"Redington Limited

Q4 FY '23 Earnings Conference Call"

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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 Q4 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 this 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, Redington Limited. Thank you, and over to you, sir.

Rajiv Srivastava: Thank you so much, and I'm very happy that all of you could join us this morning. Along with me on the call is our Global Chief Financial Officer, Mr. S.V. Krishnan, and we have got Deepika, who is our Lead Analyst and Lead Investor Relations Manager for the country. I'm going to give you a bit of colour on what happened in this quarter and the year and also a bit of a commentary on how we are seeing the industry shape up and what is Redington doing to maximize the opportunities in the market.

We are very pleased to report another strong quarter of sales and operating margin growth. At INR21,893 crores, our overall global revenues for Q4 have been the highest ever. And for any quarter, growing by a strong 26% Y-o-Y. And at INR590 crores, we have registered the highest ever Q4 operating profit, with a 15% growth. Our PAT, obviously, is down 11%, and we will talk about that as well.

For the full year, our FY '23 revenue is INR79,500 plus crores, which is a growth of 27% year-on-year and an operating profit of INR2,261 crores, which is -- this is the highest ever revenue and operating profit, both in absolute number terms as well as in terms of growth for revenue and operating profit on a year-on-year basis. Supported by solid execution across businesses and geographies, Redington continues to gain share and secure new opportunities in the markets that we compete in.

We achieved record revenue and operating margins for the fourth quarter of the year as our continued investment in improving our technology capabilities, building deeper partner relationships, making our breadth of offerings more comprehensive than ever before and bringing in innovations in our business model, begin to pay off. This is the highest sale quarter for revenue and second highest level of operating margin, like I said earlier, first time ever in our history where we've had four consecutive quarters of 25% growth every quarter.

And just as an additional information, this has been the highest ever full year growth since the company started. When you compare this with what's going on in the market, you can really see the magnitude of what we have delivered right now. Redington's digital transformation has been one of the key growth catalysts, as we transition from the role of a traditional distributor and aggregator, towards becoming a more holistic technology solutions provider.

Currently, we are addressing the market demand for consumer devices and smartphones, for hybrid work and learn environment, as the world moves between work from home to work from office and learn from home to learn from school and colleges, from your institution. We address the requirements of all of that. We address the requirements of SMB and enterprise technology solutions, including cloud infrastructure for server, storage, networking and security.

We are also responding to the emerging technology requirements, which are fuelled by a growing adoption of 5G, Internet of Things, EDGE computing and generative AI. While tech distribution has been a core value proposition. We have focused on building competencies and capabilities, to provide managed services for private and public cloud for security and for IT audit. Our initiative to ensure we are able to add more value -- provide more value to the customers we serve, thereby gaining share and accelerating our growth momentum.

As you will see from our results that our delivery has been really broad-based. It has been broad-based across all the operating regions that we have, all the operating businesses have contributed to the growth. Theatres like India, Middle East and Africa, Turkey and South Asia, all of them have been pretty robust. Just so you know, while I call out all the IT product, we had a very robust growth in our solar business as well, which is becoming even more important as the world turns towards more green and more sustainable energy.

And you will see our investments and you will see our engagement initiatives, getting far more aggressive in the space of renewable and sustainable energy. Business dynamics for the -- during the quarter has been mixed. We know that tech demand related to work from home and learn from home has in fact subdued. In fact, demand from home has degrown. And I'm sure you would have followed the IDC results for the global PC industry, and that industry in Q1, which is JFM, which is Redington's Q4, has declined by 29%.

Smartphone shipments globally have declined by about 15% Y-o-Y. And in fact, if you map the PC industry and the smartphone industry, you see a trend which is the size of the industry today is pretty much what it was in 2014. So I think that's something which really we need to be navigating. But however, because we are a broad-based company, the demand has been very robust for data centre infrastructure products; servers, storage, networking, software and security; and for cloud products too. So the phenomena of back to office, datacentre procurement, migration of applications to cloud have been the catalyst for our growth.

And hence, our improved engagement with enterprises, with mid-market, with SMB customers, and the partners who serve these customers have more than made up. And hence, we have grown our enterprise product category by more than 38%. We have grown cloud business by more than 61% in Q4. The same numbers for full year enterprise, full year 34% growth, cloud full year of 52% growth. So I think those are very, very strong, and I'm glad we made a third shift towards serving and managing more value-oriented customers.

These are very strong numbers indeed, and each one of them new technologies are the ones which are meeting the growth for us. Our geography -- just to give you a bit of colour on the economic situation in the geographies we operate in, our geos are largely consumption and investment driven. Most of the GDPs for the countries we operate in, continue to show a positive growth trend, although the guidance for growth has been muted, just like in the rest of the world. So clearly, there is a negative to a stable business climate that operates in the environments in -- geographies we are there.

Governments continue to be very major spenders, because it's largely investment and consumption driven economy. But let me also give you a bit of a readout on the financial situation across the world, which we see as continue to be driving caution volatile, and there are always headwinds. Let me call out a few of that. You have seen that the global GDP growth rates have been called down, and as per analysts, there is a 70% chance for recession in U.S. and U.K.

