"Redington (India) Limited

Q3 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Redington Limited Q3 FY '24 Earnings Conference Call. This 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Hariharan. Thank you, and over to you, sir.

Hariharan: Thank you so much. Good afternoon, everyone. Thanks for joining in, and it's my pleasure to talk about our results for Q3. We continue on our journey and theme of profitable growth with good revenue growth this quarter and good PAT growth this quarter and continued progress on sequential profitable growth. There was solid execution across geographies and businesses. India growth continues to be solid. And in Middle East, Africa, we continue to drive growth in Saudi Arabia and UAE.

The execution and results are even more sweet when you look at the context of various geopolitical factors, like conflicts in Ukraine, Hamas-Israel, the Red Sea conflicts, the Africa currency volatility, and the Turkey high inflation rates and the high Central Bank lira rates. Also, if you compare with some of our other global distribution peers who have degrown in revenue in the same period, our execution and results are even sweeter.

Specifically, talking about businesses and geographies. So in terms of business line, the cloud business continues to grow strongly, both top and bottom line. The Technology Solutions Group also continued to offer lots of opportunities, and we realized opportunities that are meaningful for us from a profitable growth perspective. The software license renewals and subscriptions within the TSG business are becoming a larger part of our business and also one that is growing fast.

Mobility grew well across all the theatres, India, Middle East, Africa and Turkey on continued momentum from the NPIs and some of the new Android models and some of the new go-to-market initiatives we drove.

Specifically, within ESG, while there were some flattening and declines we saw in the PC part of the business, the emerging business continues to do well. And these are products that we call emerging within the consumer space, like lifestyle, pro audio, pro display, surveillance, etcetera.

And within services, ProConnect, Ensure; ProConnect being the logistics service business and Ensure being the service support business in Middle East, Africa all continue to provide a good contribution.

Within the Technology Solutions Group, we made progress on Redington-led business in India and specific new solutions we have put together, like Digi Glass, building NOCs for customers -- SOCs for customers, I'm sorry. So those made progress.

On the key initiatives like digital platform and cloud platform, we continue to build our technology capabilities, but optimize the investment, so that there's continued ROI focus here, which is similar to what we discussed the last quarter.

From a go-to-market perspective, we are getting much clearer focus managing the business through large managed partners supported by sales reps, complemented by a large number of small partners managed by inside sales reps and digital platform.

The main idea is to provide enough attention to the large number of partners we serve; at the same time, optimizing the cost to serve them. We're also intensifying our focus with the brands with a deeper focus on the large brands, having joint business plans and things like that with them, and more creatively maximizing business for the large number of small brands we carry through various routes to market we have created.

We are beginning to look at AI as is the new trend, starting to get real with many products across the line. And we need to have a better understanding of what customers need and what are the right brands we need to have and what solutions we need to bring to the table. You will hear more from us over the next few quarters on this.

We continue to win many awards and industry accolades across all geographies as this distributor. And now this year, even with some of the hyperscalers giving us the best distribution awards across the theatres, showing Redington's pioneering and leadership position in newer areas, too.

That's a quick high-level Q3 update, and I'll hand it over to Krishnan to give a deeper dive on the numbers and the narrative behind the numbers. Thank you.

S V Krishnan: Thanks Hari. Good afternoon to all of you. We finished the quarter Q3 with about INR 23,550 crores of revenue, which is our highest ever quarterly revenue. On a year-on-year basis, this is an 8% growth over last year Q3. On a quarter-on-quarter basis, this is a 6% growth over Q2.

As we had mentioned, we are looking at improvement from the previous quarter, and I'm pleased to say that we are continuing that trend. While the revenue has grown by 6% quarter-on-quarter, the profits have grown by 12% quarter-on-quarter.

With the EBIT percentage before factoring -- we will talk about factoring, before factoring, it's about 2.6%. So we are broadly within the range that we had kept for ourselves. And the PAT has moved up to 1.45%. I think I need to make a mention here, we started the year in the first quarter with 1.17% PAT percentage, that got improved to 1.36% in Q2 and further got improved to 1.45% in the current quarter.

If you get into the geos. India distribution grew very well, as Hari said. The revenue grew by about 21% year-on-year and the PAT grew by about 10% year-on-year. MEA revenue in this period has grown by 4% year-on-year. And in Turkey, Arena more specifically degrew their revenue by about 3%.

The contribution by various geos. Between SISA and the rest of the world, the contribution is 49% of the revenue from SISA, 51% from rest of the world. But in terms of profits, it is 46:54.

