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@redingtongroup.com
CIN: L52599TN1961PLC028758
www. redingtongroup.com

February 7, 2023

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

Symbol: REDINGTON

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

Scrip: 532805

Dear Sir/Madam,

Sub: Transcript of the Investor/ Analyst Call

Pursuant to Regulations 30 and 46(2) (oa) (ii) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, we attach herewith the transcripts of the Company's Analyst Call held on February 2, 2023 to discuss the financial results for the quarter ended December 31, 2022.

We request you to take the above on record.

Yours faithfully,

For Redington Limited

MUTHUKUMARSAMY MUTHUKRISHNAN
Digitally signed by MUTHUKUMARSAMY MUTHUKRISHNAN
Date: 2023.02.07 11:07:32 +05'30'

M. Muthukumarasamy
Company Secretary

Encl: a/a

"Redington Limited

Q3 FY '23 Earnings Conference Call"

February 02, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 2nd February 2023 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 Q3 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 Moderator: 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, and good morning, and welcome to all participants on the call. So thanks so much for joining. We just announced our results after the Board meeting yesterday. And extremely pleased to report another strong quarter of sales and operating margin growth. Our revenues for the quarter were at INR 21,715 crores, which is a very strong, very healthy 31% Y-o-Y. The EBITDA was INR 622 crores, a 14% Y-o-Y: EBIT, INR 583 crores, 14% Y-o-Y. And so all of these numbers have been absolutely record numbers for us, the highest ever for a quarter's performance. PAT at INR 380 crores was a negative 2%. And all of this has been supported by solid execution across businesses and geographies.

And on the back of that of execution, we have been continuing to gain share and secure new opportunities in markets that we compete in. And despite an evolving macroeconomic environment and somewhat difficult conditions for the technology industry, and I will talk a bit about those later. We remain well positioned to continue to grow our business profitably by helping our customers and suppliers, helping them to navigate an increasingly complex market.

Redington achieved record revenue and operating margin for the third quarter as our continued investments in improving our technology infrastructure and technology capabilities, which serve our customers and partners in building deeper partner relationships, both with the downstream partners as well as global vendor relationships, and making a breadth of offerings, which is the products and solutions and services that we bring to the market, more comprehensive than ever before and introducing innovations in our business model.

And all of those have started to pay off. Like I said earlier, this is the highest ever quarter for both revenue and operating profit. And for the first time in the history of a company, we have had 3 consecutive quarters of more than 25% growth. Just as an additional information, the trailing 9 months have been the highest ever 9 months of growth that the company has seen since we started operating it.

And I can also tell you that this delivery has been largely broad based with all our operating regions, which is India, Middle East, Turkey and South Asia, all contributing to growth. All theaters have been pretty robust. And the growth is well balanced, fairly balanced across all the different product categories that we operate in, which is Telecom, Mobility segment, which is enterprise products and solutions and services, cloud and also the volume products that we do. Now clearly, the business dynamic during the quarter has been mixed. Technology demand related to work from home and learn from home has been subdued. In fact, it de-grew in Q4 - which is calendar Q4 of IDC.

You would have followed the IDC results for the global PC industry, and that declined by 33% year-on-year. Smartphone shipments have declined globally by 18%. However, the demand has been extremely robust as people have started to come back to the offices and work from home has actually started to shift to work from the office. So the hybrid environment continues, but it's more predicated towards work from the office now. So demand has been robust.

For those kind of workspaces, it has been very robust for data center infrastructure products, which are products of the nature of servers, storage, networking, software and security. And as the digital transformation projects have been accelerating, I talked about those in the previous meeting as well. The migration to cloud, back to office, data center procurement, have all been very strong catalyst for our growth.

And that -- when you couple that with our improved engagements, with the enterprise, with the mid-market and SMB customers and partners, it more than made up for any other de-grew that you would have seen in the Learn from Home segment. So our enterprise products grew by a very, very, very healthy 65% during the quarter, and cloud grew by more than 33%. And so literally, you can see that the world is shifting towards consumption of new technologies, and those are the leading indicators that we are extremely focused on and proud that we could capitalize during the course of the quarter that went by.

I also want to let you know that the geographies we operate in, which is South Asia, India, Middle East, Africa, and Turkey, all of these geographies are largely consumption and investment driven. You would have seen that most of the GDPs that we operate in have shown a positive growth trend. There has been a guidance.Guidance keeps going a bit up and down. The growth has been -- the growth forecast has been reduced, but there's been a very positive growth trend from GDPs of all the countries we operate in. The governments have been a major spender, and I'll take a minute to talk about this in a bit. So clearly, there has been a very mixed sort of a business climate, but negatively stable business climate, which is helping us to make sure there are digital projects that we are focused on, continue to gain momentum and continue to give us the lift that we deserve.

Financial situation across the world has been highly volatile, and there are obvious factors to be considered over the near term. We've all seen a very high inflation regime, which means there has been high commodity prices and increase in interest rates, the cost of capital has gone up significantly. And that's the reason you see a very sharp difference between our EBIT, EBITDA and then the PAT. So these impact demand as well as margins impact on PBT and PAT.