The global GDP growth has been called down from 3.6% to 2.6%, 2.7% depending upon which year he's calling out thesenumbers. Inflation seems to be high, though it is cooling off in most parts of the world. Very high inflation regime, high commodity prices, increase in interest rates, the cost of capital has gone up significantly, and you will see this reflected in our -- in the results that we are reporting today. In fact, the borrowing rates across the world are the highest since September of 2007.

All of these factors which are leading to cost escalation impact demand, they impact margin, impact on profit before tax, profit after tax. And so the financial regime is demanding that we stay cautious and we play it out rightly. There has been a serious currency devaluation in a lot of developing countries, Egypt, Nigeria, Kenya, Ghana, Sri Lanka, Bangladesh. The good thing is a lot of these countriesare all oil driven economies. Oil prices have been stable at relatively high levels, and that positively impacts a lot of countries we operate in.

You will see this reflected in the buying behaviour and supplying patterns of these countries, and ultimately, as a corollary, it reflects in the results that we tried as well. While there continues to be a bit of a delay in networking products delivery, which impact the large project business. shortage situation of technology products across the world has eased considerably. Now this will play out differently for different vendors, because everybody has got a supply chain of their own some more better than others. But by and large, the supply chain situation of technology products has eased up significantly.

So therefore, there are some good and some average and not so good financial indicators, and we expect these to balance out here because of the nature of the geographies that we operate in. We will continue to be watchful and cautious over the next few quarters. And as we present ourselves into the future, we anticipate a constrained demand environment in certain categories like access products and a much better demand environment in other categories like data centres, cloud, services, accessories.

We therefore expect to sustain a reasonable revenue and margin growth from our recently implemented operating improvement, amidst the backdrop of all the geopolitical and financial rundown that I gave you. Over the course of the year, we demonstrated that despite an evolving macroeconomic environment and the conditions that are there for the industry, we remain well positioned to continue to grow our business profitably, likely demonstrated by four consecutive quarters of upwards of 25% growth.

That's huge given what the rest of the industry is going through. And we do this by helping our customers and suppliers navigate an increasingly complex market. Net-net, in our opinion, our strategic initiatives, the technology positions that we are making, all the investments that we've done in our business, coupled with our strong execution capability, is delivering for us, and that makes us really optimistic about the future.

At this point in time, let me stop and open it up for any question and answers or any comments that you may have, and I'll be more than happy to make sure between me and my team, that we are able to respond.

Moderator: The first question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: You had mentioned about the move from work from home to office and cloud. Does that in any way change the working capital requirement? Is there any business that is more working capital intensive than the other? The second thing you also spoke about was the slowdown, which is global. In fact, in many other businesses, we've seen a rundown of inventory and that's slowing down sales. Do you see that also in the tech business, and how is the inventory at your customer end? Those are my only 2 questions.

Rajiv Srivastava: Okay. I will give a bit of a colour to that, and then I'll leave our CFO, Krishnan, to address that as well. I think the work from home has moved away to work from office, a lot, a lot of offices, other companies across, and it's a very interesting question really I guess because, you see this trend coming up over year.

A lot of companies initially expect we will give work from home for life. But when the real world started to operate in post COVID, those very companies have come back and said, no, no, no, you have got to come to the office at least 3 of the 5 days in a week or at least more than that. The work from home has started to shift to work from office and that really helps us.

Because, as we drive our company towards more enterprise, more official office kind of a, commercial kind of buying in SMB and enterprises, the work from office demand has really peaked up, and you will see that in our segment growth this time, the work home office business is really taking off. But it has a different metric as well, when you shift to work from office, work from office is always the project-driven business, there are more lead times, the cash flow or the payments cycle is a little longer than that.

So that's how the relationship happens through working capital, because the payment cycle have started to become longer. Project business is inherently a longer cash conversion cycle business.

So its impact to working capital in a manner which allows working to -- or which forces working capital to go up.

And next, Krishnan will be -- will comment to that, but then -- also the inventory portion. Inventory across the globe in the last couple of quarters went up because there was a slowdown in the consumer buying, but the speed or rate of which the slowdown happened wasn't anticipated by any vendor or any company across the globe. And hence, people shipped more as inventory built up. Now that has a negative pressure. It has a very strong context because it impacts prices, it impacts discounting, it impacts capital, working capital flow. So all of that comes together.

While the vendors took a call to reduce shipments and thereby reduce inventory in the channel across the world, including the areas in which we operate in, it is still there in the channel, the inventory continues to be there, and we will go through a cycle of trying to liquidate inventory. So the flow of the consumer buying is going to be subdued for a bit more time. We are hoping less time than what we anticipated earlier. But the office time has gone up, and both of those have a correlation to the working capital.

Krishnan you want to add some more colour to it, please go ahead.

S V Krishnan: No I think you have explained all the points, Rajiv.

