# "Redington Limited
# Q4 FY '24 Earnings Conference Call"
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**Moderator:** Ladies and gentlemen, good day, and welcome to Redington Limited Q4 FY '24 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 the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

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

**V. S. Hariharan:** Good morning, everyone. Thanks for joining in. We are happy to share with you our Q4 results. It has been another good quarter with the continuing story of profitable growth. We have continued sequential improvements on PAT, starting from the first quarter of 1.17% to 1.36% to 1.45%, maintaining at 1.45%. This has also been the highest Q4 revenue recorded at INR22,513 crores, and our revenues grew at 3% top line, and PAT grew at 5%. We also recorded the highest annual revenue of INR89,610 crores for FY '24 at 13% year-on-year growth.

The results for the quarter was achieved by a strong growth of 9% from India and 15% from Kingdom of Saudi Arabia. In the overseas business, particularly in Africa, in countries like Nigeria and Egypt, there were market stresses and so the market was soft. We also continue to focus there on profitable business and trading of revenue maximization to manage our risks better, due to the currency fluctuations in those markets.

From the business units perspective, for this quarter, both the cloud business unit and the Endpoint Solutions Group unit contributed to the growth this quarter at 29% and 8%. For the year, all the business units grew well. For the quarter, we brought down our working capital from 36 to 34 days by focusing on operational efficiency, and this worked very well across all theatres. We brought business operations, sales operations, credit collection things together, really focused on this, and that resulted in a lowering of working capital.

We also turned in a positive free cash flow of INR1,102 crores. We continue to strengthen our brand relationships through initiatives and joint business plans, add new brands, and we continue to work on our go-to-market assets in each region and continue to build new revenue streams.

This quarter also marked a very important event, the signing of an SPA for the divestment of our Paynet business from our subsidiary, Arena in Turkey. Paynet is a fintech initiative specializing in payment facilitating services focused on payment transactions in the B2B sector. It was developed internally by our subsidiary, Arena to work with their own channel partners, then it got expanded to 30,000 partners within Turkey. It made sense, as we reached the maturity level to divest this. And the SPA was signed with Iyzico as published. The SPA was signed for USD 87 million plus adjusted net cash. There are regulatory approvals needed. However, once the deal is consummated, the proceeds would be used to correct the debt structure at Arena and focus on core business of IT distribution.

So overall, we had a good quarter with a good balanced performance across growth geographies and growth business units. Regarding the dividend, it will be taken up at our Board meeting in June, and we will communicate subsequently. Thank you.

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

**Nitin Padmanabhan:** So I think when you look at the results and the numbers, it broadly looks like there is weakness in certain markets. If you could give some color on the weakness that you're seeing today and how long do you sort of expect this sort of weakness to persist? And even some -- I think the SISA business mobility has sort of weakened quite a bit on a sequential basis. So just your thoughts on the broader market. Maybe if you could just split it by different geos, what you're seeing? And how long do you think the weakness continues when you think you sort of start seeing a recovery? Some color and context.

**V. S. Hariharan:** Okay. Thanks for the question. So let me start with the first one and then I'll get to mobility. Clearly, if you look at where we are, so we are in India, we are in MEA, and we are in Turkey. In India, as I mentioned, we had good strong growth. The mobility sequentially, we didn't do as well because typically, there is an NPI quarter for Q3, and we do well in our key brand, Apple, in that quarter. So you can't do a sequential compare. So it was still a decent performance in Q4 for mobility.

When it comes to overseas market in Middle East, Africa, we continue to do well in Saudi Arabia, as I mentioned, and U.A.E. We did have stress points in Africa, a lot due to currency fluctuations in how those markets behaved in the last quarter. And so we had to really decide which deals to pursue and which business to pursue in markets like Nigeria, Egypt and Kenya. And that was the main thing. And we expect this to continue for a bit more. We do expect in 1 or 2 quarters, things to improve as well. But we will continue to make sure that we are focused on profitable business and not take undue risks in these markets.

But KSA and U.A.E. offer us good opportunities to grow still. When it comes to Turkey, we had challenges because of what the inflationary environment and the interest rates there. And so we continue to stay relevant and to do business in a way that we can maximize our top and bottom line. So the Turkey market is stressed because of the high interest rates. So I would say largely in the overall geography situation, India, KSA and U.A.E. will continue to be positive for us. We'll just wait and see how much more to do and how much to push the envelope on Africa and Turkey as things improve.

And the mobility business, specifically, I talked about India. A lot of the weakness in the mobility business was in Africa because of the currency fluctuation. So we did pull back on Africa. And for us, Apple didn't perform as well on Q4 this year compared to Q4 of last year. And there's -- when you compare a year-on-year compare, you will see some of that.

