

June 1, 2021

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

Dear Sir/Madam,

Sub: Q4 - FY 2021 - Earnings Conference call transcript

This is further to our letter intimating the details of Investor/Analyst call on the Audited financial results for the quarter and year ended March 31, 2021 held on May 27, 2021.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on May 27, 2021. The same is also available in the Company's website: <https://redingtongroup.com/>

Kindly acknowledge the receipt of our communication.

Thanking you,

Very Truly Yours,

M. Muthukumarasamy
Company Secretary

Cc: BSE Limited
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001



Redington (India) Ltd
Q4 FY 2021 & FY 2021 Results
Conference Call

May 27th, 2021

MANAGEMENT

MR RAJ SHANKAR
MR RAJIV SRIVASTAVA
MR S V KRISHNAN
MS SOWMIYA M

VICE CHAIRMAN & MANAGING DIRECTOR
JOINT MANAGING DIRECTOR
WHOLE TIME DIRECTOR & CFO
SENIOR MANAGER, INVESTOR RELATIONS

MANAGEMENT DISCUSSION SECTION

Moderator:

Ladies and gentlemen, good day and welcome to Redington (India) Limited Q4FY21 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 involves risks and uncertainties that are difficult to predict.

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

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

Raj Shankar:

Thank you. Good evening, to all of you who have joined us on this call. I wish to apologize right at the outset that the board meeting took a little longer today than usual. Therefore, we could not upload the earnings results and the deck in good time. However, I am given to understand that the deck has now been uploaded, though I do realize that most of you would not have had an opportunity to be able to see those results. Allow me to share one of the best performances of Redington in its entire history. Q4FY21 was one of the best quarters and FY21 has been the best year for us.

The revenue for the fourth quarter grew by 23% at a consolidated level; the EBITDA grew by 77% and the PAT by 154%. Now, the good news is, both the theaters that is both India and Overseas have pulled off some exceptionally good numbers. In India, which includes the distribution business and the Logistics business (ProConnect), our revenues grew by 45%, EBITDA by 142% and the PAT by almost 935%. Of course, this is on the back of Q4FY20 when we faced some serious challenges in our ProConnect business, and consequently had to suffer some losses. Notwithstanding that, as committed by us to all of you, the ProConnect business this year, both for the quarter and for the full year has done well. Before we speak further on that, let me quickly touch upon the India distribution business. Topline grew by 46% and bottomline grew by 135%. The Overseas business likewise has grown by 10% on the top line and by 51% on EBITDA and by 70% on the bottom line; this is notwithstanding the fact that the Singapore and South Asia business had to suffer some loss of business. As shared earlier with you all, since more and more vendors have moved their business from Singapore to India, that is

what we would call as dollar denominated business has now become a rupee business. While our Singapore operations may have suffered a loss on that account, I'm glad to share with you that our India business has managed to pick up a good part of that business.

Now, while both the theaters have done well, if for a moment I look at from the point of view of our two important industry verticals, one is IT and the other is Mobility, both have registered a strong double-digit growth. IT grew by 14% and Mobility grew by 41%. What is most gratifying is the fact that our working capital at a consolidated level was at an all-time low of 12 working capital days. Interestingly, India's net working capital days was 15 days and Overseas was at 10 days, which is the lowest ever in its entire history. When we compare it with Q4FY20, wherein the WC days at consolidated level was at 30 days, there is an 18 days reduction as far as working capital is concerned. This has certainly helped us to generate an operating cash flow for Q4FY21 alone of Rs. 613 crores and the free cash flow of Rs. 599 crores. The other most gratifying part is on both the Return on Capital Employed (RoCE) and Return on Equity (RoE), we have always wanted to give a return north of 20%. For Q4FY21, I am pleased to share with you that our RoCE was about 71% and our RoE was a little shy of 26%. As we had done through this entire pandemic year, we have managed our debt to equity at enviably good levels. Our net debt to net equity is negative 0.58. So, in other words, we have cash surplus of north of Rs. 3000 crores. As far as our provision towards inventory and bad debt, I am again pleased to share with you we have managed it very well and within the norms. The other part is when you look at ProConnect as I was telling you, for this Q4 we generated Rs. 129 crores of revenue, which represented a 36% growth YoY with an EBITDA of Rs. 14.8 crores and a PAT of Rs. 6.9 crores, yielding a PAT margin of ~5%