Moderator: Next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, just 2 questions, where are you seeing the growth right now? Means, if you can indicate region-wise, East, West, North, South, which are the markets which are growing at a faster rate? And secondly, whether it is urban versus the Tier 2, Tier 3 cities to rural markets, is that market also growing? And third question is -- last question, is there any reduction that you have seen in the users' period of a laptop per say? I mean definitely mobile, we can see, people are changing mobile, at least in urban markets in a period of around 18 months. So there is a drastic reduction in the user's period. So have you seen any such -- notice any such thing in case of laptops also?

Rajiv Srivastava: Yes Aniruddha. Let me give you an answer on a few of them. And since you are right asking about growth region wise, I'm assuming you are restricting yourself to the Indian geography. Is that right? Or should I give you a colour on the whole geo?

Aniruddha Joshi: Only India. Only India.

Rajiv Srivastava: Okay. See, in India, there are two ways to cut yourself. You have to cut yourself by region. And you have to cut yourself by vertical segment. Not all segments grow simultaneously at the same pace, not all grow simultaneously at the same pace. Right now what we're seeing is a very strong buying cycle, which is happening in BFSI-industry, which is a financial services industry.

Banks like HDFC, Axis Bank, and all the government banks also, nationalized banks, are going through a very strong product refresh because the financial systems are so, critical right now to the revival of growth across the world. By virtue of that it's a requirement to make sure that there are adequate controls on the financial system. And so we are seeing a very, very strong buying happening in the BFSI, banking financial services and the insurance industry.

What we saw also a bit of a reduction. So west region becomes -- because West is our financial capital of the country, the West region becomes very important for us. The second is strong buying that we are seeing today, is happening in the entire retail and healthcare. Those are two stages which continue to grow very strongly. We know for sure that India has a lot of catch up to do in provisioning of retail, best-in-class retail experiences to all our customers and consumers.

Retail continues be a very strong buy. And healthcare, obviously, for all the right reasons, because people realized that during COVID, if we don't have a very strong healthcare system, which is tech enabled, you can really be losing out as a country. So I think that's something which is happening here. So retail and healthcare is something which is also which is very strong. And the last segment that has seen a very strong comeback is by government, because our governments to citizen connect, our government to citizen services need to be boosted up all the time.

They need to be made more than cheap. So government is also seeing a very strong buying. Government is all the time upgrading systems, like income tax, GST, education, local healthcare in all the states. So I think a very strong buying that is taking place. Education is also a very strong segment, but education is -- because a lot of education buying happened during the learn from home time, we are seeing that education is right now much more settled and much more stable. Those are of the areas in which we are seeing a lot of buying that's taking place.

The differentiation between urban and Tier 1 and Tier 2 towns, used to be very strong earlier, and the buying of technology product became much more democratic over the last couple of years, which means the urban, Tier 2, Tier 3 cities started to contribute a lot more to the buying. But in the recent times, I think the SMB buying and buying from startups has really backward and gone down. You have seen the tightness in the financial market, you've seen that the offtake of credit by the startups have gone down, specifically gone down over the last couple of months.

And so we are seeing that the startups are making much more thoughtful, and much more concerned with issues, and those are impacting the buying in that particular segment. And urban, Tier 2 and Tier 3 cities are impacted similarly, they are buying much less -- they are much more stable in the buying. The reduction in usage period, which is the life cycle of equipment is the question that you asked about, the third question.

Look, whenever this kind of a thing happens, whenever there is an inflationary regime, whenever the cost of equipment has gone down, whenever the prices are up, there is always a bit of a slowdown in buying, and that's exactly the point I mentioned to you earlier, that the consumer buying has slowed down, because consumers are always impacted when the prices were high, consumers are always impacted when interest rates are high.

So whether they go for leverage buying or they go from buying from the loan directly from the cash that they have, either way the prices are high or the cost of capital is high and hence, they will always reduce the buying. So it's that impact you see on the consumer market, which means that the life cycle of products has gone up, which means people are going to be refreshing at lower frequency than they used to do earlier. If earlier, the time was 3 years, 3.5 years, it will probably become 4 years, 4.5 years. That is the way it is happening. But like I said, a lot of that has got balanced out in our portfolio through buying by the office and the value system shift. So that's the dynamic I wanted to give you that what the market is playing out right now.

Moderator: Next question is from Sarath Reddy from Unifi Capital. Please go ahead.

Sarath Reddy: Congratulations on very strong execution. Rajiv, your voice has been muffled since the start of the call. So Krishnan sir, first question to you is the opex line item sequentially has gone up by INR70 crores. So could you explain that? And sir, last quarter, you had higher provisioning. So has there been a reversal there or a write-back, which has led to better gross margins? If you could first explain these 2 elements.

S V Krishnan: Opex sequentially is on account of 2 counts. One, as Rajiv mentioned, we are constantly making certain investments in terms of building the capability in the cloud and the services space, and that's something that is inbuilt in that. Second, we also had certain forex loss in one of the markets, which is also part of it. And that's the reason why the opex has gone up in the current quarter.

Your second question was with respect to inventory provision. Yes, there has been -- I mean, there has been a subsequent reduction in terms of older inventory and some of the provisions have got reversed in the current quarter.

