



## **Redington (India) Ltd**

**Q3 FY 2018 Results**

**Conference Call**

**February 1, 2018**



**MANAGEMENT :** **MR. RAJ SHANKAR – MANAGING DIRECTOR – REDINGTON (INDIA) LTD**  
**MR. S. V. KRISHNAN – CHIEF FINANCIAL OFFICER - REDINGTON (INDIA) LTD**  
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**ANALYST :** **MR. ROHIT DOKANIA – IDFC SECURITIES**

**Moderator:** Ladies and gentlemen, Good day and welcome to the Q3 FY2018 Results Conference Call for Redington India hosted by IDFC Securities. 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. Rohit Dokania from IDFC Securities. Thank you and over to you, Mr. Dokania!

**Rohit Dokania:** Welcome to the Q3 FY2018 results conference call of Redington India Limited. I would like to thank the Management for giving us the opportunity to host the call. The Management team is represented by Mr. Raj Shankar, Managing Director, Mr. S. V. Krishnan, Chief Financial Officer, Mr. S. Jayaraman, Vice President Treasury, and Ms. Sowmiya, Investor Relations. We will start with the commentary from the Management and then move into the Q&A. Thank you everyone and over to you, Mr. Raj Shankar!

**Raj Shankar:** Thank you. Good afternoon to everyone who has joined us on the call today. So, I will quickly go over our Q3 performance. I am happy with the set of results that we have announced. Overall, as you would know, our revenue has grown for the quarter by 7% and our profit after tax has grown by 7.8%. For nine months into the current financial year FY2018, our revenue has grown by 6% and our profit after tax has grown by 8.6%. Now we have done this on the back of two things, number one being our working capital for the quarter has got reduced by 7 days from what used to be 43 days for the same quarter last year to 36 days in the current quarter and when you look at the same thing on a nine-month basis, we have managed to strip out 9 days of our working capital, that is, from 48 days back then to 39 days for the quarter gone by. This has resulted in a free cash flow for the quarter of about Rs.175 Crores and for nine months, it is a positive free cash flow of Rs.287 crores. On a side note, as far as ProConnect is concerned, this is another quarter where they have delivered a very strong double digit growth both in topline and bottom line. The revenue for Q3 has grown by 65% while the profit after tax has grown by 31%. Overall, given that we have been able to grow our bottom line faster than our topline for the quarter and for nine months and our

ability to reduce working capital again for the quarter and for nine months allowing us to generate free cash flow for the quarter and for nine months, we feel happy with this set of results and I hope all of you do too. Thank you and I look forward to your questions now.

**Moderator:** Thank you. We will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Madhu Babu from Prabhudas Liladher. Please go ahead.

**Madhu Babu:** Congrats on good revenue. Sir, actually the margins have been a bit of a disappointment. Is it on account of the overseas growth which was a bit higher this quarter?

**Raj Shankar:** So if you are talking about the EBITDA becoming a little less, essentially as far as outside India is concerned, it is on account of Turkey whereas all of you would know it has gone through a very, very trying and testing period for us. The exchange rate has got further devalued and there is a lot of uncertainty and if for a moment we look at our overseas performance without Arena, the EBITDA has grown for the quarter by 14% and again if for a minute, you look at a nine month basis, the EBITDA for our overseas operations again without Arena has grown by 12%. So, suffice it to say that all these results have been in spite of a very difficult situation that we are grappling within Turkey.

**Madhu Babu:** In India, is the YOY decline because of the high base quarter last year on account of demonetisation where the iPhone sales have been very strong?

**Raj Shankar:** So, you are right. We had two challenges. Typically Q4 is the first quarter of Apple, which is normally referred to as NPI quarter, which is New Product Introduction. Our experience in the past has been that in the NPI quarter there is a huge pent up demand for the new iPhone that is introduced so much so that in many cases we end up in taking advance or receiving advance from our partners and when the product is received we are able to turn it around very quickly such that it typically results in a positive cash flow or even a negative working capital. But in this quarter, unfortunately in spite of huge expectations both iPhone 8,

iPhone 8 Plus as well as the iPhone X did not fire the way all of us had anticipated. So, while there was a huge expectation, somewhere it just fizzled out, which then resulted in us not being able to scale our business and hence when you compare our performance in Q3 FY2018 with Q3 FY2017, it certainly shows a big decline.

