

November 13, 2023

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

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

**Symbol: REDINGTON**

**Scrip: 532805**

**Subject: - Transcript of the Investor/ Analyst Conference call**

Pursuant to Regulation 30(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, and further to our announcement dated October 30, 2023, on the Analyst/Investors Conference call held on November 07, 2023, we wish to inform that no unpublished price sensitive information was shared/discussed in the meeting/ call and are enclosing herewith the transcript of the conference.

Pursuant to the provisions of Para A of Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 the same is also uploaded on the website of the Company at <https://redingtongroup.com/wp-content/uploads/2023/11/Q2FY24-Earnings-Call-Transcript.pdf>

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

Thanking you.

Yours faithfully  
**For Redington Limited**

**M. Muthukumarasamy  
Company Secretary**

Encl: a/a



“Redington Limited  
Q2 FY-24 Earnings Conference Call”

**November 07, 2023**

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 7<sup>th</sup> November 2023 will prevail



**MANAGEMENT: MR. V. S. HARIHARAN – GROUP CHIEF EXECUTIVE  
OFFICER, REDINGTON LIMITED  
MR. S.V. KRISHNAN – FINANCE DIRECTOR,  
REDINGTON LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Redington Limited Q2 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. S. V. Krishnan. Thank you, and over to you, Mr. S. V. Krishnan. Please go ahead.

**S. V. Krishnan:** Thank you. Good morning to all. First let me take this opportunity to introduce Mr. V. S. Hariharan – our new Global Chief Executive Officer, who assumed this position from 11th of September 2023. Hari’s journey with Redington has been a remarkable one and that goes back to more than 20 years ago. As part of HP, he has dealt with Redington as a distribution partner, and he has been a key constituent of Redington’s foray into the large format digital printing category, which today has grown to a size with high profitability. He has seen us as a Board Member and offered valuable insights and guidance, now have taken up this leadership role in the company. Hari brings with him a wealth of experience spanning across three decades in sales, marketing, and digital management. His professional journey includes, significant leadership roles at industry giants such as Hewlett Packard, and Wipro. In these roles, he contributed to creating innovative world leading printer products and driving revenue growth through effective sales leadership. He excelled in managing both matured and emerging markets, while achieving substantial cost efficiencies through geographically focused initiatives. He’s an unusual leader in that he has taken the road less traveled. At his peak after a successful 18 year career at HP, he decided to step back and become a successful entrepreneur in accessible solar products market. His remarkable journey resonates deeply with our company’s values and aspirations. The synergy between Hari’s extensive experience and Redington strategic objectives is obvious to all. And I’m sure this is the beginning of another great chapter in Redington’s 30 year long history.

With this, I request Hari to say a few words about his first two months of the company. Over to you Hari.

**V. S. Hariharan:** Thank you, SVK. Good morning to all. It’s a pleasure to be here and meeting you all. I just share very briefly a bit of my background, my first impressions in the first 60 days, and our near term plans. As SVK said, I’ve been associated with Redington for nearly 20 years, while working at HP and then as a Board member, I’ve admired the company, both from far and up close and it’s a pleasure to be here on this role.

Over the last 60 days in reviewing and learning the nuances of the business with the leadership team. And I've been traveling around a fair bit meeting the India teams, the Middle East Africa teams in Dubai, the Saudi Arabia team in Riyadh and the Turkey team. I've been very impressed with the quality of leadership and the talent we have. I have also been meeting the leadership level of various brands and vendors, and the kind of joint plans we have with the brands and the feedback we have from them on Redington and the initiatives we are working on, makes me feel really good in terms of the long term prospects for the company. The regions we operate in continue to have very positive signs of growth. We are very well positioned as a key distributor in these markets.

Let me go a little bit by business units. Technical Solutions Group and Cloud offers great growth opportunities and the largest headroom. Cloud with our strong partnership with the hyperscalers and the SaaS brands we are experiencing strong growth. Within mobility their new product introductions have gone very well and shown good momentum. In the Endpoint Solutions Group the emerging category of solutions offer a good growth opportunity. As you may be aware, we have embarked on a number of investment initiatives in the last year. Starting with the digitalization of the company in the B2B platform. While the focus on some of these initiatives will continue to remain, we are looking at fine tuning and right sizing the investments to get the best ROI for the company.