Sarath Reddy: Got it. Sir, the other thing is that you have explained in earlier calls that you want to pivot to being a digital distributor. Could you quantify what percentage of sales today are digital led? Will this help in reducing the opex line as revenues scale up? And could you quantify the investments you have made for the full year in this digital and cloud that you mentioned?

Rajiv Srivastava: Okay. Let me take that question. Sarath, can you hear me clearly?

Sarath Reddy: Sir, voice is still a little muffled.

Rajiv Srivastava: Is it the same for everyone? Do you want me to dial in dial out? Or are you able to actually make out what I'm saying?

S V Krishnan: No, I think this seems fine Rajiv, only thing you may have to speak slowly. I think it's otherwise clear. No problem.

Rajiv Srivastava: Okay. All right. I think Krishnan answered that question beautifully about investments that we made, to your question about opex. In all our earlier calls, in the last few calls that we've had, we talked about pivoting our company to a much more digitally transformed organization. And what it means is that our routes to everyone we deal with, whether they are vendors or they are partners or our employees, whoever it is, will be a digital first one.

And that's the reason we started a digital platform. We talked to you about it in the last 2 calls as well. We started our digital platform that allows us to engage with our partners and customers in a very digital manner without any intervention. And you'll be very happy to know that in Q4, in JFM quarter, the digital part of our revenue was more than 20% of our -- or close to 25% of our overall revenue that we transacted in India of INR9,900 plus crores, close to 25% of that was done on the digital platform.

Now think of it, in less than a year, we are transacting more than -- close to that high a number on the digital platform, which is very good. Second thing, and I will come to opex before -- but let me give you a colour on the -- a bit of a thing on the cloud platform also. On the cloud platform, an equally robust story on the cloud platform as well. In our cloud business, we shifted to -- we created a cloud platform called Cloud Quarks. And in this year, we are exiting our cloud platform, with a revenue, ARR, annual recurring revenue of INR269 million.

Now that is huge for any company to come to, in just a year -- less than a year. We have got to a point where our investments in cloud and digital platform are actually starting to become much more visible and stand up and be counted for themselves and give a -- start to give us a very strong return in both digital and cloud platform. It really talks to you about the power and the coverage that you can get, the power of the platform that you're able to do potentially, many new things which you couldn't do earlier in the platform.

So opex on these areas is that, over time, as we go forward, and we convert more and more of our business to our digital, you'll find that because our investments would have started to pay off much more and the operational efficiency -- because the digital platform also gives you a huge amount of operational excellence and operational efficiency. It allows you and your customers to be having -- deriving a much better experience from Redington.

Over time, these translate into a much reduced operating opex versus technological opex, which you can differentiate, but a much reduced operating opex as we move forward, because you are so driven by a mission. On desire, you're right, is to be the number one digital distributor in the world, and I'm sure we're going to get there very soon, because of all the investments that we are making, but more importantly, because of the comprehensive vision that we have of what digital distribution can do for the industry that we are in, and it will be transformative.

Sarath Reddy: Got it. Sir, what is Redington India Apple revenues as a percentage of the India Apple revenues? How has that trajectory been for the last couple of years. And sequentially, we've seen that third quarter is a strong quarter for Apple India because of product launches, but the revenues for this quarter have increased to 32% versus 30% last quarter. So could you please quantify with Apple's strategy of going direct? How does this impact Redington India for Apple?

Rajiv Srivastava: Yes. I think any vendor -- and it's not Apple specific, let me broaden the question and then I'll narrow it down to your point about Apple specifically. We have seen that whenever any vendor becomes more active in the market, whether it is Apple or it is Dell, HP, Lenovo, Microsoft, Amazon, anyone who becomes more active in the market directly, through a direct presence, the market for that particular brand, what your range of equipment expands.

And that is such a wonderful thing to happen for the industry, where Apple is coming into the country and trying to set up its own shop over here, which have opened up Apple-direct stores. We believe it will help lead to expansion of the Apple business and Apple market in India. Apple has a very small phone market share and even smaller PC and iPad market share, tablets market share. With them coming in directly, we expect that -- or we hope that market share expands, which will be a gain for partners like ours who use a lot of Apple products.

Just from your perspective, from the question about the relative size of the market and how it is going up and down. Q3 and Q4 are always mobility intensive quarters. Q3 because in that quarter, Apple does a launch and most other mobility brands also do a launch. So mobility is a part of the business, sees a lift in Q3 and Q4. And that's the cyclic nature of the products that we sell. Some products sell better in some quarters.

Some products sell less better in some quarters, some products sell less better than other quarters. So I think that's the nature of the business, and that's how the whole -- our product mix continues to shape up in and out because of what the launches with other vendors.

Moderator: Thank you. Sarath, sorry to interrupt you, I will request you to join the queue again for the follow-up question. The next question is from the line of Priya from Emkay Global.