**Madhu Babu:** Sir, how was the allocation for iPhone X? Also, since Apple itself cut the production targets for iPhone X, how do you see the Apple portfolio for the next calendar year?

**Raj Shankar:** So, as you would know, if a company like Apple would have cut production for iPhone X, that is a clear demonstration of the fact that the product, in their own expectation, has not done as well, so in terms of allocation, we think it should ease up, but the problem here is not about allocation. I think, the iPhone X, has in terms of price has made only very few buyers afford this product and we did not see the kind of demand that all of us were hoping for, in spite of the fact that it has one of the best iOS ever. But, there are lots of rumours around what Apple is planning to do, so we will wait for them to announce their going forward plans and we are hoping some of those corrections should take place this quarter.

**Madhu Babu:** Sir, last one from my side. ProConnect has registered very strong growth again YoY, of course there is acquisition element there. How was the investment and how are we building the team in ProConnect? Thanks.

**Raj Shankar:** So, the good news is, if you for a minute again, look at ProConnect with or without the acquisition, there has been a double digit growth both on top and bottom line and we had a good run especially for October, November and December on different verticals though E-commerce certainly was one strong vertical for us. We also managed to acquire a number of new customers and managed to expand and grow the business with a number of existing customers, so I can tell you that our efforts as far as ProConnect is concerned is starting to see very good rewards and therefore in the way forward we will continue this growth momentum and we are very confident.

**Madhu Babu:** Thanks Sir.

**Moderator:** Thank you. The next line is from Nitin Padmanabhan from Investec Securities. Please go ahead.

**Nitin Padmanabhan:** Thanks for taking my questions and wish you a very happy new year. Sir, with reference to the India Non-IT bit, if my numbers are right, it has actually declined 24% YoY. Now you did answer quite a bit about it, but wanted to understand if iPhone SE had any impact despite being manufactured out of India. Also, our working capital continues to sort of surprise positively every quarter but we have always maintained a significantly higher kind of number that one should assume. So, just wanted your thoughts around what is leading to this kind of surprise on working capital and finally your thoughts on the Ensure business and how do you see that sort of moving forward?

**Raj Shankar:** Nitin, happy new year to your too except that we have already passed one month so however belated it is all of us need good wishes, so thank you for that and wish you the same. Now, with regard to the Apple business, iPhone SE being produced locally has not seen significant scale, so we continue to be looking at the rest of these SKUs, which are not manufactured locally. So that is pretty much as far as SE is concerned. Overall, from a Mobility point of view or for that matter every vertical, if for a minute, we look at IT, Mobility and our Services business, we grew for the quarter 7% on IT, 1% on Mobility and 33% on Services and here, of course I am talking about the consolidated picture. Now, for a minute, when you look at the working capital, the reason why we have been able to do this is essentially because we have had another very good quarter as far as overseas is concerned. They have been able to significantly reduce the working capital from what it was last year. However, when we are looking at the consolidated picture and if you look at the last year, our inventory has come down to 27 days from what used to be 33 days, so when we are talking about a 7 days working capital reduction at the consolidated level, although a good part of that has come outside India, but if you look at each of the parameters of working capital, a significant reduction has come out of inventory. We have managed to reduce it by 6 days, so that's one point I thought I would share with you and for a minute if you look at overseas in particular, inventory reduction is even more conspicuous at 23 days for the quarter gone by as compared to last year's 30 days, thus managing to reduce by a good 7 days. This is in addition to the receivables and other parameters also

being reduced quite substantially. Now with regard to what we expect as far as the working capital going forward is concerned, we will continue to pay a lot of attention to receivables, which is one area where we think there is a scope for us to improve. I think as far as inventory is concerned, at a consolidated level, I think it is in good order as compared to competition, I can give you the comfort that we are far better than any other competitors that we know, but as far as the receivables are concerned I think we have some more work to do, which is what we are going to focus on and in this, India is going to be our focus market. I do not know if you had any other questions that I am missing out, Nitin

**Nitin Padmanabhan:** The last one was your thoughts on Ensure and how Ensure will be going forward in terms of the changes that you were looking to make in that business and where we are today?