There's been a currency devaluation in some of the countries we operate in, Egypt, Nigeria, Kenya, Ghana. While there has been a delay in delivery of networking products, which can literally have an impact on large project business, I think the shortage situation of the technology industry has eased considerably.

Over the last 6 months, it has been becoming better every month. And now we are getting to a point where it is far superior than what it was when we started the year. So I see the project execution will start to improve significantly. We've also seen the oil prices to be stable at higher levels, and that positively impacts a lot of geographies we operate in. For instance, Nigeria, for instance, Middle East, a lot of those countries that we operate in, they are possibly impacted because of the oil prices.

So therefore, you can see that the overall macroeconomic financial situation of the world has been good, some very, very good and some not so good financial indicators. And we obviously expect these to balance out positively in favor of Redington. We will, however, be extremely watchful and cautious over the next few quarters to make sure that we are vigilant as we ramp up our business in the technologies that we are very focused on.

As we project ourselves into the future, we do anticipate a demand environment which can be concerned in some places, but it will be extremely robust in some other areas. You all would have gone through the budget announcement yesterday, an immense focus on digital and digital initiatives. All of these are transformation initiatives. We've seen and learned very hard and tough way that during the COVID times and also after the COVID times, digital is the one which is the real transformer of growth for most companies and most economies.

And so I really welcome the budgetary announcements, which focused so much on digitalization. And I do anticipate an extremely robust demand outlook for technology products on the back of the investments and spending that the government is going to do. Some of those investments will be in really infrastructure setup and infrastructure of the technology variety. This is the tech infrastructure, which goes into back-end creation of data centers, creation of capabilities and competencies, innovation funds, making sure that security infrastructure or that information is very strongly done. So all of those are going to be very, very strongly focused on.

And I can also share with you my own experience of dealing with the government in the last couple of quarters in India and also in some countries of Middle East, Africa, and I was in Turkey two weeks ago. In each of these places, the focus of the governments, on trying to make sure that they are far ahead in terms of technology in a way leapfrogging. The rest of the world from a tech perspective is very intense.

If you see in near home, I do expect a very strong demand from the government on modernization of citizen services, on modernization of education infrastructure in the country from a technology perspective, on all the finance projects that the government is leading right now, the communication infrastructure and network that the government is leading right now. 5G is going to be a game changer in many ways both from creation of infrastructure and also from fueling many other application areas that are going to be there. And defense also is going to be very strongly modernized. So we do see anticipated demand, infrastructure demand environment, which is going to be strong, and I'm hoping that continues to be robust.

It will be less so in some product categories like access products but very strong in data center, cloud services, accessories and services around those. So we expect to see reasonable revenue and margins from our growth in that from our recently implemented operating environment improvements amidst the backdrop of all the geopolitical and financial stuff that I talked to you about.

Net-net, and let me conclude, by saying that our strategic initiatives and our execution capabilities are delivering for us right now. When you have such a significant deviation from what the market is and what Redington is, and clearly it suggest to us that the initiatives that we've made are in the right direction. And that really makes extremely optimistic about our future. So let me step back and stop over here and hand it over to all of you to give your opinions, views and any clarifications or questions that you may have. We will be more than happy to take them on.

With me in my room I have got S.V. Krishnan, who is our Global Chief Financial Officer, and our finance leader, Deepika, as well.

Moderator: We have the first question from the line of Sanjay Dam from Old Bridge Capital.

Sanjay Dam: Congratulations, sir, for a very sustained robust top line performance, and thank you for those insights. I think we come from a very high base in last -- in the Y-o-Y quarter. So I would not take too much time on comparison versus that. But when I look at our September -- June-September quarter and then look at the December quarter, the gross margin has kind of changed a bit, which flows into the EBITDA margin. So if you could help us understand that bit of it.

And the second part is that, although the gross margin has come up by 50 bps, you've been able to hold your EBITDA margins. So I suspect that the flexibility, which we took in investing into the business -- existing verticals as well as new verticals you would have calibrated to deliver that 2.7% EBITDA margin. So if you could also take us through what to expect in the year ahead?

Rajiv Srivastava: Yes. And you know, what I'll do is, I'll just give you one context, and I'll hand it over to Krishnan to take you through a bit more details on that, Sanjay, and thanks so much for your nice words about our performance.

Look, our EBITDA margin is at a fairly high 2.9% right now for the at the consol level, and that's and you're right, I think the way we are pivoting our business on the back of making sure there are efficiencies brought into the company through the implementation of the platforms that we are doing on both on digital business as well as on our cloud business, those are helping us those are strategic initiatives. They are long term. We will make the investments, continue the investments in them because they are the ones which are necessary for future growth and future optimization of the organization. So that's a strategic sort of two bits on that. And Krishnan, do you want to give more color on how the margins are playing out here?

Sanjay Dam: And before Mr. Krishnan goes in, sir, since we have you one bit more on the progress so far. So the investments that you have made into the business, would you say that it has kind of met your expectation and you, of course, have an end point or some progress, some milestone in mind. Would you say that it's been a satisfactory progress so far?

