

February 11, 2021

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

Dear Sir/Madam,

Sub: Q3 - FY 2021 - Earnings Conference call transcript

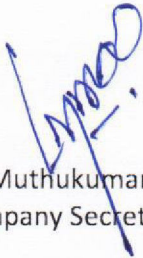
This is further to our letter intimating the details of Investor/Analyst call on the unaudited financial results for the quarter and nine months ended December 31, 2020 held on February 8, 2021.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on February 8, 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

Q3 FY 2021 Results

Conference Call

Feb 8th, 2021

MANAGEMENT

MR RAJ SHANKAR
MR S V KRISHNAN
MS SOWMIYA M

MANAGING DIRECTOR
WHOLE TIME DIRECTOR & CFO
SENIOR MANAGER, INVESTOR RELATIONS

MANAGEMENT DISCUSSION SECTION

Moderator:

Ladies and gentlemen, good day and welcome to the Redington India Limited's Earnings call to discuss Q3FY21 and 9MFY21 financial results. 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raj Shankar, Managing Director of Redington India Limited. Thank you and over to you, Sir!

Raj Shankar:

Thank you very much. Good evening to all who have joined us today. I feel extremely happy to share some great set of numbers that the Redington team has been able to deliver, particularly in Q3. We have reached many milestones. We recorded the highest ever revenue in any given quarter since the inception of this company. We have delivered about Rs.17,000 crores of revenues and very importantly, we reached \$1 billion of revenue as far as India is concerned. From a profit standpoint, I say with absolute pride that this has been the highest ever profit for Redington, and this is notwithstanding the fact that this is after making a tax provision to the tune of Rs.89 crores. In terms of the performance as compared to the industry in India, we outperformed the industry growth, growing at 43% from a PC point of view. Working capital has been at 12 days in overseas and just 11 days in India. This is by far the lowest ever working capital that we have been able to achieve in any period thus far. Overseas business registered a marginal decline in revenue by a weak 1.5%, but grew margins, whether it is at gross margin level or EBIT or PAT by a strong double digit.

However, I also hasten to add that there have been some lowlights for this quarter. There was an unfavorable high court judgment on the gift of tax case and consequently, we had to make a provision totaling Rs.89 crores. Now in terms of the other lowlight in India and in Overseas is the IT investments in the large enterprise sector which did not see a strong demand. We are hoping that this should probably get fueled in the way forward, particularly also in India on the back of the recent budget announcement by the Honorable Finance Minister. The Turkey business, which has done extremely well for the last several quarters, did register a single percentage degrowth in revenue and profits. However, it's not a cause for concern. These are some of the highlights and lowlights. Let me very quickly walk you through some of the statistics, some of which was also shared in the presentations uploaded.

Revenue at a consolidated level grew at 15%, EBITDA at 44%, PBT at 63% and PAT at 21% after taking into account the Rs.89 Crores of tax provision. If for a moment, you keep that outside, then our PAT growth at a consolidated level was 78%. Now this strong performance is across both India as well as overseas. Now when you look at India consolidated, top line grew by a whopping 44%, EBITDA by 79%, PBT by an incredible 173%, and the PAT growth should have been 240%. However, after taking into account the provision of Rs.89 Crores, it has degrown by 1%. If you look at distribution in India in isolation, revenue grew by 45%, EBITDA by 48% and PAT in effect actually grew by 91%, but because of the tax provision, it degrew by 48%. So the good part is both India and overseas contributed quite strongly to this performance. If you look at it by business segment, on a consolidated basis, I am very pleased to share that all the three business segments, i.e., IT, Mobility and Services, grew by 8%, 27% and 8%, respectively. At a consolidated level, the contribution of Mobility was about 41%, IT at 58% and Services at 1%. Now if you disaggregate this between both India and overseas, here again, in India, IT grew by an impressive 31% and Mobility by 69%, Services by 5% so overall, I repeat again, even if you look at not only by theater, you look at it by business segment, it has been a strong performance.