**Raj Shankar:** So if there is one business on which I am personally not happy with the progress it is Ensure, but having said that just on a side note, as far as Ensure India is concerned, for the quarter, we have grown topline by 10% and bottom line by 16% and as far as Ensure Middle East & Africa is concerned, we have grown by 30%. Even though on one hand, I say I am not happy with the performance, but on the other hand, I am talking about double digit growth, I still think that we are still going through the correction phase. We are repositioning this company from being just doing the break fix and the repair services, to moving up to the value added services. We are starting to see some small success, but we hope that in the next few quarters, we will start to see scale in this business, so in the way forward, Nitin, we expect that the Ensure business will move up the value chain as far as services is concerned and in that, we also want to make sure we are able to drive scale if that answers your question.

**Nitin Padmanabhan:** Sure Sir, that is helpful. Thank you so much. I will come back for follow-up.

**Moderator:** Thank you. The next question is from the line of Rabindranath Nayak from Sunidhi Securities. Please go ahead.

**Rabindranath Nayak:** Thank you for the opportunity and Sir, I have one question regarding Flipkart, which is planning to put up its own logistics firm as per recent news article. How

does this impact you and what is the percentage of revenue, Flipkart provides to ProConnect?

**Raj Shankar:**

So I am afraid I do not have specific data point with regard to Flipkart's contribution to ProConnect, but what I can tell you is that E-commerce contribution is approximately about 14% to our overall ProConnect business. Obviously it may not also be appropriate to share specific numbers with regard to specific customer, but your question as to they putting up their logistics facility and scaling up their logistics capability, I can tell you that we are engaged with all E-commerce players and this business has been scaling up nicely for us, so even though some of these companies would have their own logistics capability what we have observed is there are specific regions and there are specific markets where they do not have that same level of capability and therefore they want to tie up with someone who can provide or render that logistic services in that market. Also, the nature of our services with most of these E-commerce companies has different aspects as it is not just managing their fulfillment center but it is about taking it end-to-end, and to that extent they are able to therefore outsource a number of activities to us and from what we have observed, we are able to do it very cost effectively even by their own admission. So the long and short of your question is that E-commerce is doing well for us and we continue to see growth in this particular phase. Currently, it contributes to about 14% of our total business and we see that is only getting better over time.

**Rabindranath Nayak:** Thank you, Sir.

**Rohit Dokania:**

This is Rohit. I had a few questions, Sir. One was can you talk about when do we expect the pure IT spends to improve as far as India is concerned?

**Raj Shankar:**

You know, Rohit, every single day when I walk into the office, this is exactly what I pray for. With all the plans that the Government has been talking about in terms of huge spend on IT infrastructure, talking about investing \$20 billion over the next three years and all of that, we still have not seen significant traction, so I am hoping and praying that probably in the next quarter or two or hopefully now that the budget is out of the way, so at least from here on till sometime next year we should now get on to this IT infrastructure spend, but on the side note I must also

tell you that the PSUs are now starting to shore up their investment in the IT infrastructure, so while the Government per se is lagging behind, which we hope should catch up. The PSUs are now starting to show some good tractions.

**Rohit Dokania:** That is helpful, Sir. The other thing is can you comment on the organic growth in ProConnect leaving aside the acquisition that we had done?

**Raj Shankar:** So in terms of the organic growth, it is 30% in terms of topline and 20% in terms of bottom line.

**Rohit Dokania:** Sure that is very helpful, Sir. The other question that I have is that you have articulated in the past in terms of increasing the share of PAT coming in from services, so where are we on that sort of medium term plan and if you can share some details on that?

**Raj Shankar:** So great point. We have made some progress. We still have long way to go, so statistically speaking for the quarter gone by, 17% of the profits came from two service initiatives. One is ProConnect and the other is Ensure. This does not include some of the other services like cloud, 3D and Indigo and all of that. So only these two is about 17% and one of the points that we were saying is that we certainly want to see this scale up to 20% to 25% of the India profits, so we are making progress and hopefully in the quarters to come you will see that the service contribution will certainly scale up.

