

November 16, 2020

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

Dear Sir/Madam,

Sub: Q2 - 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 half-year ended September 30, 2020 held on November 12, 2020.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on November 12, 2020. 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

Q2 FY 2021 Results

Conference Call

Nov 12th, 2020



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

Moderator: Ladies and gentlemen, good day and welcome to the Redington India Limited Q2FY21 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 guaranteeing 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, Faizan. Good evening to all those joining from India and thank you for taking the time to be with us on this earnings call. Q2FY21 has been a good quarter for us. At a global level, our revenue grew by 12%, EBITDA by 18% and the profit after tax by 35%. It is gratifying that in the COVID period, we have managed to deliver our earnings growth to be much stronger compared to the revenue growth. Now, if you disaggregate this between distribution and services, at the global level, the distribution business grew its profit by 37% while the revenue growth was 12% and EBITDA growth of 26%. As you unpack this between India and overseas, both have shown good set of results. As far as India is concerned, we grew our topline by 8% and our bottom line by 37%. In India, EBITDA degrew by 7% largely on account of the services business, but when you look at India distribution business in isolation, our EBITDA grew by 3%, while our profit after tax grew by 33%. Now when you look at services which includes both Ensure as well as ProConnect, on July 31st, 2020, Ensure India was divested. Therefore, when we take into account only one month of Ensure, which is July'20 and full quarter of ProConnect, the

revenue degrowth is 13% in India, while the profit after tax has grown by 81%. I hasten to add here that out of this Rs.7.5crs of profit that we have delivered on the services business in India, about Rs. 4.5crs comes out of the capital gains on the sale of Ensure India. Now when you switch gears and look at overseas, once again they have delivered very strong set of numbers. Revenue growth in rupee terms is 14%, EBITDA growth of 42% and a profit after tax of 34%. We have a huge tax disadvantage impact on account of the devaluation of Turkish lira. For the quarter, our effective tax rate was 49% whereas the income tax in Turkey is 20% and for last year our effective tax rate was 22%. Notwithstanding this serious negative impact, the overseas business has still managed to deliver a profit after tax growth of 34% against a revenue growth of 14% once again implying there is a strong operating leverage. The contribution from overseas business was 62% by revenue and similarly on profit after tax.

If we look at from our industry vertical or business vertical, at the consolidated level, the IT business, which is consumer and enterprise put together grew by 8%. The mobility business registered a strong growth of 21% for the quarter and the services business actually degrew by 1%. When it comes to services, as shared earlier, there is only one month of Ensure India, which is July'20 as compared with 3 months of last year. Therefore, if for a minute we do a like for like comparison by excluding Ensure India figures from both Q2FY21 and Q2FY20, Services business has grown at 5% on a YoY basis. Now as far as India is concerned, I am happy to share with you that IT as a vertical grew by 14%. Now it is important to note that while the PC growth in industry was about 11%, we managed to deliver a growth of 14% in India on a YoY basis. As far as overseas is concerned, our IT grew by 4%, Mobility grew by 36% and Services grew by 15%. So overall, it has been a good quarter whether you look at it by parameters of revenue growth, EBITDA growth and PAT growth. Both India and overseas have done well, though there has been a stronger

growth in overseas. When you look at it by industry vertical or business, which is IT, Mobility and Services, we have also done well for the quarter

Now one of the most gratifying thought for last quarter is once again we have managed to contain the net working capital at 14 days at the consolidated level. When you look at the previous year, it was 30 days, so there has been a good significant improvement of 16 days year on year. But here again I must mention that this did not come out of getting additional supplier credit, because last year we had 47 days of Creditor days, which is the same that we had for this year in Q2. However, what has substantially improved is our inventory base, which from 28 days of last year reduced by 9 days to 19 days. Similarly, our credit and collection engine has worked extremely well once again this quarter. Our total DSO was 49 days for last year, which has come down by 7 days to 42 days at the consolidated level. If we break this down by regions, India has brought down working capital by 15 days from 29 days last year to just 14 days of net working capital. Likewise, Overseas has brought down working capital from 32 days to 14 days. Overall, we believe that the hygiene on the business, be it inventory and the quality of inventory, DSO and our collection of overdue receivables has been well under control for this quarter. We managed to deliver free cash flow for the quarter. At a consolidated level, we threw up about Rs. 182crs of free cash. Essentially all of this or more came out of overseas, which delivered a free cash flow of approximately Rs. 500 crs. Now this certainly helped us to improve our Return on Capital Employed (ROCE), which of course looks too good to be true at 42.6% at the consolidated level for the quarter. Both India and overseas have contributed nicely to ROCE. It was 45.0% for India and 41.4% for overseas. Similarly, when you look at Return on Equity (ROE), because of the strong profit growth in India, the ROE is close to 21% for the quarter and for overseas, it is ~14%. Thereby at the consolidated level, the ROE is ~16%. We put in a lot of focus on liquidity and cash flow. From March onwards until end of September 2020, we have been

