



Registered & Corporate Office
Redington Limited
(Formerly Redington (India) Limited)
Block3, Plathin, Redington Tower, Inner Ring
Road, Saraswathy Nagar West, 4th Street,
Puzhuthivakkam, Chennai -600091
Email: investors@redington.co.in
CIN: L52599TN1961PLC028758
[www. redingtongroup.com](http://www.redingtongroup.com)

November 7, 2022

The National Stock Exchange of India Limited, BSE Limited

Exchange Plaza,
Bandra-Kurla Complex,
Bandra (E), Mumbai – 400051.

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

Symbol: REDINGTON

Scrip: 532805

Sir/Madam,

Subject: Earnings Call Transcript

This is further to our letter dated October 27, 2022, intimating the details of Investor/Analyst call on the unaudited financial results for the quarter ended September 30, 2022.

In this regard, we are enclosing herewith the transcript of conference call hosted on November 3, 2022.

The same is available in the Company's website <https://redingtongroup.com/india/financials-and-reports/>

We request you to take this information on record.

Thanking you.

For Redington Limited

M. Muthukumarasamy
Company Secretary



“Redington Limited
Q2 FY ‘23 Earnings Conference Call”
November 03, 2022

DISCLAIMER: E&OE - THIS TRANSCRIPT IS EDITED FOR FACTUAL ERRORS. IN CASE OF DISCREPANCY, THE AUDIO RECORDINGS UPLOADED ON THE STOCK EXCHANGE ON 3RD NOVEMBER 2022 WILL PREVAIL



**MANAGEMENT: MR. RAJIV SRIVASTAVA – MANAGING DIRECTOR –
REDINGTON LIMITED
MR. S.V. KRISHNAN – GLOBAL CHIEF FINANCIAL
OFFICER – REDINGTON LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Redington Limited Q2 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

I now hand the conference over to Mr. Rajiv Srivastava, Managing Director. Thank you, and over to you, sir.

Rajiv Srivastava: Thank you so much. Good morning, and I hope you all can hear me clearly. And thanks so much for participating and joining early morning today on our conference call. On this call I've got my Global Chief Financial Officer and my Finance Manager on the call. Global Chief Financial Officer, S.V. Krishnan and Finance and Lead Analyst, it's Deepika on the call. I just wanted to give you a sense on how the quarter went by, what we see in the market as a preamble, and then we can open it up for question and answers from each one of you.

Just as a precursor or a statement, I just wanted to reiterate that we are really pleased to report another strong quarter of sales and operating margin growth. We closed the quarter with a growth of 25% on revenue, EBITDA grew by 23% and PAT grew by 26%, all strong numbers supported by solid execution across businesses and geographies. And because of that Redington continues to gain share and secure new opportunities in the markets that could really compete there. This is despite an evolving macroeconomic environment, despite of that, we remain well positioned to continue to grow our business profitably by helping our customers and suppliers navigate an increasingly complex market.

Redington achieved record revenue and operating margin for the second quarter of the year, as our continued investment in improving our technology capability, in building deeper partnerships with our vendors and partners and Tier 2 and Tier 3 partners making our breadth of offerings far more comprehensive than ever before. And also the weighting in business models, and all of these investments in these four areas have strategic payoff. This is the highest ever quarter two for us both from a topline and bottom-line perspective, first time ever that we've had two consecutive quarters of 25%-plus of growth. And just as an additional information, this has been the highest-ever growth, half yearly growth since the time we went public.

Now I just wanted to also let you know that this delivery has been really broad based with all our operating regions and various business units contributing to growth. All our theaters, India, Middle East and Africa, Turkey and South Asia have seen pretty robust growth and all the business we are in value categories and the volume categories, cloud, storage, etc. have all seen

very-very broad-based, very fundamental, very solid growth. The business benefited in the quarter as in next. You have seen global technology reports and global reports and the mobility consensus that said demand related to work-from-home and learn-from-home has been coming down, it has been subdued. In fact, the work-from-home and learn-from-home, which is a consumer market, a reflection of how the consumer trend is shaping up, has de-grown. And that has got balanced out by demand from enterprises, from mid-market, from SMB, and those three segments of enterprise mid-market and SMB have more than made up.

Back to office, the procurements related to data center, migration to cloud had been the new catalyst here, and in the area of data center migration, cloud, back to office, new technologies have been leading. New technologies of the nature of artificial intelligence, technologies around data capture and data analytics and data analysis for various companies, how you manage and utilize your data for insights, those are things which have been really leading the way and the thing that that will be the trend for us as well.

Our geographies, in which we operate in the Middle East, Africa, Turkey and the countries of South Asia, they are largely consumption and investment-driven. Most of the GDPs have shown a positive trend, though we have seen a slight softening going forward. And by virtue of the GDP showing a positive trend, one of the major spenders have also been government. And, like I said, it has been consumption-led, but clearly there has been some parameters which are not so favorable but very stable business environment that we've been operating at.

You're also aware of the financial situation across the world, it is highly volatile and there are obvious headwinds. And let me call out a few. We've seen a very high inflation regime, high commodity prices, increase in interest rates, which means the cost of capital has gone up significantly. These impact demands because it makes less money in the hands of consumers and buyers and they also impact margins. We have seen currency devaluation in some of our operating countries; Egypt, Nigeria, Kenya, Ghana and some of the other ones, even India, for instance, and we've seen that happen in many countries, Sri Lanka and Bangladesh, all of it.