**Rohit Dokania:** That is very helpful, Sir. Thank you. My questions are done.

**Moderator:** Thank you. The next line is from Jayasree Ram from Karvy Stock Broking. Please go ahead.

**Jayasree Ram:** Thank you very much for taking my questions, Sir. My first question is what is your current debt profile?

**S. V. Krishnan:** The Net debt to Equity is about 0.2 times, as at end of December, which is about Rs.850 crores



**Jayasree Ram:** With regard to the customs duty being increased in the mobile segment what is the effect on the business?

**Raj Shankar:** We just heard this announcement, so at the moment we are not in a position to give you a quick response on this, but a very high level input is given the kind of products that we are dealing with, which are anyway catering to mid to high end, we believe that it should not have a significant impact, but having said that please allow us some more time to digest this.

**Jayasree Ram:** Within the IT can you give me the breakup for consumer and enterprises segment?

**Raj Shankar:** Overall when you look at as I mentioned to you at a consolidated level IT has grown by 7%. Now when you break that down to between let's say consumer and enterprise, the enterprise part of the business at a consolidated level has grown by 12% and with regard to the consumer it has grown by 4%.

**Jayasree Ram:** What is the breakdown between consumer and enterprises segment?

**Raj Shankar:** So it will be approximately 40:60, 40% being enterprise and 60% being consumer.

**Jayasree Ram:** So within these two segments, the value added will be enterprises segment, right?

**Raj Shankar:** Very true.

**Jayasree Ram:** Do you have strategies to increase your enterprises segment to be able to improve your EBITDA margin?

**Raj Shankar:** Good question. So if you see the same statistics if you have seen about two to three years ago, it would have probably been more like 25:75, 25% being enterprise and 75% being consumer. This 25% has since grown to 40% on the enterprise side, so in other words as far as India is concerned I think I have shared this statistics before. Almost about 70% of what we do in India is the enterprise; however, when you look at enterprise outside India it is the other way around where probably about 25% or less comes out of value or enterprise whereas 75% comes out of consumer, so what you will see going forward is as far as India is concerned we will continue to drive the enterprise business up. You are right it

should have a positive effect to EBITDA. At the same time outside India, which used to be only consumer dominated has now started to come to the party and hopefully as we continue to scale that the overall ratio should improve.

**Jayasree Ram:** So what are the measures you are taking in the overseas market to scale your enterprises business?

**Raj Shankar:** So one of the first things that we have to do is to add distribution contracts across various technology practices, so initially we were only focused on server and storage, but in the last two to three years we have added a number of brands in security and software portfolio. We have added a number of brands in networking. We have also now made some foray into the cloud, so then I do not remember the statistics very well, but if two to three years ago we had about a little over 20 vendor contracts across two or three technology practices. Today by the last count we should have over 50 vendor contracts across at least five to six technology practices. So we are absolutely in the right direction in terms of making sure we have good portfolio of brands, good skill set, and we are also having a very strong presales team to really drive this enterprise business up.

**Jayasree Ram:** Last question within the EBITDA, which is about Rs.219 odd crores this quarter, can you give me the breakup for the same, between IT & Mobility?

**Raj Shankar:** Jayasree, can we share it later? I may not have that.

**Jayasree Ram:** I can get in touch with Ms Sowmiya later. Thank you very much for taking all my questions.

**Moderator:** Thank you. The next line is from Vinay Jay Singh from ENAM Asset Management Co. Please go ahead.

**Vinay Jay Singh:** Thank you so much. I think part of my questions has been addressed, but I would like to re-get back at them. My first question is on your PBT margins, which on a year-on-year basis, we are seeing a little bit of pressure and you did mention about Turkey being the problem. It is quite a coincidence that the PBT is the same in the last two quarters, both for India as well as for the overseas business, which is 2.7% and 1.3% and is virtually identically the same. So, do we have a sequential or is

this a cyclical business or is this just a coincidence and we should really look at it on a year-on-year basis? Simultaneously, do you think Turkey problems will get solved in the future and we will go back to the 1.7% to 1.9% margins, which we have historically earned in the overseas business? Second in the last couple of calls we were discussing how GST could gain an advantage on the warehousing part of it and freight cost, etc., would come down. Any thoughts on that and my last question is on the budget you have seen some customs duty hike in mobile devices, so any thoughts on how that would affect our business? Thank you, Sir.

