“Redington India Q3 FY 2015 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Redington India Q3 FY 2015 Earnings Conference Call, hosted by Axis Capital. 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 please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priya Rohira from Axis Capital Limited. Thank you and over to you!

Priya Rohira: Thanks. A very good afternoon, good evening and good morning to various participants joining us from various time zones, it is with great pleasure I welcome you to the Q3 FY 2015 earnings call for Redington India Limited. We have with us Mr. R. Srinivasan, Vice Chairman, Mr. Raj Shankar, Managing Director, Mr. Krishnan, Chief Financial Officer and Mr. Jayaraman, Treasurer from Redington India Limited. The call will begin with a brief management discussion on the performance for the quarter ended December 2014. This will be followed by an interactive Q&A session. The conference will be archived and the transcript will be available shortly. I will now handover the floor to Mr. R. Srinivasan, Vice Chairman for the initial presentation. Over to you Mr. Srinivasan and congratulations for the team for a great set of numbers.

R. Srinivasan: I will now request Raj to give you an overview of the business in the last quarter and take you through the detail. Raj over to you!

Raj Shankar: Thank you Priya. Thank you, Mr. Srini. Thank you to all the participants for joining us on this call. We are very pleased to share with you that for our quarter ended December 31, we have increased our sales revenue by 18.2%. We have grown our profits by 16.6%; however, this is taking into account the consolidated profit for last year when we had Easyaccess also reckoned. If you look at the growth in profits without Easyaccess for Q3 the growth would be 26.5%.

Now when you look at for a nine month period the growth in sales revenue has been 17.8% whilst the growth in profits has been 18% this is again with Easyaccess. If you do not reckon Easyaccess the growth in profits for the nine month period ended December 31, 2014 would have been 29.8%. It also feels nice to share with you that our profit for the quarter Q3 was 101.1 Crores and I just want to draw the memory of the participants Redington was listed in February 2007 and our consolidated profit for Redington for FY 2007 was again 101.7 Crores so it feels nice that seven years ago what we did at a consolidated level for a fully year, we have been able to deliver that number in one quarter which is Q3 FY 2015.

We have managed some of our financial metrics in line with how we are delivered in the past. Our debt and equity is well within parity with the proximately at a gross debt level about 0.9 to 1 at a net debt level it is about 0.7 to 1. In terms of the rest of the numbers our earnings per share for Q3 FY 2015 was Rs.2.5 and for nine month ended December 31, is Rs.6.6. Our the one area where I must tell you where the working capital has become more than what it was for the same period last year from 45 days, the working capital at a consolidated level has increased to 48 days. This is largely on the bank of a higher working capital on account of inventory in the overseas market but barring that all other metrics in terms of revenue growth earnings has been in line with what we had internally expected.

I also just want to mention as all of you would know we had a great quarter as far as the Apple business is concerned in India. It did extremely well for us. That was also partly one of the reasons why we were able to grow quite significantly in India for last quarter. As far as outside India business is concerned, I am pleased to share that the Turkey business has turned out to be quite in line with our expectations. They have grown both the top and the bottomline. I am also pleased to share with you that in spite of the numerous geopolitical challenges in Middle-East and Africa we have registered a double-digit growth on top and bottomline in this region as well though I must mention a word of caution that there is a huge currency devaluation and currency volatility in a number of markets in Africa as also on the Middle East including Nigeria, Morocco, Kenya, Turkey to name a few.

Overall, we are pleased with our results for Q3. We hope all the participants would agree with this performance we have delivered and I hand it over back to you Priya, if there are any questions from the participants.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

S. Ramachandran: It will be helpful if you can just share some numbers on how Apple did this quarter may be in a YoY basis and then any specific trigger that led to the high inventory in overseas locations, because last quarter itself we had highlighted that it was a very good quarter because of some exhibitions and other events happening in the overseas market, so just wanted to know because that seems to be the biggest driver of gross margin expansion also?

Raj Shankar: With regard to Apple as you know we had this launch of iPhone 6 and 6plus both of which did extremely well in October, November and December. The growth in the Apple business for the same quarter of the previous year was approximately about 67%. Now to the other question regarding the inventory in the overseas markets we were challenged in terms of a very high inventory mainly on account of Africa as also to a certain extent in UAE. This is essentially because the currency went through a huge turmoil during October, November and December and this therefore we did not see for instance, the devaluation in the currency in Naira in Nigeria was about 19% for the quarter, so we were forced at a point in time to hold back on the sale, which led to an accumulation of inventory. Similar problem we faced in Turkey whereas you would know only for the month of December the devaluation amount was about 5% and therefore and December tends to be a very good month for Turkey though this time we were seriously challenged on account of the devaluation of the currency. So the large part of the inventory pileup is on account of slowing down of sales in some of these markets but I want to, I hasten to add that this is the total inventory has gone up but the ageing of inventory is very much under check in control. Thank you.