Rajiv Srivastava: Yes, and that's a great question because you always make investments with an end objective in mind. And though these are always and technology industry is never an end. It's like always gliding towards, and gliding mean, it's always in motion because tech industry keeps evolving. And we would always want ourselves to be ahead of the curve, which means we are always making the right investments. We are making we are reading the trends of the market extremely well and pivoting ourselves to the future versus being stuck in the past or stuck in the present. So I think that's the way to think about investments.

So far, the investments that we made investments three very clear investments we made. We made an investment in trying to pivot ourselves to a digital distributor, and our objective and aim is to become the large the best digital distributor in the world, which means anybody who wants to interact with us will have a very strong no manual, very easy-to-do-business kind of an interface.

The second investment we made is in the cloud, and the growth of our cloud business suggests to me that we are absolutely in the right direction on the cloud. We are adding features. We are adding functionalities. We're adding solutions and services on the cloud platform. Like I said, it's always going to be evolving and becoming better all the time, but absolutely in the right direction because our cloud business is ramped up on the back of the platform, which means if we didn't have the platform, our cloud business will be far smaller than what it is today.

And the third investment that we are making in the company is on getting our company more automated, more technologically savvy for our internal processes and systems. And all three of them, in my opinion, are in the right direction. They're bearing fruit for us right now because we're starting to see traction on them.

A good portion of our business has shifted to digital already. And I'm hoping that in the course of the next two quarters, more than 20% of our business will actually become digital. So I think that will be a great progress if you make that. And cloud is all 100% of our cloud business is already on the platform. So I think those are the right metrics and right indicators for us to really feel good about it.

SV Krishnan: So let me pitch in on the earlier point, Mr. Sanjay. See, as you know very well, I mean, our business cannot be compared on a quarter-on-quarter basis because the I mean, the Q2 that you mentioned is basically a quarter where there are new product launches that are happening from major vendors. And also, it's a period where the festive sale is aiding us in terms of better revenue and profitability. But on a year-on-year basis, yes, there is a drop. So let me explain this. First of all, the current quarter, you would have seen that the provision towards the inventory has gone up, and I will explain that a bit. And that's the primary reason why the gross margin has come down.

Having said that, even adjusting for it, there is a marginal drop of about 10 bps, vis-a-vis the Q3 of last year, that's on account of how the market is, as Mr. Rajiv mentioned.

Very specifically with respect to inventory provisions, we have discussed a couple of it in the earlier calls. I mean, there is some slowdown that we are seeing in the consumer business, which has impacted in terms of our inventory levels. Second, we also discussed about shortages that are there in the enterprise space. While I mean a bit of it has got eased, but still, we -- I mean we face shortage and because of which we have got part of the consignments are not full, which is not enabling us to bill the full inventory to the customers, and these are with us.

And some of this has resulted in higher inventory provisions. But we are quite confident in the next two to three quarters, we will find a way to sell these inventories And in which case, these, I mean, inventory provision should come back to the P&L. So in a strict sense, there is a marginal drop in gross margins, not significantly higher.

Moderator: The next question is from the line of Aejas Lakhani: from Unifi Capital.

Aejas Lakhani: Yes. Congratulations, gentlemen, on very strong execution. Again, it speaks about the execution powerhouse that you are. Sir, a couple of questions. First being that Apple at the start of this year announced that they are putting up more staff on the retail force. So could you speak about how this impacts the domestic business? What percentage of our proportion of sales comes from Apple today for just the domestic business, if you could comment? And how are we planning to navigate this transition of Apple going direct?

Rajiv Srivastava: Okay. Thanks so much, and I think -- thank you so much for your nice words as well. Let me give you a sense of broader than Apple, okay? This question about people growing brand stores and how the brands stores start to impact the rest of the providers in the market. All these brand stores, and Apple is starting up a big brand stores of their own, that's the reason they are hiring some -- going to be hiring some in-store promoters and in-store salespeople for themselves over the course of next whenever foreseeable future.

And what we've seen is, in most countries, and I have worked in countries like China, Japan, Australia, Singapore, Indonesia, Philippines, countries which are similar to us and countries just not similar to us always, even in Middle East. And actually, Apple opened the largest -- single largest store in the world in Qatar just 2 weeks ago. That is the single largest store of Apple, including the U.S. So it's a really, really massive store that they've opened up.

And what we've seen is, over time, whenever you have brands coming up like that, certainly, the entire brand gets a lift. There are more programs which are thrown into the country, there's more affordability matrices that come in, there are more financing and more opex, which is thrown into the country to make sure that the brand continues to get a lift. We've always seen it. In every single country you would find that a brand of this -- when this kind of thing happens, the brand gets a lift. And I'm hoping that on the back of Apple coming up with their own store, you will get a brand lift of that nature, which means that it's good news for all of us. It's terrific news for all of us. And like I said, I've seen this in countries after countries and I can name at least about 20, 25 countries that this sort of a thing has played out.