So those are the 2 key drivers. I think the Apple part definitely is correcting, but the Africa will continue to remain somewhat of a challenge in the next 1 or 2 quarters.

**Nitin Padmanabhan:** Sure. And during the quarter, the finance costs have sort of moved up. So one, has intra-quarter debt been high because we are seeing end of period. So that's one. And second, from a factoring costs, have they sort of started coming off? If you could give what the number is for this quarter versus the last and how that's evolving. Yes, those are the 2 questions.

**S. V. Krishnan:** Okay. So on the total finance cost, just give me a minute, please, one second. Okay. See, overall factoring plus interest together for the quarter, we are at about INR219 crores vis-à-vis INR163 crores for previous year. And this is primarily on account of Arena, like we spoke last time in Turkey. Outside of it, if you just take the rest of the entities, there is a drop from INR96 crores to INR79 crores. So there is a significant increase in Arena in terms of the cost by about 106%. And this is primarily because of the increase in the interest rate there.

Even post our call, there were a couple of increases that had happened in this market. The Central Bank rate is about 50%, and our borrowing cost is north of 50%. You can imagine in this business, to have such a large interest rate, it's very detrimental. I'm just giving you a perspective for the full year. If you look at for the full year last year, that's where the interest rate in Turkey started going up quite substantially. Interest cost, as a percentage of our revenue, was 3.2%, which itself was very high, considering the nature of our business.

This has further moved up to 4.7 percentage of revenue in the current year, full year. So that's where we have a challenge. But full credit to the team there. They are trying to manage as much better as possible, but the situation is definitely volatile, to the extent, if you take the inflation rate, it's about 68.5%. I mentioned about the thing interest rate. And if you also see the depreciation of the currency, it's about 59%. So everything is significantly higher there, and because of which, there is a struggle in terms of profitability.

**Nitin Padmanabhan:** So in that context, the Paynet's business monetization was to sort of ease out the balance sheet, broadly, is there a…

**S. V. Krishnan:** Absolutely. Absolutely. That's what is our expectation and hope. But that will take -- as Hari said, a few more months or quarters for us to get all regulatory approvals and then get consummated.

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

**Aejas Lakhani:** Krishnan sir, Could you just call out that how will you -- how will the accounting of the Paynet entity work? What will be the acceleration to the net worth of consolidated Redington on account of this sale? And will there be any business impact on Redington because of this deal.

**S. V. Krishnan:** First, as Hari mentioned upfront, the consideration is about USD 87 million plus the cash available in the book. So we expect that to be north of $90 million. Post all the taxes and expenses, we think we should have about $80 million there as an accretion to the network locally. Since we have 50%, while you will find $80 million increase, which is about INR650-and-odd crores in the net worth of consol, but you will also have minority interest corresponding to that. So net-net, you can take about INR400-and-odd crores, yes, about INR375 crores.

**V. S. Hariharan:** And sorry, I just got to respond in terms of business. It is very focused on fintech. The main business of Arena products on mobility and the IT distribution, that will continue undeterred. It does not impact that at all. Obviously, the Paynet part of the financials come out of the P&L and balance sheet. But outside of that, there is -- there will be very little business impact. In fact, this should improve our balance sheet because being able to use this for debt and other things.

**S. V. Krishnan:** One of the reasons for us to fast track this divestment is also to solve our finance cost problem in Turkey.

**Aejas Lakhani:** Got it. Sir, my second question is, could you please call out what has been the sequential as well as Y-o-Y decrease in Africa?

**S. V. Krishnan:** Okay. You need to give us some time. We will come back, if possible, before the end of this call. Sorry, we don't have this in for readymade.

**Aejas Lakhani:** Okay, sir. So the third one is, last quarter, you had called out that there was some softness in interest rates, which has, again, gone up this quarter again. Is the entire incremental interest cost that we are bearing on account of Turkey only?

**S. V. Krishnan:** Yes, which is what I mentioned, right? Because if you take the quarter alone, our interest cost has come down compared to what it was in Q4 of last year as well as Q3 of current year. I'm talking about other than Arena.

**Aejas Lakhani:** Okay. Okay. Got it. Okay. Got it. Sir, the next one is that if you look at the standalone P&L, there has been a significant cut back in opex from INR118 crores to INR84 crores, and that has helped the opex line item. Is this opex line items are fairly stable from here on? Or is there scope for further reductions?

**S. V. Krishnan:** Okay. I don't want you to consider it's a significant reduction. Okay. So there are some one-offs and reclassifications that had happened. Because of which, it was showing like that. For example, our AR management has been far better that enabled us to get some refund from insurance companies. So that resulted in some drop in the opex. And of course, AR management has helped us to reduce our AR provisions also in the books. So these were some of the factors. And on a steady-state basis, I think you can take the current opex. I mean we are at about some INR2,700 crores. I'm not considering factoring as part of opex here. I mean, that's the run rate that we have today.