The next interesting aspect is our working capital. Though we did mention in the earlier calls that when business comes back to normal, we are likely to see somewhere around 10 to 11 working capital turns. But I tell you with a sense of pride that at a consolidated level, the working capital for Q3FY21 was just 12 days. Now you would be very keen to know whether this is on the back of extended supplier credit that we enjoyed in Q1 and to a very limited extent in Q2, but I must tell you that in Q3, it is business as usual. So it has been, again, a very humbling performance from a working capital point of view. There, again, when you look at India, it is a record number of just 11 days, and overseas, again, another record number of just 12 days so overall, the working capital continues to be very well managed. The most gratifying part for all of you and certainly for us, is that for this quarter, we managed to generate free cash flow of Rs.234 Crores, largely coming from overseas.

Every financial ratio had improved significantly in this quarter. Our Return on Capital Employed (RoCE) was at 64% because of our enviably low working capital. Return on Equity (RoE), if you for a minute ignore the tax provision, was as high as 24.3%. But after taking that tax provision, it is at 16.5%. Now from a cash flow and a debt level, again, I must tell you, both in India and in overseas, we had negative debt, so in other words, not only did we not have borrowing but we actually had free cash. In India, free cash flow was at Rs.180 Crores, and in overseas, it was about Rs.2300 Crores, totaling to Rs.2500 Crores of cash.

We had inventory provision reversal for the quarter. In other words, this is certainly one of the reasons for our operating profit and the final profits to be significantly higher this time as we had inventory provision reversal in both India and in overseas. As far as the bad debt is concerned, at a consolidated level, it was just 9 bps and for the previous year, this was at 12 bps.

With regard to ProConnect for the quarter, I am extremely happy and pleased to share with you that we recorded the highest ever revenue in the history of ProConnect, that is, Rs.137 Crores for the quarter. We also delivered an EBITDA of 10%, and we delivered a profit after tax of Rs.2.8 Crores. This is notwithstanding the fact that RCS, which is our operations in East did suffer a small loss.

Now when you look at 9MFY21, likewise, everything is just looking extremely good and positive. Let me just quickly give you a high-level perspective. Every parameter has grown during this period, whether it is the India business or the overseas business, and every business vertical has also registered interesting growth. Just to give you a quick snapshot.

For 9MFY21, our revenue growth was 7%, EBIT growth was 21% and PAT growth was 15%. This is after taking into account Rs.89 Crores. If not for that, the profit growth would have been north of 37%. India has registered a double-digit growth on top line, a double-digit growth on EBITDA, and would have registered a very high double-digit on profit after tax, if not for this tax provision. From a cash flow point of view, for 9MFY21, at a global level, we have delivered about Rs.2700 Crores of free cash and from a net debt perspective, again, it was Rs.2500 Crores, which I already mentioned to you. Overall, again, the working capital days at a global level was 12 days, India being 11 days and overseas being 12 days. I will pause here just to take any possible questions and then take it forward.

Q&A SECTION

Moderator:

Thank you. The first question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia:

A couple of questions. First of all, obviously it is a stellar quarter. There are a bunch of one-offs, but stellar job overall. My questions are around Apple. The strong revenue growth has been on account of Apple. It looks like, right now, dependence on Apple is at its peak. We know that you are a veteran of this industry and that you also know all the rules of thumb regarding single vendor dependence. It is also a reality in the last few years that this one company has just come to dominate the industry. So we understand that there may not be much of a choice that we have, if they are making the best products and everyone wants them, we sort of have to go with them. But I am just curious, as an industry veteran, what do you think of this kind of changed landscape? Also, how should we look at Apple's announcement of wanting to drive its own retail stores and own online stores, particularly in India? What does that mean for our business? I am not talking just now, but maybe over a 3-5 year horizon. How do you think about the impact that

might have on us and how are you positioning the company for it. This is my first question. The second question is on working capital obviously. There is a very strong working capital performance, which is particularly surprising given how strong the Apple contribution is. So it looks like they have not squeezed you on working capital, which is good. But just curious to get your guidance, does it still stand that we should see some normalization from these levels on working capital? And finally, if you have to look at a realistic kind of medium to long-term growth on this business on, say, a 5-10 year horizon, what should we expect?