Working capital days. There is a small increase in the working capital days compared to Q2 from 35 to 36, and this is mainly on account of a drop in the accounts payable day. The free cash flow for the quarter is at minus INR 273 crores, a negative free cash flow. And for the first 9 months is minus INR 429 crores.

All the return ratios have improved. ROE, return on equity, is about 19.4% this quarter vis-à-vis 17.4% in the previous quarter. Return on capital employed is at 22.1% vis-à-vis 21.6% last quarter.

Debt-to-equity is broadly in control. The gross debt-to-equity is about 0.5x and the net debt-to-equity is about 0.3x. Inventory provision is slightly on the higher side. We are at about 0.22% for the quarter.

In Q3, it normally tends to be higher, which has been the case even in the previous year at about 0.21%. However, the provision towards AR is about 6 bps vis-à-vis 3 bps for Q3 of last year.

More specifically, with respect to business verticals, we had been talking about cloud. I mean, it continues to grow at a good pace. It has grown by 43% year-on-year, the total cloud business, and about 24% quarter-on-quarter. Within that, the growth in resell is much stronger at about 45%. The growth in managed services is about 2%.

In the case of managed services, we have consciously been rationalizing some of the business segments where the profitability is in question.

So with that, let me pause. I'm sure there are a lot of questions, which we will handle. Thank you.

Moderator: The first question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: I have a couple of questions. The first is on the factoring cost. I'm assuming it's around INR 141 crores for the quarter. It was INR 86 crores for last quarter. So this factoring cost, is it driven by any specific geographies? Is it more ROW driven or India driven? And when do you see this sort of tapering off? That's the first question.

S V Krishnan: Yes, I will answer that, Nitin. Overall, you would have seen from the financials, interest cost has come down. Last quarter, it was INR 106 crores; this quarter, it is INR 85 crores; has dropped by 20%. If you just look at the factoring, it has gone up by INR 8 crores from INR 86 crores last year to INR 94 crores in the current year.

If you take these 2 together, overall, it has come down from INR 192 crores in Q2 to INR 179 crores in Q3. The primary reason for this is while interest rate reduction from a market perspective is going to take time, we see some softness in the interest rate across geos. This is true for India, this is true for Middle East and Africa, also true for Turkey, even though we all know even now the interest rates in Turkey are high. This has enabled us, in addition to the working capital efficiency, to bring down the interest cost -- interest and factoring costs together.

Nitin Padmanabhan: Okay. So this would be the way you would sort of operate on a going-forward basis, more factoring and less of -- how should we think about it? Lower debt, more factoring, is that how you're thinking about it?

S V Krishnan: See, about 85 percentage of the factoring cost in this quarter is Turkey related, Nitin. So let me address the question in 2 parts. In Turkey, it is more situational. It is not our willingness. The cost that we pay on factoring is pretty high. Still, we have no option. The funding in other banking channel is literally very less, so we are only hoping that things will get normalized. We are able to see some improvement, but a lot more to happen.

Looks like things are changing to the positive on the ground. So we expect this impact to come down moving forward, but that's something which is completely market related. We will not be able to say with any certainty.

Outside of it, in other markets, we do some factoring. That is more from the perspective of if in case we expect higher risk from the customer or if we would want to do X number of days, customer wants X plus Y number of days, which we are not comfortable, that's where we go for factoring. And all these are completely nonrecourse, but this portion is very small compared to the total factoring amount for us.

Nitin Padmanabhan: Got it. Got it. The second question was on the mobility business. We've seen very strong growth in the current quarter. I think the highest revenue we have seen in mobility so far. What's driven this growth? Is it an addition of a geography or anything specific out there? Or is it seasonality and we should expect some normalization in the following quarters?

Hariharan: Can I take that question?

S V Krishnan: Yes, yes, Hari. Thank you.

Hariharan: Okay. Thanks, Nitin, for the question. So I think it is seasonality largely driven by the NPI that happened from a key brand, and that resulted in a good business this quarter. So I think we'd expect some normalization. We did not add any specific new geographies, but we did add some new Android brands and models into our portfolio that has also complemented, but the large growth has come from the NPI.

Nitin Padmanabhan: Perfect. Just 1 last question, if I may. What's driven the weakness in ROW? Any specific geographies you'd like to call out? And whether things should sort of improve going forward, or you think this weakness will continue? That's all from my end.

