, new technologies are the ones which are leading.

As I mentioned to you last time as well, the geographies we operate in are largely consumption and investment driven, with most GDPs showing a positive growth trend. All of the guidance for growth, the GDP in each country has been reduced, but this will continue to grow in the positive territory. Clearly, there has been a negative to stable business climate, and governments have been a very strong spender in times like this.

We know for sure that the financial situation across the world continues to be volatile, and there are obvious headwinds. And let me call out a few. I mentioned about GDP. Global GDP growth rates have been called down. And as per analysts, there continues to be a chance of recession in some leading economies of the world.

For inflation, even though inflation seems to be cooling off at 7.2% globally, it continues to be high in most parts of the world, very high inflation regime, high commodity prices and increase in interest rates. So therefore, the cost of capital has gone up very significantly. In fact, the

interest rates are the biggest dampener between last year and now that have created such a huge cost of capital increase, which has gone up significantly.

The borrowing rates you would know are the highest right now since September of 2007. So we can go back more than 15 years, and that's how the borrowing rates have been. These impact demand and margin impact on PBT and PAT.

There has been some currency devaluation in some of the operating countries of ours, namely Egypt, Nigeria, Kenya, Ghana, Turkey, Sri Lanka and Bangladesh. All these countries have seen a good devaluation of the currency.

While there continues to be a delay in delivery of certain networking products, impacting the project business, good news, we are out of the shortage situation of the technology industry, and that has eased considerably, very, very significantly. So any procurement, which is non-project, you will find that the fulfilment becomes that much more speedier, that much more lesser time to fulfil the project requirements. Sometimes in the networking products, we continue to get challenged on delivery.

Therefore, overall news has been some good and some not so good, the financial indicators. And though, we expect these to balance out. We will be watchful as we always been and cautious over the next few quarters.

As we project ourselves into the future, we do anticipate a constrained demand environment as we are seeing right now in certain categories like access products, which is the PC and the print and smartphones but better in other categories, much better in other categories like data centre, cloud, services and accessories.

We therefore expect to sustain a reasonable revenue and margin growth from our recently implemented operating improvement amid the backdrop of geopolitical and financial instability. We have demonstrated that despite an evolving macroeconomic environment and difficult conditions for the technology industry, we remain well positioned to continue our growth -- to grow our business profitably by helping our customers and helping our suppliers navigate an increasingly complex market and which is getting more complex from a technology procurement perspective.

Net-net, in summary, I would say, our strategic initiatives, our execution capability are delivering for us, and they -- that -- those make us extremely optimistic about the future.

At this moment, I'm going to step back and stop and open it up for question and answers so that we can interact. Thank you.

Moderator: Thank you very much. We have the first question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: So first, if you could give us some context to the drop in margins in the ROW business, both other expenses and employee costs are all up. So if you could give some context there, anything to do with provisioning and so on and so forth?

The second question is maybe a little more philosophical question, is that our growth has been consistently very strong. But at the same time, I think we have sort of hit a working capital days of around 40 days, which we have not seen in quite some time. So historically, we have had this risk-adjusted growth philosophy. So if you could just give some context to what we are seeing in the numbers, right? Usually, it would sort of slow down on growth in a bad environment. So just wanted your thoughts on both those.

Rajiv Srivastava: Okay. I think great questions, Nitin. What I'm going to do is I'm going to take the first question, which is the context to margin drop, and then I'll hand it over to S.V.K., which is S.V. Krishnan. I'm sure you know him, to talk to you about the risk-adjusted growth and the working capital and how it is going to pan out.

Okay. But let me just give you a sense. Our -- if you look at our EBITDA in Q4, for instance, Q4 FY '23 sequential previous quarter at 2.69%, our EBITDA now at 2.27% and our gross margin between last quarter and this quarter has just seen a 12 bps sort of a difference in the positioning or in the drop. That's what has taken place between 5.99% to 5.87% is the gross margin, probably just 0.12%, which is that's the only drop in gross margin.

Now how do we -- this gross margin will translate to about INR48-odd crores of a gross margin drop. That's all that took place in this quarter. And for those two, we had -- that gross margin drop, which we see is accounting to about INR25 crores, and we made technology investments into our business of about INR22 crores.

Now those choices are available to us to continue other technology investments or should you or should you not. I think to secure our future, it is important for us to stay on our tech investment curve because all the platforms that we're investing in have been extremely, extremely robust, and we are giving us the benefit of expansion of our growth, expansion of our territory, expansion of our geographies that we are seeing in now. So we chose to make the technology investments. And that's how the whole margin equation plays out.