The contribution of Apple to our revenues, Apple contribution to overall revenues is -- just the iPhone business is about 19% is contribution of iPhone to our overall revenues, right? And the contribution of Apple to overall – over all Apple portfolio to our portfolio is just about under 30%. So I think it was higher earlier. Our growth in the enterprise, cloud and all that segments has meant that this contribution while the revenues have stayed good but this contribution has come down. So I think which is good news for us because we are -- in a way, we are trying to get into more diverse sort of a business that we are talking about. So that's a win.

But since your question is specifically with respect to just only domestic, only India, the contribution of Apple iPhone to domestic is 24%, okay, to domestic -- our domestic business is 24%, and that's pretty much where it is right now at the moment here.

Aejas Lakhani: And sir, what is Apple's contribution domestically? You mentioned the iPhone bit at 24%. What is the Apple contribution domestically?

Rajiv Srivastava: Apple contribution domestically is about 1/3 of our business here.

Aejas Lakhani: We've got that. Sir, just a couple of others, one is...

Rajiv Srivastava: Because it was the last quarter was their launch quarter, okay? September is the launch time for them. So it goes up -- every time in Q4 it goes up a bit and then it comes down. It settles to under 30 every time. Yes.

Aejas Lakhani: I show you on that. Sir, the other bit is that the working capital has gone up, and it is -- it was in line with your commentary and guidance earlier. So the current working capital, are we comfortable at these levels? Or do you further see working capital moving up? And Mr. Rajiv, just a follow up, is that what specific initiatives are you driving today? And what kind of business outcomes would they have?

Rajiv Srivastava: Yes. Look, let me give you a sense of our working capital, and I'll ask Krishnan also to chip in. If you recall, in the last 2 calls, we have been guiding that the working capital will start to normalize in the range of 28 to 35 days, okay? It was around that last quarter. This quarter, it is settling at about 30 days for Redington consolidated overall.

I think it's a little lower in Middle East -- in South -- in the rest of the world and in India is about 35 days, right? So I think we are right bang in the middle of our guidance or the early part of our guidance. It will go up a bit more. We are absolutely comfortable because if you go back to the times which are pre-COVID, we were stuck with a working capital around 50 or 55 days at times and then our high 40s. And now in the range of what we are talking about, 28 to 35, I think it's pretty much par for the course. It might go up as well because that's the nature of the business right now, and that's the nature of the industry that -- or the way in where the demand is shaping up, long-term projects.

The way we try and manage ourselves, what we -- what specific initiatives we do is, obviously, we are all the time working with our vendors to make sure that in the project kind of a business, we work with longer cycles of payments as well, return back to the vendor so that our project receivables and payables is kind of balancing out in a good way.

Your question about what kind of long-term initiatives we are working around as an organization? Clearly there are -- we have a very strong strategy on how we are trying to pivot our business to the future. That strategy rests on four very consistent pillars, there is one which is all about enhancing -- making sure that we have a very strong focus to our core business. The core business is what is our mothership and it gives us all the growth and all revenue. So we have to make sure we are growing very strong on the core business and gaining share there. Whatever it takes to protect the base and gain share is one part of the strategy.

The second is, we are trying to expand more product categories and get more technologically oriented to serve our customers better. The world of technology is really, really evolving at an extremely fast pace. So we got to make sure that we are pivoting ourselves to the future by bringing in the best most -- latest technology products into the market. And towards that extent, I don't know if you've been reading some of the reports that we are reading -- releasing to the -- and some of our interviews of our senior executives. You will find that we are pivoting ourselves to a paradigm called eliminate or reduce technology friction in the market.

And this is -- the technology section is the gap between the rate at which technology gets innovated, which is very fast and the rate at which the technology gets adopted, which is slow. And this gap always has a societal and an economic impact. So the mission of a company becomes how do we make sure that we eliminate or reduce technology friction. And that means bringing the latest technology to the market at the fastest speed possible. So that's the second one, right. so there's a core and share gain, then there is a technology.

The third piece is making sure that we become a business model innovator sort of an organization. And that's the reason you saw us talk about the digital platform, the aim to become the best digital platform -- the best digital distributor in the world. And then the aim to become the most easy provider of cloud product solutions and services through other digital platform and solar through other digital platform. So you're finding us innovating on the business model front, right? So that's the third piece of the -- of our strategy that we are trying to do.

The fourth pivot of our strategy is making sure that whatever we do, we are absolutely operationally excellent. And I think the point which was made earlier about our strong execution, stems from the fact that we have an absolute maniacal focus on being operationally absolutely excellent. So whatever it takes for us to make sure that our processes in the system aligned with delivering the fastest, cheapest best to the market, our internal processes allow us to engage with our customers and partners in the most efficient manner. So whatever it takes us to be operationally efficient is something that we are trying to do. So these are the four pillars of how we think of ourselves as we go forward.

Aejas Lakhani: No, that's very clear. Rajiv, just to follow up, could you speak about what is the cloud revenue this quarter? How is the execution on that front? And how you are seeing growth momentum in that specific piece?

Rajiv Srivastava: Okay. Sure, I can do that. No problem at all. Look, our cloud revenue in quarter 3 is INR 257 crores. Sorry, my apologies, that was India, overseas INR 272 crores. The total cloud revenue for the business is about INR 528 crores. INR 528 crores has come in at a growth of more than 33%. For the 9 months, our cloud growth has been almost about 60-plus percent. So cloud..