Hariharan: Okay. So maybe I'll just give a quick commentary and Krishnan you can complement. We did talk about last quarter too in taking our cautious approach to Africa when it came to risks because of currency volatility and currency availability, et cetera. So we have clearly focused on that to make sure that we manage our risks and manage our growth. So that is 1 of the main reasons.

But we don't -- we see this normalizing as we go forward. The main factor -- we'll continue to be cautious in Africa, but maximize our opportunities in Saudi Arabia, UAE and the GCC countries and rest of the world. And in Turkey too, we will continue to play to win and not lose share, based on how much capital is available, et cetera. So Africa is our big key call out. Yes.

S V Krishnan: Yes. Just to supplement what Hari said, Nitin, is also that, see, one of the very brightest markets that you see in the overseas scheme of things is KSA. And I mean, our business is pretty large there. It would be about 1.3 billion, 1.4 billion for the current year, and it is growing at a good pace. For the quarter, KSA has grown by 14%. So that's something which we feel is a good progress.

Moderator: The next question is from the line of Nikhil Choudhary from Nuvama.

Nikhil Choudhary: My first question is going to be regarding your ROW driven decline, which you have just commented. I want to understand what should be the expectation going ahead, especially the kind of business we are doing? Are we done with balancing our risk-reward in ROW business, or they are yet to slow down or cut down some of the area where the risk is high?

S V Krishnan: Your question, frankly, is not clear to us. I will state it, maybe you can confirm. I think your point was, what is the sustainable growth in ROW? Are the currency issues are all sorted out? Is that your question?

Nikhil Choudhary: Yes, the short-term growth till the time you are still working on the issues, and then medium-term growth outlook?

S V Krishnan: Yes. Hari, would you want to pitch in or I'll answer?

Hariharan: Yes. Okay. There was a bit of a noise, so I couldn't hear the full question. Thanks for rephrasing. No, we continue to see good opportunity in ROW. And in the same businesses that we talked about, both cloud and TSG, we see very strong opportunities across the board, whether it's KSA, whether it's UAE, GCC and in Africa, too.

In Africa, we do a lot of back-to-back business on TSG and on cloud. So definitely, the growth will continue to be there. And mobility, and PCs also, we expect, based on what we see from IDC and Gartner and others, the projections for market in the coming year, from what the analysts say, looks promising.

Nikhil Choudhary: Sure, sir. My second question is on software licensing revenue. Like you have highlighted, cloud is growing faster for you, and software licensing is increasing in terms of overall contribution of revenue. In terms of overall margin, can we assume that margin in this business is relatively much higher compared to our blended margin?

Hariharan: So in the pure software and the software-as-a-services business, hyperscaler margins are similar to hardware margins. The platform-as-a-service, software-as-a-service is slightly higher, but not much higher, because it's still a resell. And Krishnan talked a little bit earlier about services, managed services we provide. So there is an opportunity for us as we resell. Whether it's infrastructure-as-a-service or platform-as-a-service or software-as-a-service, there is an opportunity for us to play a role as a distribution company to appropriate some managed services.

And so those definitely yield higher margin. And we are at the initial stages. We do small amounts in all regions right now, and we are building competencies to scale that and work together with our reseller partners to provide that. I think there the margins will be a lot higher.

Nikhil Choudhary: Sure, sir. Understood. I have just a couple of bookkeeping questions. One is in terms of how should we think about tax rate as we are going forward? And sir, second is that the employee expense as a percentage of revenue is one of the lowest or close to lowest historically. So how should we think about it?

Hariharan: Yes, I couldn't get it. So if he can repeat the question?

Nikhil Choudhary: Yes. First is regarding the tax rate. What should be the normalized tax rate going forward? And second is, your employee expense as a percentage of revenue is kind of the lowest or close to lowest historically. So how should we think about it?

S V Krishnan: Yes. So on the tax rate, if you recollect the earlier conversations, Nikhil, we had been saying it would be about 22%, okay? That's where the current tax rate is. In the current quarter, it is slightly down. That's to do with the mix. Also, there are 2 factors, if we can be more specific. The profit contribution from the KSA, from Saudi, was a bit less, which is where our tax rate is more in Middle East and Africa. Second, the lira depreciation in Turkey on a comparative basis was lower in the current quarter, and because of which the tax rate was lower in the current quarter. So these were the 2 reasons.

Having said that, it's important for you to know that there is, I mean, a corporate tax that's coming in UAE starting in the next financial year, and that's at about 9%. So we expect, from next year, the overall tax rate to be about 25%. So while I said normally it would be about

22%, going forward, we should plan for about 25%. And for the current quarter, it is on the lower side when compared to 22%. That's on your first question.