Now if you think of it this way, we maintain a very, very strong business momentum. Okay? We maintain largely a gross profit, maintain, and despite the tough -- you mentioned about the tough economic situation -- despite the tough economic situation, we maintain our gross profit. We maintain our business momentum very, very strong.

Just for the 12 bps -- to a question that are we doing revenue extra and all that, just for the 12 bps drop in the gross margin, I don't think we should be reducing our business at all. It is difficult to achieve, but I think we manage our business extremely, extremely well to get to the point that we did. And then there are elements around our business as we go forward. So I think those are the elements that we were focused on, and I'm glad it all played out extremely well from our perspective.

S.V.K., you want to talk to them about the working capital?

S V Krishnan: Yes. Okay. So let me first address, Nitin, your third point. I think it is very important that we get a comfort. We haven't compromised on the risk-adjusted growth at all. See, the way in which we need to look at, I mean, the quarter that we are in, see, on the back of the last 3 years of very high demand, which has led to every constituent growing at a very fast pace and quite profitably with all the balance sheet factors in a best of the case situation.

So now in some segments and in some markets, there are some challenges that are coming up. It's important we need to decide how we play our game with the brands. And the choice is that we find some of the smaller players are having difficulty and having a good chance of even exiting the market. That's where you need to be more aggressive.

So I mean it is a very balanced role. We haven't let the risk factor out of place. But having said that, we think it's important that we need to be very material, very important for the vendor. And I'm sure Rajiv can articulate many of the brands are talking in terms of strategic alignment with us, which would not have been possible if you are growing – the thing better than the market. So I just want to give you a comfort that there is no let up on that point.

So let me move on to the other expenses. See, there are a few factors that have come in play, which had impacted other expenses. It started panning out in the beginning of last year, and it actually continues to be so. So ideally, you need to look at, for this, the quarter-on-quarter, which is between Q4 and now. I would want to call out two reasons, which are important. One, as Rajiv mentioned, is in the form of -- I may -- okay. I hope I'm audible.

Rajiv Srivastava: Yes.

S V Krishnan: Yes. One is the investment part. We have a choice. Definitely, we have a choice. That could have helped us in terms of better operating profit. But we thought, from a long-term perspective, since that is a structural change that's happening in the industry, some of these investments are non-negotiable. So we have gone ahead and we are very clearly on track. And there, again, I want to mention we are not going too aggressive. We are being very balanced, knowing that this is our profitability, and this is what we can afford.

Second is the -- I mean, the factoring charge. See, in some of the markets like Turkey, it's very unfortunate. I mean there are serious challenges in terms of getting bank funds. And there are regulatory changes that are happening very, very frequently, which push us for raising the funds in various forms. And one such model, which has become quite constant in the last few quarters, is factoring. And this is coming at a higher cost. But if we want funds for the business, we have no choice. And that's something which builds up into operating -- sorry, other expenses. So let me pause in case there are any further query.

Nitin Padmanabhan: Just two follow-ups actually. So one is, over the last two quarters, the other expenses is up by INR88 crores, INR89 crores. Largely, most of this would pertain to tech investments and when are they likely to sort of evolve? The second one was on the -- what is the provisioning for this

quarter on receivables and all of those things, inventory and all of those? So that was the second one.

Rajiv Srivastava: Okay. I think on the first question about tech investments and how much will we continue and how much -- when we do sort of reduce -- at that -- I think tech is a very critical investment in our business. I do see those tech investments continuing for some more time because the way we are making our investments -- and our desire is to become the number one digital distributor in the world. As the world is moving towards more digitally oriented business models, that digital distribution, that vision is unique for anybody else. And I'm so happy that a lot of the businesses already started shifting to our digital distribution model, which will bring us far more efficiencies and operating leverage over the course of the next couple of quarters.

I do see it as a 2- to 3-quarter -- 2- or 3-quarter initiative further more for it to become 100%. By the end of this year, I think we should see this. It will be completely, completely rolled out with all the features and functionalities. It is already working right now. 20% of our business is shifted there, but we will get more functionalities as we go forward.

The other initiative that you know is the cloud platform that we created. And that cloud platform is working so well now with companies, with hyperscalers like Amazon, Google and Microsoft, all three of them, and that's the investment we made to make sure that we can do our cloud business in a much more automated fashion.