Now, as you look at the full financial year, I'm again pleased to share with you that all the numbers have grown impressively. At a consolidated level, Revenue has grown by 11%, EBITDA by 34%, and PAT by 47%. I hasten to add here that the PAT actually had grown by 64%. This is upon taking into account the fact that we had to provide for Rs. 89 crores in Q3FY21 towards the gift tax case. I am pleased to share with you that we applied through the Vivaad Se Vishwas (VSV) scheme, the application was accepted and we have settled the payment and therefore, from our standpoint the matter stand settled. So, I repeat again, if we do not reckon this Rs.89 crores, our PAT growth would have been 64%. Now similarly when you look at both India and Overseas both have done exceptionally well. India's revenue grew by 22%, EBITDA by 34%, PAT by 77%. But again, if you don't reckon this Rs. 89 crores, our profit growth in India would have been a triple digit at 141%.

Similarly, Overseas has done very well, though their revenue has grown by a modest 4% but EBITDA grew by 35% and the PAT by 36%. So, it has again been an all-rounder improvement. Similarly, both the verticals registered growth with IT growing by 6% and Mobility by 20%. Now, all of you would know that Q1FY21 was a degrowth both in top and bottom line and therefore if

we have grown for the year, be it at a consolidated level or at India level or at Overseas level, this is after taking into account the setback that we suffered in Q1.

Now, when you look at the working capital for the full year, and again very pleased to share that at a consolidated level, we managed to beat it down to 14 working capital days, which was 31 for last year and hence a 17 days reduction year-over-year. Both India and Overseas have done very well with India registering 17 WC days and Overseas at 12 WC days. Similarly, from a free cash flow point of view, for FY21, we have generated about Rs. 3,360 crores and our operating cash flow was a little shy of Rs. 3500 crores. Again, for the full year, from a RoCE point of view, it was 36.5% and the RoE was 18.4% if you consider the tax provision of Rs.89 crores, but otherwise it is 16.4%.

Now, ProConnect for the full year, turned over about Rs. 458 crores at Rs. 47 crores of EBITDA, this represents an EBITDA margin of ~10% and the PAT was Rs. 8.3 crores, which is a little shy of ~2%. But, I still want to jog your memory, when we had a setback in FY20 on ProConnect, we did commit to you that in FY21, we will consolidate the business, correct the business and bring in a certain amount of reorganization, all of which we have done. We have now set this company back on a growth path starting FY22 and beyond.

Now, this is to give you a quick flavor:

As far as the way forward is concerned, I am honestly feeling excited on one hand with regard to the opportunities and on the back of a strong performance that we have had in FY21. We believe there are several growth drivers for us. We will continue to execute very well. The company has demonstrated a strong resilience, a high adversity quotient and as a part of our strategy and the way forward, we plan to pivot the company into more-and-more of a services company. And we, again, if I were to take the cloud business in isolation, I'm a little pleased to share with you that we have actually grown our cloud business. We have taken it to ~Rs. 1000 crores at a consolidated level and we have grown by over 53% YoY. So overall, the outlook seems very positive and when you look at a three-year strategic plan that we have, we certainly believe that we would be in a much better position to create a bigger value and continue to deliver on a profitable growth.

I also want to take this opportunity to share with you that we have reinforced our leadership team by bringing on board, Mr. Rajiv Srivastava. We had made the announcement earlier in this regard. He joined us on April 2nd, 2021 as a Joint Managing Director, and would sit on the board of the company. We believe having someone like him with his pedigree can only help this company, as we think in terms of pivoting it into and taking advantage of all the digital investments on the digital transformation that the industry is poised to invest, and we believe that we have a great opportunity to participate in that growth. With this, I will take a pause and hand it over back to you for any questions. Thank you.

