

November 12, 2021

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

Dear Sir/Madam,

Sub: Q2 - FY 2022 - Earnings Conference call transcript

This is further to our letter intimating the details of Investor/Analyst call on the unaudited financial results for the quarter and half year ended September 30, 2021 held on November 9, 2021.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on November 9, 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

Q2 FY 2022 Results

Conference Call

Nov 9th, 2021

MANAGEMENT

MR RAJ SHANKAR

MR RAJIV SRIVASTAVA

MR S V KRISHNAN

MS SOWMIYA M

VICE CHAIRMAN & MANAGING DIRECTOR

JOINT MANAGING DIRECTOR

WHOLE TIME DIRECTOR & CFO

SENIOR MANAGER, INVESTOR RELATIONS

MANAGEMENT DISCUSSION SECTION

Moderator:

Ladies and Gentlemen, Good Day and Welcome to Redington India Limited Q2FY22 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raj Shankar – Vice Chairman and Managing Director, Redington India Limited. Thank you and over to you, Sir.

Raj Shankar:

Thank you. Good Evening to all participants. I feel very proud and overwhelmed to share with you that our Q2 performance has been by far one of the best in a long time and this is probably the fifth or the sixth quarter in a row that we have been delivering some good set of numbers. Let me quickly get down to what we have done at a consolidated level. In Q2, our revenue at Rs.15,313 crores grew by 11%. India grew by 30%, Overseas saw a flat growth. From an EBITDA point of view, we grew at a consolidated level by 47%, India by 65% and Overseas by 36%. From a profit after tax point of view, it seems very nice to share with you that probably for the first time, we have delivered at a consolidated level, 2% of our revenue as profit after tax at Rs.307 crores. India grew at 85% delivering 1.92% of PAT margin and Overseas PAT margin was at 2.09% and grew by 65%. Overall, as you can very clearly see, both the theaters, India as well as the META region including South Asia has done very well. The only downside I would say is even though in South Asia our revenue degrew, but from a profitability standpoint they have delivered again a profit margin which is well over 2%.

Now, when you look at by business vertical, IT at a consolidated level grew by 18% contributing to 72% of the overall business, Mobility degrew by 3% largely on account of Overseas particularly Turkey and Africa contributing to 26% of the consolidated business sales. Services grew by 10%. India in terms of IT grew by 33%, Mobility at 21% growth, and Services grew by 7%. The contribution of IT and Mobility was 79% and 19%, respectively, Services being 2%. Even if you breakdown within IT, both IT Enterprise and the IT Consumer registered strong growth at 31% and 35% in India. In Overseas, the IT business grew by 6% largely on the back

of IT Enterprise, which grew at an impressive 41%. Mobility degrew at 12% and this as I mentioned is largely on the back of a degrowth in Turkey as well as in Africa.

In terms of the working capital, I would like to believe this is by far one of the best quarters in the history of Redington where at a consolidated level, we managed to contain the working capital at just 7 days. India was at an impressive all time low of just 3 days of working capital, Overseas at 11 days, and hence at a consolidated level it was 7 days. Just to sort of give you a reference for Q2FY21, the working capital was 14 days so we have reduced it by one full week. The real improvement has come out of creditor days while the debtor and inventory days by and large have been similar to what it was for last year at a consolidated level whereas on the creditor side, we managed to increase it by a good 8 days. This has resulted at a consolidated level for us to generate Rs.1,620 crores of operating cash, with India contributing a higher operating cash flow at Rs. 1,075 crores and Overseas at Rs.545 crores. In spite of paying dividend which is to the tune of Rs. 453 crores during last quarter, we still managed to deliver a free cash of Rs. 1,058 crores. This again comes largely out of India at Rs. 985 crores. Overseas got impacted in terms of free cash flow delivering only Rs. 73 crores. As I said, the contribution of dividend came all of it from Overseas and that was Rs. 453 crores.