**Raj Shankar:**

To your first question, it will be good to look at annual basis and not on a quarterly basis. As far as Turkey is concerned, honestly every time we keep reassuring ourselves that the next quarter and the next period is going to be a normal quarter, but unfortunately one or the other incident plays out. As you know, Emergency continues and probably this is the ninth month when the Emergency continues there. So, consumer confidence is low and the exchange rate has been on a declining mode. So honestly I think it would be unfair on my part or too speculative on my part to tell you anything, but all that I can tell you is we are therefore trying to make sure that we only play with those brands and sell to those customers in those segments where we are reasonably sure of making a certain amount of margins and covering our costs because at this point in time managing risk is more important than driving growth, so at the same time on a completely different note we believe that the next presidential election, which is due in 2019 should probably make the current Government do take several populist measures, which will probably revive this economy and bring in back the consumer confidence. This is a hope, but if any of that does play out I think we will be very quickly back in the game and to your point we should start to see an improvement in our top and bottom line.

**Vinay Jay Singh:**

Before we go there, from here to the period wherein the Government gets changed, is it then fair to assume that current margins would prevail at 1.2% to 1.3% or otherwise?

**Raj Shankar:**

It definitely won't decline further because our focus is very clear - Manage risk. Do not go after growth. Make sure that we make that margin to be able to cover our cost and deliver the EBITDA. So even if it is a small business we want to do it

the right way and the profitable way. So to your last question about the impact on the basic customs duty on the smart phone as I mentioned on the earlier point it is at this point in time we are still trying to take a view as to what is going to be the impact. It is a little too early and too presumptuous for us to give you a definitive view, but at a very high level given that we are selling Google Pixel, we are selling Apple iPhone, which are typically catering to the mid and the mid to high segment, we believe that this should not have a detrimental impact. Now this is just a hunch, but give us some more time to really find out how the market is going to respond to this.

- Vinay Jay Singh:** What about the freight cost reduction due to warehousing reduction, post GST?
- S. V. Krishnan:** That is yet to completely play out because if you see GST is still in the process of fully getting implemented. The e-way bill process which was expected to bring in a lot of efficiency in the transportation sector is just getting started now, so the benefits on account of it will take definitely one or two quarters more.
- Vinay Jay Singh:** But you should see an overall margin improvement let us say three quarters from now or at least 30 or 40 basis points?
- Raj Shankar:** Yes, on account of cost efficiency
- Vinay Jay Singh:** Thank you, Sir.
- Moderator:** Thank you. We have the next line from Romil Jain from JM Financial Services. Please go ahead.
- Romil Jain:** Thanks for the opportunity, Sir. I just wanted to know the breakup between, let us say Google or Samsung or the top two or three clients in the Mobility, apart from Apple?
- Raj Shankar:** Overall at a consolidated level, next to Apple for us is Samsung. As you know, we do Samsung in parts of Africa and that would be almost contributing to about 6% to 7% of our overall number, so the next big piece is Samsung and then you have a distant third, which would be Google.

**Romil Jain:** Sir, how confident are we, that going forward, the share from Apple, Google and any other medium to high end Mobility client to the revenues, can increase from here on?

**Raj Shankar:** There are clear possibilities. I think one of the points that we have shared in our earlier calls is first of all Mobility contributes currently to about 30% of our total revenue if you take the last quarter. Now our sweet spot in terms of Mobility as a vertical is probably anywhere between 30% to a stretch of 35%. We do not want to drive this business beyond a certain level because the very nature of this business tends to be low on gross margin and tends to be low on EBITDA, but at the same time if this business is managed well and if the product sells well typically, the ROCE tends to be interesting, so we have to make a fine balance between how to make sure we have IT on one hand, which has a much higher margin, but probably a higher working capital.