Second, on the employee cost. As we had said, we are trying to optimize some of these cost factors and there is a lot more focus and sensitivity. But having said that, whatever is required that we need to do, you may have to plan the employee cost similar to what it is today. A further reduction is something that may not be easily possible.

Nikhil Choudhary: Sure, sir. Sir, just to confirm, 35% for combined business?

S V Krishnan: Yes, consolidated.

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

Aejas Lakhani: Sir, couple of questions. The first one is that just given that seasonally, mobility is a strong quarter, and you have curtailed your OpEx and employee costs very well and as per what you have been guiding for the last 2 quarters. Is it fair to assume that in the next quarter, we can see an EBITDA margin improvement as the lower yielding mobility business share reduces and the other segments improve?

Hariharan: Krishnan, do you want to take that?

S V Krishnan: Yes. See, on the cost part, maybe you can take something similar to this. But having said that, see, on 1 hand, there is a mix factor; on the other hand, there is also normalization of the margin that's happening in the industry. So I think you should take the current gross margin into the future.

We expect our EBIT percentage to be about 2.5%, 2.6%, which is where we are. So for the immediate quarters, my submission will be to take a similar EBIT percentage. But as we move forward, as the proportion of TSG business goes up, services contribution goes up, this tends to go up. But that to happen in the immediate quarters is unlikely yet.

Aejas Lakhani: Got it, sir. Sir, the next question is, could you just provide some growth outlook in India and overseas for FY '25, both from an enterprise segment as well as mobility or consumer segment?

Hariharan: See, from a market perspective, what we see based on IDC and other projections, clearly, on the technology solutions and the services piece, there is a high double-digit teen growth projected in the next year. So that's what we will take as our framework to operate on, because we want to keep our market share and grow it if possible. Mobility also is projected as a growth, but may not be double digit, but both are expected to grow in India and MEA as projected right now by the analysts.

Aejas Lakhani: Got it. Krishnan, sir, could you just call out what is the absolute debt? And what was the exact factoring costs for the quarter? I think I missed that. Did you say INR 94 crores for the quarter?

S V Krishnan: Okay. Absolute debt is about INR 2,200 crores at a net debt basis. From a factoring cost, last quarter, it was at INR 86 crores: this quarter, INR 94 crores.

Aejas Lakhani: Got it, sir. And sir, the gross debt is?

S V Krishnan: Gross debt is about INR 3,600 crores, which is why I said 0.5x.

Aejas Lakhani: Got it, sir. And sir, the controlled slowdown that we have sort of calibrated for the ROW market this quarter, and the outlook that you're calling out for the next year, is it fair to assume that this is just a quarterly phenomenon, for which ROW you have curtailed down the rates of growth? And that, again, we'll see good double-digit growth in the next year or maybe the next quarter even?

S V Krishnan: Yes. I think so, Aejas, see, the thing is, I would want to mention that if you look at the long-term trajectory, we have been maintaining a double-digit growth, and that even for the first 9 months of the current year, I think we should be able to maintain similar growth as we move on.

But having said that, our objective, very clearly, as we had articulated, will be profitable growth and with capital efficiency, we don't want to make a compromise on profitable growth and capital efficiency for sure.

Second, you also need to keep in mind, with evolving geopolitical challenges, every day there are various news that are coming. Last time that we had the call, we have not had the Red Sea issue, which is currently, I mean, becoming more and more, I mean, grievous. So we just need to be careful. We will evaluate the situation because a lot of capital is being deployed, and we would take a conscious call what is beneficial for us.

Aejas Lakhani: Got it, sir. And sir, the working capital, now can we assume it has completely normalized, and it will remain in this current range that you've been calling out of 35 to 40 days, and no surprises or changes here, right?

S V Krishnan: I think so. That's what we are working on. And you would have seen some stability in the last 2, 3 quarters.

Moderator: The next question is from the line of Parin Gala from SageOne Investment Managers.

Parin Gala: I apologize if this is a question that's been posed earlier in previous calls, but I wanted to understand our sort of positioning as brands would want to expand their own footprint, their organic sort of store level growth, kind of what Apple is trying to do. I mean, a broad sense on how that impacts us as a company, as a distributor for that?

Hariharan: Sorry, can you repeat the last part of the question? So is this specific to Apple, is it?