extremely focused on making sure that our cash flow and liquidity is absolutely in the control. I am pleased to share with you that at the consolidated level, our gross debt to gross equity is 0.17 and at the net debt to equity, it is negative 0.47. This clearly implies that across all the theatres, whether it is India, Singapore, South Asia, and the META region, we managed to have enough cash flow generated. In terms of the inventory and receivable provision, which was again a unique position where we had reversal of inventory provision such that at the consolidated level, it was -0.19%. Though I must also confess when you look at the previous year, it was -0.21%. This clearly implies that the aging inventory that we had, we have managed to sell it out and hence the corresponding provision has been reversed during this quarter. Similarly, about our robustness of the credit and collection, if you look at bad debt provision, it was just 0.01% in the case of India and 0.03% in the case of overseas thereby it was 0.02% at a consolidated level for Q2. This compares with 0.13% for the previous year. Now while there has been lot of improvements on many aspects, I must mention that as far as ProConnect is concerned, I do remember making this commitment to all of you that we are fixing the issue about ProConnect. We brought about the leadership change, new organization design and structure, new processes, controls and systems. This has allowed us to be able to deliver in our performance. We had a 6% degrowth for the quarter but we managed to deliver a profit after tax growth of 25%. I must mention here there has been a significant improvement in terms of our business, our contracts, and our margin and so on. Therefore, there is an all rounded improvement. However, the negative news is that RCS, which is our investment in East region, is still under the water. We made a loss of Rs. 2.5crs. We made a profit of Rs.3.1crs in ProConnect, after taking this loss of Rs. 2.5crs into account. We are putting all the corrections in place. I did commit to you that we will turn it around this quarter and we have done that, at least in terms of delivering profit. I see this trend to continue as we look at Q3 and Q4 such

that when we exit our FY21, we would have once again put ProConnect back on a growth trajectory and it will be a nice profitable growth. We would have completed all our corrections, consolidations and improvement. As far as Ensure is concerned, I already mentioned to you, in India, we have divested that asset, which gave us about Rs.4.4crs of capital gains.

Now when you look at H1FY21, you will be very happy to note that we have delivered growth on every parameter of revenue, EBITDA and profit after tax. We have grown revenues by 2%, EBITDA by 7% and PAT by 10%. Some of you would recall that we had shared earlier that probably by September, the whole situation will start to turn around. I am happy that in Q2, we managed to turn the ship around and by H1, we are already in the growth trajectory for the company. I will not go into all the details, all that I just want to share with you is when you look at half year, then again when you look at distribution, global distribution grew revenue by 2%, grew EBITDA by 14% and PAT by 18%. A big part of this growth and performance came out of overseas, which registered a 5% growth in revenue, but a 17% growth in profit after tax. This is notwithstanding the fact that we had a huge negative impact on account of income tax in Turkey. Therefore, if for a minute, you look at EBITDA growth for overseas, it was 29%. As far as India is concerned, we had a degrowth of 3% on the top line for the half year and degrew bottomline by 1%. So we are almost there in terms of India. Once again starting Q3 and when you look at YTD it should be a completely different picture. Similarly, about our working capital, just like in Q2, when you look at half year, it is 15 days at a consolidated level compared to 31 days for last year. It is very gratifying that we have generated free cash flow of Rs. 2,515crs for H1FY21, coming out of both India and overseas with ~35% coming out of India and ~65% of the free cash flow coming from overseas. Similarly, our gross debt to equity, which I have already shared with you, is 0.17 and net debt to equity is negative 0.47. In the case of ProConnect India, for H1FY21,

ProConnect has degrown revenue by 18% largely coming out of Q1 wherein we were significantly impacted. For H1, we unfortunately had a loss of Rs.1.4crs again largely coming from Q1. However, we are more than confident that we will have a stronger performance in H2 for ProConnect such that for the full year we should be delivering a profit growth. I will probably at this stage take a pause and turn it over for any questions from any of you, thank you.