Priya: And congratulations to management team on always delivering consistently quarter-after-quarter. I have 2 broader questions. One is a follow-up on the working capital. Now that everything is normalized and that you've highlighted, that the B2B business or the movement of work from home to work from office is something would mean that the businesses and us will have to ensure a little bit more inventories. Do you see the current working capital cycle being a norm which we should look at? That is the first question.

The second question is the intensity or the importance of our business only keeps on increasing, as the technology advances. So a combination of 5G and say, PLI manufacturing in India, which are the 2 major forces going to happen in the ecosystem for us in India, it would be largely seen as positive in future, but any colour which you had from the vendors, because each new technology, let's say from 2G to 3G, 3G to 4G envisages an increase in the ASP of the devices.

And in 5G, particularly, we are going to see more a device-led sort of technology adoption. So any colour over there, which you had with your vendors, what are their thoughts? We've always seen Google introducing like Google Cards and all and the AR/VR related devices. So a more macro trend over there would be helpful? And if PLI manufacturing becomes a norm, 4 years, 5 years down the line, do you envisage any change in the distribution landscape for us?

Rajiv Srivastava: Priya, too many questions and all good ones. Let me leave it to SVK, Krishnan. Krishnan, do you take the working capital normalization norm and I'll take on the intensity of tech advances that she has mentioned?

S V Krishnan: Yes, Rajiv. So it's like this, Priya, if you go back to our commentary in the last 2 quarters to 3 quarters, we have been saying that inventory will settle about between 30 days to 35 days. As we speak now, it's at the top end of that range. In our view, that some more increase may not be significant to see whatever this thing needs to be done to control it, but we tend to think because of the slowdown that's happening across, there could be some slight increase in terms of the overall working capital days, but we don't expect that to be significantly higher than what it is today. So to answer you in our view, majorly, the normalization process is over now.

Priya: Sure, Krishnan. This is helpful.

Rajiv Srivastava: Okay. Let me give you some insights on how we see the tech intensity increasing and tech advances happening. And you mentioned about 5G. 5G is a device play, which means people will shift towards a phone which is hand phone, which is 5G-enabled to support 5G. But -- and that's happening right now, as we speak right now, whoever is buying a new phone is very particular that the phone runs 5G or support 5G, okay.

But let me tell you, that is just one tiny part of the way the technology is going to be utilizing or the consumer would actually going to be utilizing 5G. 5G is a lot about increased bandwidth, faster communication and people being able to do things remotely on a much more real-time basis. That is the real genesis of 5G, devices support that, which means lots and lots of applications over time will start to utilize those capabilities of 5G and become real-time.

For instance, if your company does -- your Emkay Global Company does remote training, you can be almost live in the places through slower technologies that are being made available right now or when you do advertising, learning, remote manufacturing, remote operations in a remote health care consultancy and advisory, 5G would start to enable a lot more of their application. So 5G has a much deeper impact than handsets. It has a deeper impact on technology consumption across the world, across many, many such industries.

And we see a very intense, very strong uptake as applications start to utilize the technology of 5G. We at Redington, we are working on a few such use case scenarios in the automotive industry, use case scenarios in the health care industry, which will almost be very revolutionary at the subset in many ways from a manufacturing and from a health care perspective and so on and so forth. The AR/VR is again, those are tools, those are technologies which people utilize in use case scenarios. Augmented reality will help you a lot in the advertising world, which is what is happening.

If you go to a lot of countries, and I'm sure you got to lot of travel all the time, when you go to countries like Japan and China and Australia, U.S. and some of the countries in Europe, you'll find how augmented reality is now starting to make a strong dent in advertising. And I'm sure you've seen videos ofhow business are becoming AR-enabled, same thing with virtual reality.

You can -- like I said, you can sit in the home and visualize yourselves to be in a training room, visualize yourselves to be in an operation theatre, and that's how those advances are going to be. So 5G's relevance is going to be a lot more in the application domain beyond just the devices. The devices average selling price, ASP of devices going up is going to help shoring our revenue. But the tech advances and the tech intensity that 5G creates and 6G which is getting tried out in some countries now is going to be supremely beneficial for the technology industry and for the consumers at large because they will get the ability to do many different ways and many creative things as we go forward.

PLI manufacturing, your last question, as we go forward and more and more things started and manufactured locally, it will help India generate revenue, local revenue, it will help India create more jobs locally. It won't help create lower prices, because all these global companies wish to manufacturing in India, they do manufacturing in India for India, but also for the globe, but they cannot disrupt the prices to the extent, their pricing policy, having come from that background, so I know it very well.

The pricing policies of these companies is much more global. You won't have a reduction in prices, but you will have an advancement in job capabilities, job opportunities, you will have advancement in newer models becoming available even faster to the Indian population, all those benefits will come to the Indian population.

Moderator: Priya, I request to join the queue again for a follow-up question. The next question is from the line of Akash Mehta from Capaz Investments. Please go ahead.

Akash Mehta: Sure. So Compuage has reported on the stock exchanges that there were some disturbances in their business. So given that they are a INR4,000 crores revenue company, does it benefit us in any way?