Parin Gala: Not just Apple, but I mean also Samsung is trying to open experience stores. Brands are pushing towards engaging with customers directly. So as a company that's mostly in distribution, how does it impact us?

Hariharan: So I think there has been a long discussion on this. The overall market pie actually continues to grow. There continues to be a direct place. Apple has grown very well in India, as an example. And they open their own stores, they go through their online store and they work with Flipkarts of the world, but the addressable market for distributors to be able to go to resellers, upcountry, to work on the pipes we have continues to grow as well. So their business has grown nicely -- our business and their business has grown nicely. And we have seen this over the last 10 years that continues to happen. So we are -- as long as we continue to be innovative and continue to play our game to expand the customer reach for each of these brands, which is what we are doing.

And sometimes I mention Redington-led business, which is basically the pipes and channels we are creating or big brands to go to customers they cannot reach directly. So I don't see that as an area of threat for us. We will continue to complement the brands' direct approach.

S V Krishnan: And just to add to the point, Parin, sorry, if you just see the first 9 months, the incremental revenue that we have generated is about $1.2 billion compared to the 9 months of last year. Now you can imagine what is the opportunity available in the market space.

Hariharan: And I will also want to complement 1 more item. I'll just give an example since you mentioned Apple. There are specific requirements or things like configure-to-order, where customers are requiring specific configurations that cannot be bought online or something like that. And we work on specific efforts like that, which can be only done by distribution, because we have logistics and we have the ability to fulfil specific configurations.

Parin Gala: But I mean, that would be a pretty small piece in the overall market...

Hariharan: I'm giving an example, but there are several such initiatives, which add up to a larger number.

Moderator: The next question is from the line of Ayush Vimal from Clearview Capital.

Ayush Vimal: I just have 2 questions. The first question is on the growth of large-format stores in India over the last few years. How do you see that structurally impacting the business of Redington? Because some of these stores might be directly reaching out to brands or maybe compressing the bargaining power that Redington has as a distributor. So just wanted to see how structurally this changes the business?

Hariharan: So you're right, the retail scene is evolving very rapidly, but that actually is very interesting for us too. Because we see state-level retail. For example, not pan-India retail, but state level retail evolving. We also see consumer electronics stores wanting to sell mobile phones and wearables. So we have specific initiatives, like we have a direct-to-retail initiative where we reach smaller retail stores across the country. We have built this for Android brands and wearables.

Similarly, we have an initiative with some of the PC brands specifically in states to open up state level retail chains, which are not pan-India. And it is very challenging for the brand to really focus on multiple direct models, because they have fewer resources and they want to be more efficient. So these are real opportunities for us. And we have stepped up the game on these kinds of opportunities.

Ayush Vimal: Fair enough. But are these large format retail stores directly reaching out to the brands and buying, or they're still routing the purchases through Redington, just in general?

Hariharan: It depends on the brand. So obviously, brands like Apple go direct, but there are other brands who work directly with us and our peers to go into large format retail. So we do have a good large format retail presence. And again, there are many new ones also opening up. So you see Lulu coming up with many stores in India. So we do work with many LFRs, but some brands decide to go directly to LFRs, but the pie is large enough. Some brands just continue to work only with distributors.

Ayush Vimal: Fair enough. That's helpful. Just 1 more question. So we see a lot of thrust on manufacturing in India where the government has promoted electronic manufacturing of laptops in a big way in India for export purposes. So does Redington see itself playing some part in the value chain here or is that something that's outside the purview of our business?

Hariharan: So not directly, but definitely, there are evolving things that are happening not just because of Make in India, because of all the other initiatives in India as well. Especially if you look at things like refurb and e-waste and those kinds of areas, we are exploring how to get into all these things.

Specifically, on Make in India, we will continue to source the big brands, whether it comes from outside or Make in India. But there may be some new brands that may become available as a result of Make in India possibilities, which we could then explore distribution both here and overseas. So we are just looking at it. Right now, it is very early stages. We've not seen any major change in terms of our opportunity landscape, but we are studying that very closely.

S V Krishnan: Would you also want to talk about the rural PC, Hari, if you think is appropriate?

Hariharan: Sure. I mean, it's very early stages and early discussion still, but we all know that out of the 1.4 billion population, nearly 800 million to 900 million live in rural areas, and they've all got smartphones now. The PC penetration is very low. And again, this is a big opportunity, and we are exploring that segment and the ability for that segment to start buying and getting into compute. Especially with the lower-end PCs and with AI coming into the picture, there is a lot of possibilities now where things are -- the computer does things for you rather than you work on the computer.