So those investments are really right up there in the right manner. Some of the investments we are making are also internal because we also need to become internally most automated organization. As world shift towards digital, all our internal processes have to be digitally oriented. So we see those investments continuing over the course of next -- this financial year. That's something which is going to continue.

S V Krishnan: So in terms of provision...

Rajiv Srivastava: Yes, provisions.

S V Krishnan: The inventory provision as a percentage of revenue for the quarter is about 9 bps, which is slightly higher than our long-term average of about 6 bps. The AR provision, again, as a percentage of revenue, is about 11 bps, which is broadly in line with what has been there in the past.

Moderator: We'll take the next question from the line of Vivek from DSP Mutual Fund.

Vivek: My question, again, will follow up on the working capital inventory. You've actually guided for higher working capital as it goes from work from home to work from office. Now on the inventory, would you -- maintaining inventory in a slowing environment is a tough challenge and -- so you've increased the provision. Is it like kind of like Stage 1 provisions that NBFCs make standard asset provisions? Is that the way you look at it in terms of increasing provisions? That's my question number one.

And question number two is how much of the inventory is protected for any losses? And what can be the potential losses that can come from inventory? Those are my questions.

Rajiv Srivastava: Okay. Let me -- and I'll leave it to S.V.K. to handle a bit, but I'm just going to give you a bit of a sense on the inventory and how the market is shifting in the buying patterns, okay? Just to give you a broader sort of a context in the market.

There are two types of inventories we carry. One we carry inventory for regular runway stock-and-sell business, which, obviously, has a chance of being forced into repricing and losses if you have to. So if you carry that inventory, that I would always think has got potential of being repriced. Then we carry a lot of our inventory is on the basis of back-to-back business. That back-to-back business comes from customers at fixed prices. We carry that inventory. We order that inventory.

We carry it with us until the time we get all the balancing equipment so that we can supply to the customer in 1 single shot and the project can get completed. That back-to-back inventory does not get a -- have a chance of getting repriced because it is a fixed price end customer contract that you're trying to execute. So I think you get the sense and differentiation on those two inventories.

And Krishnan, do you want to take the...

S V Krishnan: Yes. See, just wanted to clarify from the perspective of the working capital increase. Uniquely, if you find, while there is a 12-day increase, I'm talking year-on-year between June 30 of last year and now, from 28 to 40 days. So significant increase is on account of lower AP days. It's not on account of increase in AR days or increase in inventory days.

And unfortunately, as we are coming out, as we've said, from the shortage period, the high-demand period, the COVID period, etcetera, vendors are also -- are rolling back to the earlier credit model, the usual credit period. So some of the higher credits that we could enjoy is going away, which we think is more sustainable. Maybe then your next question is, how would then we control the working capital? We think there are levers available in all the three components in terms of making sure that we improve on that.

Second is also a mix change, where -- I mean the vendors where we get less credit period had performed better that also has contributed. So it is not on account of inventory increase. I thought I should clarify.

Second, just to supplement to what Rajiv said, what we have seen in the past is -- I mean the provisions are sufficient enough to coverup for any dilution in the value of the inventory. While there is a consistent provisioning model and that's something which is standard. There are no exceptions that are considered. We had found by experience that these are sufficient and we are hopeful, as we move forward, some of these getting sold, we should get -- I mean we should get back many of this into the P&L.

Inventory protection, yes, that continues to be so. Any price drops which are initiated by the vendor, we are completely protected. And in some of the products where obsolescence risks are high, there is also stock rotation that's possible. So broadly, we are protected, I wouldn't say 100%. If you make a mistake in stocking call, obviously, that's something that we need to handle.

Again, even in that case, we can go back and negotiate with the vendor and whatever support he gives beyond that is something that we should take, which is where we have the inventory provision. I hope I've answered clearly.

Vivek: Yes. Just one follow-up question. In terms of -- you had mentioned there are two kind of inventories that we keep. So bulk would be the larger project type inventory. Would that be right? Or how would that...

Rajiv Srivastava: Correct. That is right. That is right.

Moderator: We'll take the next question from the line of Aejas Lakhani from Unifi Capital.

Aejas Lakhani: Yes. Congratulations, team, on a strong sales quarter. It speaks about your execution capabilities. Krishnan, sir, could you quantify what has been the factoring cost increase quarter-on-quarter? When is Turkey likely to settle? When do we see these factoring charges going away? What is the interest rate regime in that constituent?