Moderator: Thank you very much. We will begin the question and answer session. The first question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.

Sanjay Dam: Sir, congratulations on a wonderful performance. Congratulations to the entire team!

Raj Shankar: Thank you.

Sanjay Dam: My first question was on inventory. I think we are running on pretty low levels. As we typically have a higher level of inventory, is there any loss of sales or are we losing out anywhere on account of this? Second question is that in the previous earnings calls, we had mentioned that India will be very important driver and increasingly important growth driver and indicated that Mobility will play a very important role. So notwithstanding the disruption that happened in the last six to nine months, how do you see this going forward?

Raj Shankar: Thank you for your question. I will take the first one, which is to do with the inventory days. I think this is a very good observation. You are spot on. While we pride ourselves that the inventory has come down from 28 days to 19 days, let me give you the perspective in terms of the way forward. The inventory cannot be at these levels. The ideal inventory levels as expected by our vendors and that which is required to serve our partners would be in the vicinity of ~4 weeks, which is what we had last

year and which is what it is likely to settle down in the way forward. Now to your question on inventory whether we are currently losing business and on what has given us this unique advantage of being able to contain the inventory at 19 days, there are essentially two reasons. One, this year starting April 1, 2020, we have been extremely prudent in terms of our purchases. We want to buy only if we are confident to sell and sell within 1 week. Our intention was not to take a risk. So we have been extremely hard and tough and very aggressive with regard to controls on purchases. But in the way forward as the business and the industry is slowly coming back to normal, though we are still some months away, we must now once again keep the inventory levels at about 4 weeks. Otherwise, we will not be relevant both to the partner and to the vendor. The other question about India being a strong growth driver in the way forward, you will clearly see that in Q2FY21, India's performance has been particularly strong across all parameters, but once again just for your understanding, the distribution business grew by 9% on the top line and grew bottom line by 33%. So trust me you will see quarter on quarter that the performance and the contribution of India business, particularly on distribution will start to really look up. Therefore, we stand by our earlier message that we see a higher potential and higher growth opportunity in India. You would also recall that historically India's working capital was always much higher. If for a minute I jog your memory to last year, it was 29 days of working capital, which is low whereas in the previous periods it used to be north of 40 and 45 days. We have brought the working capital down to 29 days last year and now we have brought it to 14 days. Now while I do understand and I have mentioned this in the past that this is not sustainable, the point I am only trying to impress upon you is that we are completely conscious and working very hard towards making sure that our working capital is under check and control and you are seeing an improvement. We are growing our topline and we are winning market share in the marketplace. Our profit after tax is growing much faster than the top line. There is

operating leverage. If you look at our opex even that is coming down when you adjust it for one off expenses and if you look at our working capital and the free cash flow on all these parameters, there has been a marked improvement compared to what it was. We are confident that in the way forward, you will continue to see strong set of numbers coming from India. Thank you.

Sanjay Dam: Thanks and wish you all the best.

Moderator: Thank you. The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Pawan Ahluwalia: Thank you very much. I just had a question on some of the comments you made on inventory. Isn't the inventory levels determined partly by product mix? For e.g.: If the IT enterprise grows more slowly than everything else, there is generally less working capital stuck. On the other hand, you really made some changes, improvement etc., on how you manage working capital. So, if we break it down by geography and segment, that is, IT Enterprise, IT Consumer and Mobility in India and similarly for Overseas, where has the biggest improvement happened and how were you able to display this improvement? You normally run a very lean and excellent operations, which is good but it also means it is very hard to find places where you can improve. So it would just be good to get some color on what changes you were able to put in place on top of an already well run operations to improve working capital further in the relevant segments.