Q&A SECTION

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Pawan Ahluwalia:

Thanks very much Raj, I don't normally say congratulations on a great set of numbers. I don't actually think I have ever said that in my entire career as a professional investor. But after a quarter and year like this, I am forced to say congratulations on a great set of numbers. Three years ago, you told me following Mr. R Srinivasan was a bit like following Sachin Tendulkar, well this year certainly has seen you put up performance worthy of Virat Kohli. Many congratulations and thank you from all of us. Let me get into the questions.

Raj Shankar:

I just want to say, I want to acknowledge by saying thank you. Coming from you, it is the biggest compliment we would have ever received. We will guard it so preciously. Back to you, Pawan

Pawan Ahluwalia:

My questions are as follows: One thing we have always appreciated is the prudence and conservatism with which you have guided this quarter and this year. This year, however, has seen a number of sort of one offs. So, I would be very curious to get color on what you actually think the realistic pace of growth for us could be over the next couple of years, and specifically on the headwinds and tailwinds that might affect that. For e.g.: Topics like, obviously in the short term we may see cutback in discretionary consumption; Does e-commerce have any sort of impact on your business; Are we finally seeing a kicker on the enterprise side which has been surprisingly slow for several years?; If you could give us some color on cloud business specifically in the context of Redington and Ingram being superbly placed to actually be the channel when the small and medium sized Indian enterprises migrate to the cloud. We feel this isn't often highlighted enough in our communication and investment interactions. It would be good to get a little bit of color on that. So putting all this together, putting in what you think the Middle East would do, what India would do, what is an actual realistic pace of growth and what are the things that might move it above or below what you expect it to be?

Second, I was very pleased to see the high dividend this year. The wonderful thing about paying out high dividends when you have extra cash is that you earn the credibility with investors to be able to reinvest that cash when you need to reinvest it. So we know when you're putting the capital to work is really because you're seeing excellent opportunities and would very much like to get your sense on how the dividend policy is likely to evolve going forward. So those were really the two questions any color you could give on both those aspects would be greatly appreciated.

Raj Shankar:

Pawan, many thanks for your question. It is my bad that I forgot to mention an important announcement like the dividend as a part of my narrative. So, I can't tell you how overjoyed we are to give a 60% dividend to our shareholders. We thank all of our shareholders for their continued faith and continuing to invest in us. The way we think about it is, as all of you know, our stated policy in the past as far as dividend is concerned is 20% on the profits of the company. However, if you look at the last five years, we have actually given ~33% including the special dividend that we gave upon completion of a decade in the capital market, buyback that we had done, etc. But having said that, now we are stepping it up and saying that on a steady state, all other things being equal on a normal basis, we would want to give a ~40% dividend. Of course, this year because it was an exceptionally good year we thought we wanted to give a special dividend of 20% taking the total to 60%.

Now to your question, Pawan. First, you made a mention about IT Enterprise. I just thought I would give you a perspective. In India, for Q4FY21, our IT business grew by 41%. If you break it down between IT Enterprise and IT Consumer, IT Enterprise contributed to 47% of revenues and grew by 23% YoY. So, the first good news that I want to share with you is, we are certainly well poised to be able to scale the IT Enterprise business going forward. Yes, you are right for the first couple of quarters, it was very soft but we started to see some recovery in Q3FY21. However, in Q4FY21, we started to see a much better momentum and as I look at the way forward, the IT Enterprise business is poised for a sustained double-digit growth. And by the way, I wish to add here, that we are also going to invest on the IT Enterprise space, in areas such as getting new skill sets that will help us to drive the Enterprise Services business up. This Enterprise Services business has a much better margin, lower working capital, etc. So you will see all of that play out quite nicely in the way forward.

Now, over to your question about how do we see growth in the way forward. We genuinely believe there is one thing that we have always done, Pawan and you would know that better than anyone else. We have a mandate within Redington that at all points in time, we have to outperform in that product category. For each market that we participate, and I can tell you that with a sense of pride, that in each of the larger geographies that we participate be it India,

Middle East, Africa, Turkey and then each of the product categories, we are growing faster than the industry. This will continue in the way forward as well

However, on some categories, we may want to take a cautious outlook, purely because we think in some markets, there are many headwinds. Particularly, in Nigeria, we have decided to slow down our business purely because we see the risk running up. In Q4FY21, we had a significant degrowth in Nigeria and whatever numbers we have shared regarding Overseas is after taking this impact of degrowth. So first is, we will continue to outperform the industry and the market. If the industry is poised to grow at ~7-8%, we will grow by at least +2-3% more. And this is something we have done in the past. So that would answer one part of your question.