While there has been a delay in delivery of networking products, which has impacted the execution of large project business, shipping situation of technology products has eased considerably. It continues in the mobility products, but in the rest of the core information technology, which is PCs, servers, storage, it has eased significantly. And the networking products of the variety such as Cisco, Aruba those are the ones which continue to be impacted by the shortage and supply chain disruption.

We have seen a hardening of oil prices which possibly impacts a lot of countries we are operating in. So obviously, there have been some good and some not-so-good financial indicators and we expect because of the geography that we are covering, we expect these to balance out for us. We will continue to be extremely watchful and cautious over the next few quarters, because how the world is globally connected completely, but I think these are balancing out for us.

Let me also give you a peek into the future. As we project ourselves into the future, we do see or anticipate a continuation of a constrained demand environment in certain categories.

Categories would be access products, which are PCs and printers at home, work-from-home, learn-from-home, like I said earlier, but it will be better, the demand environment will be better, and categories like data centers, clouds, services, accessories and some mobility products will see an upswing. We therefore, expect to sustain a reasonable revenue and margins from our recently implemented operating environment improvements that we've created for ourselves, amidst the backdrop of whatever is going on in the world from a geopolitical and financial perspective.

So net-net, I think our strategic initiatives, our ability to execute in a tough market and that makes us extremely optimistic about the future. And one of the business; I didn't talk about earlier was on the Proconnect our logistics business and that has seen a good turnover and the good stabilization and growth. So we can discuss in detail about all the numbers through the questions that we might have, but this is just a commentary I wanted to paint to you, so that you get a context on what's driving our performance and how we foresee ourselves projection into the future.

So let me stop over here and open it up for questions.

Moderator:

Thank you, very much. We will now begin the question-and-answer-session. Anyone, who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan:

This is Vivek Ramakrishnan. My question is on two issues. One, has the working capital cycle normalized? And it seems to be stable at this number. So is this the number that you expect to see continuing? The second question is, do you get a sense that there's still a lot of latent demand, in the sense that you really well laid out the shift from working from home to MSMEs and so on. Do you still feel that there is still latent demand and how do you read the situation?

Rajiv Srivastava:

Let me answer both the questions and I can ask Krishnan to add to your working capital question also, but let me take it in reverse order, so that we can just get Krishnan also into this discussion. Look, like I said, demand of work-from-home and learn-from-home has come down, it's not gone away, it's come down, and it will get balanced over the short run through a refresh cycle that is bound to happen very quickly because of the migration of operating system from Windows 10 to Windows 11.

So there is that interesting dynamic that is going to play-out that people will love to or try to upgrade the systems from a technology perspective, from Windows 10 to Windows 11. That will create one cycle of demand, may not be latent but it will force a demand towards the access products. The demand that is there on the hiring technology, because we are seeing a very rapid and aggressive moves made by MSMEs and by enterprises, government, education, all kinds of sectors, to shift their operating working styles to a more digital environment. I am refraining

myself from calling this as a digital transformation, that has many context, many connotation, but every company is trying to move towards a more digital working environment.

So that demand will continue. That demand will continue towards the creation of data centers at the back end. It will accelerate towards putting more applications and workloads on the cloud, it will continue towards more cybersecurity to be created for companies and far more capabilities to be created by more companies. We are seeing that interesting dynamic play out. And that part of the business will continue to be very-very robust.

So the drive updation that companies are seeking towards converting their environments to be more digital, and everything in digital in all the journeys with the customers, employees, partners, I think that journey is irreversible. And some companies will be faster on that curve than others, but that really is the one which is fueling the demand today in the enterprise, MSME, government and public sector markets. So that's something which is a good demand environment which we are seeing constantly and consistently across.

The working cycle, if you recall, on the last call we had guided you the working cycle will be stabilized somewhere in the range of 27 days, 28 days to 35 days, which is higher than the COVID times, but lower than the pre-COVID times, and that exactly is the way in which the working cycle has played out in this quarter. We are at 27 days which is right at the lower range of our guidance that we've given and that's how we see it. The working capitals do have a tendency to increase because, like we said, the financial markets are the way they are, and that's basically went up to this level. But our guidance continues to be in this zone of 27 days to 28 days and 35 days. And Krishnan if you want to add something.

SV Krishnan

Yes, Rajiv. I think you have explained it clearly Rajiv, just to supplement that, see, what we have observed while there is an increase in the AR, there is a good increase in AP which neutralizes the AR increase. So primarily the working capital increase is in the form of inventory days increases. And this again, if you go back to our last call, we had mentioned there is a very unique situation that's happening in the market, where in enterprise products, particularly where we are, we have got part shipments, we couldn't get the complete shipments because of some shortage of products or supply chain issues and we are not able to bill the customer and that's one of the reason why we have excess inventory.

Second, in the consumer business, specifically, where there is a softer demand, it has resulted in higher inventory getting build up, which we think over a period of time, I mean, both these issues will get resolved and we are quite confident we should be staying well within the range Rajiv mentioned.

Vivek Ramakrishnan:

Sorry, if I can just sneak in one more question. Are the margins the same regardless of which channel, whether it's going into working from home or enterprise solutions, are your margins the same across both these channels?

Rajiv Srivastava:

No, look, margins are driven by many things, not just the channel you're selling to, or the segment you are selling to. They are driven by the category of products you buy, whether you

buy it as a product or as a service or you buy as a capex or an opex, or what kind of integration you're acquiring. So depending upon the type of sale you make, the margins will get driven by that. Whenever there is a larger integration required, the margins are better. Whenever the products are high risk, the margins are better. Even when you sell to home, for a product that costs INR 30,000 will provide lower margin than a product that costs INR 60,000. So I think it is driven by a variety of factors. Our margin regime has stayed very consistent over the last couple of quarters and has turned out to be very well. So that's the way you'll have to think of how margins play-out.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Nuvama. Please go ahead.