Rajiv Srivastava: It does, absolutely. Absolutely, it does. Compuage has given kind of products, Akash, that Compuage was distributing some HP and some other products, those become available to Redington clearly to manage and to sell in the geographies they were present in. And like I said, it's the time where you have to manage a lot of financials and business simultaneously, and we execute extremely well. So I think that is going to be really beneficial to us to manage our exact capability of our sales engine now to go and take away most of the share of that INR4,000 crores that Compuage has reported.

Akash Mehta: So we see a significant headroom here?

Rajiv Srivastava: Yes. We should see it on that.

Moderator: Next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I just had one question on your interest cost, which has impacted your PBT growth rate. So we have seen the inventory day normalizing and accordingly, debt or leverage coming on your balance sheet. But the pace of leverage is slower than the pace of interest cost increase. So I just wanted to understand your funding cost, how should we look at it, what percentage is your funding cost, if you could explain that? And I'm suspecting that because of the global interest rate rise, the funding cost for you would be materially different from what it would be earlier?

Rajiv Srivastava: Yes. So SVK, do you want to take that?

S V Krishnan: Will do, Rajiv. So to answer you, Pritesh, see, I mean, as you said very clearly, the interest rates are going up across and being present in multiple markets, it impacts us also, to the extent that in India, our interest rates have gone up by almost twice. And if you go to say, Dubai, our interest rate has gone up by about 4x to 5x. So this is something which all the corporates do face. And uniquely, if you see in terms of interest cost in comparison, then you have very low utilization of debt. And the -- I mean, at that point in time, you will see all the networth would have got fully utilized for which there wouldn't be any interest cost.

Any increase in working capital from then on will have an interest cost attached to it, which is the challenge that we have. In our view, the interest rate increase cycle is more or less done, maybe for the next 3 months to 6 months, there could be one more increase that may happen overall. But after that, we should see a downward trend and that should help us. So from an interest cost perspective, if I need to give you, I mean a view, I mean as a percentage of revenue, we are at about 0.35%, 0.4%. I think we should be able to maintain around this or maybe it can get stretched by another 5 bps to 10 bps.

Pritesh Chheda: Okay. Now if you -- okay, now I'll ask the other way. If this is a peak working capital cycle that you're looking at in terms of days, which has normalized, would it be fair to assume that the debt would have peaked out, because from here on, you will have your cash flows?

S V Krishnan: See, it's like this. As I mentioned to one of the other query, we expect some increase in working capital still. Second, you also need to understand...

Pritesh Chheda: You mentioned it was temporary that you are looking at, right, and not a material difference.

S V Krishnan: Yes. And second is also, you should see the growth rate, which is significantly higher, so we expect the debt level to go up because of the growth rates.

Pritesh Chheda: What is the type of growth rate that you are looking at on a sustainable basis, should we refer?

S V Krishnan: You know very well what has been our growth rate over a long period and also what has been in the last few quarters. And I mean, our growth rate depends on how the market grows, but we will ensure that we are definitely better compared to the market.

Moderator: The next question is from the line of Dhiresh Pathak from White Oak Capital. Please go ahead.

Dhiresh Pathak: Yes. Sir, one, just want to confirm my understanding that when Apple sells direct either through online their website or through their focus stores, we have no role to play in it, right, no logistics, nothing, we don't benefit at all from that channel?

Rajiv Srivastava: That is right.

Dhiresh Pathak: Understood. In rest of the world market, which as per your presentation, is about 56%, 57% of EBITDA and PAT, what would be the underlying currency exposure like which currencies would be more exposed to?

Rajiv Srivastava: Look, we do -- we do a lot of our business in dollars. So our exposure is very restricted. And that's the reason you see that whenever we have a currency loss, it's not really material from the business perspective because we have a policy of how we hedge ourselves against currency fluctuations by doing business in dollars. Sometimes we get impacted, the country policies change very significantly. And so those are geopolitical factors that we have to move on. And I leave to S V Krishnan to give more commentary or details on that topic.

Dhiresh Pathak: Yes. Krishnan, if you can give like for the rest of the world PAT, like dollar, underlying dollar would be what percentage of that PAT, and whether other currencies like in Nigeria, Kenya, Ghana, where we have experienced depreciation, what would be the currency exposure? I'm looking for some quantification.

S V Krishnan: See, first of all, what I want to give you a comfort, we always try to make sure that we hedge all our exposures wherever forward contracts are available. If you take India, for example, forward contracts are available all the time. So the moment there is an exposure on the day 1, we take a cover and build the -- I mean, the cost of the premium as part of our pricing. And this is what we do across various markets. There are a few countries where the currencies -- the currency rates are pegged to U.S. dollar, hence, naturally, there is no FX exposure for us.

And as Mr. Rajiv just mentioned, if we take Turkey, for example, while the currency volatility is very high, we do the business in U.S. dollar, I should say majorly, and to that extent, we are not covered for the balance, we need to manage. So this is the broad thought process I would want to tell you.