S V Krishnan: Okay. So for last quarter, we had a factoring cost of about INR49 crores, which has moved up to INR60 crores. So that's the increase between Q4 and now. These -- as I said, these are costly and mainly in Turkey. As you know, Turkey, interest rate in the normal situation itself is quite high. It ranges between 25% to 30%, and the factoring cost is even more than that.

It is a bit -- I mean bit of a volatile market in various sense. But I need to tell you that credit to the team there, has managed to ensure there is the growth and also maintained -- I mean maintained profits. I won't say good profitability, but they haven't -- I mean they haven't...

Rajiv Srivastava: They have always been profitable.

S V Krishnan: Yes. They have always been profitable. Let me put it that way.

Aejas Lakhani: Got it. And Krishnan, sir, what do you expect -- how do you expect the year to pan out? Because we had INR150 crores of factoring charges in FY '23 from your annual report. So how are you expecting the year to play out in Turkey?

S V Krishnan: We think for one more quarter, this will continue. The reason why I'm saying this is because -- there was a presidential election 1.5 months - two months back. The existing government is continuing. However, some of the economic policies are changing. There are new people who have come in the finance ministry. They have increased the interest rate on one single day by 6.5%, which was kept abysmally or artificially at a low level.

So we think some sense is coming in, into the market. They were holding on to forex rate that's now -- it's now let free. So maybe about a quarter more, we may have to go to through. After that, I don't think it will come back to normal. It will definitely be better than this. Sorry, Rajiv.

Rajiv Srivastava: Yes. No, I think you're right. I think we expect Turkey to turn around because some of the new decisions that the government has made after the election are very, very positive. Aligning the inflation to the global markets, aligning -- or to the real figures, aligning the interest rate to the real figures, all of these extremely positive statements because it inculcates so much of -- generates so much of confidence in the external investment community that now the situation of Turkey from an economic perspective is far more real than it was.

It's not artificially held up. And once you have a situation which is harmonious, you get more investments into the country and you get far more robust economic growth rather than anything else. So I think Turkey has been extremely -- and we continue to be very bullish in Turkey.

S V Krishnan: Just to give you a number, for the quarter, Turkey had a revenue of about INR2,200 crores. All this are in crores. And they've made a profit after tax of about INR 12crores. So -- I mean it's not great. But to maintain INR12 crores when interest rates are at what I had said, is something which is notable.

Aejas Lakhani: Noted. Rajiv, my next question is to you. You've been -- since you have come in, your strategy has been to create a parallel sales organization. So we wanted to understand, what this parallel sales ecosystem that you've been building has really been doing and how this will impact the future?

Also today, what sits in your employee cost is a percentage of cost that is apportion to this sales stream business which is in the scale-up mode. Could you please clearly quantify, what is the HR cost, which is going towards the current products, infrastructure and what has been built for the service infrastructure?

Rajiv Srivastava: Okay. I may not have answers to all your questions, Aejas, but I'll give you an answer to some of them at least. I don't know what you mean by parallel sales organization. We are creating a sales organization which is focused on customers and partners. We used to be very brand-focused. We used to be very product-centric organization, not so much centered on how the requirements or demands of the market are changing. What solutions customers are wanting.

What we've done now is, we've rejigged our sales force to become a horizontal sales force, which will fulfil the requirements of all kinds of products but from requirements of customers of course. So these sales people will go to partners and they will go to customers as well and talk the full portfolio of Redington and supply that full portfolio. This is a very significant change.

If you think of it earlier, one person will go to a partner or to a customer and talk exactly one product and nothing else. Now a partner -- now a salesperson from Redington goes to a customer or a partner, talks the full solutions, full portfolio of all the products that we got across. PC,

printer, server, storage, network, security, cybersecurity, cloud, every single thing, all that is talked about by one person.

Now that's a futuristic organization. That is an organization that requires investment in training, development and upgrading the skills of our partners, of our people and also it requires a lot of new people as well in the company. That's the reason you will see that our employee cost is going up because we are reskilling and we are also redesigning, and we are also hiring new people for the new way of doing business.

A lot of our growth, in my opinion, is not coming because we are now so much more focused from a customer requirement, upwards, rather than product downwards. That is a significant shift, and we believe that, that's the way the world is evolving. And so it allows us to become visible to far more opportunities, much higher level of opportunities in the market and helps being able to fulfil these opportunities as we talk. That's the reason our shift in our business model from our traditional product distribution to a much more technology aggregator. So that aggregation model has to have a mandate of shifting to the employee - to this integrated sales force model as well.