Pranav Kshatriya: My first question is regarding the sustainability of the growth. I mean, you did give some color on there are few moving parts, which are going up and going down, but we have not really seen this kind of growth for a long time. And so can we expect this 25% kind of a growth sustain, because historically we have typically seen the low to mid-teen kind of a number on the growth side? So that's my first question. And if you can comment a bit on what led to 40%-odd growth in the RoW Consumer segment? And secondly, I would also like to understand how should we see the tax rate going forward. These are my two questions.

Rajiv Srivastava: I think a bit of the answer was there in your question, the sustainability of growth, whether you will sustain 25% or not is something that is hidden in your question that you're saying where there are world markets which are a little uncertain right now. And that's the way we see it. In the last quarter, there was a significant drop in the PC industry across the world, the industry dropped by 15% and our volume business was much better than that. Our volume business was up 24%. The way you think about growth, the way we think about growth for ourself, because we also distributed in our operations . We think of growth across two or three dimensions. One is we obviously try and gain share in whichever market we are present in. So a bit of revenue growth in these kind of products come from share gain.

The second thing is, we expand the products to newer geographies, new countries, which is what we benefitted in the last quarter and that starts to help and deliver for the new products. And the third we do is we add new categories of product in the same geographies and new geographies. All of these are starting to work out for us. I think there is a very concerted and a very focused growth strategy that placed out. Now, can we sustain 25% kind of a growth even if the markets dip a lot more and just by virtue of that everybody becomes that much more effective in the market. I think that's a moot question. We'll see how it plays out. But the only thing I can tell you is, two points. One, we are very focused on delivering a double-digit growth and we are focused very-very focused on outstripping the market growth by a factor. We will continue to grow faster than the market. And this should obviously deliver a double-digit growth. If the market turns out to be better, we will do much better than the market.

So, in that one you have to play hard, as it is we have a very intact no matter what happens to the market, I'll continue to grow at 25%. That's a very hazard for us all and I won't be going in that zone, in that direction. But I can only tell you, the way we are trying to operate for ourselves

and execute our plan, we will do extremely – we will outstrip the market growth and we are focused on delivering double-digit growth. I think that's from a growth perspective.

The second point of yours is about, what led to consumer growth in the market in Middle East? Look, Middle East has been a very different dynamic, quite often they have behaved differently versus the rest of the market and clearly this quarter was a revelation for us from the perspective of how the growth has been placed in Middle East. There are two or three things happening. Middle East, if you see, UAE is one country which is really focused on modernizing itself and growing all the cities.

The second country which is similar and focuses on growing everywhere is Saudi Arabia. Africa has got a country like Nigeria, a country like Kenya and Ghana which are very focused on growth. We don't play in South Africa, which is also growing, but I'm just talking of the countries we are focused on, those are the countries which are growing very fast. And then there was an event, which obviously is happening right now in Qatar, which is the Soccer World Cup which is fueling a huge amount of demand for all kinds of technology and all kinds of non-technology products as well.

So I think, if you net it out in the way in which I am trying to talk to you about all the countries which are really, really focused on changing themselves, transforming themselves, there is a country transformation which is at play in a lot of countries in the Middle East and Africa and that really helped us.

So I think that's what led to our consumer growth being so high -- there. Turkey turned out to be better than what we had expected it to be earlier. So all those factors led to growth in the consumer in Middle East and Africa and like I said, our growth sustainability I already explained to you how we look at it.

SV Krishnan:

For your third question Pranav, with respect to the tax rate on a sustainable basis, we have mentioned this before, I think on a sustainable basis you should take about 21%, 22% at a weighted average rate. This I would say from a short to medium-term, from medium to long term it could be at about 25%, 26%, the reason being the global minimum tax rate is expected to come up in about two years time from now.

So if you look at in Q1, we were at about 21%. This quarter it is down, it's primarily because of the mix and also I mean, what we have seen in Turkey when we have a very significant depreciation of the currency, it impacts our tax rate, that hasn't happened in the current quarter and which is also one of the reasons why the tax rates have been down in the current quarter. But otherwise, on a sustainable basis, for the next one to three years, you can take about 21%, 22%.

Moderator:

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

Nitin Padmanabhan: Rajiv, your voice is very muffled. I don't know if it's only for me, but it's very muffled on the call. So this is one. The question is on the -- and if you could just give some color on the enterprise segment, what proportion of the IT business right now is the enterprise segment and how that has sort of -- I think almost 100% of the incremental revenue is from the IT side on a sequential basis. So just wanted your thoughts on how that business is doing and how it will do going forward?

The second is, some data points on provision for inventory and provision for receivables, how that has sort of moved on a sequential basis. Your thoughts on how the cost of debt is sort of playing for us. I'm sure we do a lot of commercial paper, 45 days, but how are the interest rates sort of moving for us and how do you anticipate the impact on a going-forward basis? And how much of that do you think will really flow through into the gross margin for an offset? Those are the questions.

Rajiv Srivastava: All right. There's been many questions. Thanks so much. Let me start with the first one on how the IT and how the segments split of IT is working out and I'll let Krishnan talk about the provisions, cost of debt, interest rate, okay?

Nitin Padmanabhan: Rajiv, your voice is very muffled. I don't know if it's only for me. But very muffled.

Rajiv Srivastava: Okay. Is it any better now for you?

Nitin Padmanabhan: Yes, it is very clear now.