SV Krishnan: 49%.

Rajiv Srivastava: 49% for the nine months, I was reading from -- on a country level. But our cloud growth in three months, to be clear, INR 528 crores in this Q3 quarter, 33% growth for the nine months, a 49% growth, which is very, very strong. We see the momentum on cloud continuing, and that's where our pivot is. That's the reason we invested in technology -- and the different ways of succeeding in the cloud business. And so we are pivoting our company very strongly to make sure that we can leverage the cloud, the strength of cloud, we can leverage technological innovation that is taking place and bridge the technology divide, which is reduced technology friction in the cloud space. Growth and momentum continuing very strongly. No problem at all.

Aejas Lakhani: Just one bookkeeping question. In the stand-alone, the reported number versus what you disclosed in the PPT for the SISA piece. There is a slight difference, and there is a corresponding difference in the ROW piece as well. So could you explain what that difference is?

SV Krishnan: The stand-alone is only talking about India distribution. So SISA includes SSA, which is Singapore and South Asia, also includes ProConnect, and we have a shared services company in India, which is called Redserv. All these are part of SISA. There will be some small difference here.

Moderator: The next question is from the line of Chirag Sureka from UTI Mutual Fund.

Chirag Sureka: Sir, my questions were on the working capital which you partly answered. Just an observation that in SISA, we have seen a higher increase during the quarter. So is it because of our enterprise business growing faster in SISA? And the second part was on the gross debt number. And how are we funding and the funding cost for the same?

Rajiv Srivastava: Krishnan, do you want take this?

SV Krishnan: Sure. See, as far as the working capital is concerned, yes, there is a significant increase that has happened in India. And that increase, as we said, is also on account of mix, but I wouldn't say it's only because of that. See, we have been talking about this normalization for quite some time.

It actually first happened in overseas, and we are seeing this happening in India in the last two quarters. So this is purely a normalization phase. And also, coupled with that, there are two important factors, which also have contributed to increasing working capital. One, I mean the general toughness in the marketplace, in the form of as I said in the IT consumer place -- space, there is a softness of demand. And also on account of the fact that, I mean, there is a liquidity pressure in the marketplace. So there are certain delays from the customers, which also has enabled an increase in debtor days.

Second, because of shortage in the enterprise space, there are some excess inventories that are there, which over a period of time will get liquidated. So these are some of the factors, and I mean these are expected. So these are -- I mean, we were sure this is something that will get normalized in some time.

With respect to your question on the debt portion. Our gross debt is about 0.45x to the networth now. It is going up now today because of working capital increase across the market. We started seeing increase in terms of our debt levels. And however, we also have sufficient cash balance. And hence, if you look at the net debt to equity, it's still at about 0.15x.

Moderator: The next question is from the line of Siddharth Bhattacharya from Anvil Wealth Management.

S Bhattacharya: So a couple of questions from my end. I assume that hardware technology has improved significantly over the last couple of decades. So had that led to longer replacement cycles, especially in the IT part of the business? What are you looking going forward? What do you think the trends will be overflow?

Rajiv Srivastava: Maybe I wasn't able to hear you absolutely clearly, Siddharth. You mentioned hardware technology has gone up significantly.

S Bhattacharya: Has outgrown significantly, yes, over the last couple of decades. So the replacement cycle effectively has become longer. Is that the correct scenario to look at?

Rajiv Srivastava: A bit. Only a bit Siddharth, because look the replace and replacement cycle almost always has a connotation with access devices, which is PCs, laptops, desktops, cell phones, tablets, tabs, those kind of devices are more prone to replacement because they are in the hands of individuals like you and me, even though they may be used in the enterprises.

Now what happens is the refresh over here is sometimes the companies have a very strong replacement or refresh cycle policy. Some companies do it in three years, some companies do it in four years and some companies also do it in five years. So their policies, which means that those are policies for long term, and that doesn't impact the replacement cycle. But often, the replacement cycle in the consumer space, which people who use for homes, is also driven by changes in technology. So for instance, if a Microsoft is sun setting Windows 10 and saying Windows 10 is not available anymore, everybody shift to Windows 11, then suddenly, you'll find that the replacement starts to happen or similar to those kind of things.

I think it's driven by tech advancements. If a new chip comes into the market, which is extremely, extremely more powerful than the earlier ones, then suddenly you'll find that consumer shift towards buying new. So the replacement cycle has got different context.

Now in the data center space, in the more back-end, more back-end operations where people are using hard core enterprise-wide applications, those are the places where refreshes are more stable. They're not done just because there's a tech. They're done largely because people want to do software updates or the processing requirements have gone up or the storage needs have gone up or the number of users in the company have gone up. And we are seeing that.

As the migration towards cloud is taking place, the refresh there is actually no limitation thing right now because in the cloud space, people are just showing and creating more and more infrastructure to serve the customers better because that architecture, that technology, that implementation is dramatically different from a technology device at an individual sort of a level. So I think it's got a very broad context of how replacements work.