With regard to Cloud biz, Rajiv, would you want to use this opportunity to give some color to this since Pawan wants to have a perspective at least in the way forward?

Rajiv Srivastava:

Yes, I can. Pawan, you are familiar that Cloud is a space of enormous activity at the moment, with players like Google, Amazon and Microsoft investing heavily in clouds. We can also see the way it is being consumed in India across the large Enterprise customers, wherein some workloads are shifting to Cloud. When it comes to SMB space, as you had shared earlier, SMB is adopting cloud faster and that is the reality across the larger cities and towns in India. Even in the country market, we do see that the cloud is the preferred way to deploy all your capabilities, whether you are a small or a mid-sized or upper mid-market SMB customer. And so in that domain, we build skills in our company to help adoption and migration. First, we will do consulting, second, we shall facilitate the whole proposal to the SMB or to the customer, whoever it is and lastly, we would also suggest or support the migration which shall be carried out by us on our own or along with a bunch of our capable partners.

Therefore, our modeling obviously is going to be a hybrid model, but it allows us to play in the domain where you can do consulting services, migration services, and you can actually make the customer come alive on the cloud. So that part of the business is really exploding in India. Cloud worldwide is growing at ~20%, but in India, it is growing faster than that. Only about ~12% to 15% of the workloads have been migrated to cloud as of now and the direction is over the course of next 2-3 years, this ~12% to 15% is expected to become ~30% to 35%. So you can see the cloud market doubling over the course of the next couple of years.

If you have been getting feedback that Redington is well poised, clearly it is because of the capabilities that we are solidifying in our company. This helps us to facilitate the migration, and we accelerate the adoption, because that is where the efficiency for all businesses really line up.

Moderator:

Thank you. The next question is from the line of Chetan Shah from Abakkus Asset Management. Please go ahead.

Chetan Shah:

Just one quick question. Can you just explain to us about two parts of our business? First one, a business like Cloud business that requires a very limited or a no working capital and the second one, a business like ProConnect, which still need some kind of support and push to take it to the next scale and next size. Also, if you can provide additional details on how we have achieved in our IT business or how we have kind of reached an inflection point in our cloud business. If we can give some sense of that business, that will be helpful. That's it from my side and the congratulations to the entire team, it was just one of the awesome quarter and a year that we have seen and thank you for upgrading the dividend payout ratio. We are delighted with that.

Raj Shankar:

Thank you so much. Really, I am happy that investors like you who have stayed committed to us and we feel delighted that we are able to reward you because we have had a good year. Now if I understood your question well, you are talking about some businesses like distribution, which require a higher working capital deployment, and there are businesses like ProConnect, which may not require as much and therefore how do we manage that capital deployment. Is that the question, just to be sure?

Chetan Shah:

Yes. So, I am just trying to understand going forward, our distribution businesses seems to be somewhat well aligned, well-oiled and nicely been on an autopilot kind of a mode. So, I am just trying to understand the businesses like ProConnect and Cloud, how do you see that taking shape in next 3-5 year time horizon. If you can give some color, some big picture, management, vision or things like that, that will be very, very helpful. We do appreciate the size of the opportunity, but at the same time, we want to understand how Management see these things going forward in a broad sense.

Raj Shankar:

Wonderful, thank you for your question. I will take the ProConnect one first. We genuinely believe that, for distribution businesses, amongst other things, there are two fundamental pillars, one is the logistics part and the other is the ability to give credit and collect money. These two become very fundamental in this business, amongst other things. What Redington has done and

done quite successfully over time, is to be able to build the capability and the proficiency in managing the logistics business. So, you would know until about six years ago, we were actually running this entire logistics business as a support function and the only customer was Redington then. We embarked on this idea of getting into a Third Party Logistics (3PL) business, which in the last +6 years, has now grown to about Rs. 460 crores in terms of top line. Undoubtedly, we do see the opportunity for us to be able to take it to an accelerated pace and take it to a much higher scale. We are very clearly committed at Redington to continue to invest, to grow and accelerate the pace of growth over the next 3 to 5 years. We have some real big ambitious plan with regard to ProConnect. Moreover, you can imagine in a pandemic year, to be able to deliver products physically, to our various partners on a pan India basis is the biggest challenge anybody can face.