Rajiv Srivastava: Okay. All right. No problem. So let me do this. I was using hands-free. My apologies. And in case you guys want me to repeat anything I can do that, but let me give you a certain -- a bit of color on the way the enterprise segment is working up. See, our split of our revenues in Q2 is IT portion, which is volume, value, cloud is about 74%. And within that, enterprise comes within that.

Our enterprise segment grown 15% and I'm just talking about -- and I'm splitting the enterprise segment into two now. The first enterprise segment for us is pure-play products of server, storage, network and software, those kind of varieties. And the second enterprise segment as I am treating is and I'm hoping going forward we can put more emphasis on that is going to be cloud because the whole world, the buying of technology, the way technology is getting consumed by people, it's so dramatically different from just a couple of years, it mandates us to have a segment like that.

Our value business in Q2 has grown 15%, our cloud business has grown 67% and both are fairly demarcated in the geo context. India has grown and so is Middle East, so is Africa and so is Turkey, okay, for both of these -- both enterprise products and the cloud products. Going forward, and to the earlier question that Pranav had asked about sustain and the question about latent demand in the market from Vivek, I had mentioned to you that there are many, many, many digital migration projects which are on right now.

Companies are focused on becoming more capable, on becoming more friendly and more consumer and customer-centric and they have realized that the only way you can manage this dynamic is by adopting more digitalization as opposed to putting more people behind processes. So that shift or transformation or conversion towards more digitalization, more capability leads us to believe that the value part of the business, which is products of the nature of server, storage and network and software will have a good run, and the cloud, because a lot of capabilities for - - and cloud has got many of the reasons why people are adopting cloud, will continue to get accelerated and adopted.

So I think those are the things -- that's the way in which we see the enterprise part of our technology play out. Now, there is the volume products which go into enterprise. Okay. PCs and laptops, they are also fine, they are volume products, but they have a consumer segment, learn and work from home, and they have a commercial enterprise, government and that kind of a segment where people are buying for their offices that demand of refresh of technology.

See in the last three years what happened was when people go home, the technology refresh was drift, it did not happen at all. But now when people are coming back to the offices, they now suddenly realize that the equipment bought three, four, five years ago is no longer current and so they need to transfer that equipment to a more current technology. So there is a refresh cycle which is playing out. And the other one which I said earlier was there is a refresh cycle of the operating system from Windows 10 to 11. So I do anticipate fairly, stable fairly robust enterprise IT buying cycle.

Nitin Padmanabhan:

Sure. Just a follow-up on that, quick one see, whatever you mentioned, both on products and on the cloud, for us it's slightly different, right. The cloud is more MSME and SME, right, mid-market, whereas the product, server, storage, volume products, enterprise, you could have a lot of large procurements there. So on the large procurement side, just wanted your thoughts on -- is that because of the shortages that were there, are you basically seeing elevated order books and that sort of continuing in that space or -- and how long do you see that continuing?

Rajiv Srivastava:

Yes. Look, like I said earlier, the shortage situation has got hugely moderated over the last two quarters. We saw shortages in chip and a whole range of supply chain disruptions in servers and storage and networking. So all of those elements, all of those product categories were impacted by shortage, and all of those product categories are not anymore impacted by shortage. So server and storage and server, storage has gone out of the shorter cycle. The only product that continues to be in the shortage cycle or supply chain constraints is the networking products, products of the nature of Cisco, products of the nature of Aruba and those kind of products which continue to be on short supply.

Now in case you have a project which necessarily includes all the elements, those projects, and by virtue of that, those large procurements will undergo a delayed execution cycle, okay. But in case you have projects which do not require every single component to be done simultaneously those projects are going through and there are many, many, many such projects which are still continuing to go through and some projects are obviously impacted, because of the mismatch, imbalance in the complete offering, bill of materials of a particular project delivery. So that

dynamic continues on the networking side, but otherwise, largely, like I said, it's been taken care of and addressed in server storage and also in PCs and printers.

Krishnan, you want to address the questions on provisions and cost of debt?

SV Krishnan:

Yes, I'll do. I mean, provision for debtors perspective for the current quarter, we are at about 0.03%, I mean, much lower than our long-term average of about 0.1%, so it's about 3 bps for the current quarter. The provision for inventory has been slightly at an elevated level of about 0.24%, which would normally be at about 6 bps and this increase is primarily on account of the factors which I had said for the earlier query. On one hand, we have received part shipments and we are yet to bill. It is taking time for the rest of the BOMs to come in.

And since we have a very consistent provisioning methodology, we thought we should continue to provide for it. Second is the inventory buildup in consumer, which also had impacted this provision percentage, which we think once the situation gets normalized, because eventually all these will get sold and there will be a reversal happening at future quarters.

For your question, Nitin, on the interest rate, yes, interest rates have spiked across the board, across the markets and some of these increases are quite steep and I mean, we are able to manage. To answer you in terms of our interest rate increase, we have seen about 2% interest rate increase overseas and about 1.5% interest rate increase in India. And these are weighted average. I mean we have multiple products and some of the loans we had – they closed it before, which is also helping us.

But when we approach the CP market, as we speak now, we are still able to get at about 6%, sometimes even sub-6%. So that's something which – I mean, as we are now, we are quite okay. The challenge is in Turkey where there is a significant increase in the interest rate. So this is the actual market interest rate. If you go by what is declared by the central bank, it wouldn't be so, there is a big divergence between what was declared by the central bank and what's the real market rate and you'll be surprised, it's about 33%, 34%.