**Aejas Lakhani:** All right. Sir, could you also just call out -- you've called out that Africa would see maybe 1 quarter or 2 quarters of weakness. You stated India and Saudi are doing all right. Could you call out how the operating environment for Turkey is and your demand outlook for each of these geographies, both from an enterprise as well as mobility segment for '25?

**V. S. Hariharan:** Okay. So very good question. Turkey, it's generally softer. So the market is softer, especially starting in enterprise. Enterprise, you can see a decline in the market size. The mobility part continues to offer good opportunity. And we are just trying to manage not to push the envelope there from a market share perspective so that -- because the borrowing where as Krishnan mentioned earlier, is 50% interest rates. So we are managing that. So there is business to be had in Turkey on mobility, enterprise is softer. The consumer IT is also a bit soft, although not as soft as the enterprise.

**Moderator:** The participant got disconnected. The next question is from the line of Priya Rohira from Emkay Global.

**Priya Rohira:** I have more follow-up with respect to the demand environment in India. So while in SISA, if I look, the revenue growth has been 8%. If you could shed some color with respect to which business segments are seeing growth? Secondly, despite the 8% top line growth, the gross margin has been at INR540 crores flat. Was there any accelerated investment which we did in the business?

**V. S. Hariharan:** Okay. Let me talk about the growth part. Actually, all businesses are growing well. This quarter, particularly cloud grew -- continues to grow strongly, and you would have seen in the deck shared that cloud grew at 33%. Enterprise -- sorry, endpoint solutions group, the PC units, are also coming back strongly. This quarter, there was a good growth. ESG, the technology solutions, we could have done more. I think thanks to the elections, there have been some delays both last quarter and even we see some of that this quarter, both on the government deals and the corporate deals, some of them are getting pushed out. Mobility continues to do well and remains strong. So I would say a balance, and that we see post Q2 onwards, things coming back even stronger. And the second question was related to...

**S. V. Krishnan:** Gross environment related.

**Priya Rohira:** The gross margin. I mean, it was at INR540 crores flat.

**V. S. Hariharan:** We don't see any particular change in the gross margin on any of these business units. It will remain steady and flat.

**Priya Rohira:** Was there some absolute investments which you did in distribution? Or some product -- or in some product tie-ups and different partner tie-ups, which caused this flat despite the top line growth?

**V. S. Hariharan:** There is no accelerated investment specifically that cost that. I think it is just -- we are investing in all of the businesses to make sure growth is there. We do see many things happening in the route-to- -- we are improving many route-to-market like all the D2R and the regional LFR and Redington-led Technology Solutions business. Each of these route-to-market we are building out to be ready for the growth for the next several quarters. We do see introduction of AI-enabled PCs and the AI-enabled smartphones, and a lot of things are -- the environment is hotting up in that. So we are making sure that our go-to-market is ready for taking on these opportunities.

**Priya Rohira:** Sure. And just 2 more bookkeeping questions from my side. You did mention that the Board meeting in June is going to take up the dividend. And there is also an increase in the authorized capital. Is there some capital allocation strategy which are likely to finalize, which should be more streamlined in June? Or is it something that you want to invest back into the business?

**S. V. Krishnan:** See, the authorized share capital today post the bonus announcement last year is very close to the paid of capital. Just to give the headroom, we thought it's important we have sufficient authorized share capital. On the dividend part, as Hari said, the Board will again meet in the month of June before the annual reports are sent out, and then take a view on dividend, Priya.

And for your capital allocation question, I'm just making a general comment, nothing to do with this. We are very particular on capital allocation. We are -- I mean, for us, the return ratios are very important. Every decision that we take, we would want to make sure there is sufficient return and the capital is efficiently utilized. If I can just give you the numbers with respect to the return on equity and return on capital employed. For the quarter, return on equity is about 18%, and return on capital employed, above 21%. For the full year, it is 17% and 22.5%. I just thought it is important that we make a mention about it.

And one another point, which if I may intervene and then say, see, we have been talking about the growth. We all know that growth need to be insured, keeping in mind the profitable growth and the capital efficiency. We have said this very clearly. While we will not be compromising on the growth, definitely, that's not the objective, but we would want to make sure that there is a reasonable profitable growth and capital efficiency. I'm just giving you a perspective, which is did a comparison. We have FY '23 number, which is 1 year old of various peer group companies in India. Amongst them, all the 4 players outside of us, the working capital days was 42 days, working capital days for Redington all FY '23, March '23, it is 24 days. So we are very, very focused in terms of capital efficiency. I just thought I should make a mention about it.