In terms of Return on Capital Employed, we are very proud to share that we have delivered a ROCE of 75%, with India at 72% and Overseas at 77%. Similarly, when we look at ROE, at a consolidated level, we have delivered a little shy of 24% as against last year's of 16%, India contributing to about 32%, and Overseas at 20%. So one clear observation that you would have seen is that all the theatres have contributed to each and every parameter in terms of performance of growth, so it is certainly not biased towards one market or one business. Similarly, when you look at from a gross debt to equity, at a consolidated level, it was 0.07. This again I would like to believe is one of the all time low debt to equity. At net debt to equity, it is negative 0.69; and was negative both in India as well as in Overseas. The net worth has breached Rs. 5,000 crores at Rs. 5,062 crores to be precise and the total capital employed for last quarter was only one-third of the net worth, which is about Rs. 1,678 crores. Our provision towards inventory again was contained at just 0.05% at a consolidated level, 0.09% for India, 0.01% for Overseas. It very clearly reflects that our sales forecasting, our ordering, our stocking, and our sell out velocity has been extremely well managed. In terms of bad debt, I am again pleased to share that at a consolidated level, it was just 0.02% with India being 0.05% and Overseas at (0.02%). Basically, there has been a reversal of our provision in the Overseas markets.

In terms of the Cloud business while I will have my colleague, Rajiv, probably talk a little more about it, but just to give you at a high level, we have grown both in India and Overseas and at a consolidated level, our Cloud business has grown by 30% YoY. As far as ProConnect is concerned, we have had another good quarter. As you would remember, Q1 was good, Q2 was even better. In fact, we had an all time high revenue registered in the month of September. For

Q2, our revenue at Rs. 130 crores represented a 16% YoY growth and our EBITDA at 11% was about Rs. 14 crores, so overall when you look at it from a top and bottom line growth and in terms of capital efficiency and capital allocation, I think this has been extremely well managed and one of the best quarters I can think of.

To give you a perspective at half year, at a revenue of about Rs. 28,787 crores, we have delivered a profit of Rs. 544 crores. I just want to jog your memory that in FY20, our full year profit after tax was Rs. 515 crores. I am pleased to share that in a half year, this year, we have delivered Rs. 544 crores and in this again both India and Overseas have done well. At a top line, India has grown by 41% and Overseas by 5%. On the bottom line, India has grown by 154% and Overseas by 81%.

In terms of both IT and Mobility at half year, we have grown IT by 24%, Mobility by 3%, Services by 11%. In terms of working capital for half year, we were at 8 days at consolidated level, with 3 days from India, 11 days from Overseas. In terms of operating cash flow, at a consolidated level, it was Rs. 1,334 crores of which almost about 70% plus came out of India, 30% from Overseas. We are happy that we generated or threw up free cash of Rs. 742 crores at a consolidated level and this is for half year. In terms of ROCE, similar to Q2, it was about 77% and in terms of ROE, it was about 22%. Gross debt to equity has already been covered above and in terms of our inventory and bad debt, inventory at a consolidated level was 0.18% and bad debt at 0.08%. For half year, the Cloud business grew by 42% YoY. ProConnect delivered a Rs. 240 crores revenue at a consolidated level, delivering a 10% EBITDA at Rs. 24 crores and in terms of profit after tax, they delivered 3% PAT margin which was approximately Rs. 6.4 crores. I will take a pause here and hand it over to my colleague, Mr Rajiv Srivastava. I am sure all of you are very well aware that we have got onboard Rajiv who joined us in April of this year as the Joint Managing Director. He is responsible for all the day-to-day operations, and over to you, Rajiv.

Rajiv Srivastava:

Hi Raj, thanks so much, appreciate your commentary and I think as you mentioned, it has been a very rounded sort of performance across pretty much all businesses, all geographies, and all the financial parameters that one is tracking right now. I just wanted to give a bit of a color on what we have seen in the market right now and how we see the performance in light of the story behind the numbers really and at one level you would find that there continues to be a very strong technology adoption across a variety of customer segment or market segments and the geographies as well. We know that the work from home and learn from home is continuing. It is continuing in India, it is continuing in the Overseas regions, such as, Middle East, Africa, even Turkey. So those refresh cycles are working to the advantage of driving growth from just those two segments of work from home and learn from home, and that is really fueling the growth or demand in the IT Consumer space.

Like Raj mentioned, we have done really well in the IT Enterprise space which is all the Enterprise products such as servers, storage, networking, and that you would find that in the countries we are operating in India, UAE, Saudi Arabia, Egypt, Qatar, Nigeria, all the countries that you can think of, there is a very strong infrastructure push by Government in the region, so there is an investment-led demand that is coming in, apart from the consumption-led demand that we talked about from work from home and learn from home. This infra-led demand by the Government and also by people who are creating capacities is leading to digital technology adoption, so we are seeing years of projects that is rolled out in a few months across manufacturing, retail, creation of digital economy, and the infrastructure push by the Government through a policy support. All of that is leading to a very strong consumption and infrastructure demand creation. Thus, the growth in the region is on the back of investment and consumption led. At a technology perspective, you heard Raj talk about the very strong growth that we have had in Cloud. Cloud is leading the way, but there is a very strong shift towards subscription-led services, so pace and foundational applications which are getting migrated from an on-prem to a subscription-led application driven environment on the Cloud whether it is SAP, CRM, Salesforce automation, customer experience, all the new age applications that are being talked about right now and also new technology of the nature of intelligence.