So that's where we have a challenge in terms of interest cost. But having said that, we are trying our best to realize it in the form of better margins and whatever profit that we have declared is in spite of that. Does that answer you, Nitin?

Nitin Padmanabhan:

Yes sir. It does answer. And, historically, your ability to sort of pass this through and get it on the gross margin level has been quite consistent. There may be lags but you usually do it. So that should sort of continue, right. That's a fair assumption.

SV Krishnan:

Absolutely, you're perfectly right. Immediate passing on is not possible because some of these transactions, contracts will get structured before, but with a lag we will be able to recover. That's why I said we have not too highly missed out, but this is something which we need to be watchful, Nitin, considering our P&L is highly interest-sensitive.

Nitin Padmanabhan: Sure sir. Perfect. Just one quick last one. The question that Pranav had asked on the tax rate, actually our standalone tax rate has also gone down, right. Our effective tax rate on a sequential basis, it's around 8% TTR. Is there anything specific one-offs out there or?

SV Krishnan: Okay. I just need to check. Sorry. I mean, I don't know is it because of -- one second. I mean, I'm just thinking, but definitely I will come back to you. See, during the current quarter, we had the dividend income from overseas subsidiaries and whatever dividends that we received from overseas and declared to our shareholders, it isn't subject to tax. So since it is part of the standalone listing profits, maybe the tax rate could be low. And generally, you will find about 24%, 25% being the tax rate in standalone.

Moderator: Thank you. Ladies and gentlemen in order to ensure that management is able to address questions from all participants, please limit your questions to two per participant. The next question is from the line of Sanjay Parekh from Sohum Asset Management.

Sanjay Parekh: Thank you for the opportunity and congratulations on a great set of number. So one in terms of character of the business, generally what I see is that we have 2% net margins, we've turnaround almost as of now on this first half, almost 12 times...

Moderator: Sorry to interrupt you Mr. Parekh, may we request you to speak a little louder?

Sanjay Parekh: Yes. Now is it fine?

Moderator: Yes. Please go ahead.

Sanjay Parekh: Okay. So in terms of character of the business, we have 2% net margins, we turn around 12x, 13x. So we make 24%-plus ROE, which is great. But when we see the cash flow right, for a business of the scale at which we are, let's say, we do INR 80,000 crores this year, cash flow also would be very important. And first half, broadly, we've done 800-plus cash profit, but working capital need has been INR 3,000 crores.

So what I'm trying to say is when you look at the business and in your presentations you've emphatically say the ROE, ROCs are good, which is very good. But free cash generation as a part of your business at this scale, let's say, you go up INR 20,000 crores more I was just seeing -- and if your working capital needs are this, then yet you will not can raise -- I mean, generate cash flow. So how do you think about this business in terms of cash flow generation is the first question?

And the second question is -- I mean, you did allude in your initial remarks that globally there is a huge slowdown in this space. So a little more elaboration of how do we think about our -- I mean for us how do we pan out in the second half? That's it.

Rajiv Srivastava: SVK, you want to take the first couple of questions and I can...

SV Krishnan: Sure. I will do. Okay. See, Sanjay, I think your point is very valid. I mean, considering the operating profit, the churn that we have in terms of working capital. Obviously, it is a very highly

working capital-dependent balance sheet. I'll tell you, any growth rate north of 10%, 12% with the same working capital days in this business results in additional debt. So if the growth rates are more than 10%, 12%, we have to reduce the working capital days to generate the cash flow. That's the model, because it's working capital intensive.

But what I want to tell you here, in spite of the dynamics of this industry being what I have said, for the last six years we have consistently generated cash flow and quite significantly. You know very well, and I'm sure you'll appreciate what I'm saying, when you have in the last two years about INR 3,600 crores, INR 3,700 cores of free cash flow generation, and I need to tell you, our calculation of free cash flow is after payment of dividends which generally many people don't do. That's the way we calculate the free cash flow.

When we have made a total profit of about INR 2,000 crores in this period and out of which about INR 1,000 crores or about INR 900 crores has been declared as dividends, you can imagine there will be a bounce-back, that was because of the steep working capital reduction which we had said is more one-time on account of what had happened during COVID period.

Now it is getting normalized and this is something which is expected. But moving forward, I mean, from a sustainability perspective, if the growth rate is north of 12%, either the working capital days has to come down or there will be an incremental dip, that's the nature of the business unless and until our operating profit percentage goes up, which in our view is unlikely in this business. Not sure whether I have answered your query, Sanjay.

Sanjay Parekh:

Yes sir.

Rajiv Srivastava:

Okay. So thanks Krishnan. And I can -- look, I won't be repeating a lot of what I said to the earlier question on growth and how we're thinking of our growth from Pranav when he just asked, sustained growth of high levels or what it will be. There is a global slowdown, we see that and we mentioned then if you see all the reports of all IT companies across the world today, whether it is HP or it is Microsoft or Dell, whoever you see, everybody is guiding in a certain particular manner.

The PC industry, like I said, in calendar Q3, which is our fiscal Q2, PC industry went down by 15% and the whole industry went down by 9%. So you see a global slowdown, but the way we manage our business of trying to expand categories, expand geographies and expand and gain share is the one that has helped us in the last couple of quarters despite a slowdown. And we hope to stay the course of navigating these environments to create strategies, which will help us to continue to grow, and these are the strategies where we have got to be stronger than ever before, customer centricity has to be better than ever before.

Your experiences that will deliver to your partners and your customers have to be absolutely very differentiated. So we've got a few things lined up in our arsenal which help us to continue to grow and that's the reason I said that earlier, we will grow faster than the market come what may and I'm hoping that's the way we see the market in this quarter. We will be in a double-digit

growth rate. So that's the way we position ourselves and that's the way we structure and strategize for our growth.