**Priya Rohira:** Yes. Sure, Krishnan. I mean there is a great history you all shared both on the growth, the return ratios, and the working capital efficiency management. I just saw it from the point that maybe if you are seeing some growth likely to come back, as you all did mention the post elections, we could see some streamlining growth coming back. So I just wanted to take more of that as an add-on question over there. Okay, just one last question.

**S. V. Krishnan:** In fact, since you mentioned the election, sorry, I need to tell you. Our TSG business could have done well had this election hangover is not there because the capex are all postponed, which also had a negative impact in terms of our TSG growth in India.

**Priya Rohira:** Sure, Krishnan. I did see that in terms of 6% that I think your explanation helps it much better.

My last question on the margin side, we have streamlined on the working capital. On the margin side, this quarter was 2.4%. Should we take that as a benchmark? Because I know during COVID times, it increased. And you all did mention that it should be streamlined to ensure that there's a profitable growth. And so this margin should be taken as a benchmark?

**S. V. Krishnan:** We can. We had mentioned this in the past. Pre-COVID, our operating profit used to be in the range of 2.1%, 2.2%. During COVID, it went up as close to 3%, and we had been mentioning that on a steady-state basis going forward. We don't foresee this thing going back to what it was pre-COVID. We would want to mention that between -- I mean we maintain that between 2.4% to 2.6%. And we are at that rate. We are very clear about it. And similarly, working capital also, we have guided 35 to 40. We are within that range.

And for the earlier question from, I think, Aejas, Africa degrowth for the quarter is 16.4%. Africa degrowth for the year, 10.4%.

**Moderator:** The next question is from the line of Kunal Khudania from DSP Asset Managers.

**Vivek:** This is Vivek. I have 2 questions. One, in terms of Turkey, which is going through such a turmoil. Is there any kind of subvention or any interference you can expect from the manufacturers that -- like how they helped you during the COVID period to help pass on the interest rate? That's question number one. And question number two is, do you see that there's any impact of RBI guidelines on unsecured lending impacting the growth in mobile telephony business in India? And congratulations on the working capital control.

**S. V. Krishnan:** Okay. So on the government intervention in Turkey, we wish some of those happened. It is seriously a difficult market on multiple fronts, like I had mentioned. But we only feel that the things can only become better from here on. And with our team very focused on what they need to do, we should see definitely better results going forward. I'm not very aware about this RBI guideline on secured lending. I don't think it is impacting us because our funding is -- I mean, as usual, we are quite okay in terms of the funding. While there is some liquidity issues in the market, but otherwise, our funding is not a challenge.

**Vivek:** It was more on the fact that unsecured loans to any borrowings because mobile phones are based -- bought on EMI and so on. So whether that had any impact. But I guess it's not so significant. And like you said, the election is the bigger mover for you. Thanks a lot and Wish you the best.

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

**Kushagra:** A few questions. One is on the strategy or the capital allocation front. If you can help us understand the way you think in terms of the levels of debt which you're comfortable keeping on your balance sheet? Because the way I see this is you are significant -- you are -- the balance sheet has been superb. Your net debt levels are the same as it was 13 years back. So the working capital management has been superb. So keeping the working capital days same, are you thinking of avenues of taking a little more debt and probably grow a little higher and without compromising on the quality of the business or without compromising on the quality of the balance sheet. That is one -- first question.

And how should I tie up this with the comment you made on the Turkey debt and the transition which we have done to reduce the debt in Turkey and hence, to reduce the overall impact of the higher interest rates. So blending the two, how should we think about the debt levels you're comfortable or how should that evolve over the next few years on your balance sheet?

**S. V. Krishnan:** Okay. So I will answer it first for the rest of the markets and specifically about Arena. See, we are very focused in terms of return on capital employed. Anyone in Redington, you ask ROCE, they can tell you what ROCE means, how it need to be calculated. So we are so focused on that. So we will ensure that our debt equity, our internal comfort is between 0.6 and 0.7, and that's something which we are quite comfortable. And with the current debt equity ratio, we think we have sufficient capital for any spike in the future growth. Subject to, as you had said, the hygiene factor has been in place and the return ratios are the thing being maintained.

In the case of Turkey, it is current. I mean, first of all, you need to know that we don't hold 100 percentage in Turkey. It's the only company within the group, which is not 100% held by us. It is less than 50%. But we have the Board control, and it's a listed company. They have a little bit more debt, and that was on account of the acquisition that was done about 2.5 years back. And at this point in time, the market was quite okay, and it has got deteriorated only in the last 2 years. We think with this divestment that we have done, it should give us significant relief in terms of our debt equity ratio. And there, again, ROCE is something which is fundamental for us. I'm not sure whether I've answered your query, Kushagra.