S. Ramachandran: Just continuing on that point, now have some of these OEMs have increased prices in the market so now we can sell it back to ensure that we do not make a loss, so just wanted to know how do you manage pricing in such sharp volatile in currency?

Raj Shankar: So in lot of these situations, you know the vendor does come and help us but then it is a matter of two things. One we have to uplift the pricing and allow for the market to accept it so we do holdback on our sales and to a certain extent if the pricing is not competitive vendor would always support us so it is more like a very collaborative effort so which is also one of the reasons why we do not tend to sell under panic because when then you would unnecessarily take losses when actually we could have got the support from the vendor and timed it properly. Let me tell you this is not something which is specific to December. This does happen from time-to-time but over a period of time I must mention here that we do get the support and we make sure that we do not make losses so to that extent I can give you that comfort.

S. Ramachandran: My last question is on the demand environment especially in India it will be helpful if you just give a breakup between governments, SMEs, corporate that usually give?

Raj Shankar: Overall the market from an IT stand point has been soft particularly for last quarter rather continues to be soft for last quarter. Some of the projects and the deal business which is essentially driven out of the investment infrastructure by government have slowed down and we are hoping that in the next quarter or two once this improves then overall our sales should get back to normalcy. But for last quarter in particular the projects on the deals business was at its low leg, the rest of the segment of the market of retail continues to be find, the eTail business is something that has also gathered more momentum, the reseller business also continues to be as in the past so the one conspicuous degrowth or slow down is on the corporate/the government business. Thank you.

S. Ramachandran: Thank you.

Moderator: Thank you. We have the next question from the line of Nitesh Kamdar from Aditya Equity Investment. Please go ahead.

Nitesh Kamdar: I have one broad question. What can be the impact of GST implementation can have one of the operations of our company? Thank you.

Raj Shankar: Firstly, from our point of view our in-house expectation is that this should happen in 2016-2017. This is our expectation. Should this happen, we believe, we are extremely well poised to take derive a lot of benefits because we have a huge amount of infrastructure in the form of warehouses across different parts of India and as we continue to focus on the logistics business which is the ProConnect we were that we setting up all these distribution centers or leasing some of the centers taking into account the distribution efficiency rather than looking at the tax structure. So it will also help us in many ways to reduce our inventory because instead of stocking the goods in some 70-75 locations, we probably going forward can keep it in substantially fewer locations and to that extent we can manage our inventory much better. A working capital should also find some benefit on account of this so overall we would like to believe introduction of GST will help us in more than one way. Thanks.

Nitesh Kamdar: Thank you.

Moderator: Thank you. We have the next question from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: Thanks. My question relates to on the logistics subsidiary how has been the traction in this subsidiary? The secondary is that we could have an update on the Samsung business in Africa? Third, you mention on the momentum on the eTail-ing business in India if you could, let us know more quantitative terms how has this grown month-on-month or quarter-to-quarter it will be helpful?

Raj Shankar: On your first point, with regard to the ProConnect business, I am pleased to share that our revenue was grown by about 21% for the quarter and about 19% plus for the nine months period. Our profit also has grown by about 22% for the quarter and in excess of 30% for the nine month period. So that is doing well for us so far. We are also now in the very recently engaged with some of the e-commerce companies to be able to provide logistic services for them. We think this is something that what has started off on a regional basis would very soon scale to a national level and we see good opportunity for ProConnect to be able to significantly grow the business as the e-commerce business continues to grow. Probably with this Priya, I have answered your first and third question to some extent. As far as the second question on Samsung is concerned, as Samsung has you would know overall for four consecutive quarters have shown a decline in their market share and their profits have also gone down by well over 35% for the last quarter so Samsung is at this point in time in a weak wicket. This sort of reflect in some of the markets in Africa that we operate where the business has become much more softer these days compared to what it used to be but the good news is even though there is a scale down of the business the business is lot more healthier than what it used to be so to that extent we are happy in the current structure as far as Samsung business is concerned. Thank you.

Moderator: Thank you. Our next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

S. Ramachandran: Hi Sir, just wanted to understand the broad dynamics of this ProConnect business. How should you look at this business? Should we look at rotation and by-pass or sale? What should be the matrix if we have to look at the ProConnect business in terms of growth or it should be capacity just wanted your thoughts?