SV Krishnan: Yes. Sorry, if I can pitch in. For the earlier question, Nitin, I had checked in parallel and lower tax rate in standalone is only because of dividend. Otherwise, the normal tax rate is maintained.

Moderator: Thank you; The next question is from the line of Chintan Sheth from Sameeksha Capital.

Chintan Sheth: Thank you for opportunity and congrats on the good set of numbers. Just two data points, because most of the questions have been answered. On the Brightstar, if you can provide first half and second quarter revenue number because that won't be a part of the base last year?

And second, on the ProConnect profitability, if you can share some inputs on, the growth seems slightly muted, if you can comment on ProConnect and how we think, because given the enterprise is growing, we believe ProConnect will be complementary or beneficiary if the enterprise is firing up. So if you can address this?

Rajiv Srivastava: Yes. Okay, no problem. We can address both those questions of yours. On the first question, on the Brightstar side, Chintan, Brightstar you know we acquired in December last year, so aggregate results of Brightstar from December last year, which is calendar year 2021, we started to aggregate/integrate as well. And this quarter, Brightstar is about INR 750 crores to INR 800 crores, Krishnan, are you can give that number but...

SV Krishnan: Yes. About close to INR 800 crores, Rajiv. And first half about INR 1,500 crores.

Rajiv Srivastava: Yes. So in that range, it is about less than 5% of our overall sort of revenue from that perspective. And going forward, from next year onwards, obviously, it will become a regular thing, which is differential this year, but it will be a regular thing from going forward as we go. And I'm hoping that -- sorry?

Chintan Sheth: Sorry. I was just asking how it is growing from its base previous year or is it growing or it has been flat on a YoY basis?

Rajiv Srivastava: Brightstar in Turkey -- I mean if you understand Turkey a little more, you will -- Turkey has got many other interesting dynamics at play, inflation being 100% and the capital and the interest rate has been 33%. You've got to manage the business in a manner that you can stay afloat and you can still continue to make money in Turkey. So I think the Brightstar business for us has been stable, steady. We are not focusing on excessive growth there. It's very minor, it is a single-digit growth, so it is a very small sort of a growth number that we have from that side. So that's the way we are trying to manage that.

The question on ProConnect is also an interesting question. I think it's important for us to get you -- now, ProConnect is a very, very strategic part of Redington. It has delivered a revenue of close to INR 140 crores in the quarter gone by which is a 7% growth over the previous -- on a Y-o-Y basis. We believe ProConnect will become at least a 1,000 crore company in the next three years.

Okay, let me tell you why we're so bullish about it. One reason for bullishness is that the entire logistics and supply chain market globally is in focus and you're finding that a lot of such organizations are having very, very strong business cycles right now because of supply chain market is so, so stressed and strained and the disruption that logistics companies are having a very -- could have a very good thrust.

So that's one thing which is there. But more from our perspective -- that's a market thing. More from the way we see ourselves in ProConnect and where we are trying to meet our investors. in ProConnect is very strong working on the fundamentals of the company, and those fundamentals are three or four.

One fundamental for ProConnect is building the highest levels of automation and technology intervention to make sure every part of the operations and business in ProConnect is digital and automated. You link your supply chain with the customer supply chain. Link your supply chain with your partner supply chain, so that you can map on both sides and you can be absolutely, absolutely automating. So we are shifting our game in ProConnect from a logistics provider to a logitech provider. Okay? Logistics technology provider. That's one very strong thing.

The second thing that we're focused on and building out is harmonizing our operations and automating our operations, so whatever we have, from a customer experience perspective, make sure that every single metric or measurement, every single scorecard that we create in the logistics industry and you would know that logistics industry works on scorecard, it works on experience and that's something that we're very focused on and building it out as we speak.

The third thing that we are doing is we are creating niche for ourselves by becoming a very strong and very capable solutioning for logistics. Now logistics is not simple. If somebody wants to move some equipment from China to India, it can have multiple types of journeys and it will have multiple types of documentation, management, handling, CHA all kinds of things. So you need to have a very strong capability of being able to build right solutions for a complex logistics process end-to-end, from manufacture to delivery, or even pre-manufacture to delivery and consumption is something additive too.

And the fourth thing that we're building out is on a very strong sales input. So I think we're creating a sales team. We've invested a lot on creating and building out leadership in sales leadership across the country and that's what we do, are very bullish about it ProConnect and we see that as a very, very strategic part of continuing strategic part of the business.

Chintan Sheth:

Sure. And lastly, if you can elaborate, because we were also hoping that 5G will be likely to roll out maybe by end of this year, there are trials happening. So do you foresee this demand from 5G will start picking up from this year and that will also support some consumer demand further?

Rajiv Srivastava:

Yes, I would caution you to think of 5G as a consumer demand. We always create 5G in a headset, handset. And so if my handset is 5G enabled, I will get a headset and that's something which is there, which will happen. Handsets which are 5G enabled will find favor to sell more than handsets which are not but that's the overall mobility procurement demand, much less than

anything else. Right? You got to be thoughtful about 5G from an applications perspective. The applications in 5G will create a very-very unique demand environment.