Raj Shankar:

Okay, so Pavan, a very beautiful set of questions. You talk about short, medium and long term so I will try my best to answer. Here is the first point. My personal view is that in this last 1 year, the vendor that you are referring to has done extremely well. Whether you look at it by number of units or whether you look at it by revenue growth. So the first point that I want to submit to you is that both the time and market share has increased. As I look at the next 3 to 5 years, first, I want to look at the industry. When you look at Mobility industry in India, this is poised to grow by 11% in 2021. And we are talking about 150 million units. Yes, it is very clear from our positioning point of view, we are looking at mid- and mid-to-high segment, and we are not looking at mid to low segment. But even so, the overall smartphone product category is poised for a double-digit growth this year and likely to continue on the way forward. On the other hand, the vendor that you spoke about, they are also significantly increasing their share and their contribution. I see that the overarching opportunity for us is very interesting. The relative point on that is, yes, one has to be prepared that there can be a change in the distribution landscape, and we are constantly mindful of it. We are preparing and planning ourselves for managing the same, if this eventuality arises. Now yes, more and more brands would have their own online stores and even brick-and-mortar stores and that is inevitable. But our experience tells us that as vendors start doing that, they are actually increasing the demand for the product. And thereby, we believe it is going to become a big advantage, even for the channel business or the distribution business. So the long and short of it is, I think we are in for a good ride. Yes, we should be prepared that there will be distribution landscape changes or business model changes. But since the overall industry is poised for a double-digit growth in the way forward, and the vendor in particular is having a very strong performance and big plans in the way forward, we think the pie is getting bigger and bigger. And therefore, we see greater opportunities in the way forward.

Now to your second question about working capital and the way we have managed it, I will tell you the truth. The debtor days for this year was at 38 days at a consolidated level whereas for the last year, it was at 47 days. Inventory days for this year was at 17 days whereas it was at 28 days last year. Creditor days for this year was 43 days whereas it was 41 days last year. So the first point that I want to submit to you is that since the Mobility business did exceptionally well there was a high demand, and therefore, there was a very fast turnaround time. Therefore, the

stock rotation and the total cash-to-cash conversion cycle was much faster than what would normally have prevailed. I must credit our credit and collection team and our sales team, where they have been systematically been able to offer credit and collect money extremely well inspite of the concerns that we had 3 quarters ago. But every single quarter in this last 9 months, I can tell you this is one function that has worked over time and has done supremely good numbers. Now to your point about how is it likely to play out? Yes, as we scale up the enterprise business as opposed to the consumer business and as things slowly start becoming normal, one should expect that the working capital turns is likely to be in the vicinity of about, like I said, 10 to 11 working capital turns. This is how we think it should settle down. But then, as you would have seen, we have now taken managing working capital as a very important mandate. We have made sure every single business salesperson and the finance team in the company are all goaled in terms of their Key Responsibility Areas (KRAs) to make sure there is a very high working capital turn and delivering on the RoCE is one key KRA on which their performance payout is hinged on.

Now to your last question about growth in the way forward. There is one thing Pavan, we have always said, and we have demonstrated this in the past that Redington will always outperform the industry growth. If the industry is growing at 10% or 15%, we will make sure that we grow faster than that. This is our commitment. This is something that we have delivered, and we are committed to this. I may not be able to give you a crisp sharp answer in terms of growth, but trust me, with the industry growing on the back of all of this learn-from-home & work-from-home and all of that, this growth is likely to continue in the medium term, as I have already mentioned earlier so we think that we are poised for a growth that is faster than the industry. Does that help, Pavan?

Pavan Ahluwalia:

Yes, just one quick follow-up. I take it that the guidance on working capital normalization stands. So I understand that what has happened is that your vendors have not tried to claw back the superior short-term economics you have because of the pro-cyclical nature of inventory turns, which is probably a good sign. On Apple, I guess the only reason I ask the question is a very high proportion of mobile sales in India are actually online. Given that that is already the case, wouldn't Apple just prefer that everyone buys through their own store? How has been the Apple online versus Amazon dynamic breakup in other markets? Is it realistic to expect that worldwide, in the next few years Apple would just sell most of its phones online via its own online stores? Or is there some reason to believe that Apple's online sales are more likely to happen through non-Apple platforms and be fulfilled by third party?