Artificial intelligence is finding flavor, robotic automation is finding flavor, 3D continues to get from a very strong initial base to a much more manufacturing driven environment, IoT driven, and we are also finding that as 5G is starting to become more mainstream. You will find a lot more adoption of 5G not as a handset or telco technology, but 5G as driving applications in the domain of video and voice and that is where the whole world is moving. So there is a huge amount of shift in what people are buying and how they are buying. Everything as a service, a shift from product to Services, a shift from owned to a subscription sort of a model, and that is what we are seeing and that plays very well to what is strategic intent as we go forward in the market. I am not going to talk a lot about our strategic intent as we go forward unless you have any specific questions, but it plays very strongly to play in the tech dominated and tech denominated spaces that we are extremely focused on right now. So let me stop here. You have heard of the numbers and this is a bit of a commentary on how and why we are getting to the numbers and to the growth that we looking at. We did rejig a bit on our go to market models also to spread ourselves and that gives us extended coverage, that gives us extended reach out to partners and to variety of customer segment to fulfill what we do. I am going to stop here and open it up for questions and answers from all of you and more than happy to answer them.

Q&A SECTION

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya:

Thanks for the opportunity and congratulations on good set of numbers. I have two questions, firstly we saw very strong growth in the India business, but correspondingly the Services business did not register a very strong growth, so what exactly is happening there? Is the ProConnect business still in a more conservative mode and trying to grow in a much more profitable way? My second question is regarding the growth in the Overseas market, so what exactly led to the slowdown in the growth for the Mobility business in Turkey as well as Africa.

Raj Shankar:

I will take your second question, so basically as far as the Mobility business is concerned, we had a very good engagement with one brand, Xiaomi in Turkey. Unfortunately, we did not get the kind of supplies that we got in the past and this problem we have been experiencing in the last couple of quarters where it appears to Xiaomi that Turkey is not a priority market and since our business in Turkey for Mobility was largely dependent on Xiaomi, therefore, in the absence of not getting adequate supplies, our growth was impacted. As far as Africa is concerned as you would know, this is a market particularly in West Africa and Nigeria where there was a serious currency devaluation as well as there was lack of availability of US Dollars. While this problem was there in the past, it became even more pronounced this last quarter, so therefore by design, we wanted to go slow in Africa and to that extent this did impact our in-country business in West Africa and particularly in Nigeria which is a big market for smart phones as you would know, so this partly explains the Mobility part.

Other than that to just give you a flavor, when you look at the overall business, the IT business grew well and particularly the IT Enterprise in Overseas did very well. We grew by an impressive 41%. On the consumer side of the business when we get adequacy of supplies, the growth is very good. During this particular period, we were challenged in terms of not being able to get adequate supplies, but despite that I think overall Middle East, Turkey, Africa (META) did grow. In Overseas, the degrowth was largely on account of Singapore and South Asia. Some of you would recall that I have made a specific mention to this particular region where the biggest contribution comes out of our business to India, 80% of the business that we do out of Singapore is India destined, and because more and more vendors are shifting their business, the purchases are moving from Dollar denominated to Rupee denominated and because of that shift in a way of speaking (...Line unclear...) but in the same breath I want to sort of give you this comfort that it is certainly helping us in terms of scaling up our India business, so in summary Mobility business largely on the back of Turkey and West Africa, that is where we are challenged and in terms of the overall while META is growing, it is Singapore, South Asia where there is a business shift because of which you are seeing a degrowth. Over to you, Rajiv for answering the first question.