**Kushagra:** Yes. Yes, you have. All right. The second question is on again a broader related to Apple. So Apple has been consistent more than 30% for you. And if we try to map Apple India sales with and try to sort of back calculate the Redington's wallet share, it has come down. So can you tell us how the distribution channel is divided for Apple between different players?

And how should we see this evolving? Because I think there could be some certain conscious calls as well from your side. So how should we see this evolving in the way that now Redington's wallet share should remain constant? And you're hooked on to the Apple India growth for you. How should one see that?

**V. S. Hariharan:** Look, Kushagra, we don't make specific comments about the brand. But I can tell you, the brands decide how much they want to go direct and how much they leave for distribution, it's really their call. But what we do is we -- there is what is called as a DTAM, the distribution total addressable market. And we try to maximize when we play in that because we want to remain #1 or #2, so that we are relevant. So it's very hard to comment specifically about a brand in a call like this. So I'm sorry, not able to answer the question directly, but we will maximize the DTAM available.

**Kushagra:** All right. All right. Sure. The -- I just have 1 or 2 questions on data, quick ones. So one is, if you can call out -- so you called out factory and interest together. If you can call out factoring cost overall for FY '24, only factoring costs. And also, if you can give some color on the Turkey numbers in terms of how big the revenues are and how profitable it was in FY '24? Yes, those were my questions.

**S. V. Krishnan:** Okay. So the factoring cost overall for the quarter is INR79 crores vis-a-vis INR48 crores in Q4 of previous year. Second, Arena is about 10, 11 percentage of our total business. For last year, our revenue in Arena in Indian rupees is about INR10,200 crores. And for the quarter, it's about INR2,400 crores. So it's roughly about 10%, 11%.

**Kushagra:** And how profitable Turkey was in FY '24?

**S. V. Krishnan:** We should feel happy if they are making profit at these interest rates, Kushagra. They are making profit. That comfort we can give you.

**Kushagra:** Sure. And lastly, factoring costs. Okay, I'll sum it up from all the quarters. All the best.

**Moderator:** The next question is from the line of Prolin Nandu from Edelweiss Public.

**Prolin Nandu:** I have 2 questions. One is on the Africa and Turkey business. So if we look at FY '25, is it fair to comment that maybe the worst is over for both these geographies, and this can be a good base on which we can see growth in FY '25?

**V. S. Hariharan:** Yes, I think so. I think we definitely see some positive signs. So let me just start with Africa first. On -- we are beginning to start doing business in South Africa, which is a little bit more mature and stable. We just started in the last couple of quarters. And we have some reasonable plans in the coming year on South Africa, and we are -- we've signed up several brands, and that should help us grow the Africa business.

Egypt is also -- with the IMF injection and everything else is getting stabler. Even though the currency is volatile there and the interest rates have gone up, but the ability to do business has increased. So those 2 markets are for potential. I think Nigeria continues to be stressed. There is improvements in Kenya. So I would say, all in all, directionally, for the year, over the next several quarters, we are a little bit more optimistic in Africa.

So is it with Turkey. Two things that we see, as Krishnan mentioned as well. So as and when Paynet unlocks and the deal is consummated post regulatory approvals, definitely, our ability to show our profits as higher profits and to go after new business will be better. Also, we are hearing from the market that there will be better improvements in interest rates and inflation. But again, this is all based on economists and other people that we hear. So we think that the Turkey environment over the next few quarters should also improve. The currency, if you look at the last 1 year, the currency devaluation has been not as tough as the previous year. So we are hopeful in Turkey as well.

**S. V. Krishnan:** Just to complement to what Hari said. The 4 markets which Hari mentioned, I'm just calling out what is the depreciation in capex in the last 3 months between December 31 and March 31. In Kenya, it appreciated with 17.7%. You all know what is our EBITDA margin, 17.7%. I mean, previously, it was at 132 and from there, it moved up to 156 and then dropped to 133. In Nigeria, it got depreciated by 27% in 1 quarter. In Egypt, it got depreciated by 34.8% in 1 quarter.

Please understand, in some of these markets, there are no proper hedging mechanism available. And our business model has a natural hedge built into it. But if the customers or we are not able to get dollars, which is what is the situation in countries like Nigeria, there is a big risk, and we need to be careful in that.

**Prolin Nandu:** That's very clear. The second question is slightly more on a strategy level. So if I look at your top 5 vendor list, right, all of them are hardware companies. The two segments like TSG and CSG, you have an element of software as well, right, in terms of cloud and enterprise solutions. And both these segments have been quite robust in terms of growth, right? So how soon can we see a software company in your top vendor list? Is it 5 to 7 years? Or will it be sooner? Will it be later?