Raj Shankar:

Pavan, when you look at it globally, the way they have structured themselves is that they have their own stores in different countries and they have the online stores, which is where they also,

in some places, go direct. They have the corporate business, and then they have the channel business. My own gumption here, now this is something I do not know from the vendor. I can only give you our in-house view. Our in-house view is, given the landscape in India, which is so expansive and so complex, there is a crying need for a very efficient distributor who can take those products and deliver it at arm's length of demand. This is something extremely important and fundamental. At the cost at which we can do it and the risk that we take, it will be extremely difficult for anyone else to do it. Whether it is their own store or an online store, at the end of the day, there has to be delivery that has to be made to the consumers. Our view is that given India, there is a very high reason to believe that the channel business is the one that will have a significantly higher contribution. When it comes to channel business, we are definitely a strong player, and we have already demonstrated that. So I am not overly worried in terms of some vendors going direct through their own stores or be it online or offline. Honestly, I cannot give you a better example than in Dubai or in UAE. For a small country like that, can you believe that this vendor has 2 of their own stores, notwithstanding the APRs and even the operators with whom they had a direct relationship. However, we are still able to garner a very decent share in this so-called 5 player scenario. So the long and short of what I am saying is the more online there is, the more it helps to increase the demand, increase the interest for that product, which is going to be a big catalyst, and they would be investing big time in marketing and many other affordability programs. And therefore, we are likely to be a beneficiary, and I do not see that as a disadvantage at all. At least that is how it has played out thus far, and I do not see it any different in the way forward.

Pavan Ahluwalia:

Just one sort of explanation on what you are saying, and that will be the last thing I ask, what exactly is this risk that you are taking? So if someone sitting in Delhi or Bombay or Dubai orders an iPhone online pays for it with a credit card, all that he has done is he has made the payment. All that matters is it is going to be shipped from a warehouse somewhere to that person's address, which anyway is done by logistics firm. I see that in the case of an enterprise or in offline retail, you are actually taking credit risk by funding the shop-keeper or whomsoever. But in an online model, where is that risk that you are taking that the vendor feels that you should not get disintermediated?

Raj Shankar:

So here is the point I am making. I am not saying it will not be a hybrid model. There is going to be online, and I am not discounting it at all. The only point I am making is, it is not a threat, it is going to be an enabler because the more they invest in marketing and in promoting the online, the more and more consumers are going to get interested and excited. That will inturn expand and increase the demand for the product, which ultimately benefits the channel as well. Also, whenever the vendor sells online, they sell it at the end-user price and there is no discounts.

They may give you certain freebies & benefits, but they will never discount on price. Whereas when you look at the channel, the whole model is different. Firstly, you would prefer to buy from a source that you believe can give you a better price; Secondly, they can also support you as and when you want. In India and in some of the emerging markets that we distribute, price is a very important factor. The products we are talking about are pretty expensive. Therefore, discount matters, price matters, and it is channel who can really do all of that and supported by certain affordability programs and so on, that can allow this whole business to happen through the channel.

This shift to online, I can tell you, even in places like China, to the extent I know or we understand, the contribution from their own stores is no more than 10% to 15%. So I do not see that as a threat at all, Pavan, trust me. I am not trying to wish it away. Given the complexity of India, the compliance requirement of this vendor and the fact that you have to reach the product to the nook and corner, whether it is a Tier 2, Tier 3, Tier 4 towns and cities. Now that kind of a capability is available with the distributor, but it is impossible to have the demand across a whole pan-India being served through online. Trust me, there is a very important role for a distributor, and I am willing to take sort of a very strong stand that the channel for this vendor will contribute the highest share of the business they do in India. This is my view.

Moderator:

Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya:

My first question is regarding the working capital. I mean excellent show there. Can you just highlight that how should we see the trajectory of working capital getting back? What we were thinking at one point of time was as the business gets back on track, the working capital will not be at these levels, but that has clearly not happened. So how should we see working capital coming back to normal?

Second question is, what has led to slightly deceleration in the growth for overseas business? Was there any seasonality into it or some timing change, which led to slightly lower growth?

My third question is in spite of the higher contribution of Mobility, the gross margins have expanded, which is pretty unusual. I would like to understand how that happened.