**Romil Jain:** Got it. Sir second question is on the ProConnect business, so just to understand the strategy over a longer term right now I think we are heavy on the warehousing side, but going forward what is your strategy in terms of more warehousing or more transportation and where do you see the steady state margin? In this quarter I think they were about 15.5% to 16% versus I think it was about 19% earlier?

**Raj Shankar:** By and large while I do not have the exact statistics with me, Warehousing would typically contribute to about 62% to 65% of our total revenue and yes, you are right that warehousing operations tends to be more margin interesting as compared to some of the other businesses. Now having said that if you look at our revenue and profit for the current quarter this approximately represents about a little over 8% to 8.5%. You will agree with me that in the logistics business if at PAT level we can deliver about 8% to 8.5% of our services revenue, I think it is in good order. Probably in the distant past it used to be much higher, but as we continue to scale the business probably these margins in our opinion are still good when we compare with any other logistics company.

**Romil Jain:** So these are the steady state margins that we can expect going forward with the growth that you are delivering?

- Raj Shankar:** Absolutely.
- Romil Jain:** Sir last question if I may. Any specific reason why we are seeing increase in Mobility revenue in the overseas business or are we consciously trying to increase it?
- Raj Shankar:** As far as overseas is concerned, if you look at it 66% comes out of IT, 2% comes out of services, and the balance about 32% to 33% comes typically out of Mobility just to give you a sense and if you look at our overall consolidated level Mobility contributes to about 30%. So, overseas Mobility contribution is not significantly higher than what it is in India. Also, we have the addition of Apple iPhone contract for Saudi Arabia, so in addition to UAE we managed to win this contract and therefore that also gave us an additional opportunity for us to scale the business and hence you are seeing a stronger Mobility traction.
- Romil Jain:** That is all from my side. Thanks so much and all the best.
- Moderator:** Thank you. The next line is from Madhu Babu from Prabhudas Liladher. Please go ahead.
- Madhu Babu:** Sir, can you disclose what the debtor and creditor days is for the quarter?
- Raj Shankar:** For Q3, the debtor days are 51, inventory days are 27 and creditor days are 42, and hence the net working capital days is 36.
- Madhu Babu:** Sir, also are you saying that margins in overseas will be 1.3% in the next two quarters because of the Turkey crisis?
- Raj Shankar:** Yes please.
- Madhu Babu:** So overall margins will be a bit tapered or can it improve back to 1.9% to 2%?
- Raj Shankar:** I just want you to just bear in mind the fact that when we were having the board meeting today and I was sharing with the board members that looking at what is happening in that part of the world when you read the newspapers every day, there is so much of bad news or negative news, be it in Saudi Arabia or be it in any part

of the Middle East or for that matter in Africa and more so in Turkey and if after all of that, for the last quarter, the overseas could grow topline by 14% and bottom line by 23%, I am sure you would agree with me that our team there is doing one good job and similarly if you look at for the nine months, the topline growth is 11% and the bottom line growth is 21% and if you look at the overseas contribution to topline is 65%, overseas contribution to bottom line is 57%, so I think they have found a sort of a sweet spot in terms of driving scale, managing the profitability well, reducing working capital, and throwing up a lot of free cash. I think it is in good order for the time being and if this can continue personally I will be very happy.

**Madhu Babu:** Sir, just one last question so how is the outlook in terms of building more warehouses for ProConnect, and what is the capex outlook for ProConnect?

**S. V. Krishnan:** As we speak now, the capex vis-à-vis what it was last year hasn't gone up anything significantly, but as we have said in the next three to four years we expect in capex roughly about some Rs.150 Crores to get spent over the next three to four years and this will primarily be in terms of various assets for ProConnect within the warehouses.

**Madhu Babu:** Did Rajprotim deliver around Rs.18 crores of revenue for this quarter?

**Raj Shankar:** Pretty much, you are right.

**Madhu Babu:** Are there any gaps in the logistics, like transportation and the North East which was filled by Rajprotim, so would there be any gaps, which we try to fill through acquisitions and what is the quantum or size of amount we are planning to spend for that acquisitions?