The digital platform enables us to have better efficiency and response time for reaching smaller partners, cross selling to our large managed partners and scaling up those brands. As an emerging market distributor Redington over the years has done a great job of managing risk; While focusing on return on capital. We will continue to focus on these basics as a distribution company while playing in the new growth areas. In the near term, most of the geographies outlook is positive and we will work towards maintaining and growing our opposition. We do see some signs of stress with Africa, due to geopolitical factors. We will be cautious to navigate for profitable growth in Africa and driving the acceptable return on capital. As we look at the Q2 results that have gone by, they have been good and let Krishnan walk you through the results in greater detail and happy to take on questions you may have. Thank you.

**S. V. Krishnan:**

Thanks Hari. Okay, just on the results. We have had in Q2 highest ever revenue and highest ever gross margin for any quarter. That's something which is a very interesting situation to begin, on a year-on-year basis the revenue grew by about 17% the gross margin grew by about 12%, EBIT de-grew by about 2%, PAT de-grew by about 22%. But for a moment, if you look at on a quarter-on-quarter basis, because our objective is to make sure that we need to improve now from where we were and on that score, revenue grew by 5%, gross margin grew by 10%. There is a growth in the gross margin from 5.9% to 6.1% after three quarters, we have crossed a gross margin of 6%. So, that's something which we feel is positive. EBIT had grown by 17% and PAT has grown by 22%. So, on a quarter-on-quarter basis, there is an improvement in EBIT percentage and PAT percentage by 20 bps. And all the major geos have shown growth in the profit after tax. The PAT percentage which was 1.2% in Q1 has improved to 1.4% in the current quarter.

At the same time, we have also seen the working capital on a quarter-on-quarter basis decreased by five days from 40 to 35 days which is a very important milestone that has resulted in operating cash flow and free cash flow being positive. Operating cash flow for the quarter was 1249 crores and the free cash flow for the quarter was 1120 crores. Just wanted to make a mention here, there is a reclassification that was done in the way which we show the free cash flow earlier we used to net off dividend which we had found, the practice being followed by other companies both India as well as global is not to net of the dividend, even if you take on an apple-to-apple comparison, that dividend removal which was about 563 crores from the current quarter, we would still be at about 550 crores of free cash flow. Return on equity for the quarter is about 17.4%, return on capital employed at 21.6%. Our net debt to equity is about 0.3 times.

Another important metric we always measure ourselves is the provision for inventory and provision for aged receivables. I am pleased to share with you, there is a reversal of inventory provision in the current quarter to 0.29%. This is primarily on account of the drive that we are doing in terms of liquidating the aged inventory just to make sure that it is in a proper state so that has enabled this reversal in the current quarter. The bad debts, it continues to be about the long term average, for the quarter it is at 12 bps. So, let me pause for now and if there are any questions, we can answer them.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vivek Ramakrishnan from DSP Mutual Funds. Please go ahead.

**Vivek Ramakrishnan:** So, my questions are around in terms of working capital, and the fact that you are always vulnerable to high interest cost in the economy that will affect your profit after tax. In terms of working capital, last quarter we got the feeling that you were looking for market share gains, and you are pressing on in terms of business. Have you eased that off a little given the fact that the market conditions are not, are at least volatile if not deteriorating and what is the outlook going forward on working capital. That's my only question sir.

**S. V. Krishnan:** So, the mantra Vivek very clearly, we would want to drive profitable growth and keep the capital efficiency on top of it. So, this is something that we are very particular and that's the way the business is being driven. Yes, there is a working capital reduction in the current quarter. I just want to tell you that, we are being very cautious. But there are also some tailwinds that happens because of new product launches, because of festive seasons. That gives us some advantage. Please don't consider this as a steady state. I think we would be around 35 - 40 days in terms of our working capital, whatever is best possible, we will try our best and make sure that it is efficiently managed.

**Moderator:** I think we've lost the person who was asking the questions, we'll move on to the next question. The next question is from the line of Priya Rohira from Emkay Global. Please go ahead.