Raj Shankar: From our perspective the way we started the ProConnect business it has two legs to it. One is the captive business of Redington but the bigger leg or the bigger piece is the third party business. So the interesting part of ProConnect is that we already have an infrastructure in the form of warehouses in about 73-74 locations. Now we are not only able to use that for the Redington purposes but we are also using it for many other customers and today as we speak we have engagement with well over 30 customers where we provide a complete suite of services whether it is import and freight forwarding whether it is customs clearance or warehousing operations, transportation and delivery or reverse logistics so we provide a complete suite of services. To your point about matrix therefore the first most important is what is the square feet of warehouse space that we have because that pretty much determines your ability to sort of deal with the products that you receive and ship, pick back and ship. We have as we speak about 1.25 million square feet of warehouse space in India. This we plan to sort of how to scale it overtime because we believe that in some of the centers or some of the places they may need a much larger warehouse or a distribution centers and what we have. This is the first matrix. The second matrix is we look at this whole logistic business as end-to-end logistic services not just limiting the scope to either doing warehouse management or doing only delivery but we do the whole thing end-to-end and that sort of creates a huge value. The last aspect of this as we see it is for us the most important is the value of the products that we deal with because sometime for the more complex the logistic requirement is, the bigger the roles for the company like Redington. There are number of customers where the products not only requires to certain amount of turnaround time and efficiency but it also requires huge a pallets and huge crates of products which has to get moved so we have the ability to handle large products of very high value and we able to move the nook and corner of the country so that all three of which gives us we think a unique advantage. Thank you.

S. Ramachandran: On the margins front this quarter because of the inventory we saw pretty handsome margin expansion but directionally what do you think should trend down in FY 2016 from the current level or this quarter at least on the domestic front you have Apple, also which was also a high contribution which contributes slightly dilutive on the margins front and positive on the cash flow front. So how should you look at margins both on standalone and on the consolidated?

Raj Shankar: I think you pretty much understood an important aspect of our business. Now when you look at the business in the past when we used to deal only with IT products, the kind of margin that we could make was somewhere in the vicinity as we always said the range is between 4% and 6% but over a period of time we have been able to inch it up to 6%. However as we continue to add more and more of the smart phone brands now the margins at a gross level tends to be much lower compared to the IT products but that said on a working capital point of view it consumes lesser working capital relatively speaking compared to IT. So I think what would be ideal is to have the right mix of both IT as well as smart phone products and therefore while on one hand it may appear that the margin is not expanding but the margin may on the contrary slightly constrict but if you look at from the working capital point of view it can only get better overtime. Thank you.

S. Ramachandran: I will come back later. Thank you.

Moderator: Thank you. We have the next question from the line of Raunak Omkar from PPFAS Mutual Fund. Please go ahead.

Raunak Omkar: Good evening. I am new to tracking the sector so probably just give me some leeway. What I saw in one of the business is in US called AmazonSupply where they are basically trying to remove the distributor in the industrial segment, can that even be possible in the electronic segment in IT and smart phones?

Raj Shankar: So the first is, the good news is Amazon is our customer and a very important customer and probably as we speak the biggest customer of ours. The fact that we do, so I was saying Amazon is our biggest customer but this is on the eTail-ing space. So we have a great engagement where whether it is IT or whether it is the smart phone, all these products including gaming they buy from us and they sell in the market place so to that extent we see that we are only, they are like any other customer of ours. At this point in time they are the important customer and a growing customer. But if there are some more details since you said probably you are new to the sector we planned to be in Mumbai on 4 and 5 so if you happen to be there we will be happy to probably spend a little more time and take you through our business model.

Raunak Omkar: I would love to Sir.

Raj Shankar: Thank you.

Moderator: Thank you. We have the next question from the line of Sumitra Chatterjee from Espirito Santo. Please go ahead.

Sumitra Chatterjee: Thanks for taking my question. Just a bookkeeping question; I needed the breakup of IT and non-IT revenues for India and overseas for the quarter? Thank you.

Raj Shankar: Just to first to give you a sense, the split in revenue between IT and non-IT first of all at a consolidated level is 71% on IT and about 29% on non-IT or telecom. So this is at a consolidated level. Would that be good for you?

Sumitra Chatterjee: That is helpful but the break up between India and overseas would also be great?

Raj Shankar: Now the break up let me tell you, overall the break up for India and overseas is overseas did about and contributes to 55% of the total revenue 45% came from India. If that helps?

Sumitra Chatterjee: But Sir the breakup of IT and Non IT revenues in India and overseas separate would be available?