S Bhattacharya My next question is, I just wanted to understand your outlook on the services business. I know it is not a large part of the pie as of now. But where do you see it going?

Rajiv Srivastava: Yes. Look, I think one of the question which was asked earlier about where do you see your cloud business and how do you do that, and how do you see your pro-connect or for logistics business, which is part of my services, we do see our services business to be growing. Now it is because we are so large in the rest of the business, obviously, is a small fraction. But in absolute sense, we do see our services business to be growing faster than any other business. So and right now, it is services business is about three plus about maybe an under 4% of my overall revenue right now at a Q3 level or services business, let me say this.

Services as a part of my overall cloud business is about 3%. Our objective in line is to get to at least about a 10% of services business, overall cloud business should be services business. If we get to that space, I think I will be in a very, very robust space right now. So I think services business has a strong focus, both of the cloud variety as well as the Proconnect logistics supply chain variety, and we are well positioned to get to that space because we are adding capabilities, and we are building competency in that space.

S Bhattacharya: Sure. Final question from me. Your presence in geographies, there are historically, there have been wide currency fluctuation. So how do you look at that?

Rajiv Srivastava: Yes. Look, a lot of the countries have been currency fluctuations for a long time. We've been present in these countries for more than 20 years. Countries like Kenya, Nigeria, Egypt, Ghana, Turkey. All of these countries are subject to currency fluctuations, so is India in a bit. But we know how to manage them. A lot of our contracts in these countries is run on global denominated dollar-denominated currencies. That's the way we try and manage it. We have the ability to swing our business up and down a bit all the time. So we manage in a good way.

I mean it's not that it is a perfect world that you don't lose money ever. We are losing some money in Egypt in this quarter, so that's -- and that's the reason of -- Egypt currency fluctuation was much more sudden and much more abrupt than at any other point in time. And you guys know the financial market extremely well. So you would know this. But we have a very good way of making sure that our business is done in dollar-denominated currencies in most countries across, and we have a way of trying to and actually swing up or swing down our business in a good way so that we can continue our growth and continue our momentum.

Moderator: We have the next question from the line of Mohit Khanna from Banyan Capital Advisors.

Mohit Khanna: Congratulations for very good execution for this quarter. I have a follow-up on what Sanjay Dam asked regarding the inventory write-off in the enterprise business that you have mentioned. And I just wanted to know that what is exactly the policy. Because is the inventory write-off is due to the obsolescence of those products? And if those products are not obsolete, and why write it off, which is just a demand/supply is sort of mismatch and it would go up literally.

Rajiv Srivastava: Okay. It is provision and there are rules being followed for provision. And I'll let Krishnan take this. But I just wanted to make sure I clarify your misconception; it is not a write-off because these are meant for end customers. And assuming the customer order has network server and storage, and you haven't got the storage equipment, you got network and server, you can't give it to the customers. So it lies with you. But the moment, the balancing equipment comes, it will go back to the customer, it will be written back into our books. So it's not a write-off, it's just a provision, temporary provision, waiting for the equipment to come and those provisions have norms to follow. So Krishnan, you want to add to that?

SV Krishnan: So I think it's a very important clarification. So these are provision. See, we follow a consistent provision methodology, and this is a time-tested one, and we have a model that is agreed by the auditor. And that's something that we want to follow in strict sense. If there are stock buildups and those are aging, irrespective of reasons, the provisions will kick in.

If you look at the enterprise examples that we are discussing, I mean whenever it gets sold, it should happen in the next 1 or 2 or max 3 quarters, it should come back. There are also some provisions on account of excess inventory buildup. Entirely it's not because of enterprise. So in both cases, while we will seek support from the vendor in terms of liquidation, we also need to be prepared. If there is any dilution in the value of our selling price -- so this is a very, very consistent policy and all the constituents are comfortable with. So I only said all the constituents are comfortable and this is something which is more time tested and hence it has got provided for. But we will do whatever required for this to come back into the system.

Rajiv Srivastava: Yes. And in the enterprise business, you hardly have a write-off of this nature, never you have a write-off. It is a provision and which is consistent with our Corporate Governance policy there.

Mohit Khanna: Understood, sir. Sir, just one more question from my side. Can you give me a breakup of how much was the government-related growth, and how much was the consumer-related growth, and the corporate related growth in this quarter? And what is the outlook on that? Can you share some light?

Rajiv Srivastava: I don't have a government-related growth number, especially for you, Mohit. We can get back to you later. On the growth on the volumes, which is consumer product is like a volume product. It's about -- see, in India, it's been -- in India, the consumer growth was negative. In Middle East, Africa, overseas business, it was plus, I think, plus 9%. So that's the way it is. Overall, it will be about in the range of about 5% will be the consumer growth.

Mohit Khanna: Right. And the corporate spending in the enterprise business?

Rajiv Srivastava: The enterprise business, we've mentioned to you that enterprise business for the Q3 was a 65% growth.

SV Krishnan: And this is simply enterprise and government. So all those...

Rajiv Srivastava: They have government as well included in the enterprise, yes.

Moderator: The next question is from the line of Rahul Gupta from Fidelity.