What we're also supplementing the sales model is through digital business model shift. So one shift, like I said earlier that we made was trying to become the best digital distributor in the world. We've got one Redington digital platform -- online Redington digital platform, which has started to function. More than 20% of our business in India has shifted to the digital model now already, which is a very, very significant shift. No company does that. A B2B shifting of 20% in less in one year, it's a very, very profound shift. And as you look forward, you will find that, customers will get to see much more products, solutions and services being offered through the platform in a very consultative business model. If they have something which is important, that's the way it is going to happen.

The other model that we did was a cloud. Because the market is shifting to everything as a service, they're wanting to buy products as an opex model or as a subscription model instead of buying a capex model. And our cloud platform exactly enables that. So what we are doing is, the shift in the model is towards the customer-centric, customer-choice model. Customers are wanting to buy products in very, very different formats today: outright, opex, subscription as a service, and here is Redington stepping up the game and saying, look, we've got technological -- tech capabilities to fulfil or to engage with our customers in every single domain in every single manner that we do.

Our investments in people are orientated towards the new ways of doing business. They are orientated towards service -- building service capability, of cybersecurity, of migration in the cloud and implementation of cloud services. They are oriented towards doing e-commerce business, which is Redington Online. They are oriented towards getting more certified people in the cloud domain.

So all in, employee cost now are -- the cost of employees in our core business has gone down by 1.5% overall year-over-year, okay, between last year and this year, whereas the cost of

employees in the growth business has gone up by 25%-plus. So that's a significant shift, and I'm glad that we are getting the benefit of the lift of that shift.

Sarath Reddy: Rajiv, thank you. That's very helpful. I'm Aejas's colleague. Just a quick second on this subject. My name is Sarath. We understood what you just said. I think we understood, and it's hard for us as outsiders to really appreciate the depth of what you're doing. I'm sure you're doing the right thing.

To simply for us, I'm sure you have some road map of when these significantly higher costs, which have significantly impacted P&L, will justify themselves to P&L. Please give us some road map of that.

Rajiv Srivastava: I think that road map is available. We've got our P&L with an ROI basis. The way we make investments in our company is very ROI driven. We assess the market -- external market and make the changes and shifts to our models. In the course of next four quarters to six quarters, you will see that each of these investments really paying back significantly.

Our services portfolio has already started to make a bit of a difference to our lives right now. Services have become 3% of my overall cloud business, has become services business now, which is significant. And our desire is that over the course of the next three years to four years, our services should become 10% of the overall cloud business. So the total cloud business, assuming it is INR1,000 crores, 10% of that should be services.

Now that services business will come at a very differentiated gross margin profile, maybe 30% or 30% plus. And that really significantly alters the profile of the overall business mix of the organization. So while these investments start to pay out in the next four quarters to six quarters very strongly, the overall services transition that we are talking about will take a longer time of three years to four years because services is a domain game. It's not a body, it's a domain game.

Sarath Reddy: Okay. You said you work on a return on capital rather than margin basis. Can you give us how you think about this, when you make a project decision? What time frames and what return on capital metrics does the company work with?

Rajiv Srivastava: Different projects will have different capabilities. It depends upon the gestation time that the project will take. Our services business will always have a little more longer gestation period because it is such a strong capabilities domain. Domain and capabilities different games. So it will take longer times in services business, like I said, three years to four years at a time when we are trying to make this shift.

And that's not about getting the returns on the services business. That's about shifting to my goal of services becoming 10% of my cloud revenue. That becomes -- that's our three years- to four-year goal, okay? And it's not linked to what investments and what capital returns we're getting, but it's just a shift because it's a very profound shift.

When you go to our digital model, our digital model has got two dimensions. It's got a dimension on lift and shift of the existing business and then it's got the business of expanding assets into

different geographies, into different territories, getting more cross-sell and upsell going, more partners coming in to sell, and that is a different model.

But I think it's a very, very involved model, and I can take you through that in a separate call as well, but that's the way the model operates. It operates in a very strong business fundamentals of looking at the project and making sure that those projects are enumerated over the time of the project.

Sarath Reddy: Okay. We'll seek a separate call with you then because we'd like to understand how you are thinking about spend versus the outcomes, and we...

Rajiv Srivastava: I would love that. You please set it up. I would love that because I think you will get a good sense of how our future is -- when we talk about becoming the number one digital distributor in the world, when we talk about becoming the number one provider in the cloud services in the world, how is that vision manifesting itself. You will get a very good sense of that.