And, I can tell you with a tremendous sense of pride that each one of our colleagues have really sacrificed and put their life on the line in a way of speaking to have done what they have done during this year. This has given a tremendous confidence to our customers; they are absolutely singing praise for all that we are able to do for them in a difficult year. So we have created a great stickiness, we will continue to invest and you will see that this business will become in terms of growth, a force multiplier, both in terms of top and bottom line.

The last point, we are much focused on margins, which is also evident from the fact that our margins are getting better by the quarter. We are even walking away from businesses, which may give a significant revenue but does not give us the minimum threshold level of margins. In conclusion, Logistics industry in India is a very big industry. It is poised for huge growth in the next 5 to 10 to 15 years. We are committed to really taking our fair share. We are going to continue to invest, grow and make sure that this becomes a very profitable and a valuable business of Redington.

With regard to your question about Cloud, Rajiv, again I look to you to be able to share your point of view.

Rajiv Srivastava:

Chetan, we covered a lot in the answer to the earlier question on the Cloud piece. We believe that Cloud is a combination of consultancy, of providing equipment and a lot of services around cloud. Sometimes it comes as a one shot deal and often the cloud provisioning happens over a period of the next couple of years. So that's the way you will find that the working capital will get deployed sometimes in full and sometimes towards a course of next three years as the customers decide which route of acquisition is the best route from the perspective. So that's how I feel and that's the way the growth in the market is taking place right now. So, different customers are choosing different routes in the ways of obtaining and provisioning for themselves in the Cloud.

Raj Shankar:

Chetan, just to supplement what Rajiv said so that it gives you some perspective. For the quarter, our Cloud business both in India and in Overseas grew 37% YoY. For the full year, our cloud business has grown 53% YoY. So the point I want to make is, this is one business, please keep watching this space, you will see that in the next three years, this is going to become one of the promising businesses, which will also become a very profitable and a highly capital efficient business. Thanks, Chetan!

Chetan Shah:

So just a supplement to that. Most of the times, you are very clear about your RoCE target, over a longer term of most of the businesses and as a company as a whole. So if you can give your view on both ProConnect and Cloud business, what kind of RoCE target you have, and also allow me to take opportunity to welcome Mr. Rajiv Srivastava on board and wish him all the best. We hope that he keeps taking things much higher and increasing our aspirations and expectations. Thank you and that's it from my side.

Raj Shankar:

I will give you a short answer. We will deliver the RoCE far higher than what we have delivered thus far as a company. That is my short answer to you, by far; it will be a much higher number.

Moderator:

Thank you. The next question is from the line of Chirag Setalvad from HDFC Asset Management. Please go ahead.

Chirag Setalvad:

I had two questions. One was on the working capital front; this has been the third quarter where working capital has been incredibly well managed. In the past, the company is guided for a normal working capital cycle of 30 odd days and you achieved 12 to 14 days in three quarters consistently. So my first question was, now that you have achieved this for a period of time, would you like to revise that outlook in terms of working capital. Can we look forward to a lower working capital on a sustainable basis? That was my first question.

And my second was in terms of profitability. We have seen that in Overseas business, the jump in profitability/margins has been very sharp this year. In the case of India, I suppose we are back to where we were, say two years, which is in FY19. But when you look at Overseas profitability,

the margins have seen a sharp improvement. So if you could help us understand what has driven that improvement, and do you think that is once again sustainable. Thank you!

Raj Shankar:

Great. I am sure my colleague, Krishnan who is our CFO would be dying to answer the first question on the working capital. Over to you, Krishnan.