And from a point of view of selling software versus traditional -- traditionally selling hardware. I mean in terms of aligning the organization towards selling more software go to strategy, what needs to be changed, what has changed and what is competitive landscape. In the past call, you have mentioned on the margins are pretty much similar for hyperscalers, right, and maybe slightly higher for SaaS. But when it comes to ROCE, is it meaningfully different from your hardware business?

**V. S. Hariharan:** All right. So we are also very hopeful that we will see some of these hyperscalers/softwares that we resell through the TSG business to get into the top 5. I don't know. I would hazard a guess, maybe it will be in the 3- to 4-year time frame. But we are seeing definitely good growth. I would say, overall in our business, the subscription piece has become more than $1 billion. Between the hyperscaler piece as well as the TSG platform-as-a-service and the software-as-a-service piece.

The additional opportunity that we see is to appropriate and professional services. So in the cloud space, we do resell, and the resell part, as you rightly said, the margins are very similar to hardware. But the associated part is professional services where we provide assessment and migration. It's still a small business, but much higher gross margin. And we're beginning to learn and work on that. And we will work on this partnering with our reseller community, specifically focused on professional services.

I think this will take time, but this can result in a higher margin, higher EBIT profile. I think ROCE might be similar because there will be investments. We'll have to make on opex in this kind of a business on people. But definitely, there is increased focus on how we can organize ourselves. We are investing in a cloud platform called CloudQuarks. You already know that.

We're already investing in a kind of a marketplace where we bring ISVs and MSPs and CSPs born in cloud players together. So we can create an ecosystem so we can go faster at it and outset appropriate for the services and build competencies internally. So there's a number of activities that we are doing that will enable this to happen.

We are not -- we already organized well, I would say, within the TSG team, the Technology Solutions Group, we have software sub business unit, and we also have the cloud unit as a separate unit. So we are largely organized well, and we continue to focus and invest the right way to get the best ROCE.

**Prolin Nandu:** Sure. Can I ask one more question, if that's fine?

**V. S. Hariharan:** Yes.

**Prolin Nandu:** Can you touch base slightly on the competitive landscape here in both your TSG and CSG business? And where I'm coming from is that there are traditional players who have been quite strong works, plus there are some telcos also who want to venture into this kind of an opportunity. So when it comes to competitive landscape, is there any white spaces in terms of the way we are offering the services, which is different and which is -- which we are -- to which we are able to fill that white spaces?

**V. S. Hariharan:** Yes, very good question. So quickly, I'll start in the cloud space, the hyperscaler space. Within the hyperscaler, clearly, resell is a somewhat easier thing to do. And many of our peer distributors, IT distributors do similar things. But where we differentiate or way we have come in is to really -- our understanding of how to drive consumption and workloads and how to drive the professional services around assessment and migration.

And these are not done by system integrators and not well understood by our peer distributors to try to differentiate and taking kind of a lead space there. In fact, I would say, in India and some parts of MEA, particularly U.A.E. and KSA, the key hyperscaler partners really appreciate what we have done and they have become a larger distributor and kind of a role model and an example for some others to follow.

Within the Technology Solutions space, again, there is a whole lot of brands that we work with on Platform-as-a-Service and Software-as-a-Service. Again, I think where the adjacency of being able to value add on professional services and implementation service and working with resellers is probably the differentiator. There, however, we find a lot of the value-added distributors or value-focused distributors are also there, and we'll have to learn our way and compete better with them. But clearly, I would say in the hyperscaler space, we are having a leadership. And the ability to have our own cloud platform, combined with this ecosystem that I talked about, is going to hold us good longer term because we are not behaving like an SI, we are behaving like a distributor and building this ecosystem.

**Moderator:** The next question is from the line of Drashti from Thinqwise Wealth Managers, LLP.

**Drashti:** When I look at our overall growth, our MSG segment has declined by 12% quarter-on-quarter. And the TSG has also declined by 5% quarter-on-quarter. So when our working capital days have improved by 2 days from 36 to 34, I wanted to understand, is it because the MSG growth has been lower, which is why we've seen improvement in the working capital days?

Or is there anything else -- anything structural that we have done because of which we've got this efficiency? And can this continue going forward? Although you've guided for 35 to 40 days, but 34 is a very stark improvement. So is there anything structural that we've done in the working capital or to improve the working capital is what I wanted to understand.

**S. V. Krishnan:** Drashti, efficiency, efficiency, efficiency. That's the best word. We are trying to do as better as possible without compromising on the growth. And the point that you mentioned in terms of MSG and TSG. See, it is more -- I mean, what should I say, in MSG, as Hari said, quarter-on-quarter between Q3 and Q4 may not be an appropriate model because Q3 is the time where you find all the vendors announcing the new products. So there will be a spike in Q3, and hence, that's not a correct, I mean, way to look at it.

In TSG, as I've said, because of some postponement that had happened in India due to the elections. In Africa, our conscious decision to be careful about the risk has resulted in the degrowth. It has nothing to do with our working capital.