Raj Shankar:

So Pranav, the first point that I want to submit to you is when you think about overseas, there are essentially 3 elements in play: one, Middle East & Africa (MEA); second, Turkey; third, is what we call as South Asia (SSA). Now the business that degrew for us, unfortunately, was the SSA business. This degrew by a whopping 29% last quarter. There are 2 major vendors in SSA biz, who contributed to about close to 25% of the overall revenue that we used to do. It used to be what we call the dollar business, which we would do out of Singapore, but this business has now got transferred to India as a rupee business so very clearly, this has led to a decline in sales as far as the SSA business is concerned. One logical question that you would have is that the loss of the business for Singapore, would it be a gain for India business. For a start, I would say, a good part of that would be a gain for India, but this is an opportunity, which can be captured by even other competitors. But for now, we are still managing to take a decent share out of that opportunity, which has got transferred.

The second is the business in Turkey unfortunately experienced a decline, and this also, while the decline was a single-digit in terms of revenue decline, but that also contributed to the degrowth for this quarter.

Last but not the least, particularly in Q2, which is July, August and September, we managed in Middle East, Africa and Turkey to capture a big part of the PC allocation from various vendors. We got, I would even say, a much higher allocation than what our fellow competitors could get. But because the vendors wanted to play a fair game, they said, "Look, in Q3, we will not be able to give you the same allocation because we also have to give to competition." So our allocation in Q3 was substantially reduced, and that also led to a slower growth. This is just to give you a perspective on what led to sort of a marginal de-growth in overseas.

Now with regard to margin. One of the things that we were very clear. and if you remember, Pranav, 2 or 3 years ago, we took a very sort of a resolute approach with regard to managing working capital overseas. And you would have seen over 12 to 15 quarters, consistently, we have managed that. Now we are also taking an approach where how can we try and focus more on the margin and expand the margin. I must tell you, both in SSA as well as in META, we have managed to do that across all product lines that the margin has got expanded in some by about 5 to 10 bps, in others by about 30 to 40 or even 50 bps. I am overall pleased that, even though we had to compromise on the top line growth, the margin is something that we have held on and held on quite nicely. I also must mention that during this period, there was definitely a good reason, especially when some of the products are on allocation and where supply is a constraint, we also took advantage of that and repriced it so as to enjoy a higher margin. This is what has led to a good margin playing out in overseas. Does that help, Pranav?

Pranav Kshatriya:

Yes, that is very helpful. Can you just throw some light on the first working capital question?

Raj Shankar:

Oh, so sorry. Yes, on the working capital, there is a reason why we keep telling you that when business goes back to normal we should expect that the working capital is likely to have about 10-11 working capital turns. Our Mobility vertical contribution to consolidated revenue was as high as 41% for the quarter. This was never the case before. And particularly for this quarter, the fact that there was a very high demand, and a very strong sales velocity. In the way forward, and right now, do not forget the Enterprise business tends to be a little soft. While there are some aspects or some product categories like Cloud and Security, etc., which are continuing to grow, but the bigger part of the infrastructure, whether it is the server, storage, networking, etc., continues to be soft. In the way forward, we are expecting the Infrastructure business as also the Cloud, Security and Software to play out much stronger. When that happens, you very well know that our credit period can no longer be 30 and 40 days. We have to offer much higher credit period to our partners and customers and so we do expect that in a way forward, as Enterprise business continues to scale, and even the other businesses like Print and others slowly get back to normal, the working capital days will go up. Even in the case of Mobility, while currently it is enviably low, that will start to be at about 12 turns. Therefore, when finally normalcy settles down, working capital turn should be in the vicinity of around 10 to 11 turns, which means more like 33 to 35 days. And believe me, if we do that, we will still be one of the best in the industry. Currently, we are enviably good. With about 10 to 11 turns and with north of 2% EBIT, we are already clocking 20% to 22% ROCE so you can imagine as EBIT starts to expand, and we are able to maintain 10 to 11 or even 12 working capital turns, our RoCE will really become very, very good and interesting.

Pranav Kshatriya:

I think that clarifies. To summarize, basically, we should be expecting working capital normalization but working capital reaching 40 days should be like 3-4 quarters out, not really the next quarter phenomena?