S V Krishnan:

Thank you Mr. Raj. Yes, we have managed the working capital very consistently in the last four quarters. However, we had mentioned in the earlier call that it may not be sustainable and it will not come back. It will settle at ~35 to 40 days of working capital. Over a period of time, it will definitely take its course. So it's not going to jump back immediately. But over a period of time, we think we should on a steady state basis look at working capital of ~35 to 40 days. So that's about ~10 to 11 working capital turns. Wherever there is an opportunity we will make sure that, it is efficiently managed and that is one of the reason why we are where we are today. So definitely, we will not leave any stone unturned. But having said that from a steady state perspective, this is how we should think through. Thank you, Mr. Raj.

Raj Shankar:

Okay. Thanks, Krishnan. So, the only point that I would want to supplement to what Krishnan said, is the pandemic has taught us a lot of lessons on how do we manage capital better, how do we ensure a faster turnaround, whether it is collections, whether it is inventory, whether it's sales. So, it has taught us a lot and we are finding ourselves much more smarter, much more wiser. While Krishnan talked about what it could settle down at in terms of the when business gets back to its old state, but I would like for you to please keep in mind that in the distant past, we used to be 45 to 50 days of net working capital. We used to be at between ~7 to 8 working capital turns, so therefore if we can continue to improve ~2 to 3 turns every time, you would see us get even more capital efficient than what we have delivered in the past.

Chirag Setalvad:

Sir, just a supplementary question on the working capital bit, off this ~20 odd day improvement in working capital, how much would you attribute to a change in vendor terms where you sort of renegotiated better terms and so on and how much of it is because of internal efforts and better processes and focus and so on?

Raj Shankar:

Great question, I'll give you a statistical answer. For FY20, our net working capital which was 31 days as compared to 14 days in FY21. Debtor days was at 50 days in FY20 and had actually come down to 44 days in FY21. Inventory days came down from 28 days in FY20 to 20 days in FY 21. Creditor days had gone up from 47 days in FY20 to only 50 days in FY21. So, the point I'm only trying to make here, is I think we have managed every single parameter be it DSO, DPO or DIO. All three have started to show good improvement, particularly it is more conspicuous on the inventory and on the receivable side, does that help?

Chirag Setalvad:

Yes, sir thank you.

Raj Shankar:

Okay, wonderful! To your other question very quickly on the Overseas. I just want to tell you that as far as Overseas is concerned for the full year, we have done well. But while we may have done much better in FY21, but if you look at whether it's the last five years or whether you're look at the Overseas since listing, it has always grown much faster, in terms of both top and bottom line as compared to India. So it has been quite good and there are a few reasons one, we continue to have the advantage of being a leader in the marketplace. So our ability to negotiate, our ability to get the right allocation, etc. is something that we get into a slightly a higher privileged position as compared to some of the other distributors.

The second is, I don't think there is any other distributor who has that product portfolio that we have, the sheer number of brands that we have, nor do they have the footprints that we have. This also helps us to be able to play those brands, those product categories and those markets, where we clearly feel there is a competitive edge that we have, that helps us to be able to make more margin and make more profit.

The third element is, we have invested a lot over the last 10 to 15 years on beefing up the system. We have some of the best people in the industry. So, all these three things help us in ... (telephone line error)...giving us profitable growth. If they give us profitable growth, they are laughing their way to the bank. So sometimes, it is also about how you make sure that people are properly incentivized, in order for us to be able to achieve our objectives. I don't know if that answered, at least a part of that.

Chirag Setalvad:

Just one follow up, does that mean it's sustainable, because typically Overseas margins has been 1% or 0.5% or even 2% lower than the domestic business. In last two to three quarters, we have seen it at par with the domestic business. So does that mean now that Overseas, this kind of profitability as you mentioned for a variety of reasons, is that now the sustainable level of profitability?

Raj Shankar:

Okay, so the short answer is, by and large yes. But also the point, I want you to please keep in mind that the profits we can make, let's say in India, is not the same as what we make in every market and Overseas. As you can imagine, what we make in Africa would be different than what we make in the Middle East and even in the Middle East, what we can earn out of Saudi Arabia would be different from what we can earn out of UAE. So different markets offer different opportunities but the good part is we are quite nicely and well entrenched in most of these markets. So finally, the fact that profitability is a combination of business mix, market mix as well as making sure we have the right incentives. But a short answer to your question by and large, yes.