Raj Shankar: Pawan, as always a great set of questions and good observation. Here is what happened in both India and Overseas. If I have to put it right on the top, I would put that the Mobility business in India did exceptionally well with regard to working capital management, both from the inventory lenses as well as credit and collection. So there have been some very interesting structures that we have put in place, which allows us, to be

able to contain our DSO far less than what we used to have in the past. Also, even on inventory, wherein the past we used to be hovering around 4 weeks, I can tell you that we have managed to cut it down quite a bit. So in summary, Mobility business has been a great opportunity for us to manage working capital better. Secondly, IT consumer in India, trust me when I say that our purchases and from the time the stock lands, we look at stock turns, we look at the cash conversion cycle, IT consumer in India turned out to be an absolute treat for us. We made good revenue, made decent margin and the products sold at terrific velocity. So often, we were faced with the situation of not having inventory rather than having more or excess inventory. Therefore, the IT consumer has done well, though in the same breath I must tell you that the print and supplies part of the business was certainly a little slow. So to that extent we had to slow down in terms of our investment in the print and supplies part of the business. Thus, the IT consumer business was largely driven by PCs. We could manage the working capital very well, deliver growth and delivered decent margins. Now with regard to IT Enterprise, for whatever we managed to sell in this last six months, I must tell you I feel extremely good about how we managed the working capital. As compared to Mobility and IT consumer, working capital investment tends to be much higher for reasons that you know. The way to look at the IT Enterprise business is that although there was higher DSO, during this period we managed to negotiate and win extended supplier credit, which certainly helped us to manage the overall working capital. Likewise, when you look at Overseas, unlike in India, I would put IT Consumer on top in terms of working capital management, which as you know is the bigger piece of our action there that did very well for the same reasons that I articulated for India. IT Consumer biz delivered growth and decent margins, had a very strong working capital management driven largely by a strong sales philosophy on PCs. In the case of Mobility in Overseas, we also had a good working capital management there and managed to deliver growth. In Q2FY21, the

Mobility business in overseas grew by an impressive 36% and the contribution of Mobility business to Overseas revenues was coincidentally 36%. Like in India, IT Enterprise business in Overseas is the one where we had to deploy more working capital and again the same philosophy was adopted that if you are giving any higher credit, we managed to get extended supply of credit to a good extent possible and practical. So far, it seems to have worked very well. I hope that answers your questions.

Pawan Ahluwalia: That really helped. Just to make sure that I have understood this correctly. So, a lot of it is growth linked and growth appears to have two sides to it. One is obviously the higher sales than last year because of work from home and greater electronics penetration. Second is that when you have this kind of fast growth opportunity, it sounds like in a way it increases your bargaining power a little bit with the suppliers who are very keen to make sure they do not miss out on the growth. Therefore, they are willing to be a little more generous on supplier terms to make sure that you know they are actually able to grab this growth. If you look at the 20-30 years of history of this industry, we have seen that when the products are in a high growth phase, folks tend to be more generous but when growth is slowing down, they try to squeeze out whatever they can in working capital. It sounds like some mini version of that is playing out today. I do not know if would be right.

Raj Shankar: I think you are right, Pawan. You should question me as to how much of what we have done in Q1 and Q2 in terms of working capital management is sustainable. We expect under normal terms that there would be about 10-11x working capital turns, which is almost about 35-37 days of net working capital. This is what we believe is likely to play out on a steady state, but we are using this opportunity to be able to get very prudent with regard to our buying. If we get that right and manage to structure it well, I think we should see a sustained level of improvement in both India and Overseas

Pawan Ahluwalia: Perfect. Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, I will just pick up from the last question on working capital. I missed that but did you say that that sustainable net working capital should be 35-37 days in this business? The working capital days was at this level in FY19, which dropped to 30 days in FY20, and what we see is about 16 days today.

Raj Shankar: You are right. We believe that once our IT Enterprise business starts to scale up and some of the extended supplier credits may not be available. As you would know, we had managed to negotiate and get some extended period, considering the current times but some of that may be hard to get. So our own view is that as time goes by and as the IT Enterprise business starts to scale up, we believe that something like about 10-11x working capital turns is what is likely to settle down on a steady state.

Pritesh Chheda: In that case, with EBIT margins of ~2%, the ROCE of your business should be not more than 16%. Is that the way to look at it or you feel that ROCE has a lever?