Raj Shankar: Let me come back to you on this. I do not have that data readily in front of me but as I mentioned to you at a consolidated level it is 71 and 29 between IT and non-IT and as far as the overall sales is concerned contribution of India to overseas is 45 to 55.

Sumitra Chatterjee: That is helpful. Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of G. V. Giri from IIFL. Please go ahead.

G. V. Giri: Number one, your gross margins from Apple being lower you still had higher proportion of sales compared to usual from Apple plus some increase in the gross margin so what explains this for this quarter?

Raj Shankar: Just two points as you would know whenever we talk about Apple margins being lower this is essentially at PBT level but not at a gross margin level, so the gross margin for Q3 at a consolidated level was 6% and whereas for the previous quarter which is Q2 it was 5.7%.

G. V. Giri: So would it be correct to say that the jump in gross margins in this quarter came substantially because of the higher proportion of Apple revenues?

Raj Shankar: I would put it the other way. In fact 5.7% was an aberration, 6% is more like what it should be. In fact the 5.7% may not be the right frame of reference but just to draw your attention Q3 of FY 2014 we delivered a gross margin of 6% which **(indiscernible) 30.32** with what we have delivered in terms of gross margin in Q3 FY 2015 which is also 6%. Thank you.

G. V. Giri: Sir your other expenses have jumped in this quarter and presumably that is also related to Apple. Is the pattern of spending on the Apple likely to be sort of similar amount across the next two three quarters or will it be , is it likely to be a constant proportion of sales?

Raj Shankar: We would like to believe that whatever has been the trend in the last few quarters is what we would like to believe would pan out in the next couple of quarters.

G. V. Giri: So that means it will be closer to a constant amount because that is how I saw the trend the previous quarters being?

Raj Shankar: Sure.

G. V. Giri: Also you had somewhat cautious commentary in your previous call on the Middle-East revenues but you had a very strong growth in the overseas revenues in this quarter so what explains that difference? Is there some FX related impacts or would the business generally stronger?

Raj Shankar: There were two reasons. I still continue to give you a cautious outlook, first time I say that whilst I stand very very happy that our team had delivered a good set of numbers outside India but I would still like to believe that Q4 is I would still be very cautious, point No.1. With regard to what let us to this higher growth in spite of the word of 'caution' is because Turkey in spite of the currency devaluation etc., gave us a slightly higher uplift to the business being the last quarter and the last month so they managed to pull it off quite well, also I must mention that we have added a few more brands of smart phones which we did not have the previous year and today we have a portfolio in the Middle-East Africa of about five to six brands though they may not be necessarily in the top three but we have added more brands so that is how to given us a certain amount of fillip to this growth.

G. V. Giri: Your working capital days and operating cash flow can you give us a feel of how that moved this quarter?

Raj Shankar: I would request my colleague Krishnan to give you a sense on that?

Krishnan: As Mr. Raj Shankar mentioned in the beginning the working capital days for the quarter was about 48 days, vis-à-vis it was about 45 days during Q3 last year. So there is a marginal increase in the working capital days at the consolidate level. With respect to cash flow as we have been saying in the past we cannot track the cash flow on a quarterly basis particularly in this business, you have to wait for the full year to understand the full cash flow trend. So I think we have to look at it for the full year basis tracking it on a quarterly basis can only, I mean it can only give us a distorted picture.

G. V. Giri: Any comment on your new additions to your brand portfolio in India and international?

Raj Shankar: In fact for us this is something we do every quarter. Turkey last, I would not know specific to Q3 but overall we have added about nine brands in the last three quarters, likewise in the Middle East Africa as I mentioned there has been number of brands added in the smart phone space about five of them. As far as India is concerned likewise we have also signed up contracts with some of the current vendors both in IT as well as in non-IT for certain markets that we did not have the access earlier so I think this is something that continues to be a part of our growth strategy which is to look at brand acquisitions.

G. V. Giri: Anything in India that you added or have been working on?

Raj Shankar: Yes we have added a few smart phone vendors and some of which is just about you know we haven't had a full quarter to do the business but some of them have definitely got added.

G. V. Giri: Sir you had a favourable verdict given by the ITAT and do you expect the government the IT Department to continue appealing now that the Central Government has taken a more favourable view of not pursuing transfer pricing related tax demands?

Raj Shankar: So far from whatever we know officially the IT Department has not filed an appeal. In the light of the circular which CBDT has sent to the field officers our hope is that the **(indiscernible) 36.32** census will prevail with the department and that they would not go on an appeal.