5G is a network, which is almost a zero, it is a zero legacy network, allows you to do things in real-time. So your innovation cycle, your creation cycle, your manufacturing, your training and development, your health care, hospitals, remote diagnostics, and remote operating procedures, all of those will be enabled by 5G in sometime to come in India and I've seen that operating across the world. We've traveled to many countries wherever it is working right now. I've seen it firsthand. So you have a very-very disruptive sort of a 5G environment, so an application play which will play out in some time, that will fuel a very strong demand for technology, both IT and mobility. So we're obviously very bullish as it plays out over the course of the next couple of quarters or years.

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

Krish Mehta: I have two questions. The first is if you could provide the revenue number for your cloud business and the cloud-managed services for this quarter?

Rajiv Srivastava : Yes, I can give you the revenue number for cloud business and cloud-managed services for this quarter. Our cloud business in Q2 FY '23 is INR 506 crores and our cloud-managed services INR 21 crores.

Krish Mehta: And I wanted to understand more on the demand outlook and mix in context to cyclicity for the business, like, given that there's been so many changing dynamics in terms of consumer demand versus enterprise demand, and as you said, on work-from-home and learn-from-home. How do you view the business also looking at the supply chain easing in the future, just in terms of cyclicity, say, in the next two, three years?

Rajiv Srivastava: Yes. I think it should stay or pretty much mirror the cyclicity that we're seeing in this year play out. This year is a more normal year. Last year, when we were entering into fiscal last year FY '23, we were -- FY '22 last year, we had -- if you recall there was the strains of COVID were still there in the month of April, May, June, continued into July, August and we had a bit of a disruption there at that point of time. But this year the conditions have been far more normal. The COVID health scare is a lot less, number one. Number two, the supply chains of the world are getting restored, even though expensive, but they're getting restored. Third is the commodity cycle which the prices had gone up and there was a shortage of commodities. While the prices continue to be high, at least the supply chain and commodities or the availability of commodities had got restored.

So I do see a much more normal sort of cyclical situation this year and continuing next year than it was the previous year. Now there are some shortages like network equipment, continues to be shortage. But I think in the course of the next one quarters or two quarters, we are hoping that that will also become completely normalized. So you will start to see the cycles of buying over the quarters getting far more steady state and standard and mirroring the business cycles of

companies. The countries and companies have different business cycles. We will have to be cognizant of the fact that the procurement are not specific to the manufacturers. So for instance, if Turkey has a year-end in December, Turkey peaks in December. India has a year-end in March, India peaks in J-F-M quarter. Some of the countries, they have year-ends in June. And Australia, for instance, has a year-end in June, they are buying peaks in the quarters of April, May, June. So those get mirrored. That's what I meant by the cyclical getting normalized through the operating environment of the country. And that's why we see no abnormal interventions anymore unless there is something else which happens, which is completely out of whack, and we can't predict those kind of unforeseen situations. But otherwise, the intensity is going to be absolutely-absolutely normalized now.

Krish Mehta: And lastly, if I can just get a clarification on the accounts receivable provisioning for the quarter?

Rajiv Srivastava: There will be few. There will be few far and few between. It's not something, which is really-really -- it should not be much

Moderator: Thank you. The next question is from the line of Bhavin Shah from Sameeksha Capital. Please go ahead.

Bhavin Shah: So first of all, I agree with the other callers about the sound quality, and I think it was also an issue in previous calls, and I always thought it was my phone. So if you could, and I'm surprised your conference call moderator did not point it out. My question is just one. I mean I think the business is doing fantastic, happy shareholders. If you look at opportunities, would it -- in addition to what you're already doing, would it be any new geography, a new product line or more through acquisitions?

Rajiv Srivastava: Another great question. We can give you a very sort of direct answer on this. All possibilities are right, right now. I've already answered the question on new geographies, how we think of our growth is taking the existing products to the new geography if we can sign the contracts with the vendors. So that's one very strong thing that how do you get into the geography. -- There are many geos which are opening up now as we speak and we will be focused on thinking about expanding our footprint in those geographies, whether it is Southeast Asia, it is more countries in Africa, it is more countries in Middle East, it is more countries in Eastern Europe, those kind of places we are very-very focused on and I think we will continue to assess, evaluate our presence in those countries. That's one.

The second thing is more products, literally yes, and that's partly driven by us, but partly also driven by the way the vendors are launching new products. If there is a new product which comes up, we will be more focused. But I think, the way you think of us, and we've said this in some of our earlier calls, and this is very sort of important thing for us.

We've got three pivots in our company. And everything that we do is in relation to those three pivots. The first pivot is technology. Whatever is the latest and the most recent and the best technology which matters to our customers, we will be focused on making sure that is brought here in the most rapid manner. Number one.

The second pivot of our organization is innovation. Wherever and whatever innovations are required in either products, solutions and services or in operating and business models, we will be at the forefront of that and if you see us, Over the course of last three quarters, you would have seen a very intense focus from us on shifting our business model from being a only brick-and-mortar provider, to becoming a much more omni-channel provider for products, solutions and services, from being a only completely capex-driven model to much more as a service operating expense model. The one that we resonate with this is the cloud portal that we launched, which allows us to build a very strong base of annuity in our business. So that's the second pivot, technology, innovation.

And the third pivot for us is partnerships. Whatever we can do in terms of partnerships with our vendors, bringing more brands into our customers' hands, bringing more solutions into the hands of a customer so that customer is going to become that much more efficient or working with creating enablement for our Tier 2 and Tier 3 partners, so that technology reaches its intended use faster than ever before. And when you do that, you bring innovation to the customers faster, you eliminate friction in technology.

That's what we stand for. We stand for bringing innovation to the customers faster than ever before, to reduce or limit the friction that people have in technology consumption, and that's what we are. So your question, All of this allows us to play in new geographies. Obviously, we do, expansion of products, absolutely certain. And this means that we need to complete the portfolio by acquiring like we did in Brightstar in Turkey last year, we will be absolutely agile and aware about that.