Raj Shankar: No, I think your observation is largely right except that if we can rotate our working capital 10x and we are able to do an EBIT margin of ~2%, my own sense is that ROCE should settle down at closer to 20%. I am doing a simple math here, wherein it may not ROCE, but it is return on working capital. I do understand that there would be some other investments, but when I look at return on working capital, as you know, it is 80-90% of all the capital that we invest in the business. If that we are able to do a 10x working capital turns and we are able to deliver an EBIT margin of 2%, then we are at 20%. Of course, we can also increase the working capital

turns to 11-12x and still manage to deliver closer to EBIT margin of 2% and the rest is to your calculation

Pritesh Chheda: Okay. For the last 3 months, we were reading a lot on the mad rush in the IT part of the products in terms of demand for laptops etc. So, I was little bit perplexed when I saw only growth of 9% in India business for the quarter. Was there any challenge or any other thing that I need to understand for this mismatch between what we were reading and what the reported growth came in?

Raj Shankar: Sorry, I am missing your question here. Could you paraphrase again please?

Pritesh Chheda: I will put it simply. In the electronic space or the durable space, we have continuously been reading that there is a lot of growth on demand for IT products at homes. However, when we look at the growth of 9% in the India business that you reported, it seems to be a lot lower than what the channels were suggesting in terms of growth rate. Am I missing something in this?

Raj Shankar: So let me give you some more color. When you take India and you break it down by IT and Mobility, IT grew by 14%. At India level, which includes IT, Mobility and Services, the growth rate was 9%. If we look at IT alone within India, the contribution of IT business to the overall revenues of India in the last quarter was 77% and IT grew by 14%.

Pritesh Chheda: Is it still not lower than what the media reports or newspapers were talking about in terms of growth in this product group. Is there anything else to highlight?

Raj Shankar: I really do not know what you have been reading, but here is the point that I want to make. So we are extremely happy with the way the business has grown. I will give you one more statistics, if that helps. Within IT

vertical that contributed to 77% of India revenues in Q2FY21, the IT Consumer segment grew 23% YoY

Pritesh Chheda: Okay and how much is IT Consumer as a portion of your business?

Raj Shankar: It is 60% of the IT business in India. It is almost about 46-47% of total India revenues

Pritesh Chheda: So which means the IT Enterprise business would have either declined or grown softly?

Raj Shankar: IT Enterprise business in India grew by 3% for the quarter and the contribution was 40% to the IT business in India, which mathematically is somewhere in the vicinity of about 30% to overall India revenues. I am sorry if I did not mention this point, which is that we have not seen any pickup in the investment in the SME and the Enterprise space on data centers and that continues to be soft. We are expecting that it should start to look up in the way forward and as you know whatever growth we have been doing is largely on the back of some of our security, software, cloud, etc. Some of these businesses are showing good traction, however, the business is still to pick up in some of the other value businesses like server, storage, the traditional infrastructure and data center. Does that help?

Pritesh Chheda: Yes, that helps a lot. So can we expect acceleration in the growth rate in India as we get into incremental quarters?

Raj Shankar Yes. We have always said that India will deliver strong growth and will be a significant contributor. So it has started to really show up in Q2, as we look at Q3, our own sense is it will get even better.

Pritesh Chheda: Okay. On the depreciation side, we see that depreciation has really halved from what was in the earlier quarters. Is there any specific adjustment here? What will be the incremental depreciation number?

S. V. Krishnan: Yes, you can take it as steady state depreciation because it is for the half year. For last year, it was about Rs. 80crs and for the current year, it is about Rs. 74crs. So that would be the trend

Pritesh Chheda: Okay, Sir. So, the incremental depreciation shall be Rs. 35-36 crs for the quarter hereon?

S. V. Krishnan: Yes.

Pritesh Chheda: Okay Sir. Thank you very much Sir and all the best.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Thank you so much for the opportunity, Sir and congratulations on a spectacular set of numbers. Sir, I have three questions. One is just to extend and what we discussed with the previous caller, I want to understand how you are seeing the next 2 quarters. There could be some hints of pent-up demand, which could have yielded in Q2 and to that extent; Q3 is likely to be more normalized. So I wanted to get your sense as to how you see Q3 and Q4 shaping up in both India and Overseas. That is my first question. The second question is I wanted to understand the reason for a lower cash flow from operations.