G. V. Giri: That is all from my side. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Thanks. Sir would you give me a sense of what is the current health of the channel. Has there been any impact of the very high participation of E-commerce buying on both smart phones and IT in the last quarter on the channel that you are partner with?

Raj Shankar: That is an interesting question. On the IT side of the business we see little or no change. On the smart phone side of the business we see a few people joining the market place of some of these e-commerce company but the good news is that how these guys still continue to buy from us expect that they have chosen a market place which allows them to probably sell or trade or transact much faster. Number two we also find that while some of these e-commerce companies are today driving both options one is the market place option and the other is where they buy and sell. We are today barring very few vendors who have gone direct particularly on the smart phone, the rest of it is essentially slowing through distribution therefore we are continuing the benefit from that. One of the two Smart Phone vendors who went direct, I must tell you we are in very active discussion for how we can help them open up channels instead of necessarily over depending on the e-commerce company through whom they have gone for a start. So I do not if that answers this question?

Ankur Rudra: That was very helpful. I just also wanted to know from retail perspective, there been some press reports and articles that retailers have seen pressure in the business because of e-commerce opening itself channel separately is that likely to affect your end market because many of your end customer relatively are small retailers themselves?

Raj Shankar: Most of this is some of the larger retailers and the smaller retailers, but I think overall I repeat again this has little impact on the IT because the whole portfolio of products, the nature of products is very different whereas in the case of smart phone particularly for those vendors who have gone direct, yes, there could be a bit of a cannibalization of the business from some of these retailers to the e-commerce company but whichever way one looks at it for us as I was saying on an earlier question you know these E-commerce companies are today some of our big customers each one of them we are well engaged. So in a way of speaking for us the business moves retail to eTail we are certainly not going to get impacted, or we will continue to engage with eTail and our show goes on.

Ankur Rudra: Any impact on your economics there, your gross margins etc., if it moves to eTail as a majority of it in the next three four years?

Raj Shankar: I do not know. What I am going to say may look very controversial or arguable. For us we see margin as not the cost of our concern the more business we do with some of these e-commerce companies is more about risk and the risk and is on the collection and payment to what extent are you willing to take an exposure on these accounts whereas this was not the case with some of the retail company so the concern is not margin the concern is risk and exposure.

Ankur Rudra: Lastly, wanted to know how the underlined market as a volume given the, you know interest rate were changing does that change the level of activity in many of your sub segments in India?

Raj Shankar: This is our hope. For the last quarter we did not see that translate into results for us but we are expecting in the period going forward we should have a positive impact to our business.

Ankur Rudra: Thank you best of luck.

Moderator: Thank you. As there are no further questions I now hand the floor back to Ms. Priya Rohira. Over to you!

Priya Rohira: Thanks everyone for joining this call. On behalf of Axis capital I would like to thank the management team of Redington India for giving us great insight and would now like to handover the floor to Mr. R. Srinivasan for the final remarks.

R. Srinivasan: I must say that in I like to make two points, before I sum up the quarter. During the last two weeks you must have seen some press reports on Apple and they are appointing a distributor, you would have seen the management's call with you all and the rationale we put up at the exchange. In this business, I want to let all the participants know that we have a bouquet of products, sometimes we may take conscious decisions not to increase the share with any one vendor as a very conservative approach of not putting all our eggs in the same basket. Many of the participants consistently recall, what happened to HCL Infosystem vis-à-vis Nokia. There is only one big difference between that event and whatever had happened with us in Apple. Nokia contributed to a very large percentage of HCL Infosystem business and their profit. We have consciously as Raj would have told you in the call which you had a couple of days ago that we are wanting to have a certain percentage of our market share or our share with the vendor in spite of their appointing and other distributor as Raj said that our business with Apple we continue to grow with an appropriate risk level in terms of our total bouquet. I think the market since they call with Raj as recognized this but I thought I should bring this up because there may be events in the future where brand A or brand B may appoint one more distributor and they should not have knee jerk reaction but the management is extremely conscious about the risk with any one vendor.

The other point I must bring to your attention is that things in overseas are very volatile many of the markets we are oil dependent market. All of us are aware of the price of oil and what it means in terms of the physical health of many of these countries and what happens to the currencies so we would like to always give you a caution in the next one or two quarters till things settle down in the market. However, our management team is trying their best to go through and pierce our business in the phase of all these risks and you may as someone asked how can you have done better when you have gave us a warning last quarter, it is just that we are making all of you alive to the situation we would try our best to steer through this mind and god willing, we would be able to come up with some good results but that does not take away the situation in which we are operating. I just thought I would sum up these two major events, which would be waiving on the minds of the participants today. Thank you.

Moderator: Thank you. On behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.