So again, this is exploration going on where we are partnering with some brands and some rural go-to-markets to be able to make this segment a viable opportunity for the future.

Ayush Vimal: Sure. Just to clarify, for electronic items which are purely manufactured in India for the purpose of export and not for consumption in India, I don't think Redington has some role to play there, right? That's the value chain that's outside actually the purview of our business, if I'm not wrong, right?

Hariharan: Yes, it is. But what happens is because Redington is seen as a pan-geography distribution partner and because of scale, we do get approached sometimes to be able to do things in Africa or MEA where something has worked in India. So it does happen. So that's where the opportunity comes up.

Moderator: The next question is from the line of Kushagra from Old Bridge Asset Management.

Kushagra: A few questions. One, so in your opening remarks also, you sort of mentioned that you have started working with some Android brands. And if I look at your numbers as well, while your top 5 brands contribute around 60-odd percent, but it's actually the remaining 50%, 40%, which is growing actually much faster, and that sort of coincides with the growth in mobility as well. So just wanted some more color on your tail brands in a bit detailed manner. Like is this more like market forces taking their shape or your conscious strategy towards making them bigger? And how do you see working capital and margins associated with these brands? Some more color over there will be quite helpful.

Hariharan: Okay. I can just give you a little bit on the brand perspective. And maybe the working capital and margin, Krishnan, if you can jump in on that. So I think it's a combination. We definitely want to be able to participate in areas to maximize our market opportunities on smartphones. And we are clearly focused more on brands that are more international and multinational and have a global brand name. So that has been our focus, without naming specific brands.

And so some of these brands, they use us as an exclusive distribution partner to be able to get an entry and foothold into various routes to market. But we definitely want to continue to maximize our partnership and our relationship with the leading brands like Apple, but we will continue to play a supporting role for the Android brands and to maximize the opportunity there.

S V Krishnan: And with respect to margins and working capital, this is more or less similar to what we see in other MSG brands. On a comparative basis, margins will be lower, but the working capital deployment is also lower. From a growth rate perspective, it's still an attractive space and it provides a lot more opportunity for growth because there are multiple brands.

Kushagra: All right. Sure. Just a follow-up on Apple. So last year, I think somewhere same time, you called out that out of those 30% Apple revenues, iPhone is almost like 20-odd percent. So 2/3 of Apple revenues for you is iPhone. And in India, it's slightly higher with Apple being 1/3 of your domestic revenues and 24% of your revenues domestically coming from iPhone. Can you give us similar numbers this time as well? I mean, specifically for domestic, because mobility in domestic as well as Apple seems to have grown quite well.

And also, apart from these numbers, if you can help us understand what would be your wallet share in Apple's overall India revenues right now? A ballpark number, a broad figure, or a range can also work.

S V Krishnan: See, I don't know in what context we had said this before. But see, the thing is, we are not supposed to talk about any specific brand. That's not something that's allowed under the contractual terms. So if you permit us, we would want to pass this question. Sorry.

Kushagra: Got it. No worries, sir. And last, if I can just squeeze in. So I just wanted a perspective on your enterprise business as well, both overseas as well as domestic, because past couple of quarters, you guys have been quite categoric about investments increasing from government, enterprises, including some prominent banks as well. But of late, I mean, the numbers have not been very optimistic. So just, is this more like lumpy thing coming in or something else? If you can give some more color over there will be quite helpful. Yes, those were my questions.

Hariharan: Krishnan, you want me to say something, then you will add on?

S V Krishnan: Yes, yes, Hari.

Hariharan: Okay. So the opportunity continues to be very sizable on the enterprise and the technology solutions business. And there are a combination of reasons you will see numbers in a particular quarter. It could be that the decision cycles are a bit longer and we have a larger backlog that we carried on from one quarter to another. That is 1 situation.

Second, we decided to walk away from a few that were not profitable enough. So that was the second one. And as we work into -- I specifically mentioned about license renewal and subscription opportunities. From an accounting perspective, there are some specific things that happen in terms of gross revenue and net revenue on this, and maybe Krishnan can throw a bit more light on it.

But the opportunity size clearly on the TSG space continues to be very promising and we want to continue to play very hard on it in terms of -- because it gives us, one, a good growth on top line, and a higher margin as well. So clearly, we are focused on that. But from a specific quarter perspective, there are many things that play that happens on it. SVK, you want to add some more?