Overall in markets where there are currency variations and forex contract is not available, we have a model that we will sell at the then prevailing rate whenever the sale gets done, and at the time of collection, the customer has to pay as per the exchange rate that was prevailing on the date of collection. So we are more or less covered in terms of our business model for the forex exposure.

However, the challenge comes in, in cases where remittance is not possible. I mean you mentioned a few countries, this thing Nigeria, Egypt, a few other countries where the currency repatriation sometimes because of various geopolitical challenges is not possible, which is where we get struck and it is taking time for us. And in the mean -- if there is an exposure, it -- I mean, it is coming and hitting us, which is where we are. And as much as possible, we reduce the impact and we also run down our business, which is what happened in the case of Sri Lanka, Egypt and right now with Nigeria also. So it's not significantly high if I need to answer you in a simple form.

Dhiresh Pathak: But is it possible just to the extent that you can quantify, let's say, you get 56% of your PAT from rest of the world markets, now what percentage of that is dollar business, what percentage of that, and the second largest currency whichever it is, what percentage of that is that currency? So something like that if you can share?

S V Krishnan: If I need to put a percentage, I don't have that ready-made now. In my view, it would be between 15% to 20% of the business that happens in markets where we are not able to cover FX or we don't do it in U.S. dollar terms.

Moderator: Next question is from the line of Balakumar from HDFC Asset Management. Please go ahead.

Balakumar: I have 2 questions. One, could you just give the breakup of the provisions this quarter inventory receivables and the total provisions? And second one, if you look at the growth we had in FY '23, it was broad-based across markets. Maybe FY '24 and beyond, could you guys just throw some sense on the growth drivers by both market as well as the segments within the markets?

Rajiv Srivastava: SVK, will you take the first one, then I'll take the second one?

S V Krishnan: Sure, will do, Rajiv. So inventory provision for the quarter is negative at 21 bps and AR provision for the quarter is about 14 bps positive. And inventory provision is negative because it was positive in the last quarter, as I had mentioned, there was some reversal that had happened in the current quarter because of liquidating older inventory.

Balakumar: Got it.

Rajiv Srivastava: Okay. On your question on the growth drivers for India and overseas, you're right, our business has been really broad-based, it has grown pretty much across all the regions that we operate in very consistently. And the growth drivers happens to be through a couple of things. One is an external growth driver. The way the tech industry is shaping up right now, bringing more technology to the market and companies, organizations like yourselves in HDFC or any other organizations is really continuing on the path of digital transformation.

And I think the momentum that has got created towards digital transformation during the COVID time is almost irreversible. You can't just plug it back anymore. And so companies will continue to invest in digital transformation, companies will continue to invest in improving their efficiency, productivity and their own environment of innovation. So that drives a huge amount of technology buying because for companies to become more capable and enabled for efficiency and productivity, it is almost a straight-line equation, they have to make more investments on technology. That's one thing which is very strong growth driver for us.

The second growth driver for us is the geographies that we operate in, India, Middle East, Africa, Turkey, all of those geographies, like I said earlier, they are investment and consumption driven. The government have a necessity to make sure they are all the time upgrading the infrastructure, upgrading the infrastructure of digital and infrastructure of knowledge variety both, and economic infrastructure, education infrastructure, health care, all of them has got to get invested in. A huge amount of the investment is happening in these areas by the government to make sure that these things come up, and that brings a huge amount of tech buying.

And second is, as the population is becoming more from the lower to middle class to upper mid-class those that are more evolved and more niche as the migration is taking place with all these populations, there is a consumption of technology that is taking place. So I think those are the 2 broad drivers that I think, one is the digital transformation, second is the investment-led nature of the economies and geographies that we operate in. And we align very strongly with that, Bala. If you read or read about us as a company and if you see where we are headed, the mission of our company is to bridge divide. Our purpose is to bridge divide.

We operate in a very strong underprivileged section of the global market. Whatever we can do to bridge those divides of technology, to bridge the divide of economy of education, of health care, of retail, of manufacturing, anything that we can do by bringing the latest technology to the market, that's our mission, that's our purpose that we exist for as a company. So the regions that we are operating in strongly to our purpose, to our mission, and it really is anything that get to growth, those are the two very strong growth drivers that's aligned with our organization.

Moderator: Next question is from the line of Nitin Padmanabhan from Investec India. Please go ahead.

Nitin Padmanabhan: Yes. So I had a few questions. So one is, if you could quantify the investments on the other expense line and how should we think about that on a going forward basis? The second is you mentioned that 25% of the India business is now sort of a digital distribution. Just wanted your thoughts on what you're seeing in terms of any difference in the working capital intensity there?

Is it much lower or do you think that once it settles over a period of time, there's a lot of room for optimization on the capital intensity in the business as this business gets more and more digital-oriented? So that's the second. And third, I just wanted your broad thoughts on the last year, we saw the highest ever growth.

And if you could just contextualize that in terms of what drove that strength and how we should see that on a going forward basis and how the context is changing? Should we expect a normalization, a fair normalization of growth considering the broad macro? And so those were the 3 questions.