Sarath Reddy: Okay, We will come back to you and talk to you later. Thank you so much.

Moderator: Thank you. The next question is from the line of Kushagra from Old Bridge Capital. Please go ahead.

Kushagra: Yes. Hi, thanks for the opportunity. Just two questions. One is more of a clarification on the earlier participant's response, which is on the high interest rate environment. So just wanted to get your perspective on the competitive intensity. I mean you did highlight some strategic initiatives in this high interest rate environment.

And I just wanted to understand, are you using this time to probably sort of gain more market shares by taking more working capital on your books, which your vendors would also like, which is visible in your creditor days and probably something which some of your smaller peers may not be able to do? So is this something, which can probably lead to more consolidation between the top two players? Or you don't see much change in the working capital side of things, and it will largely be a function of how the segmental mix changes?

And one question I would like to attach with this broader question is, in this whole process, probably, are you also getting work which you otherwise would have avoided and it may entail higher investments, higher discounts, higher provisioning? So just wanted to get a perspective on this whole thing. That's my first question.

Rajiv Srivastava: Yes. You got not first question, you have four questions over here. Kushagra, I'm going to be taking a shot at each one of them. Your first question was on compete intensity and how is it playing out in the markets in which we are operating. See, distribution is a very localized business. It operates -- the partners or the competition that we face in India, we don't face in the Middle East. The partners which we face in Middle East, we don't face in Turkey or South Asia and all that. It's very localized sort of a business.

But as the market conditions have become tougher in the last one year, 1.5 years, we have seen that the space is up for consolidation. It is already happening. We have seen some competitors even in India, and I can share you -- names with you separately. But we have seen competition in India trying to sell out, cash out or not being able to function in this revised or changed market scenario.

It's exactly playing out the way, same way, in Middle East and Africa as well, in Turkey as well. You know the competition, which is up for grabs, which can the consolidated or they're not able to play to their potential. And by virtue of that, that territory has become. So we are getting a bit of a share gain, a bit of a market gain also because some of the competition has actually become weak. This happens all the time. When the market conditions become difficult, not every company has the ability of leadership capability, leadership depth to navigate the tough environment. So some competitors go away.

Our gaining of -- our desire is not to do business and gain share by compromising our profit or compromising our working capital, anything of that nature. Just that since the conditions have become a little tougher, the receivable cycles of partners have become a little longer. The payments from customers have got delayed. The payments from vendors, like Krishnan mentioned earlier, have become tighter.

So all of those conditions are coming together right now in a way where some of these working capital gets expanded or extended just because at the moment -- the point in time that we are in right now, all of these parameters are working in a certain direction, which is not the direction in which they were working about four quarters ago or five quarters ago.

And hence the working capital goes up, it's not about taking a business like that because that couldn't be -- that would be irresponsible and we will never do that as a company, you know us long enough. But obviously, there is the way in which the customers are paying, the partners are able to pay and ways which vendors are -- their cash cycles are there. If you follow the results of organizations like Dell, Lenovo, HP, IBM, Acer, Microsoft, Apple, Google, you'll get a very, very good example or sense of exactly what I'm talking about from a payment perspective. That's one.

So secondly, the segment in mix changes. Now we know for sure, when we saw this, in our business model today, there is a shift in the segment. There is a shift in the business mix because we used to be more dependent upon our access products business earlier, and our growth was a little less in the enterprise products, but we've seen a shift taking place.

When the learn-from-home and work-from-home has reduced, which means the consumer products business has gone down. This is whole industry, okay? But we were fortunate or we were, I think, foresight enough to pivot our model towards more commercial, which is more assembly and more enterprise, more government business model where you have security of projects and security of business and security of payments. All three of them are being secured, and that led to a big lift in our TSG, which is Technology Solutions Business, which is at data

centre products and solutions and services. So that's the reason our growth in TSG this quarter is about 40%. That's a mix shift.

Our growth in ESG, which is endpoint, which is the consumer PCs and printers and all of that, that is 11%. That is much less. So I think you have seen a business mix shift, but all to the advantage is because we are able to deal with higher product -- higher quality and higher value and more value distribution for the enterprise and the cloud kind of products -- product lines. So mix change has taken place. It will continue to take place because that's the way the world is evolving.