**Drashti:** No, exactly. That's what I wanted to understand. Is the working capital improvement because the MSGs obviously, because of the seasonal business at MSG has gone away. And the TSG -- mainly the TSG has declined quarter-on-quarter because TSG requires a half of the working capital, right? And that is declined year-on-year as well as quarter-on-quarter. So is the working capital improvement because of that? Or like you mentioned, the efficiency in the business is what I wanted to get an answer on.

**V. S. Hariharan:** So this particular quarter, most improvements have actually happened in ESG and TSG. And it's not on account of MSG the working capital improvement. MSG always is quite light on working capital, and it's a fast velocity item. But I think to answer your question, I did mention in my opening remarks, we've actually put some additional focus. We have organized ourselves within both the geographies to have a more intensified operational focus between business operations, sales operations, present collections. So really, a focus on working capital.

Now can we maintain 34? That's a different question. Our guidance is still to be within the 35 to 40 range. But the improvement starkly has happened in the ESG space and a bit on the TSG space. These are the 2 business units where our biggest improvements are.

**S. V. Krishnan:** And just reading out, Drashti, the earlier point that I mentioned, the other players in India, DIO inventory days, 31 days, 52 days, 52 days, 33 days, other players. We are at 24 days. DSO AR days 59 days, 63 days, 39 days, 43 days. We are at 49, right? So we are trying to be as good as possible in the ecosystem. If others go berserk, then we also need to accordingly manage the show.

**Drashti:** And in your opening remarks, you have mentioned that the new brands -- that we are focused on adding new brands. And when I see the other segment, that has also improved for us on a yearly basis. So if you could highlight on what brands are you adding? And whether the margin profile and working capital profile are similar to our existing business? And in which segment have you added these new the brand, if you could highlight something on that?

**V. S. Hariharan:** So a lot of it is in the cloud space. So you'll see brands like Zoho that got announced that we are partnering with SaS, S-A-S. So there are many brands like those we are adding and partnering. A lot of these brands used to go direct. And as the cloud space is evolving, clearly, they want to work through the distribution model better. And we continue to add many -- but I'm just giving some examples here.

**Drashti:** And sir, when I look at our employee costs of stand-alone business, which is -- a stand-alone business versus the Rest of the World, our employee cost as a percentage of revenue, in the standalone is around 0.6 and have been maintained at that by. So when I look at the rest of the world, it comes to around 2%. And actually, year-on-year, it's increased by 2.16%. So is there a difference in the structure of these employees or organization in the stand-alone versus the Rest of the World, which is leading to this difference like 0.6% and 2%. If you could explain that?

**S. V. Krishnan:** Drashti, each markets are different. I don't think we can compare it that way. But still, I'll give you a perspective, if you see the gross margin. I'm just making a reference just to answer your query. Our gross margin in SISA is 4.98%. Our gross margin in Rest of the World, including Turkey is 6.88%. So there is better gross margins. Obviously, there will be a better cost, I mean, incremental cost also...

**Drashti:** No, actually -- Krishnan, appreciate it. But why this question comes is when we look at the newly listed competitor, which is coming. Their employee cost is almost 1.4% and ours is 0.6%, which is I just wanted to understand why is ours so less? And what is the structure and why is their so high? Okay. So not their, but if you could comment on our employee cost.

**S. V. Krishnan:** I think ours has been the steady state at these levels. We are quite comfortable with this.

**Moderator:** The next question is from the line of Krish Mehta from Enam Holdings.

**Krish Mehta:** My question was just on getting the inventory and accounts receivable provisioning number for this quarter as well as for Q3.

**S. V. Krishnan:** Okay. Just give me a minute. Sorry. Okay. So inventory provision for the quarter at a consolidated level is at minus 0.21%. And bad debt at 0.12%. When I say minus it's reversal net. Sorry, sorry, sorry. This was for last year. Extremely sorry, Krish. For the current year, it is minus 0.41% inventory and bad debt neutral. There is no, I mean, specific provision for the current quarter. For the full year, if you see, it is minus 0.1% inventory and bad debt 0.07% -- 7 bps.

**Moderator:** The next follow-up question is from the line of Aejas Lakhani from Unifi Capital.

**Aejas Lakhani:** I got dropped off in my last question. So I just wanted to understand the demand environment both on the enterprise segment, the IT -- consumer IT segment and the mobility segment. Ex of this election deferment that is taking place, but how is the overall sort of demand outlook?

**V. S. Hariharan:** So let me start with the enterprise segment, clearly, and I think your question is more with regards to India, I guess. So the enterprise segment, the demand continues to be very strong, and we are quite bullish in the next year as well. As I mentioned, both Q4, our Q4 and our Q1 has been softer because of the elections and postponement of capital decisions, both in corporates and government.