**Priya Rohira:** My first question relates to the demand environment, we have seen material increase in inflationary, how do you see the acceptance of the product that is one. Second thing is, among

the new product introductions are there any products which you think can give supernormal growth in the coming years depending on the feed you've seen in the market. And the third is, if you could share some outlook on the margin side, like we have seen a little bit polarity in the recent quarters primarily because of investments we would have done but any color over there would be helpful.

**V. S. Hariharan:**

So, the three questions were, one was on demand and the second was on the new product introduction and the third one was on margin improvements. Let me try and take each one separately. So, we look at some of the theaters that we are in the demand environment continues to be strong. So, namely India, and UAE, Saudi Arabia, demand continues to be strong. And this is across all categories. As I mentioned, technical solutions group the demand is strong. The cloud has high growth and so is the mobility with the new product introductions. Endpoint solutions group is the only place that we see muted demand, partly driven by the global organizations not buying PCs at the same pace, as we expected. Specifically as a new product introductions, they're all about the mobility products and you are aware there are a number of big brands that have introduced products in the last month. And the acceptance of the product is really good. And we are just fulfilling demand in a way, whatever supply we get is going out of the door. So, the acceptance of the products is very good. We expect margins to be staying at the current levels in most of these businesses gross margins, we don't see any deterioration in any of the businesses that we are seeing, and we are closely watching it and as Krishnan said earlier, we are going after profitable growth. So, we are trying not to gain share at the expense of compromising on margin.

**Priya Rohira:**

Just a follow on, the gross margin I do understand is a function of the vendor, how much they partake, and also the demand environment, can we get a more color from the EBITDA margin perspective, depending on the investment you would have envisaged or any new products which are in the pipeline for which you think selling and marketing would see.

**S. V. Krishnan:**

Priya, we think an EBITDA range of about 2.4%, 2.5% is something we should be able to hold on. We don't foresee a challenge. Yes, there will be a mix change that can possibly help us if the TSG does more better compared to mobility. But overall, we are quite confident about this range.

**Moderator:**

Thank you very much. The next question is from the line of Sarath Reddy from Unifi Capital. Please go ahead.

**Sarath Reddy:**

So, sir my first question is that, adjusted for the inventory provisioning is it fair to say that the EBITDA margin per se has been flat Y-o-Y?

**S. V. Krishnan:**

Okay, see inventory provisioning while I had said there has been a reversal. But it is important that we don't consider the complete inventory provision reversal as a profit, because while selling these products, there will also be some erosion in the margin that could be there, some part of it would have come as part of the margins for sure.

**Sarath Reddy:** Okay. Sir secondly, could you speak a little bit about the interest cost because, if you look at this quarter the number which includes your bank charges as a part of interest. Could you just call out what is the actual interest rate that we are paying and how do you expect the trajectory for the rest of the year?

**S. V. Krishnan:** It varies between different market. In India, it ranges about 7.2% to 7.5%. In our Middle East business, it's about 5.5% to 6% today, in Turkey it's quite high, we discussed last time and it continues to be high. In fact, it has gone up even further where our interest rate is north of 30%.

**Sarath Reddy:** Got it. So, could you call out what has been the absolute factoring cost this quarter and what is the trajectory on other expenses going forward?

**S. V. Krishnan:** Okay. So, factoring cost absolute amount in the current quarter is about 86 crores and predominantly this is in Turkey. And as discussed last time, there are no enough bank funding available in Turkey and this is something that affects across various industries and the companies. So, factoring is a tool for us to get funding and this is the cost of it in the current quarter. Overall, we think we should be able to maintain OPEX as a percentage of revenue. We don't foresee that as a problem.

**Sarath Reddy:** Got it. Sir, our mobility is strong this quarter which have lower working capital and you mentioned that 35 days is maybe not the right number, so what is the normalize working capital today especially in the context of the call you called out last time that vendors have rolled back to earlier credit cycles?

**S. V. Krishnan:** As I have said about 35 to 40 days is something is the range that you should keep that in mind on a steady state basis.

**Sarath Reddy:** Got it and Mr. Hari, could you just call out that, what are your thoughts on the strategy going forward beyond profitable growth and what were your motivations to take up the role, from being a Board Member to running the organization?