Kushagra Bhattar: Got it. That's quite helpful. The second question is, again, more sort of getting more clarification on your other expenses over the longer term. So last few quarters, you have been speaking about investments in digital, currency disruptions in certain Geos adding to your cost, right? But if I sort of look at your FY '23 annual report, two-third of your increase from INR1,100-odd crores to INR1,450-odd crores is largely on account of bank charges, FX losses and factoring all three put together. And if I add travel, 80% of the incremental expenses get covered.

So the question really is that FY '23 was largely investments on account of bank charges, factoring and FX effect. The digital initiatives, which we have been speaking about, probably a good part of it will come in FY '24. There are certain other expenses, like, let's say, rent, warehousing, sales promotion and freight, which has not largely grown. So other expenses remaining flat from FY '19 to FY '22. And now probably you will see these expenses also sort of from INR1,450-odd crores going forward.

So just wanted to heads up or some sort of color as to how do you see these growing over the next two years, three years, four years as well? Yes. That's my second question. Thanks.

S V Krishnan: See, first, let me do a correlation between the investments that Rajiv talked about and other expenses. See, investments will get spread across multiple components. One, investments in people, in the new-age businesses like the cloud, digital platform, etcetera, will be part of that as compensation. Some part of the investment will be as part of depreciation because these are capex in nature. So it is just not some other expenses, it's also there as part of the other expenses.

Second, yes, I mean we did discuss about factoring charges. With respect to forex and bank charges, very clearly there are multiple markets which are going through stress in terms of dollar availability as well as on account of the depreciation in their currency and this is across multiple markets. I mean we discussed about Turkey. Egypt is going through stress. Sri Lanka was going through stress even now Bangladesh, Nigeria, many of the East African market, and we'll be talking about where we have presence.

So with that, it is important wherever there is a forward contract that's possible, we go for plain vanilla forward contracts and build it as part of a pricing, or we have models where it becomes a natural hedging. But the challenge comes when you are not able to get the dollars, you have sold, you have realized, the customer has paid you at the revised rate. After that, we are not able to repatriate, and we are getting struck is where, we have to incur these forex losses and the

corresponding -- the bank charges for remittance, etcetera. So some of this are very unique situation. We are trying to manage as much as possible.

I wouldn't say that it is the best of the situation. But we think it will take some time before all these great cleared because all of us know this is linked to the global economic situation, and some of this are going to take time in terms of coming off. But wherever we see some forex challenges, we are downsizing our business quite significantly and whatever growth that you see is in spite of that. That is something that we are trying to play in a balanced form.

Kushagra Bhattar: Sure. Thanks and all the best.

Moderator: Thank you. We'll take the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Yes. Sir, I still -- after the whole call, I still couldn't understand one part is where one side you mentioned that your investments will continue for four quarters to six quarters. And I just want to know the quantum of investments which are running through the P&L. And until quarter 3, we were looking at about 2.5% as kind of a more stable state margin, but what we see now is a substantial difference.

Sir, it will be very helpful, first, to quantify the exact amount of these investments so we can check the P&L ex of these investments. And if you could call out to what extent or what time line these investments are going to run through the P&L?

We're extremely happy with your revenue growth, it's a commendable achievement. But when there are deviations in margin like this, it's like a 30%, 40% deviations in EBITDA. So if you would call out, clearly, it would be very helpful for every one of us to understand.

S V Krishnan: Good. Thank you, Pritesh. So if I need to tell you the cost of investment across various components, it would be about between INR25 crores to INR30 crores per quarter.

Pritesh Chheda: Sir, but that doesn't explain the deviation in margins from what we are seeing. So then the residual cost other than these investments are a more regular cost built-up now which we see in your P&L?

S V Krishnan: Yes, those are regular costs, but those are inflated now, and we have discussed those components. See, you need to look at it -- when you talk about the operating margin, look at it from the perspective of the gross margin. There is some dilution in the gross margin we discussed.

Second is the opex increase. And the opex increase, there is an investment portion and there is a regular business portion where some costs have gone up, which, over a period of time, will get corrected.

Rajiv Srivastava: We talked to you, Pritesh, earlier. What we mentioned to you was there is a gross margin drop which took place…

Pritesh Chheda: Sir, I understand the GM impact. It's not a substantial number. What...

Rajiv Srivastava: Let me complete that so that you'll get a good sense of it, okay? You're right, the GM impact, it just gets to about INR48 crores, nothing more than that. Out of which, the GM is INR25 crores which is 0.12% and then the balance of INR22 crores is technology investment the way Krishnan mentioned, INR25 crores to INR30 crores of technology investment in the quarter. And then there was, like you said, the business mix shift and all that.