Rahul Gupta: I had just one small question. So your finance cost seems to have gone up a lot in last 2 quarters. So can you just explain what's happening there? I'm assuming there will be some forex loss there, but if you can help us understand better and also give a bifurcation of, let's say, forex loss versus interest rate?

SV Krishnan: Rahul, it is primarily because of increase in debt on account of increase in working capital, which we discussed. As I mentioned in one of my earlier answers, we are seeing debt, I mean, a positive debt situation across all our markets. And you know well, now the interest rates are going through the roof, I mean, both in India as well as in other part of the world. We are -- I mean our interest rate in Turkey is well over 20%. So some of these factors are resulting in higher interest costs. It would not be proper to compare it with the earlier years because earlier years, all of us know, was not a sustainable level. And this is the way it is, once if the interest rates -- when it comes down, we should see some better improvement in terms of interest costs.

Rahul Gupta: Sir, can you just remind me what is the total gross debt we have now?

SV Krishnan: Gross debt is about INR 3,000 crores end of December.

Rahul Gupta: Okay. INR 3,000 crores. Okay. Cool.

Moderator: The next question is from the line of Priya Rohira from Emkay Global.

Priya Rohira: Just going by the vendor concentration which you have. Clearly, there seems to be some new vendors, which is becoming more strategic if I look at others while across Apple, HP, Dell, Lenovo, Samsung has been growth. Is this something which we should be aware about whereby certain vendor become very big, like the other top 4. That is first question. And this could be a cloud player or a major enterprise players, if you can highlight. My second question, since permitted only 2, is on the Q3 seasonality. Generally, we have seen because of Apple launch in September, Q3 is typically high on mobility. So that seasonality, any color if you could share would be good.

Rajiv Srivastava: Okay. Yes, we can do that. Look, let me give you the answer first on the vendor concentration because that's a great question. And I think it's important for us to understand the way in which the markets are shifting the, technology buying is shifting.

Now because we said that Q3, our buoyancy was hugely driven thing by the enterprise value product segment, which is the data center, the software, cloud buying, those kind of buying saw very strong in Q3. And hence, there is a shift. Apple is not an enterprise player. So obviously, clearly, there is a bit of a rebalancing of our portfolio.

It will continue, Priya. It will continue because as the world goes towards more and more digital transformation projects, as the world shift -- continues to shift towards more cloudification, you will find that the enterprise variety of products, which is servers, storage, networking, software, SaaS products, which is Software-as-a-Service and the services within the cloud portfolio will start to become more dominant, and that's what we are seeing.

And we've been seeing this over the last couple of quarters, not just one. But over the last many, many, many quarters that we've been seeing this shift in buying of customers or shifting technology deployment towards this kind of a technology behavior. That's one thing which is very, very strong.

Your second point about how Apple is from a seasonality perspective and how the phone business is. Look, typically, this quarter of Apple is always going to be a strong -- is always a strong quarter because there is a new launch already happened. iPhone 14 got launched recently. And that launch is always -- which gives a bit of a lift in terms of how the Apple business.

So our Apple iPhone at a consolidated level across the world is about 19%, and Apple at the overall worldwide level is just about 30% for us. And like I said earlier, it stays in the range of less than 30% in most quarters and some -- in the launch quarter, it always goes up towards that level. But it's just a global sort of a reflection of how consumer demand picks up for new brands and new models of Apple and it gets launched in the month of September, October. And other times, it is more stable.

But the shift -- your first question is far more insightful because that shift is real. That shift is in the marketplace taking place towards a lot more customers. And even though the PC industry de-grew in Q4, we were able to grow so healthy overall just because we pivoted our company towards what's going on. We pivoted a company towards insights on the market and hence we capitalize on the growing trend here.

Priya Rohira: My main objective was obviously to understand, is there some enterprise product which we should track apart from the top five, which would starting to become strategic and come in the top five at some point of time because that is how the business is changing. Over the years we have seen you introducing products ahead of the growth in the market. So in the knack of understanding, moving on products which can grow in the market is something, I was looking forward to.

Rajiv Srivastava: Yes. Priya, I think -- and that again is a very sort of good way to think about how the market is shifting. So cloud is becoming more sort of important in our portfolio. Then companies like Amazon, for instance, and Google and Microsoft become more important in the cloud space. Because data centers are more important, then companies like Hewlett Packard Enterprise and EMC become more relevant. Because data centers are important and networking is such a critical one, Cisco becomes a very important player for us.

So you'll find that there will be shades and differences. I think you guys might want to think about how you want to take a look at the way the tech industry is evolving and pivot yourself towards that and rather than going back getting guided only by historical trends. This is a great way of learning, but I think there is a huge amount of shift that is taking place in the technology industry. So if I were you, I would also start to think about how the server industry is shaping up, how the network industry is shaping up, how the cloud and the SaaS product industry is shaping up. Those would be the ones which I would start to think about a lot more.

Moderator: The next question is from the line of Athreya from iThought PMS.

Athreya: I just wanted your comments on the logistics business. So I mean it has only mid-single-digit growth this year. So what are we doing -- what is the confidence and what are we doing to fast track the growth?