**V. S. Hariharan:** So, in terms of strategy and directions, we had embarked on a few things as we have discussed in the call and before. One is clearly cloud, there is a lot of growth on cloud. And right now, within cloud, we work with the hyperscalers on the resell and driving the consumption. That's clearly one strategy we will continue. Second is we see a lot of headroom on technical solutions, and across all theatres, and we continue to look at how to step that up and see what kinds of solutions we can play in both product solutions, and related adjacencies. In terms of the other areas, specifically in the endpoint solutions group, there are a lot of emerging solutions, like gaming, like wearable's, et cetera. Clearly, we will play a role in those and those are good opportunities for us. And on mobility, we also see good traction on Android, as well. And we will continue to play on Android solutions as a growth area. We did embark on digitalization, and I did mention that, but we will fine tune our investments in digitalization, but continue to play there as a way to reach our smaller partners and our growth brands, as I've mentioned.

Now, in terms of my motivation, clearly I have been associated with Redington and it was a company that I've always admired. It's in multiple theaters, complex business, managing the business really well, balancing between risk and return. And when an opportunity presented itself and the Board was reviewing the candidates, and they asked me if I would be interested, and I said definitely and I'm honored to actually lead the company. So, the motivation is to be able to drive and lead a global distributor to a much better place. The opportunity in all the theaters is great, the industry is transforming and with my background and experience, I've worked across consumer, SMB, and enterprise and I've worked across PCs, printers, Unix boxes in my past 30 years, I thought I'll be able to contribute and play a role in the growth of Redington.

**Moderator:** Thank you. The next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

**Amit Khetan:** Three questions here. The first is cyclical, the second structure and the third is focused on your role as CEO. So, the cyclical question would be, we obviously saw a big surge in demand post COVID. And various industries are still equilibrating to a post COVID world. Given the amount of possible over-ordering of IT equipment during COVID. One would expect the fall off in subsequent quarters and years. Some of that is starting to be seen. I'm curious to get your point of view on the extent to which we're through with that versus, could we expect a significant slowdown going forward not because of any industry issue because people are overloaded during COVID. Second question from a structural standpoint, do you see any change in terms of the need for distributors overall is the pie for distributors shrinking where the marginal distributors are getting squeezed out, the Redingtons and Ingrams of the world are holding by own but broadly whether consolidation in the channel for electronic goods, especially on the retail side with Amazon and Croma and what does that do to pie overall, I understand that we are a small percentage of the pie. But we'll be curious to get your thoughts on the size of that pie. And finally, as CEO is it fair to say that your role will be focused more on the growth initiatives and the core distribution business will basically run as is, or do you expect to be spending time on both. If you could give us a sense of where you see most of your time being spent the CEO, that will be very helpful.

**V. S. Hariharan:** Sure, thank you for all those questions. So, let me go address the first one. So, on the demand side, as we had COVID and during COVID, and the early part of post COVID we saw a huge surge in consumer demand. And that was partly driven by work from home and a lot of the consumers upgrading their equipment. Right after that, we did see a consumer slowdown. And the enterprise demand is picking up very strongly. We see that enterprise demand continuing for a while. Cloud is also enabling a transformation and purchase of new kinds of products. So, we don't see a slowdown. So, these cycles will continue. So, as of now, the enterprise demand is strong and we expect that to continue. Same in the mobility area. And consumer, we do expect it to start to come back. Some of the areas that I foresee, it is too early to say but I take India as an example. We have reached IT only to 200 million of the 1.4 billion population, there is a huge semi urban, rural population that don't have access to computing. And, I see some of that



happening over the next few years, as right type of products get to these kinds of customers. And that will drive the consumer demand again. So, that's the first part.

In terms of the structural change, we do not see a big impact. Clearly, there is a fine tuning happening, things like direct to retail and those kinds of go to markets are coming up, things are getting a little bit more specialized. We are working on how to reach retailers, telco retailers in the states and also sell PCs through them. So, an evolution of omni channel, as well as existing channels that are specialized being able to sell other categories that will evolve. And scale obviously helps for things like these and obviously Redington has scale and to be able to create a set of partners across the country where they were selling telco products earlier we could sell consumer PCs and wearables and those kinds of things. So, we see evolution of channels, especially in mid-market and in this space. And we don't see a big structural change.