Rajiv Srivastava:

Raj, thanks so much and I think that clears the Mobility piece. I think Services is an extremely strategic portion of our business and like I mentioned to you, the business model shifts in the market play to that strategic intent of ours as to how do we shift the buying behavior and play to the buying behavior shift that is taking place in the market. You would find that our Services growth is at 10% over last year. However, last year included Ensure Services in India whereas this year, it does not. If I do a like-to-like comparison, which means if I take out Ensure Services India revenues out from last year, our Services growth would be 19% in Q2 and 23% up for the H1 and ProConnect growth is a 16% growth for Q2, so I hope you can read the numbers, our ProConnect growth for H1 is a 25% growth, so when you put these numbers in perspective, you would find that it is not a slow growth, it is growing faster than our product revenue business, which is the way we are trying to structure ourselves.

Moderator:

Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta:

Good Evening, Sir and thanks a lot for taking my question. Sir, first question is I think couple of years back when our working capital days used to be at a much higher level, when the pandemic happened, they came down a lot because of our efforts in sort of actively managing the working capital, but the understanding was that it is supposed to sort of climb up and come back to the pre-COVID levels in terms of the working capital days. Now, again this quarter we have seen new lows being hit in terms of working capital days, due to creditor days getting elongated. So what is our feel and guidance on the working capital days? What can be the sustainable number for both India and Overseas business as well as at the consolidated level? So that is question number one. Second is we do have some sort of a consolidated vendor base, in some geographies particularly in the developed countries we have seen some of the brands trying to go direct without the distributor, so how do we see that as a risk as the Indian market becomes big and we are already seeing some of the players trying to develop their own credible presence online, etc. So would we want to take the full control over the supply chain and sort of exclude the middlemen like us?

S. V. Krishnan:

Sarvesh, we stand by our earlier statement that working capital over a period of time as some of these tailwinds it goes away will get normalized and in our view over a period of time, this will happen in phases. It could range between 30-35 days, and I agree with you in the past we have

been saying be prepared for some increases and that statement still continues. But having said that, you all need to understand we will not leave any stone unturned; wherever there are efficiencies possible, we will definitely get it captured and as this demand and a shorter supply situation is continuing in the market place and also the way in which our business teams are structuring the deals with the customers and vendors, we are able to get those benefit continuing and also improve from what it was in the earlier quarter, so this is something which may not be sustainable. This will come back to about 30-35 days, but we will try and delay it as much as possible.

Raj Shankar:

Krishnan, do you want to touch upon the creditor days which is where there has been a significant improvement?

S. V. Krishnan:

Absolutely, this is something that we had been working on for a long period of time. If you have observed the last couple of quarters, we have consistently ensured the creditor days are more and more than our receivable days and this is mainly to do with, number one, the mix and also the way in which our business people have structured the deals with the vendors and in terms of getting higher credit days, so this is something that the team is very clearly focused in terms of working on and that is helping us, so wherever that is possible the trend we will continue.

Raj Shankar:

Rajiv, do you want to take the second question?

Rajiv Srivastava:

Sure! I think Sarvesh has a great point and keeps coming back again and again in every sort of conversation as to where are we headed with this disintermediation or the shift of buying behavior towards a more online sort of a model and whether brands are pushing that. You would find that all the markets that we operate in right now also the markets we do not operate, and I can give you a little bit of a global context over here because I used to run that part of the business for one of the large brands. Every brand has a sort of a maturity sort of stage where a certain part of the business goes online and depends upon how it gets fulfilled is a different story, but a certain part of the business gets online and the balance part of the business stays to be in direct fulfilling model or through engagement, through partners or the distribution network that we really manage extremely well and you would find that in a lot of countries that maturity model, that tipping point is in the zone of 25%, 30%-33% and that is where most of the companies sort of stay whether and that online model in a lot of cases, Sarvesh if you know, is

still getting fulfilled through the distribution partners for all the inherent advantages. It goes to a Flipkart, the Flipkart needs a huge range of both consumers as well as partners who come and sell on their behalf, and which is what our core competency is, providing the reach and coverage of partners through the online buyers or online sellers to fulfill the demand on behalf of consumers. So whichever way you want to cut it, you would find that our play whether we serve the online trails ourselves or we serve it through our partners is pretty much, the net sum is not changing our equation at all. So whether partners start to go online directly or the brands start to go online through us or through their partners, we fulfill to our partners or directly to the online, so in all those senses and you will see this operating out in countries like China, in countries like Indonesia, Singapore, India, some of the geographies of Western Europe or more matured geographies of US also. This equilibrium has been attained in a very good way and we continue to be in a very favorable position to be fulfilling either directly or through the partners onto the online model as well, that is a good state to be in.