Bhavin Shah:

So just one related question as far as new geographies are concerned. It would have to be outside of any sort of sister companies any other geographies sister companies operate, right? Sister companies meaning ultimately there is Synnex Taiwan and so on. Ultimately there is same owner at some level. So that's what I meant.

Rajiv Srivastava:

Look, it's not a constraint by a sister company or a non-sister company because we don't have a sister company at all, and I don't relate to that terminology at all. So we don't have a sister company, we operate independently as an organization. Synnex is an investor in our company, but they're not a promoter in that sense.

So I think you have to be thoughtful about those things. But we will go to the geographies that makes sense for us. And the way you choose geographies is on the basis of the potential opportunity or the gaps in that market. So if I go to -- let me give you an example. If I go to Indonesia, now my choice would be should I enter with PC, should I enter with servers, should I enter with storage.

And that depends upon a careful analysis of the gap that exists in the Indonesian market. And where we can make a quick win to establish ourselves. So I need to make different considerations on how and why, what takes you into a geography or takes you into a country versus anything

else. So I think we are more focused on ensuring that we have a meaningful value to add and we can capture the value that we think we can add.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today which is from the line of Nisarg Vakharia from Revanta Fund Management. Please go ahead.

Nisarg Vakharia: Yes. I have a slightly broader question. If I look at your financials there's not a single year where the company has not grown its revenues. If you look at the financials over the last four to five years, there is not too much significant difference in mix in your customers in the presentation that you mentioned. We've attributed the rise in EBITDA margins because of a premium customer like Apple, then Apple changed its strategy, go-to-market strategy. Despite all of that, the EBITDA margins are 100 basis points higher than what they have been historically over the last seven, eight, nine years.

Now on INR 60,000 crores top line that makes a significant change in our financials. Just wanted to understand, is that now all the COVID one-offs have gone away, cycles have normalized, is this now the new sustainable EBITDA margin trend? I'm not specifically referring to 2.8%, but historically we have bottomed out at 1.8%, 1.9%. So is the bottom now higher from that level is my simple question?

Rajiv Srivastava: Yes, I can give you some color, I'm sure Krishnan can add to it. I think the point is extremely, extremely rich and valid. I do think that the bottoms of earlier times before COVID, you probably were there at that point in time. I don't think we hit a bottom like that, but obviously, we will hit a number that will be different from what we have today also.

So, but the wider -- broader point on this topic for all of us, if there's any sort of recovery is the margins are a function of many other things. Okay. While a business mix in terms of product profiles may have been consistent, but there is a significant shift within each of those categories. There is a shift in a product portfolio in value. We shift from products to cloud to services.

There is a shift in our product portfolio in the PC and access product side. PC, printers, and the supplies and consumables that we sell better. In the mobility, we sell largely mobility earlier. Now we sell mobility and a whole range of accessories along with the mobility, which come with a different product profile.

We never had a solar product portfolio, we have a solar portfolio. We had very less limited smaller ProConnect portfolio in logistics, it continues to be small, but it's getting bigger all the time. So I think the mix situation is going to be different just because you operate in a very different product concept or product portfolio environment. So I think that's how we see ourselves. Will it go back to the old times? I don't think so. And we will be somewhere in the zone. So Krishnan, you want to add more to it?

Nisarg Vakharia: Sorry. Just to interrupt, that's very helpful. If I could just follow-up on that. You said that the product categories have changed which is contributing to higher EBITDA margins. These

product categories are essentially product categories that is a market share gain that we have acquired from other distributors or these are new product categories that the OEMs have launched themselves?

Rajiv Srivastava: Combination. The OEMs will keep launching all the new product categories. So we have to keep going and doing something new in the market, acquire new product categories. And so it's a combination of the two.

SV Krishnan: I think Rajiv you've answered it. I mean only point that if I can supplement see, definitely as we speak now, the EBITDA margins can even be better. The EBITDA margins which you see today is after the investments that we're making for the future, for which the returns will flow in the future years, future quarters. That's the reason why we have taken this period as a period of investment of building the capability, and which in our view is going to start giving us results even in terms of better margins and other factors.

Nisarg Vakharia: So when you say better margins, by what percentage or what is the --

Rajiv Srivastava: Krishnan and the team -- I just got to -- I'm so late for my other call. So apologies, I'll excuse myself, okay?

Nisarg Vakharia: Yes, just to press upon this point what is...

SV Krishnan: Yes. I will answer that. See, if you look at traditional operating margin it used to be about 2.2%, 2.3%. That's a sustainable margin percentage in the traditional sense, which had moved closer to 3% now. And what we think as we move forward, this should settle in between. So if I need to put a number about 2.5% 2.6%, this is where some of these investments in our view will start giving us the additional margin, but it will take time, because these investments are going to, I mean, be more, it'll have more gestation period, but definitely we are at it, and we will make sure the margins are better as we move forward.

Moderator: Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

SV Krishnan: So since Rajiv has left, I think we have had an excellent quarter in Q2 and that continues to be excellent when compared to what the growth that we have had in the previous period. There are certain challenges that are coming in the ecosystem, which we are very watchful and we will make sure that, we do our best like what we have done in the past. And I'm sure things will work out well and the investments that we are making will start giving us traction in the future quarters.

Extremely thankful for your continuous support. If there are any questions, which you couldn't ask in this call, maybe we can connect later separately and we will be happy to address your queries. Thank you.

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