Raj Shankar:

That is true. But, maybe not 40 days per se. Like I said, it will about 10 to 11 working capital turns, so technically, we are talking about 33 to 36 days. With an EBIT of north of 2%, the whole capital efficiency starts to really become interesting.

Pranav Kshatriya:

Sure. In that light, I will just ask one last question. Any thoughts on capital allocation policy in light of possibly higher ROCE and lower working capital requirements?

Raj Shankar:

So great question, Pranav. There are four aspects that we have in mind. Firstly, even though the cash position now is extremely good, but we have to keep in mind that when the working capital normalcy kicks in, we will have to deploy that additional capital. Secondly, we also want to make sure that there is growth capital available as we continue to drive growth in the way forward. Thirdly, we are also having a certain amount of acquisitive capital, call it if you will, because we are also evaluating and constantly looking at certain strategic investments, which can create some good value-creating opportunities. And last but not the least, we keep saying this internally all the time, if you cannot give return on the capital, you must return the capital to the shareholders. We also want to keep in mind that we need to reward and give certain higher returns to our shareholders. This is how we are at this point in time, thinking at a very broad level about the capital deployment.

Moderator:

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

Nitin Padmanabhan:

Congrats on a great quarter. Sir, I had a couple of questions so one is, I think from what you are suggesting, there were supply side issues. Sir, if I understood you correct, what we have seen so far in terms of the better margins and the better working capital is a function of two things; one is, I think, the mix and secondly, also because of supply side issues, there were allocations, and those allocations allowed you to sort of squeeze in better margins. Is that a fair sort of a thing? In addition, was there any process changes on the way we function that allows us to sort of operate far more efficiently? I think that is my first question.

Raj Shankar:

So I would broadly agree with you. There are a few things that we are also doing, though I may not be able to attribute that as a very significant reason, but it also has played out. There are some businesses where we have tried to adopt our digital model. And overall, we have seen some amazing operational efficiency come out of it so but there again, I must confess that it is more in pockets and not necessarily across the whole company. But this is also playing out.

Nitin Padmanabhan:

Sir, second thing is, I think in one of the earlier questions, you suggested that there could be a potential change in distribution landscape. Now were you just referring to the top vendor or is there something more meaningful from a broader distribution landscape that you have seen?

Raj Shankar:

No, see, the question was very pointed with regard to an approach taken up by the top vendor where there was a certain amount of change in the ecological order when there were more number of distributors. Later on, there was a lot of standardization that was done, which gave us a big advantage. But in the way forward, as the business continues to grow and expand both for this vendor, and for us, then it is only natural that one should expect this. I do not have anything in mind as I made this statement. I was only by saying that, look, constantly, we keep thinking about it. And as Pavan said, this concentration risk or whether it is on a market, whether it is on a brand, whether it is on the product category or whether it is on a customer, this is something that constantly we are paranoid about. And therefore, I am just saying that we are mentally prepared saying that God forbid if there is any change in the landscape, be it a business model change or a sheer landscape change, we want to be prepared and have a mitigation plan. That is all I meant, Nitin.

Nitin Padmanabhan:

Sure. Sir, I had quick two more questions, if I may. In the South Asia business (SSA), where you suggested that there is a dollar to a rupee business shift wherein it is moving to a rupee-based billing out of India. Does that change anything in terms of the risk profile of that business or the margins of that business? You had also suggested that a good part of the gain will be for India, but also a part of that would be transferred to the others. Could you please elaborate what exactly was the rationale for this change and what is driving this?

One other question question was, are there any new products or categories that we have incrementally as we go forward, that are likely to kick in?

Raj Shankar:

Okay so Nitin, first of all, let me tell you one of the thought process we have is more and more vendors/partners/customers are not necessarily seeing the benefit of buying the product on a dollar-denominated basis. There was a time, and until recently, of course, it made a lot of sense when duties and taxes were high in India. Off late, there is harmonization of taxes. Also, when the interest rates were abnormally high, they were able to arbitrage by getting a lower rate of interest, since it was U.S. dollar denominated interest in the overseas. Apart from the above,