**Raj Shankar:** So for the moment we are not looking at an acquisition purely from a regional point of view, but our whole idea is to look at from anything that can complement from a technology enablement, which can help us to therefore improve the efficiencies and improve our whole control of the business from an end to end point of view.

**Madhu Babu:** Thanks.

**Moderator:** Thank you. The next line is from Rishi Jhunjhunwala from India Infoline. Please go ahead.

**Rishi Jhunjhunwala:** Thanks for the opportunity. Sir if you can just explain a bit more on the Mobility issue in India, you are suggesting that the iPhone launch has not panned out as expected. Firstly is this comment specifically for us or our market share has been intact on Apple sales in Q3 and secondly if the launch has not panned out as much, I am just wondering what will drive growth for this segment going forward, considering the trajectory has been pretty strong in the past

**Raj Shankar:** This is a very unusual situation. Yes in the past if you look at until iPhone 6, everything was just hunky dory. Anytime, Apple would launch a new product it would be a runaway success. The first time where we saw a bit of a sluggish sale was at the launch was iPhone 6S, but which subsequently still picked up, iPhone 7 was still good. It is the first time that we have seen that when two new products introduced that is iPhone 8 and iPhone 8 plus on one hand and iPhone X on the other, both of which suddenly did not receive the kind of response that all of us were hoping and anticipating. But, knowing Apple, which is a company that would take very strong and proactive measures. We strongly believe that they will work towards finding some solutions towards peppering up the demand and getting their rightful share, so we will have to give them a little time. I am reasonably confident even before the end of this quarter, I think we should be in a position to have revived the Apple iPhone business, which at the moment has been languishing at a lower level.

**Rishi Jhunjhunwala:** So the market share for you has not gone down?

**Raj Shankar:** Absolutely not.

**Rishi Jhunjhunwala:** Second one is on the overseas, so you know 14% growth just wanted to understand how much would Saudi Arabia have contributed to it, in terms of YoY growth considering that was a new geography wherein you went?



**Raj Shankar:** That is a question I am not readily prepared, but if I have to take a number off my head I would say that should have contributed to about 6% to 6.5% rough and ready.

**Rishi Jhunjhunwala:** Is this YoY growth?

**Raj Shankar:** Yes.

**Rishi Jhunjhunwala:** Lastly, if you really look at it, the trend over the past few quarters and years has been of increasing revenue share from Mobility and even though you mentioned that we want to cap it at a certain level of 30% to 35%, it fair to assume that the margins are not going to expand or do you have any levers, which will lead to that because I am assuming Mobility is a lower margin business than IT?

**Raj Shankar:** Yes, by the same token if Mobility is going to be in the vicinity of about 30% to 32% then to that extent we want to make sure as one of the initial question that was asked on this call whether the Government has started to invest and whether we are seeing that giving us a traction, we are hoping if any of that happens in the near term it should drive a good amount of our enterprise business up, which should also drive the overall margin up and hence you should see an EBITDA actually expanding over time.

**Rishi Jhunjhunwala:** So basically for the lack of growth in IT, I assume, we will still continue to let Mobility grow beyond 35%?

**Raj Shankar:** So that is one way to look at it, as far as India is concerned. As far as outside India is concerned, they are growing on every single vertical be it IT, Mobility or Services. As far as India is concerned, the enterprise part of the business did see a bit of a slowdown largely aggravated on account of GST. We did not see this as far as consumer is concerned, but on the enterprise, GST has a telling effect both in Q2 as well as in Q3. We are hoping that finally this should correct itself in this quarter, beyond which then it should be business as usual as far as enterprise business is concerned.

**Rishi Jhunjhunwala:** Great. Thank you so much.

**Moderator:** Thank you. The next line is from Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan:** Sir, just wanted your thoughts in terms of this VAT implementation in UAE. Has that anything to do with the kind of better than expected growth that we had seen in the overseas business and do you think that there could be some GST kind of impact that we saw in India sort of playing out there when we see the implementation of VAT?