Now, in terms of my role, I see two parts to it. The early part, the first six to 12 months is clearly working on the core business and really looking at what investments we decided to make and to make sure that we are hunkering down, fine tuning those and getting the best out of those investments, digital, cloud, et cetera and really important because they are adjacencies to our core business. And once we have really got this to a stage where we are getting our expected profit and return on capital employed, we will start driving new growth areas again. So, it's a mix, initial part will be just focusing on the core business and getting the best profitable growth out of the core business. And stabilizing all the theaters as I mentioned, we have some stress points, especially Africa overseas. So, we are working on how to stabilize those. And once we are beyond that, we will drive new growth opportunities after that. And clearly, we have a very good leadership team to take forward what is already being done. So, I should really focus on getting into new areas, and how do we drive growth there. Clearly, we are a distribution company. So, we are going to work on only adjacencies and not get out of our current DNA. But we will look at growth opportunities in adjacencies.

**Moderator:** Thank you. The next question is from the line of Drashti from ThinQwise. Please go ahead.

**Drashti:** My question relates to geopolitical stress that you mentioned in Africa. So, if you could quantify, if you evaluate it, what's the impact on our balance sheet or on our P&L. And also in the other geographies, I know that the situation right now in Israel and Hamas is not directly impacting us. But if there could be any indirect impact in any of our geographies and what are your first thoughts on the overall geopolitical stress in the global situation. Thank you.

**V. S. Hariharan:** Okay, so again, this is not to get all of us worried about it. But it's just to be more cautious. Clearly, the wars that are going on, the exchange rate movements in various geographies in Africa, we already know the Nigeria situation, the Egypt situation, and now Kenya is also part of that. So, both the exchange rates and the dollar stability, and the liquidity everything will be impacted because of the wars and the oil prices, et cetera. So, we are just cautious, and we are looking at it very closely to make sure that we are playing in a way that we are not taking excessive risk that's the point I wanted to make. So, we don't see a big impact, but we want to

play cautiously in the second half so that we are not; as a distributor have always been very focused on managing risk well, we want to be sure that we are not taking any undue risks.

**S. V. Krishnan:** Just if I can add, see it is about billion dollar business, Africa as a territory for us, which for our current overall size is about 10% of our total business. As Hari said, while there are concerns, we will navigate very carefully. But for us, risk management is far more critical. Growth is something that's available even otherwise, you would have seen in the first half we added about a billion-dollar incremental revenue in our total number. So, there is growth opportunity, but we would want to make sure that the balance sheet and risk management is proper.

**Drashti:** So, till now we need not fear impact because of the geopolitical tensions in Africa region?

**S. V. Krishnan:** It could be there, which is why we are calling out and one is Africa and another one, definitely what's happening in Middle East because of Israel, Gaza. So, those, we need to see how those pans out. It's important for us to call out upfront what challenges that lie in front of us. We have discussed about Turkey in the past and that continues to be a worry for us. We will handle it carefully, but these are some challenges that are there in the overseas markets.

**Drashti:** Sure. And sir what will be as our Turkey growth this quarter, if you could throw some numbers, or just highlight something on the Turkey subsidiary, what would be the growth number and what will be the PAT margins, like you mentioned last time?

**S. V. Krishnan:** In fact, there is a good growth that we had seen in terms of revenue across markets. So, when we say 17% year-on-year growth, 5% quarter-on-quarter growth it is just not at the consolidated level, this is true with India, this is true with Middle East Africa, this is true with Turkey, all the markets are growing well. And in terms of profitability, in the challenged markets, obviously the profit percentage could be lower and which is where we would want to be careful in terms of how do we do the business.

**Moderator:** Thank you. The next question is from the line of Nikhil Chaudhary from Nuvama. Please go ahead.

**Nikhil Chaudhary:** My first question is regarding the investment we are doing, basically streamlining some of the investment we have done in last couple of years, can you please give us color in terms of which are the areas where we are seeing investment getting trimmed and what would be the cost pointer?