given that many of these customers were also exporting, they would get duty drawback. Now some of that duty drawback was significantly higher in the past, but not so much now so for these and other reasons, the customers and partners are not finding great merit in having to buy on a dollar-denominated basis. The gap between the commercial game that they once saw and what they see now has surely narrowed down. Therefore, the vendors have also decided that if this is the way customers prefer to buy more of the products out of India, why do not we make that product or that opportunity available in India for all those customers. So more and more vendors are setting up what is called as a free trade warehousing zone and therefore, they are able to take products into that particular zone and then be able to offer to the distributors to be able to serve to their customers. This is also taking into consideration from our tax point of view, is they feel probably they are in much better control than if it was being shipped out of Singapore. So the way we are thinking in the way forward is that eventually, it will be just two businesses. India & South Asia (SSA) as one, because a good portion of what we do out of South Asia is India destined so we will probably club it together in the way forward. And the META business, which is Middle East, Turkey, Africa, will be treated as overseas. At least this is the plan we have, so that we are able to mirror and align ourselves to the business model change, which is the way customers want and the way the vendors are driving it. I do not know, Nitin, in my anxiety to explain if I have confused you a little bit.

Nitin Padmanabhan:

No, not at all. This is very helpful. Sir, the only other question I had, this was my second question, is there any new product categories that you have got into in the recent quarter and anything that we should anticipate in the near to medium term?

Raj Shankar:

Okay. If one were to look at from a materiality point of view, there is very little that I can mention. However, I would like to share that we have split our entire business into what we call the **Core business**, which is *efficiency driven*; **Strategic business**, which is all about *value creation*, and the **Emerging business**, which is all about *as-a-service model*. There are a number of brands and opportunities that we are adding on the emerging technology business. This will certainly give us an interesting opportunity in terms of annuity business and businesses turning from transactional to contractual. Margins will start to expand. There is a greater stickiness that will come about so that sort of business is where we are investing, but you will start to see the rewards 2 to 3 years down the road.

Nitin Padmanabhan:

Sure. That is very helpful. Sir, just one thing I missed. You had suggested some acquisitive capital. Maybe if you could just highlight what areas are you looking at specifically? Is it the logistics or distribution? That is my last question, and I will cede the floor.

Raj Shankar:

Yes, Nitin, so this is largely on distribution and this is going to be helping us more in terms of, as I said, emerging technology business, where everything is now slowly moving to an Opex model or as-a-service model. There are some of these capabilities and skill sets that we do not have within the company. But if we can, therefore, look at some assets that can help us to make a foray into that is one of the opportunities we would be looking at. But trust me, I do not want to spill the beans anymore at this stage. We are keeping an absolutely open mind. Given our current balance sheet strength, our vendor engagement, our market share and all of that, I think we are very well placed now to be able to also look at what are the other ways by which we can grow so pardon me, Nitin. I know it is a lot of English that I am giving you because I am a little constrained to share. But at least we are seriously thinking on those lines, let me put it that way, but I am unable to say too much now.

Nitin Padmanabhan:

Great. This itself is very helpful.

Moderator:

Owing to the time constraint, we will be closing this call now. I would now like to hand the conference over to Mr. Raj Shankar from Redington India Limited for closing comments.

Raj Shankar:

Thank you. I really want to thank each and every one of you for taking the time to be on this earnings call. I am very pleased with the way the Redington team has delivered yet again in Q3. I thought we surprised you positively in Q1. We surprised you even more in Q2. And I think, in Q3, we have very clearly established ourselves as a frontrunner. Every single theater, be it India or overseas, has done well. Every parameter, whether it is revenue, EBITDA, PBT, PAT, every parameter has grown. That we have even made a tax provision because we felt it was important to bite the bullet though we are still waiting for the department to announce their final decision. In spite of the provision, we have still delivered a double-digit growth at PAT level. Our working capital continues to be managed very well, and we have created a record quarter in terms of the highest revenue, record quarter in terms of the highest profit, record quarter in terms of the

lowest working capital base and also a record quarter in terms of the best ROCE that we have ever delivered. Notwithstanding all of this, we also delivered free cash flow, both for the quarter as well as for 9 months. We believe that there is a good tailwind that is certainly blowing in our favor, and we will continue to ride this, and we hope to end this pandemic year on a high. Thank you once again to all of you for joining us. Good evening, and Good night.

Moderator:

Ladies and gentlemen, on behalf of Redington India Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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