Moderator:

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

Nitin Padmanabhan:

Good Evening, everyone and congratulations on another great quarter. I had couple of questions. One is on the working capital days, if you could just give some color on what within the mix is sort of driving the higher creditor days and also if you could give us the split of IT Enterprise versus IT Consumer and how should one think of this on a going forward basis, so does it mean that if IT Enterprise sustainably remains high, creditor days will remain high and thereby your overall working capital days will be low or even within that framework is this sort of an outlier, so that was the first question. The second question is on Redington Cloud, if you could give us a sense of how that business has sort of grown and where it is today?

Raj Shankar:

Nitin, on your first question I will just be brief, I think you summed it up well or you understood it very well. One of the reasons why you see our creditor days higher than what it was even last year is because the contribution that is coming from IT Enterprise both in India and Overseas has been of a higher nature compared to the past, and typically, in IT Enterprise products because lot of times we are structuring large deals and what we call as back-to-back deals and transactions, we are able to negotiate credit structure with the vendors that allows us to enjoy a much higher supplier credit compared to what we enjoy on the IT Consumer or on the Mobility, so your point is very valid, higher the contribution coming from the IT Enterprise, the creditor days are likely to be higher as opposed to the IT Consumer side of the business, I think it is a very valid point.

Rajiv Srivastava:

The point about Cloud again keeps coming up in pretty much every conference, but you would find that Nitin that our Cloud business is growing faster than the rest of the business. Our India Cloud business for Q2 grew 31% and Overseas grew 28% for the quarter. If you were to take it for H1, our India business grew 31%, Overseas grew 54%. So on a quarter basis, we are 30% yoy at a consolidated level of growth on the Cloud business and we are taking a number of steps to make sure that we play in to that growth story even more strongly. Just to elaborate a bit on what our approach looks like, it is across two levels, Nitin. One is the level of building capabilities within the organization and these capabilities are technology capabilities that you need to build in the company to be able to fulfill the demand for Cloud. As Cloud is a technical subject, it requires skills of a different nature and attitude, so we are acquiring those across the company, across all the geographies in the company. The second thing that we are doing because Cloud is a model that requires a different way of being addressed and administered, it is a subscription sort of a model, so it needs different technology capabilities, underlying technology assets to manage the whole Cloud business and we as a company are making very strong investments in making sure that our tech capability to handle the Cloud business is very strong and intense, so those two should help us to continue to outpace the market of Cloud growth. We are also working very strongly with all the alliance partners, all the hyperscalers in the market and also with a whole bunch of other alliance partners to make sure that the offering that we create, the solutions that we build, the skills and competencies that we build and create are absolutely aligned with what the market wants, but also what the hyperscalers are coming up with as a future tech, so our readiness in that sense is extremely strong.

Nitin Padmanabhan:

Sir, would you have an absolute number for Redington Cloud?

Rajiv Srivastava:

For Redington Cloud, in Q2FY22, we did a total of Rs. 310 crores, which is a 30% growth YoY.

Moderator:

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

Pritesh Chheda:

Sir, thank you for the opportunity and seasons greetings. Sir two questions, one there is another round of QOQ improvement in margin and we are seeing it happening for the last three quarters

now. You called out a certain margin number last quarter, but there is an improvement over that. So some comments on how do you see the margin trajectory. Second amongst all the news flow that we see on supply issue on account of chips in IT or Mobility or all the product line, how are we positioned and actually I am seeing a case where there is an improvement in your key vendor share in the overall revenue mix for you. So is there any preferred vendor concept which is playing out and somehow beneficial for us, that is the second question. Third is what is the tax rate that we should assume for our business?

S. V. Krishnan:

We can take about 23%-24% on an average at a consolidated level.

Pritesh Chheda:

Sir, what we are providing is 20% and it was a lower number, so I am just reconfirming it here?

S. V. Krishnan:

It could defer between quarters because since we are there in multiple geographies. Every geography has different tax rates and as you may know in the case of Turkey because of the currency depreciation that also changes, so on a steady state basis our suggestion is about 23% or so.