Moderator:

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

As there is no response, we take the next question from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya:

My first question is, regarding your growth outlook for FY22. Now, of course you are seeing a very good traction, but we have the second wave which is kind of panning out and globally also there is an issue of chip shortages which is leading to some supply chain issues for a lot of network equipments, and even the laptops and PCs as well. So do you think that any of these issues can possibly derail the growth trajectory, that's my first question. Secondly, on ProConnect can we say that the previous growth rate of 25% to 30% that was a growth rate in the 3PL industry, that kind of growth rate will be achievable going forward with ~15% EBITDA margins. So that is second question and thirdly, you talked about higher RoCE on the cloud business, will that be higher margin-led RoCE or lower working capital requirement-led RoCE? Thank you!

Raj Shankar:

Pranav, as always, you come up with very sharp and intelligent questions. So on your first point, part of the answer is in your question. Is there a chip and component shortage? Yes, there is. Is this likely to play out, in both this year and next year? It appears so. So, to that extent will there be a supply constraint? We believe so. Would there be some impact to the business? We will have to evaluate that. But let me tell you Pranav, even as we look at FY21, I can tell you that in three out of the four quarters, we did have serious supply constraints. We are one of the leading distributors in the market and the fact that we represent some of the best technology vendors in the market, it therefore gives us a great opportunity to be able to get for want of a better word, a lion share of the products, and hence take a decent share of the market as well.

So, all that I want you to keep in mind is yes, we are mindful of the shortage, but we are trying our best to see how to navigate in these difficult circumstances and still drive to deliver our numbers. I also want to share with you while on the topic of PCs and a few other products, the prices have started to go up. So sometimes, even if on units' terms, that may or may not be growth, but on revenue terms, there will be growth because the prices are firming up and the product is in demand. Therefore, we believe that we can try to make up to whatever best extent possible. So this is as far as the outlook is concerned.

Pranav Kshatriya:

Sir, just one follow up here. Does that also mean that your working capital days can be reduced to an extent because if there is a shortage and you're the one who can provide it, then possibly you will have a lower inventory days and lower debtor days as well?

Raj Shankar:

You are very right, Pranav. That's exactly what happened in Q4, because the so called vendor support in terms of extended credit terms and all of that, that got by and large discontinued by August 2020. So if you look at Q3 and more importantly Q4, this was on the regular or the standard payment terms and conditions. Therefore we have been able to rather make sure that we do smart buying, we have a very quick inventory return, we are also able to have our focus on collections. Honestly, if there is one team, or rather two that I particularly want to appreciate on this call it is my logistics team who delivered under the most difficult circumstances and the other is our collections team, who literally made sure that our collection happened on time every time. So that would be my quick response to you on this. Does that help, Pranav?

Pranav Kshatriya:

Thank you so much, this is very helpful, you may please answer the last question on ProConnect

Raj Shankar:

So let me take the ProConnect question very quickly. Without attaching a particular number, all that as I said to the previous caller, we clearly have identified ProConnect and the logistics business as one clear strategic area for us. We will invest, we will grow and you will see us accelerate. But please look at the fact that we want to be doing better on margins. Moreover, you know this, that even in the past, barring FY20, our profits were better than most other players in the industry. We want to continue to be a premium logistics service provider, and therefore we will continue that path, but trust me this is going to be a focus area. We will invest and we will accelerate growth. Does that help, Pranav?

Pranav Kshatriya:

Yes, very clear.

Raj Shankar:

Okay. Now to the last point about cloud. It will be the combination of both, so which means the more services that we are able to attach to the cloud business, higher the margin proposition will be. That is exactly where we are going to be invested. In the next three years, we are going to scale up the managed services piece very aggressively. That is another important strategic area for us. Now, as we continue to do that, we believe therefore, we should be able to manage our working capital better than what we have done in other businesses. Therefore, it will be a combination of higher margin as we attach more services and the fact that working capital will also be better managed. So RoCE will be definitely very interesting.

Moderator:

Thank you. Ladies and gentlemen, we take the last question from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda:

Sir, I was looking for just a clarification. In your P&L construct, we have both Other Income and Interest line item. When we speak of Rs.3,000+ crs of cash on the balance sheet, shouldn't one of the line items not reappear or is that the cash lies in a different balance sheet, considering the fact that you have your operations all throughout the globe. So, can you just explain what is the need for the short-term capital?