We've seen the situation of Q1, which is unique because normally, you don't have such a strong telco business -- business mix in Q1, which happened for us in last quarter. It won't happen. So I think, we are at a point in time in our journey right now, where this was -- this happened, and we are going to be getting back -- normally flowing back to the business mix becoming better and bottom flattening out and we going back to our normal level.

So you may think that this is new norm, but this is not the new norm. The new norm is going to be where we used to be earlier. So I think you will find us getting back, going back in a very good way. So I hope that will round up from your perspective. It's just not a single dimension in the business.

Pritesh Chheda: Can I clarify one thing? The business mix would have slowed or impacted your GP, right, at least does that clarification is there.

Rajiv Srivastava: Yes.

Pritesh Chheda: Right. So other than GP, it's a INR25 crores cost for tech which you have called out. Just to conclude here, so all the other costs which have got inflated, barring the tech costs and barring the GP part, GP because of mix. But all the other costs, other than the tech, you are calling out that they will normalize in the subsequent quarters?

S V Krishnan: Yes. So when you say subsequent quarter, I don't want you to take it as Q2.

Rajiv Srivastava: Quarters. You mentioned quarters. Yes, that's the way it will be. Yes.

Pritesh Chheda: Your subsequent was four quarters to six quarters?

Rajiv Srivastava: Yes, that's right.

Pritesh Chheda: Right. Now I want to just ask why are these costs inflated though? We can understand the tech cost part.

S V Krishnan: No, we did now discuss, right? This is in terms of the factoring cost, the cost of -- I mean the forex that there was a question about it. So these were some of the one-off issues that are there being present in multiple markets, and this is something that we need to handle. And the external environment really is not very conducive from a business stance.

Pritesh Chheda: Okay. And lastly, sir, on the working capital cycle, some quarters back, we had mentioned and we will revert back to the normal number, which was 27 days to 30 days.

Rajiv Srivastava: No 35 days, we said, 35 days.

Pritesh Chheda: Okay. There were a few quarters, where you actually mentioned. There's no problem. But now these numbers are even higher than that. So where should the working capital statement?

S V Krishnan: Okay. See, what you need to understand, Pritesh, is there is a severe slowdown in the market, and we have a choice to go with the market or try to outperform. And these are some of the levers that are available and as definitely the pendulum is -- I mean as there is a normalization, in a slowdown environment, unfortunately, the pendulum shifts to the other end and then it will get normalized. So you will see this getting corrected to the positive territory, but it will take some time. We are at it, be rest assured.

Pritesh Chheda: Okay sir. Thank you very much and all the best to you, sir.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. Rajiv Srivastava for closing comments. Over to you, sir.

Rajiv Srivastava: Okay. All right. Look, I think, thanks so much. I think it was a very, very good engagement, interaction. Appreciate all the questions. If you have any more, more than happy to make sure -- you please send them back to us, and we'll be more than happy to clarify or respond to every single question that you might have.

We, like I said, we did have a very robust quarter on revenue growth, on gross margin. We know for sure where we're headed. We exactly have the understanding of where we're headed from a profitability perspective and how to platted out, but we'll come back to normalcy very-very quickly because those levers available to us.

This is the scale business. This clearly is a business that requires scale. This clearly is a business where its winner takes all sort of a situation which happens with this business. And we've got to be mindful of making the right trade-offs all the time in business. Trading off at 0.12% of GM just because -- was a very, very responsible thing because we wanted to make sure that we can maintain our business momentum in a difficult environment and demonstrate the lead that we have. And that lead becomes so much more beneficial to any organization the moment the situation start to become normal in the external financial world. And that's exactly the way it is going to play out.

We've seen that happen multiple times, and we will see that happen one more time. And I'm glad that we maintain the momentum. I'm glad we maintain our gross margin in the ballpark range, and we seem to have a very strong thing going for ourselves. India did a very, very good growth, revenue on all financial parameters did very well. The rest of the world was more challenged because of different countries behaving impacting differently.

Turkey behaves differently than Nigeria. Egypt, we all know for sure had tremendous amount of financial losses, all of that forex losses. All of those got impacted, but your company or this company navigated those in a very sensible, very balanced manner to make sure that we stay healthy for mid to long term.

So I appreciate the interaction, and please reach out if there's anything else, and thank you so much.

S V Krishnan: Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Redington Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.