S V Krishnan: Yes, Hari. See, in the technology space, very specifically in the services part of the business and renewals part of the business, because of the risk and reward that we take vis-à-vis the vendor in some of these businesses, the complete invoice amount cannot be recognized as a revenue, which is what Hari called it as gross and net accounting.

So as we do more and more of these businesses, only the spread, I mean, between the invoice value and our cost of goods sold would be the revenue. So to that extent, there is -- I mean, this quarter, we have had more proportion of the services and renewals business, which has dampened the growth in the Technology Solutions Group.

Hariharan: We continue to get healthy margins, but the top line between gross and net actually shows a bit as if it is lower growth.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, 1 question, which I could not understand. So when I see your ROW, renewable sales, they have been drawn down to 0. So that was 1 point I couldn't understand.

S V Krishnan: ROW, what sales?

Sarvesh Gupta: Renewable.

S V Krishnan: Okay. See, when we say renewable energy, these are the solar business that we do, okay? We do solar business currently in 2 places, 1 in India, 1 is in Turkey. And in Turkey, because of some challenges, that has got sizably reduced. But having said that, this is definitely a business that we would want to focus on, and Hari would articulate the strategy. But to answer you, it's because of this specific factor. And it was anyway lower as far as Turkey is concerned.

Hariharan: Yes. So maybe specifically on Turkey, I will just add some color. The government, because of the inflationary situation, was trying to temper down the overall business borrowing and things like that. So it had an impact on the solar industry and the solar rollout. That combined with the solar panel prices falling, the Turkey business became very challenging to deal with.

So for the last quarter, pretty much we didn't want to take a risk on the solar business in Turkey. And so that's what happened. But solar as an outlook, whether it is India, whether it is Africa, or whether it is Turkey, quite promising. And we see good future in it. But since there is volatility in the environment, both on panel pricing and others, we're just being cautious to avoid taking too much risk from a capital perspective.

Sarvesh Gupta: And secondly, in general, in Turkey, given the high amount of factoring costs involved, are we making losses there, because the margins that we operate is very thin, and if we have to pay such kind of a factoring and interest cost, then are we not profit -- I mean, why should we even try to maintain or grow our market share in this sort of environment, which also has been continuing for many, many years now? I mean, why can't we strategically take a relook at this market, in general?

S V Krishnan: Sarvesh, I think I had mentioned this in one of the call, I don't remember whether it was last quarter or the previous quarter. See, the environment is far too difficult in Turkey. I definitely agree with you. But kudos to the team, we have not had a loss situation ever in our business. Even in the current quarter, that's the case. We have made profits. Is the profits attractive enough, sufficient enough, definitely not.

For your point, should we then push the business? I would want to refer to what Hari said, see, when you are in this business, you're in an ecosystem. If you decide to downsize or if we you decide not to participate in many transactions, then you become irrelevant, irrelevant for the brand, and hence, I mean, it is equal to conveying a message that I want to exit the market.

I really don't know whether we can call it like that. Definitely, Turkey is a very large market, very interesting space. Unfortunately, for whatever reasons, the economic situation has not been great. And as you know well, when we invested, the Turkish lira was TRY1.48 to $1. And today, it's north of TRY30 to $1. So we are in a situation where there's a lot of volatility, but definitely, we still believe it's an attractive market, and it's a space which can be a launch pad for us to get into European markets, some of the European markets. So I mean, we would want to keep focusing on this market, try whatever best that we can. Definitely, we will be sensitive about the profitability, and we have not had any flip on that till now.

Sarvesh Gupta: Understood. And finally, just 1 question, if I may. So if I see your Y-o-Y growth rate from as high as 25%, 26% in quarter 1 to double digits in quarter 2 to now less than -- single digits. So we are steadily falling down in terms of our growth rate. And our margins have been broadly stable. I haven't seen such a jump despite lower growth rate.

So I mean, I know that you don't provide any guidance, but what should we expect going forward in the coming year given this sort of a slower growth rate that is happening in terms of our top line. So if you can help me with some guidance there or some thought process there, it would be helpful.

S V Krishnan: Okay. I mean, a part of the question I'll answer, Hari, and if you can pitch in. See, the thing is, this year, the lower profitability is mainly on account of the finance costs, okay? As you know well, we have been coming out of the COVID period, we've had an extremely good situation in terms of capital deployment and we all knew that that's not something sustainable.