Raj Shankar: With regard to whether it is pent up demand or whether it is sustained demand, our view is that this growth or this demand is likely to play out much longer. When we got into Q2, we had the same question in our mind. We did wonder if the kind of demand that we were observing is likely to be pent up demand and once fulfilled, it might sort of die out or

phase out. However, I must tell you that traction continues to be lending itself through this quarter or at least thus far and our own in-house view is that this should play out at least for some more quarters. This is true for both India as well as Overseas. In fact, now, it may look a little ironic if I told you that with some of the PC vendors, we are not able to get the delivery and the supplies as much as we would like to cater to the demand. So in fact in some geographies and with some vendors, we are having a kind of different problem, where the demand is so much that we are unable to supply and that is somewhere impacting the business. So in summary, we expect this demand to play out in the medium term and therefore for some more quarters. It is not one-time pent-up demand, which is likely to phase out. As regards your other question on lower cash flow from operations, I will request Krishnan to take that.

S. V. Krishnan: See if we look for the half year, the free cash flow that we have done is about Rs.2500crs and there is good free cash flow in both India and overseas. When you look for the current quarter, this needs to be read in a sequential manner, that is, with the working capital situation as on June 30th, 2020. Since a significant cash flow was earned in Q1FY21 that is something that cannot be repeated in the subsequent quarter but still overall, we have made a free cash flow of Rs. 182 crs which is quite good for the current volume of operations.

Aditya Bagul: Right, Mr. Krishnan. I understand that, but when I go through the slide 14 of the Earnings presentation, the changes in working capital line item is a negative figure. Is that essentially on account of lower payables? What explains that negative number?

S. V. Krishnan: There has been an increase in working capital consumption on a sequential basis. The net working capital days in India was 12 days as on June 30th, 2020 and that has moved to 14 days in the current quarter. However, in

Overseas, it had come down. So there is a steady state working capital and what you see there is only the working capital change.

Aditya Bagul: Understood, Sir. That's very helpful. One last data point question if I may ask, I missed out some of your opening remarks with regard to something on losses in ProConnect business. First of all, congratulations to the entire team for turning that around. Can you give us a little more color on what is happening there? I am sorry if it is repetitive.

Raj Shankar: Not at all. With regard to ProConnect, the point we were making is at a consolidated level, the revenue degrew by 6%. Honestly, we feel internally happy that we managed to deliver Rs.112crs of revenue in Q2, which given the circumstances you know while we are not ecstatic about it but we feel satisfied. When you look at the performance from profit after tax point of view, we delivered Rs. 3.1crs. This represents a 25% growth YoY. The point that I was making is that our investment in RCS, our subsidiary in East India continued to deliver a loss of Rs. 2.5crs in Q2. So the point that I was only making is if one were to look at ProConnect without RCS, then our performance would have been far better. It would have been around Rs. 5crs of PAT on revenues of Rs. 95crs. Even with regard to RCS, we are reasonably confident that we are putting all the necessary corrections and improvements and you should start to see one level of change in Q3, but by Q4, we would have completely fixed this issue. With that, we believe that ProConnect for the full year would have delivered hopefully a small growth on top line, but more importantly deliver a sort of decent growth on the bottom line.

Aditya Bagul: Okay, Sir. That is very helpful. Thank you and best of luck for the quarters to come.

Moderator: The next question is from the line of Pranav Kshatriya from Edelweiss Securities. Please go ahead.

Pranav Kshatriya: Thank you for the opportunity and congratulations on good set of numbers. Can you please throw some light on the overseas mobility growth, which is very strong at 36%, and how should we see this going forward? Typically, Mobility growth is driven by Apple or Samsung, but if I look at the contribution of the revenue from these brands have either remained stable or gone down and the other segment is where the growth seems to be coming from. So, can you just help us understand that is there some other brand, which is driving the growth for the company in the segment?

Raj Shankar: As always, you are very sharp with your observation. So, the real tailwind is coming out of a brand that we have not really said too much in the past, which is Xiaomi, and consciously we are trying to downplay that. While the rest of the brands are showing growth, this particular brand is showing very high, interesting and impressive growth. So you are right that for Q2, Mobility in Overseas grew by 36% contributing to 36% of the Overseas revenue and when you look at for half year in spite of Q1 setback, the Mobility business in Overseas grew by 9% and continued to contribute 36% for half year as well

Pranav Kshatriya: Thank you for that. Also, in Q3FY20, the base was reasonably high. Of course, Q2FY21 numbers are great but should we expect this revenue growth momentum accelerating in Q3FY21?

Raj Shankar: We expect certainly the momentum for all the brands that we carry is definitely good but I just want to mention that we are being a little more cautious and conservative as far as our business in some parts of Africa is concerned. This is purely because in some regions the currency has depreciated quite a bit and therefore, we are playing a little bit of a cautious game, but for that the momentum as far as the brand, product and opportunity is concerned continues to be strong.