**S. V. Krishnan:** Nikhil, we are doing various investments, but I would want to categorize that into three broad categories. One is the digitalization initiatives that have become very important and as someone enquired in the earlier question, it has become very important post-COVID, and we are bringing a change to the ecosystem, and we have to bring in change internally as well. So, that investment is happening in terms of automation, in terms of the analytics, et cetera. That is something that would continue, we are now differentiating our investment into need to have and nice to have. Need to have is something that we would want to pursue and that's something which is

fundamental for us. Nice to have is something while we think directionally is important, we want to make sure that we phase it out. So that the impact is not felt in the immediate quarters. Second is in the cloud business, there are investments that are required both from the platform perspective, as well as from the resources perspective. On the platform, we think it is important because that's the way to deliver and reach the market. In terms of talent, we will be careful as we are growing the business how much we need to invest on the talent part of it, but as you have heard from Mr. Hari, definitely this is a segment that we are focused on. The third part of the investment is in the digital platform. While this is definitely important, maybe we may have to slow down the pace of investments, just to make sure that we are on in terms of the required ROIC. So, we are focused on this and we will make sure that it is properly calibrated.

**Nikhil Chaudhary:**

Very helpful SV. My second question sir is regarding, we have mentioned that we are seeing challenges in global geographies. And, we are looking at profitable revenue growth, while even this quarter we have seen growth coming from outside rest of the world grew faster than SISA. So, just want to understand how we are thinking in terms of maybe scaling back some of our investment in those troubled geographies. The current quarter has been just like you mentioned that factoring cost in Turkey was so high. So, just want to understand how we should think about the coming quarter given, change in strategy happen in middle of the quarter.

**S. V. Krishnan:**

Okay. See, these are difficult markets, we are not making any new investments in those, these are regular business that we are doing. What business that we appropriate, what we would want to leave it on the table is something that we need to decide basis the expected profitability and the capital protection as we had said for us, profitable growth and capital efficiency is the mantra, we would want to make sure those are properly in place. But having said that, there are growth opportunities, we would want to be relevant and we would want to be important for the global brands. As you know, this is something which is very important for us to make a statement. In India we have become number one today. So, in the past, we used to be number one distributor in Middle East and Africa as a region and today it is also there in India. So, except for Turkey where we are number two, in all other markets we hold a leadership position and that's something which we would want to protect, but at the same time subject to the risk management properly in place.

**Nikhil Chaudhary:**

Okay, sure. Just last one from my side, the comment you made at about EBITDA margin to be close to current rates. Just want to understand, is there a assumption that you will see further inventory basically roll back in terms of provision when you added for that EBITDA margin, or you expect the benefit to come from some other expenses basically?

**S. V. Krishnan:**

As we have answered, I don't think we need to look at the increase in EBITDA margin is on account of inventory provision reversal, because all the inventory provision reversal hasn't got flowed down into EBITDA a part of it went towards selling the product at a reasonable price. As we move into the future, we think this will get protected irrespective of whether there is an inventory provision reversal or not. But inventory provision reversal is something that's a tool

available only for some time, that cannot be continued for long. But, we are confident about protecting the margins.

**Moderator:** Thank you. The next question is from the line of Aasim from Dam Capital. Please go ahead.

**Aasim:** First question just continuing on the managed services piece within Cloud, you did talk about the investment bid, but can you also talk about what kind of an annual run rate it is on revenue and cost currently?

**S. V. Krishnan:** Okay. So, managed services piece today is about, 4.4% of our total cloud business, which has improved from 4.2% last quarter. So, that's where we are. In terms of profitability, while gross margin could be better in this, the cost that we need to invest in talent is high, we will not see high profitability at this point in time. Once we get the scale, we should see the profitability being better in this space.

**Aasim:** No, just wanted to just get a sense that currently could still be margin dilutive, or is it at least positive on EBITDA, that's one sense I want to?

**S. V. Krishnan:** It is positive.

**V. S. Hariharan:** It is, so just wanted to give you a sense of how we are thinking about it. So, I'm sure you understand the cloud part there is resell and there is driving consumption and then there is a services piece. So, we are approaching the services piece in a way the bundled services with the cloud can drive more consumption. So, we are driving those areas that drive more consumption. So, either I can look at it standalone, but it can also drive more consumption which drives more resell and more margins there. So, you have a double effect when you're doing the managed services on cloud.