Rajiv Srivastava: Okay. You're right. I think logistics business has grown up 7% over the course of the last nine months. And what we're trying to do is a couple of very different things. It's a business which is largely B2B business. This is a back-to-back business, business-to-business business and logistics. And what we are doing is we're -- like I said two things.

One, we are adding a new set of offerings to our portfolio. We were largely in the warehousing business, and we are now adding a range of transportation business also to it, and that's how we are trying to increase our range of offerings to the customers so that you become more relevant because customers are not coming back, and there's an insight from the market.

Customers are coming back and they say, don't give us only storage warehousing solutions. Give us more than that, become an end-to-end supply chain provider for us versus being a logistics provider. So I think we are pivoting our company or shifting our company towards becoming a lot more -- a lot more supply chain dominated than just one function of logistics. That's one.

The second thing that we are trying to do is the logistics business, supply chain business is becoming extremely technologically -- technically dominated, okay. You add more features, functionalities from a tech platform perspective to make sure that you can be far more easy with the customers. And the courier business is all tech because they can come, and you can receive an equipment. They give you a sign off on the -- in the digital way. And so it's very digital oriented. But not the warehousing, not the transportation, all those businesses have to become far more technically oriented, which is what we are pivoting towards.

So we have taken this -- we are taking over the course of the next one or two quarters to make sure that we are upping our technical capabilities to be able to provide services of this nature to our customers. The other thing which is -- and these two are more sort of the capability creation that we are doing.

The other thing that we are doing and investing time and effort on it is, making sure that our market segmentation model is the best and the most perfect model. There are things -- there are segments in the market which lend themselves easily to us, and they are more profitable, and we will go there. There are segments in the market which are less profitable, and we don't have a natural right to win in those spaces, and we are not going to go there. So we are decommitting business in some places, and we are really, really in a very good phase of consolidation. And I feel very optimistic about the fact that this phase of trying to pivot yourself on the right set of customers with the right profitability is the right way to go forward. So that's how we see our logistics business.

Over the near term, we have a three-year plan on that, and it's going to be very, very robust, very aggressive growth on our logistics business because it is a sunrise industry. It is an industry which will continue to be extremely growth oriented. And we've seen in the COVID times, our supply chain is such a pivotal factor for most companies to link on to.

Athreya: Sure, sir. That was very helpful. My second question is on our top vendor than Apple's growth. So if my calculation is right, we are growing at a low single or low double digits. But based on news articles, we know -- we can see that their growth is much higher in India as well as maybe in the Middle East as well. So are we like losing market share there or wallet share rather?

Rajiv Srivastava: In Apple -- no, I don't think so. I think Apple grew -- I had a quarterly business review with the Apple global leadership just two weeks ago. They grew 8%. So we are obviously growing faster than them.

Athreya: Okay. And just one clarification on the debt interest cost. Do we expect it to remain in this level or maybe increase going forward?

SV Krishnan: It can increase, I mean, some bit because we don't think the interest rates have reached the peak. But over the next two quarters, it should start coming down.

Rajiv Srivastava: The way to think about interest rate, the way to think about this would be, take a look at what happened pre-COVID and during COVID and now. Then you get a whole pattern to the industry. The way the industry has been operating. It was much higher earlier. We are at much lower levels than where we were in pre-COVID levels. So while the number 3,000 may look high and all those things, but these are much lower than where we were. So I think we're in a very, very healthy state right now. And our endeavor has to make sure that our operational excellence efforts make us stay at the right level.

Moderator: The next question comes from the line of Dhvani Shah from Investec Capital.

Dhvani Shah: The provisioning of inventories and receivables, can you help us with that percentage for the quarter?

SV Krishnan: For the quarter, 0.34% is a provision for inventory and the provision for receivables, just in a minute, I'll tell you. It's about 0.03%. So overall, together, it's about 37 bps. And you know well, in the past, if you look at the long term, the same provision percentage, it would be about 15 to 16 bps. So there is an additional, I mean, additional 20 bps on account of these two in the current quarter.

Rajiv Srivastava: look, I think we are on the time and I got to rush for another meeting now. But thanks so much, everyone, on the call. Thanks so much for joining the call and for your nice well-rounded questions, very insightful on how we're trying to operate. And like I said earlier, it's a very, very interesting time in the industry when tech is pivoting to a completely different ball game altogether.

And we seem to be running ahead of the curve to make sure that we capitalize on the technology investments and the tech directions that the world is taking in a very, very good way, bringing variety of ways in which we reach our customers through omnichannel experiences, by creating innovations in the business models, by making sure we do everything possible to build capabilities and reduce or eliminate technology friction in the industry and for the customers.

When you eliminate technology friction, the customers become more efficient, more productive. There is an economic value to it and there is a societal value to it. So I think we're trying to do everything possible in our arsenal to make sure we are staying ahead of the curve. And that's a reflection in our results that in a market which has been very steady or de-growing over the last couple of quarters, we have kept up momentum and grown 31% this year. So I think a lot of things are coming together, and I hope that we can continue this moment.

Thank you so much for joining the call. And please feel free to reach out to us in case you have any supplementary or additional questions.

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