Raj Shankar:

To your first question about margin, this is largely to do with business mix. To give you a sense, in India the contribution of IT was 79%, Mobility was 19%, so since the contribution from IT is more, the margin tends to be much better be it IT Enterprise or be it IT Consumer, so this is the first point. The second point is something that we have already shared with you earlier, which is that unlike in the past where often times on 80% of the sales, we would get our full margin but on the balance 20%, we would have to compromise on our margin whether less by 10%, 20%, and so on and so forth, but in these times because there is a certain amount of shortage, we are also lot more prudent in our buying so we are today not having any margin leakage. We are able to earn pretty much on our large part of our sale the full margin, so to that extent when you see it is a combination of two things. The business mix if it tends to be more biased towards IT, you will see the margin better and similarly as long as some of the shortages continue and we continue to be lot more prudent in our buying, stocking and selling, you will see the margin firm up, if that answers your first question. I am afraid your second question was more about any particular vendor bias that we may have.

Pritesh Chheda:

Sir, on aggregate basis not on a particular vendor?

Raj Shankar:

On aggregate basis your question is whether we have a bias towards any vendor?

Pritesh Chheda:

No, so amidst all this supply issue, we are still able to deliver a strong growth and in your revenue mix I see fencing of the key vendor in the revenues, so are we somehow beneficiary or well placed in the whole construct by any way?

Raj Shankar:

Again, I am afraid I am going to repeat the answer that I have said earlier. One of the things that we are particularly proud of is that for most of the brands across most of the geo's, we have leading market share. So depending upon the particular vendors contribution or how much they allocate to a particular country, that is not in our hands but whatever allocation they give to a particular country, given that we have leading market share for most of the brands, this allows us the advantage to be able to get a share in relation to what our contribution has been. So it is not that while the relationship matters and something that we have shared with you in the past and that is over this last 27 years that the company has been in vogue, we have not lost a single relationship. So the fact that we continue to build and grow our relationship and on the other hand we have leading market share across most brands and most of the geo's, this does give us a strong position to be able to get the fair allocation given our market share.

Rajiv Srivastava:

Pritesh, you would see that I talked about a shift in our go to market model or engagement in the market place. Now, we did make a conscious shift towards getting to fulfill or engage with partners who are servicing end customer accounts, so whether they are in the enterprise space or they are in the mid-market SMB space. All of these vendors in times of shortages, they pivot to end customer relationships much more strongly and that played to our advantages, that played to the fact that we get the deliveries for their customer to make sure that the customer satisfaction and the customer experience is taken care of, so our shift towards a much more customer experience, customer-centric approach was playing out well to our advantage in that sense.

Pritesh Chheda:

Just a clarification on your margin answer, does it mean that once the supply shortages even out, there has to be some normalization in our margins because there again you will go back on that 80% of the product you get full margin and 20% of the product you get a slightly lower margin, so this 2.8% or 2.7% that we see getting reported in the last two-three quarters, that gets normalized to a lower number or adjusted to a lower number?

Raj Shankar:

The right way to think about it is the following:

We have at the moment a very high product revenue and a low Services revenue, but in the way forward we are clearly pivoting the company more and more towards Services whether it is going to come out of Cloud, whether it is going to come out of ProConnect, whether it is going to come out of some of our own implementation services and other security services. The Services contribution overtime will start to scale up. As you can very well imagine, the Services business has a much higher margin be it at a gross margin level or at an EBITDA level, so we hope that not at the moment when you look at purely from a product standpoint, the business mix matters a lot, but as we look at the way forward with Services contribution scaling up nicely, the margin should also pick up, if that helps.

Pritesh Chheda:

This was helpful, but I think this comment of yours is slightly longer right, it must be a five-seven year transition?

Raj Shankar:

Not so long, as you can see if you take Cloud for instance, I am sure you must have been pleasantly surprised that for last year, we delivered Rs. 917 crores. Now you can imagine the good part of business on the Cloud for instance is there is really no inventory and our working capital is very good and at the moment because we are in the building-up stage, we are investing in resources, we are investing in platform, so at the moment it may not necessarily reflect all of it into a healthy EBIT, but as we look at even in the medium term, you should start to see as the business starts to scale up and some of our investments start to fructify, you will see that the margins will become better. You do not have to wait for five years, it will be much sooner.

Moderator:

Thank you. The next question is from the line of Krish Mehta from Enam Holdings. Please go ahead.

Krish Mehta:

Congratulations on a good set of numbers and thank you for taking my question. The first question I had was more on the Cloud business, if you could provide us a number on the Cloud Managed Services revenues for the quarter as well as the margins for Cloud and Cloud Managed Services? My second question was how you see the transition from on-prem to a subscription model for the Cloud business happening with restrictions being listed in COVID and how the mix is changing in terms of implementation for partners?