Raj Shankar:

Krishnan, would you want to take that question please?

S V Krishnan:

Sure, I will do that. See, there are two aspects to it. In the initial period of the year, during the lockdown, one of the conscious decision that we have taken was to beef up cash. We had three strategies as we had explained. First, was to ensure better collections. Second, to make sure that we get extended credit from the vendor. Third, is to utilize the limits that are available with the bank, and then keep enough cash if in case the first one and two did not work out, then we should have sufficient cash for contingency. We were lucky that all three strategies worked for us. This led us to have more cash in books even though there was a corresponding borrowing. Therefore, we had to invest these funds in fixed deposits and mutual funds, and which is the reason why you see the Other Income. So, we may not be able to completely take interest away because on a steady state basis, there will obviously be working capital deployments in the business for which this interest cost will be there. So yes, this interest income may not be sustainable, but the interest cost what we had shown is something that would continue.

Pritesh Chheda:

Okay. So let's say, at the scale of business that we operating at about Rs.57,000+ crores, considering the revised working capital need that you mentioned, I was just doing a math. And we have about Rs. 3000 crores of the cash on the balance sheet. Even if you scale back to your revised working capital needs of ~30 days, you ideally do not require incremental capital for the scale of business that you are today. Obviously, if the scale of business is going up, there will be some need of working capital. So, the interest cost that you are incurring is not the interest cost incrementally that should flow in through the P&L. Would I be right?

S V Krishnan:

Well, it may not be incremental. So let me put it this way. In the past our interest costs as a percentage of revenue used to be at ~0.5% to 0.6%. However, if you see in the last one year, it is at ~0.3% to 0.4%. So that's the way it has got brought down and also the fact that since we are present in multiple markets, there are some slopes that are required in terms of managing the operations which also needs to be considered

Pritesh Chheda:

Okay. My second and the last question is on the growth outlook side. Naturally, this year was beneficial to many categories that you operate and a similar situation does seem to appear in the

forthcoming year. When we were giving out our growth outlook of, let's say single digit growth for the industry, and our corresponding growth rate could be ~2% to 3% points better than that. Do you think that the factors that drove the growth last year are the factors quite similar this year, and hence the outlook could be slightly superior to what we initially think?

Raj Shankar:

Okay. You know, that is the way I want you to think about growth in the last year. We honestly were left to what we would call is the VUCA world, the Volatile, Uncertain, Complex, Ambiguous world. We completely did not know what is this COVID all about, not that we know too much today. But at least we are aware about some of its limitations. We are much better prepared today than we were one year ago. All I can say is that if we are prepared, so is the vendors, so is competition, so is everybody else. So we clearly, I repeat myself what I said to an earlier caller, that as long as there is a growth in a product category in a market we will outperform that category and in that market for sure. That is very clearly our stated objective, so you can probably put your mind to rest, I don't want you to think in terms of whether it will be more or superior. If there is an opportunity, Redington will capture that opportunity without a doubt. We are extremely well placed, we have become smarter as a company, we have learned a lot from this pandemic. So, I can tell you we are looking at FY22 and beyond with a higher sense of confidence, but at the same time we are also being cautious.

Moderator:

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Raj Shankar for closing comments.

Raj Shankar:

So once again, thanks to everyone for joining us on the call today. As I said, this was one of the best years or the best year in the history of Redington. In any which way you look at it, whether it is financial ratios, whether it is profitable growth, whether it is capital efficiency, or whether it's about free cash flow, in every sense of the word, every theater did extremely well. However, I also must tell you, my heart reaches out to so many people beyond Redington and at Redington who have been impacted because of this pandemic. It has been quite deadly; it is a tragedy of sorts. So, in closing while we are extremely happy and very proud about what we have delivered last year as also the dividend of 60% that we have announced, I request all of you to please stay safe, stay positive, and stay home. All the very best. Thank you!

Moderator:

Thank you very much sir. Ladies and gentlemen, on behalf of Redington (India) Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

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