**Aasim:** Got it. Second question, basically I just wanted to understand how we look at working capital debt on the balance sheet as a percentage of total liability, back during just immediately after COVID when working capital days had dropped a lot. Most of the working capital finance would cash on book. So, can we go back to a level where cash on the balance sheet funds are larger portion of working capital over taking short term debt, basically can we go to a net cash level in the next two to three years?

**S. V. Krishnan:** Aasim, this is a working capital intensive business Aasim. When you see a growth of this nature, in a working capital intensive industry, obviously there will be absolute amount increase in working capital and accordingly increase in debt. We are very focused on making sure that the leverage in the balance sheet is within an acceptable level and that we are very confident we don't foresee a challenge. But, we cannot go back to positive cash balance that was more during the COVID period and being one off.

**V. S. Hariharan:** And if I may add, it is important, both from a brand vendor perspective and Redington perspective to maintain and grow our market shares within acceptable limits. And we have joint

plans with brands and vendors and we are driving those well to maintain our position in the growing market. So, you have to really balance both the factors and that's the kind of risk we are taking in terms of profitable growth.

**S. V. Krishnan:** And we will ensure that return on capital employed is attractive. Our objective is to be between 18% and 20%, that's something that we are focused on. So, that you know what money is getting invested there is an adequate return.

**Aasim:** Got it. Quick question, I missed one last part of your previous statement, did you talk about positive net cash will eventually reach, or did I hear that wrong?

**S. V. Krishnan:** I said there will be debt, but you will see returns.

**Aasim:** Okay. And just lastly the factoring cost that you mentioned earlier, so where is this books in the P&L?

**S. V. Krishnan:** This is there as part of OPEX, because factoring by nature is sale of receivable, it cannot be there as part of interest costs. It is there as part of OPEX, this 86 crore what I had mentioned is part of the OPEX that's there in the books.

**Moderator:** Thank you. The next question is from the line of Dhvani Shah from Investec. Please go ahead.

**Dhvani Shah:** Sir, I had two questions. One was, can you provide some color on the performance of proconnect in this quarter?

**S. V. Krishnan:** Okay. Proconnect performance is mediocre in a way of speaking. We are making some corrections in the form of streamlining the revenue streams. We haven't de-growth, but we haven't grown either. And we have a neutral profit situation, but having said that the outlook for the next two quarters definitely looks positive. And I'm sure this will come back into the "crown jewel model" in the next few quarters.

**Dhvani Shah:** Okay. And just another question to harp on your question was that, you mentioned the other expenses will remain in the range as is. And the benefit of the inventory provisioning is not something that you can focus on. So, how do you expect the EBITDA margin to improve to 2.4 to 2.5 from the current 2.2% level?

**S. V. Krishnan:** This will happen in the form of higher gross margins. We know there are possibilities to increase the gross margin, it's not easy. It's going to take time, but if you ask where is the lever, the lever will come in the form of better margins.

**Moderator:** Thank you. The next question is from the line of Dheeresh from Whiteoak. Please go ahead.

**Dheeresh:** Sir did you say that Africa is a billion dollar. So, my question was that I just wanted to understand if I heard it correctly, that Africa is a billion dollar business on an annualized basis?

**S. V. Krishnan:** Yes, you are right Dheeresh.

**Dheeresh:** And sir which would be the bigger countries here?

**S. V. Krishnan:** It would be Nigeria, Kenya, Senegal in that order.

**Dheeresh:** Okay. The next second question is, on this presentation deck slide #17 where you have the half yearly performance region wise. So, rest of the world, gross margins are up, EBITDA is down. So, one of the reasons is factoring and one of the reasons is higher investments. So, can you just briefly explain how much is the drag coming from the two individually, just quantify to the extent possible?