Rajiv Srivastava:

I will take both the questions on Cloud and question on margins and how the business is going to shift on subscription post COVID, is that a fair understanding?

Raj Shankar:

The first part is not margin Rajiv, it was on Managed Services, he wanted to know what is the number on Managed Services. So, just to give you an idea on the Managed Services, for Q2, I do not have a very precise number but somewhere in the vicinity of about Rs.8 crores will be the Managed Services and this is out of Rs. 310 crores and as far as half year is concerned, the Managed Services piece is approximately about Rs. 24-25 crores

Rajiv Srivastava:

Thanks so much Raj for filling in for me. I think you got to understand the strategic significance of as to why companies are moving towards Cloud and is it a COVID-led thing or is it an irreversible sort of a phenomenon, and you would find that in more ways than one, it is an absolutely irreversible phenomenon. People are accelerating their project deployments from a technology perspective, people are accelerating digital adoption, and all of this digital adoption has given people the flexibility to buy at speed which means agility and to move their applications on to the Cloud, try out new applications, try out new functionalities in a very quick and fast manner. At a fundamental level, you will find that those are irreversible movement in businesses that people have made or businesses have made adoption in information or in digitalization, so COVID or no COVID, I think COVID initially helped to make this a very pronounced and a very accelerated shift having gone there and having seen the benefit and the outcomes of this shift towards the Cloud model which allows companies' flexibility, allows company's optimization. It

allows companies to roll out projects much faster. I think that accelerated phenomenon and behavior is going to stick for a much longer time than even I would have ever imagined earlier.

Moderator:

Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam:

My question was on the working capital, you mentioned that from the current low levels it is possible that over the period of next few quarters, it could normalize to about 30-35 days, now could you just help me understand which element of the working capital are likely to swing back, so are you likely to see an increase in creditor days or where would you expect these numbers to reverse? Given that your top line is so large, any swing in working capital is going to lead to a huge increase in capital deployed, so where would this capital come from?

Raj Shankar:

Great question, just to give you a very crisp answer, the increase would come out of inventory days. Currently, the inventory days is, it is about two-and-a-half weeks. Most of the vendors under normal times would expect us to keep a minimum four weeks of inventory, so one way to think about it is, can this 18-19 days it may have a tendency to go up by a week or 10 days, so this is something that is likely to happen. The second is with regard to our debtor days with a higher contribution coming from the IT Enterprise business, it tends to by nature have a longer credit period that we would have to offer to the customers even though we try to negotiate with vendors to get a longer supplier credit as well, but to your question over time, this is also likely to increase, and therefore, one could budget anywhere from 5-7 days increase. This is to give you a sense. I also want to, Sangeeta, take the liberty of sharing with you that my colleague, our CFO, Mr S V Krishnan, is normally highly conservative, so he does not want a situation where God forbid even if one quarter we go to 30 days of working capital, he does not want a situation that we have not given new advance information. The truth be told I think we will do everything within our means that even when during normal times now that we have become highly prudent, we have become a little smarter than, COVID has taught us a lot of things, so therefore my own view is that we would definitely make every effort to be less than 30 days net working capital even during normal times.

Sangeeta Purushottam:

Where would this funding actually come from because even a swing of 20 odd days will mean actually Rs. 1,000 crores you need to fund that?

S. V. Krishnan:

Sangeeta, we have enough leeway in terms of the funding. As I had said currently while our net worth is about Rs. 5,000 crores, our net debt is negative Rs. 3,700 crores, so you can see very clearly what is the leeway that we have, so we have enough limits in terms of stretching our working capital even much beyond what we are discussing now, so that is not a concern at all and we will not lose any business on account of lack of availability of funds.

Moderator:

Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Raj Shankar for closing comments. Thank you and over to you, Sir.

Raj Shankar:

Once again thank you to all the participants for taking the time to be with us today on the earnings call. As I said, this has been honestly a dream quarter where every parameter whether it relates to top line, bottom line growth, or it relates to profitability improvement like we talked about 2% PAT margin or whether it is do with our working capital management generating a free cash flow or giving very high returns on the capital employed or return on equity. Every single theatre, every business vertical, and every parameter for this quarter has been extremely well managed. I am proud that for the last almost five-six quarters in a row, we have been delivering great set of numbers and thank you once again for joining us on the call and thank you for your continued interest in Redington. Good day to all of you.

Moderator:

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

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