**Raj Shankar:** Nitin, my hats off to you for really asking a very nice and interesting question. This was the only thing that I would have wanted that nobody asked, but then you took away a little bit of the thunder and my joy, so yes, you are right, Nitin, I have to admit that because VAT was getting rolled out on January 1, 2018 this allowed a certain amount of additional sales that happened to us, more so in the second half of December. So I have to admit that is the truth, but I also want to draw your attention that when you look at overseas on a nine month basis, we have grown topline by 11% and bottom line by 21% just so that I do not want anyone to carry the impression that just this two weeks has made all the difference to our growth. Yes, to a certain extent it did. Now with regard to the way forward, like we had a very positive effect in December in terms of additional sales, there will be a negative effect in the month of January towards the slowdown and sales, but then things should pick up, so finally VAT is a reality. It will take some time for people to accept beyond which it becomes business as usual.

**Nitin Padmanabhan:** It is unlikely that it will be as long drawn as the GST implementation in India in terms of the slowness in demand?

**Raj Shankar:** Nitin, I am tempted to give a simile. They always say if you want to build a new house it is always easier to build a brand new house, lay the foundation and build it, but when you already have a house, which you have to demolish and then rebuild, it requires lot more efforts. So the long and short to your question is GST implementation is like demolishing what you have and then trying to rebuild it even though in one sense it is a tax harmonization on the other hand, it is absolutely a humungous effort and we expect everyone to come to the party and it is not easy. On the other hand, introduction of VAT in UAE and Saudi Arabia, in a

land where people do not know what is the spelling of tax and what does direct and indirect tax mean, the very introduction of a 5% VAT suddenly takes away their economic interest for a start, but then it is a matter of time, like I said, that people should come to terms with it. So to answer your question it is not going to be difficult in terms of implementing VAT, but for some period it will have a sort of a negative impact to say.

**Nitin Padmanabhan:** Sure. Sir, any changes that you have seen in the distributor landscape in India and in Overseas, any casualties that you have seen like we have seen in the past?

**Raj Shankar:** We have been waiting for one to happen, Nitin.

**Nitin Padmanabhan:** Finally just your thoughts in terms of the brand portfolio and do you expect to see any additions over the next maybe 6 to 12 months because last quarter you mentioned about some Chinese Mobility brand that you were thinking of, so just wanted your thoughts in terms of how you see the brand portfolio sort of evolving both from IT and Non-IT perspective going forward?

**Raj Shankar:** The brand portfolio on IT and especially on the enterprise has been progressing well, more so outside India as also in India. As far as the Mobility part is concerned, what we have done is we have managed to win with Samsung the accessories contract in UAE. Now we are Samsung smartphone distributor in parts of Africa, but somehow in spite of our repeated attempts we could never win the smart phone contracts for UAE, so we felt as they say, if the camel has to go inside a tent the head has to go first, so we thought the best way to win the smartphone contracts of Samsung is first to take on their pain point, which is do their accessories business, take it to scale, and then win the contract.

**Nitin Padmanabhan:** That obviously is a higher margin business?

**Raj Shankar:** Hopefully, Nitin.

**Nitin Padmanabhan:** Great Sir. Thank you so much and all the best.

**Moderator:** Thank you. The next question line is from Rabindranath Nayak from Sunidhi Securities. Please go ahead.



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**Rabindranath Nayak:** Sir, thank you. Are we planning any listing of ProConnect in the near term?

**Raj Shankar:** Not in the near term.

**Rabindranath Nayak:** Thank you, Sir.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Rohit Dokania from IDFC Securities.

**Rohit Dokania:** Sir, would you want to make any closing comments please?

**Raj Shankar:** Once again thank you to everyone for participating or joining us on the call. So we had another good quarter from our perspective, we grew top and bottom line both for the quarter as well as on a nine month basis. We managed to bring our working capital down by 7 days for the quarter and 9 days for the nine months. We were able to generate free cash flow again for the quarter as well as for the nine months and ProConnect once again has had another very strong quarter and last, but not the least we have managed to keep a very strong financial discipline where our Net debt is 0.23 and this is something that we are happy about, so overall it has been a good quarter for us. Thank you once again.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of IDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your line.