Pranav Kshatriya: As for my next question, I am coming again to the most discussed topic today, that is, working capital. You have been talking about sustainable working capital days at 35 odd days for a while now but honestly, my expectation was that you know in this quarter, we will see significant jump in the working capital. However, it was otherwise and you have maintained the working capital. So how should we see that trajectory of working capital going to 35 days? Is it going to happen in next 1 or 2 quarters or it will be happening a little more gradually?

Raj Shankar: The only reason I keep harping on 10-11x working capital turns is only because today as I said to the previous caller, if you take Q2FY21 and in India, the IT Enterprise business grew by 3%. Let me also tell you that IT Enterprise business in overseas degrew by 15%. So this is a time where the contribution of IT Enterprise business is still relatively less compared to Mobility and IT consumer, and with these IT consumer vertical having a terrific tailwind on account of PCs, laptops, etc. really selling well, and the mobility business having a good sales velocity. All this working capital management at 14 days or 16 days or 17 days has been possible on account of this product mix favoring IT Consumer & Mobility. Now as we think about the way forward, we expect the IT Enterprise business as I said again to the previous caller, that the SME and the Enterprises, the investments and the traditional data center business has been very soft I the last 2 quarters, but we expect in the way forward that business to start picking up. Once that happens, we expect that the working capital in that business will go up. Therefore, we are only saying that look as the business starts to get back to its old levels and we look at it on a steady state, we should look at around 35 days. We are just sort of setting the expectations right because this current level of WC days is possible because we managed to get good supplier credit. We managed to buy stock and sell because some of the products are selling at insane velocity. Now this may not continue into the foreseeable future therefore we believe

that if we can do 10-11x working capital turns, I would think for this industry that's better than the norm.

Pranav Kshatriya: Okay the last question related to this is if I look at the capital structure and even if I assume that the working capital requirement goes to 35 days, the capital structure seems to be slightly equity heavy, leading to lower ROE. So what are your thoughts on that?

Raj Shankar: So we had the board meeting today amongst other things one of the points that we were discussing was precisely this. While we have not come to any clear conclusions that I could share with you, all that I want to tell you is the board is completely mindful of this. While there has been a marked improvement on many parameters, and this is one area while there is an improvement in Q2, but we still have some way to go. So all that I would only want to tell you is we are conscious about it, stay tuned and we will work towards improving this.

Pranav Kshatriya: Thank you so much for your answers and all the very best and wish you a very happy Diwali to your team and everybody.

Moderator: The next question is from the line of Sunil Gupta from Enam Holdings. Please go ahead.

Sunil Gupta: Good evening, Sir. Thank you for taking the call. Just a quick question. Could you give us some clarity on the dividend distribution policy going forward please?

Raj Shankar: Honestly, one quarter ago that is when we were in Q1, we began the day in the morning everyday with cash flow and liquidity and we went to bed thinking and driving the same. In Q2, we have precisely continued to do that. So right now, we are so focused on getting our liquidity, cash flow, working capital, etc., in order. Just like I had shared to the previous caller, I would request you just stay tuned. It is a little premature for me to share

at this stage, but all that I can only tell is the way forward you are only going to be surprised positively.

Sunil Gupta: All right. Thank you very much, Sir.

Moderator: Ladies and gentlemen, due to time constraints we will take that as the last question. I would now like hand the conference over to Mr. Raj Shankar for closing comments.

Raj Shankar: Once again a big thank you to everyone who joined us for this earnings call. It has been a very good quarter for us. Essentially, what we feel good about is our earnings growth being much stronger compared to the revenue growth. All parameters growing double digit in Q2 at a consolidated level. India has certainly done well. Overseas performance continues to be strong. Our working capital improvement is something that we are proud of. It has also allowed us to be able to generate free cash flow both for the quarter and for the half year. It is noteworthy that for the half year, our free cash flow was north of Rs. 2,500crs. So it feels good. Overall, we think we are in our good wicket. The liquidity and cash flow position is very good. We look at the way forward with a sense of optimism. Whatever we saw was not just one-quarter wonder. We would like to believe that Q3, Q4 etc., and the way forward, we would like to continue to deliver strong set of results. With this, I want to wish each one of you a very Happy Diwali and thank you for your time once again. 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