**S. V. Krishnan:** It would mainly be in the factoring because Turkey, it comes under the rest of the world, which is where we have seen a very, very high cost. See, you will be surprised, the factoring cost today ranges between 50% to 55%, that's the cost of funding that's there in Turkey. In fact, every numbers of Turkey will look very mind boggling for us. The inflation rate is about 61.5%, the government announced interest rate that's available for the consumers and for SMB is about 35%. And when we were there in Turkey a week back on that day, it got increased from 30% to 35%. So, it is a bit different/difficult market. But, I need to tell you to the full credit of the team out there, we have still been growing, we are still not losing money, we are still making profits, whether the profit is attractive or not that's a different question. But we are still making profits, we haven't dropped the ball. So, that's something which we would want to tell you.

**Dheeresh:** No, sir what I wanted to understand was that, if you see H1 FY24 1500 crores of gross profit versus 1330. So, almost 170 crores higher we are making gross profit. But if you see the EBITDA is down about 85 odd crores. So, if you just quantify this 170, plus 85 this 255-crore extra OPEX is sitting between gross profit and EBITDA, how much of that is coming from factoring and how much of that is coming from investments that we might be making?

**S. V. Krishnan:** Okay. I may have to connect with you independently, I don't have exactly the numbers for me to answer you. Okay, for H1 the factoring cost is 147 crore.

**Dheeresh:** 147 for H1, what was it in the base H1?

**S. V. Krishnan:** It would be about 47 crores.

**Dheeresh:** So, extra 100 crore is explained by this.

**S. V. Krishnan:** Yes, balance should be the increase in costs, increase in normal OPEX.

**Dheeresh:** Increase in normal OPEX, okay. This is also higher versus the baseline because earlier in last call you are saying we are making some investments when are we in that journey and when there were normalize?

**S. V. Krishnan:** Investments are mainly India, India focused and some could be at the global level, not necessarily at rest of the world. Some of the things that may explain this increase is also the Forex loss that we had talked about last time in few markets, increased AR provision that would be there. So, some of these are factors that constitute that increase. But we can discuss the number one on one Dheeresh.

**Moderator:** Thank you. The next question is from the line of Devang Patel from Sameeksha Capital. Please go ahead.

**Devang Patel:** The growth that we have seen in rest of world has been higher than in SISA. Yet, if we see the working capital, the improvement is again higher in rest of the world as compared to SISA. Can you talk about why this, What explains this divergence?

**S. V. Krishnan:** Can you repeat the question, sorry we haven't followed that.

**Devang Patel:** We've seen a higher growth in rest of the world segment, revenue growth Y-o-Y in H1 and yet or Q2 and yet the margin improvement is better in rest of the world compared to SISA. Can you give some color on where, have been able to have better working capital improvement in rest of world despite the higher growth?

**S. V. Krishnan:** Okay, see. There is a better working capital management in Middle East during the last quarter. And that's one of the reasons why our overall working capital days have come down. And this something which had happened in Middle East, but I'm sure it will happen in other places as we move forward.

**Devang Patel:** Sir, and just to put this in context of the pendulum effect you were talking of in the previous call. So, can we say that the worst is over for us in terms of working capital pressures, because now you are expecting the other geographies also to be stable or improve?

**S. V. Krishnan:** I would not want to say that Devang, with the current environment, the level of volatility is definitely high. And there are some specific segments in the industry, which are also as Hari explained, are very challenged in terms of demand. I do not think we can take the current level into the future, we have to wait and see, but we are on top of it. For us, the capital efficiency is very keen.

**Devang Patel:** Okay. Lastly, could you just explain again, inventory provision reversal was how much this quarter versus how much it is usually for us?

**S. V. Krishnan:** Inventory provision reversal in the current quarter is about 29 bps.

**Devang Patel:** And on average it tends to be about?

**S. V. Krishnan:** On an average, if you take the last 15 years, it's about 6 bps, 0.06%.

**Devang Patel:** That would be similar in the first quarter also, so roughly about?

**S. V. Krishnan:** First quarter was 9 bps.

**Moderator:** Thank you. We would take that as the last question. I would now like to hand the conference over to Mr. V. S. Hariharan for the closing comments. Please go ahead.

**V. S. Hariharan:** Thank you so much for attending this call and asking a lot of really good questions makes us think and we will continue to do a good job for you. And we're looking forward to do the Q3 discussion which will happen in three months and hope to deliver good results. Thank you.

**Moderator:** Thank you. On behalf of Redington Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.