And that on top of revenue growth and on top of interest rates has resulted in a very high increase in interest costs. And this is something that you can see across all the distribution companies, leave alone even other companies. So if you adjust for this increase in interest cost, I'm sure the situation would be completely different. But that's the way things are, and we need to manage. Our objective has always been to generate a ROCE of more than 20%. We are very highly focused on it and that we had done even in the current quarter. So that's something which -- I mean, it would continue to be our decision-making principle, and we would follow that.

Hariharan: Yes, I can just maybe add a couple of things. In the first half, Krishnan mentioned that we added $1 billion of revenue. And we are correcting as we speak in 1 or 2 quarters to manage our risks in Africa primarily. And we still continue to grow 8% as we showed in this quarter. So I don't think we are -- from an outlook perspective, we are still bullish about growth on revenue.

We are making sure that we go after a minimum profitability percentage and a minimum return on capital employed, so we can return best value to the investors. So that's how we are focusing on. But we do see, in every space we operate, enough opportunities. So there is technology solutions, cloud, mobility, and even in consumer, with AI around the corner, all the discussions we're having with the brands, there is AI PC going to be introduced and AI chip in the servers and new solutions.

So the next 2, 3 years, there are going to be inflections. Clearly, we're going to take advantage of those. But we do want to be careful about not taking too much risks in certain markets. We are correcting for that. We're also correcting, as we mentioned, a little bit about the investments in some of the platforms and technology we did, so that we can appropriate the right profitability levels, yet getting the return on those technology investments. So those are the broad directions we are taking. I don't think we are slowing down or deliberately slowing down on revenue opportunities or market share. So that would be my thought process in terms of outlook.

S V Krishnan: Just an addition, Sarvesh. If you see for last quarter, we don't have the info for the latest quarter, this is for July, August, September. Globally, PC unit shipments are down by 7%. Smartphone unit shipments are flat. Printers unit shipments are down by 8%. So you need to understand this environment vis-à-vis what we have done, and I'm sure you will appreciate this growth.

Moderator: The next question is from the line of Priyam from K C Capital.

Priyam: Sir, I had questions regarding the cloud business. Firstly, do you believe there is a risk in the cloud business where the cloud companies can go directly to the customer?

Hariharan: Sorry, can you repeat that, there is a bit of echo on the line?

Priyam: Okay. Sir, like do you believe there's a risk in the cloud business where cloud companies can directly go to the customer?

Hariharan: Yes. So that has been there right from the beginning. So if you look at all the hyperscalers, whether it is AWS, Azure or Google, they all used to go direct to customers. Clearly, they see a big requirement for them to be able to take advantage of distribution companies like us to reach the mid-market and the smaller enterprise customers. They're not able to do this on their own. And as they start adding software modules and other kinds of services around it, they clearly need someone to engage.

That's the reason why increasingly, many of the hyperscalers are talking to distribution, and that business as you see is growing very rapidly for us because that's where they see the scale. And the same is happening for Platform-as-a-Service companies as well as software-as-a-service companies. So initially, when the whole cloud thing journey started, the large enterprises were the ones that were adopting these and it was more convenient for these companies to go direct.

Priyam: Okay. Okay, sir. Okay. And then second question, like to what extent is cloud business a repeat business? Like is it like depending on cloud migration or are there any other recurring activities also?

Hariharan: So there is a variety. So first is a resell, just selling licenses. That's the first thing. Second, understanding which customers are growing, which customers are not growing. And then there is a whole ecosystem around cloud, because there are ISVs, there are small companies called born in the cloud and digital natives.

All these companies are trying to market their products and solutions along with hyperscalers to the customers. So it is a very complex ecosystem. So it doesn't mean that all the services have to be provided by a hyperscaler or us. There is a whole lot of solution partners. In the big enterprise space, there will normally be system integrators or big SIs. But when it comes to mid-market and smaller enterprises, there are many, many people who are providing.

So we are able to provide an ecosystem where we bring in ISVs, we bring in digital natives and born in the cloud partners who provide these services along with us on migration, modernization, managed services, professional services, professional consulting, a whole range of services, that's what we are creating. So we are beginning to specialize and build competency in a few areas as a distributor, but then we partner with these people, so that as licenses are bought for these services, there can also be managed services created around it.

Moderator: As that was the last question, I would now like to hand the conference over to management for closing comments.

Hariharan: Thank you so much for attending. I hope you found the Q&A session useful. And if you need some more answers on anything that we have not been able to answer, or if somebody wasn't able to get on the line, please feel free to reach us, and we'll be happy to respond back to you. Krishnan, you want to add something?

S V Krishnan: No, no, perfectly fine. Thank you.

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