Rajiv Srivastava: Okay. I think we gave you some numbers in our investments last time also, Nitin. Our investments in technology infrastructure is moving across from -- and obviously, I'm not going to give the exact numbers, but are moving across from INR90 crores, INR100 crores to INR250 crores -- INR260 crores over the course of a combination between capex and opex, all of that. We believe this is a differentiator. And you will continue to see us making the right level of investment add two levels.

One investment we made is in creating the right level of digital transformation on digital enterprise that we want to be, which allows our partners and customers to engage with us in the ways they prefer. Whether they want to do a brick and mortar discussion with us or they want to engage with us on the digital platform or they want to do the business with us on an as-a-service model, we are providing a huge amount of choices to our partners and customers to engage with us. And that is not going to be starved of any investment, whatever it takes to get that, we will be absolutely basically rightsizing. That is one.

The question number 2 of yours on trying to get digital distribution, does it reduce the working capital investment, maybe over time, it does. Right now, it doesn't, right now, because the nature of business that partners we transact or engage with, the customers we engage with, the economic environment of the country is not changing because we've gone digital. What digital does is it makes us more efficient, it makes us deliver a much better experience to our customers and partners, it makes us easily discoverable, it makes it really easy for partners and customers to do businesses. These are the much more growth-oriented topics than working capital movements, because like I said, the dynamics of the business is not altering to change the working capital there.

Over time it may be, assuming I try and liquidate something or try and sell something on a fast-paced basis, will kind of -- will really enable us to do much better working capital, but those are in the future, and we'll see as that goes. So that's the second element that I wanted to make sure that we get that. The third thing that is there is about -- you mentioned the point about growth drivers, what is driving growth for us and is that going to be looking at different or will it change and what are guidance for the future is. Look, growth is an outcome of many things that we do, many small things that we're optimizing the business need to grow.

For engagement with our vendors and our partner network needs to grow. Our planning the way, we detail our planning with our partners and vendors needs to grow. The range of financial and fintech solutions that we provide between us and our partners that needs to grow. Our framework of go-to-market model, which is a basis of digital and nondigital and a coverage model that is really helping us reach to, maximize the number of partners and the market that we can reach to, there was an earlier question about Tier 1, Tier 2, the number of locations that we can go to, the number of PIN codes that we go to sell our products has this. So the coverage of GTM model allows us to grow faster.

Our investments in technology enable us to become far more easy and progress and agile in aligning with whatever we need to make changes to from a business perspective. But those are the things that really drove huge growth. And you are right, when the market is negative 25% and Redington is plus 25%, that means we had a shift between the market delta of almost 50% between us and the market. And this happens for 4 consecutive quarters. So that's a strong thing, which is something that we're doing has helped us get this level of growth, and those are the growth levels. Will it normalize to a lower level?

What normalization? -- what you meant by normalization, our view will be that one of the things that we hold ourselves really accountable to is something which is about making sure that we continue to grow faster in the market over time. That is there to us, and I'm hoping that the investments that we are making in technology.

The second investment we are making is in people because the thing that we are doing from an e-commerce perspective or from a cloud perspective, there's a lot of services capabilities with it. And services capabilities, for sure, are very different from our product capabilities. So we're investing in technologies and we're investing in people capabilities as well. So all of this is helping us stay ahead of the market at every point in time.

Moderator: Nitin, I'll request you to join the queue again.

Rajiv Srivastava: I think we are done for the day. I got to leave for now, it's almost more than an hour, I'll have to leave. So thank you so much. Is there anything -- Krishnan, if there is anything else that you want to add, then we should probably be winding down here.

S V Krishnan: No, no, no, I think it is done. We can close the call, Rajiv.

Rajiv Srivastava: Yes.

S V Krishnan: In case there are -- in case anyone has...

Rajiv Srivastava: Yes, sorry.

S V Krishnan: No, no, no, we can give some closing comments before we close.

Rajiv Srivastava: Yes. Yes. I think it's fair. I mean it's a fantastic interaction. I like all the questions that you have asked us were very always incisive and insightful. If you play back our calls over the last few quarters, you will see exactly the scheme, as I said, running across. We guided the market on working capital. It is turning out to be exactly where we guided. We guided the market on PAT, it is running out exactly to be where we had given the guidance and given the guidance. We guided the market on our growth that will be ahead of the market and is turning out to be superbly correct. We had guided the market on how we see our investments and how the investment will pan out.

And also we talked to you a lot about what is -- what is that we are doing from a future perspective and how Redington reinventing itself, how Redington reenergizing and transitioning or transforming itself to do business to stay ahead in the new world and all of that, you heard us talk about. Your questions, like I said, always extremely, extremely enriching, whether it is questions on financials or questions on the way the market is shaping up or your questions on future direction, your questions were absolutely, absolutely fantastic on these things.

So all those questions help us stay the course. If there is anything that we have not been able to address or answer, I know there's always a time to look at those stuff. You can write to us, and we will make sure that you get a response from us. So thank you so much for joining the call today early in the morning. Have a great day and the week ahead.

Moderator: Thank you very much. On behalf of Redington Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.