When it comes to mobility and the consumer segment. Clearly, consumer segment, we have seen an uptick in the last quarter. And we will continue to see that as AI-enabled PCs are being launched this year in AI-enabled workstations by all the brands. On the mobility segment, we are again waiting for the NPI to see a good growth, but it will be stable. So we see upside definitely on the enterprise segment as well as the consumer segment.

**Aejas Lakhani:** And sir, could you call out the same for global markets as well for ROW?

**S. V. Krishnan:** Sorry?

**V. S. Hariharan:** Can you repeat that please?

**Aejas Lakhani:** Sir, could you just call out the same enterprise as well as utility outlook for ROW, for the rest of the regions?

**V. S. Hariharan:** Yes, it is similar. So again, I will talk about markets outside of the stressed markets. So Saudi Arabia, U.A.E. and what we call as the rest of Middle East, which is some of the smaller markets around U.A.E., like Kuwait, Qatar and similarly in South Africa, we're quite bullish about the enterprise segment in all of these spaces.

Within the consumer segment, we also have what is called as an emerging business outside of PCs in the Middle East, where we participate in things like gaming and several verticals, surveillance, cameras, etcetera. Most PCs and those segments, we see, we are quite bullish on those for rest of the world.

Africa is where, because of the currency fluctuations, we're just cautious and careful. We do expect Egypt also a better opportunity in the next couple of quarters. We had completely pulled out of the consumer segment in Egypt as the currency fluctuation is happening. We are going to go back and reengage and play cautiously, but we do expect more business to happen in Egypt in the next few quarters.

**Moderator:** The next follow-up question is from the line of Nitin Padmanabhan from Investec.

**Nitin Padmanabhan:** So considering this is like the annual, it would be great if you could give some sense on the contribution breakup for Africa, Turkey, India, Saudi Arabia, broadly. So that's one.

And second, in the context of what you explained, it looks like Turkey growth, you would want to push the pedal only once the money comes in post the approvals. And Africa, again, I think, is something like that. So does it look like -- from where you're standing, does it look like this year is going to be a little more tail-ended from a growth perspective overall? And does it -- do you think that the -- so that's one. And second, do you think that double-digit growth in the context of where the economy is, is still there for fiscal '25? Or do you worry about that? So those are 2 questions on the revenue side.

And on the margin side, do you think margins have sort of bottomed out from -- on a -- kind of considering where we are for the quarter. Do you think margins have bottomed out. And I'm saying excluding the other income. And do you think that, at least in the first half, considering we're going to be risk off, basically the other income will take care of it and then the -- excluding other income margins actually begins to pick up only in the second half. So those are my questions.

**V. S. Hariharan:** Let me try and answer the growth question first. I think what we have done in the last few quarters, we kind of bottomed out. I think the way we have approached the whole environment is maximize investments and growth in growth markets where we can grow profitably, which we have talked about is India, Saudi Arabia and U.A.E. And we are beginning to now look at new markets like South Africa that I mentioned, which should yield results for the next few quarters.

Clearly, anything from here is positive because whether it's Turkey or whether it's just African markets or Egypt, all of those -- we've gone through a lowest baseline, and we should only improve from here. So I don't know whether double digit or what, it will depend on what the market environment is and what we can do. But in terms of our growth, we will only get better from here in terms of whether it's sequential or year-on-year, but it's what the market has to offer. So Africa, whatever business we thought was risky, we have already traded off, and things could get better from here. In terms of gross margin, Krishnan?

**S. V. Krishnan:** Yes. Before that, on the contribution part, listen, overall, India contributes about 47% of our revenue. Middle East and Africa, 40%. The balance, 12%, it comes out of Turkey. That's the split. Between Middle East and Africa, if you split that further into KSA, which is an important market, as I mentioned, that contributes about 30%; Africa about 20%. All these rough results plus or minus 1% or 2%. Rest of Middle East, which includes U.A.E. within Qatar and other markets, the balance 50%. On the gross margin, I think -- I mean, we would want you to understand, we have been talking about normalization post COVID.

**Nitin Padmanabhan:** I was talking about the EBITDA margin, right? So when we speak -- when you speak about EBITDA margins, you usually -- you are actually speaking about an EBITDA, which includes the EBITDA margin, which includes the other income. So there is always this moment when we are a risk off, basically, we generate more cash, and you see higher other income.

And then when we risk on, obviously, it moves up into working capital and thereby be excluding other income margins start moving up. So the question was excluding the other income, EBITDA margin, do you think that sort of bottomed out on where it is today? And from here on, do we start seeing things improved?

**S. V. Krishnan:** Okay. First clarification, Nitin, our other income is not out of business. That period of we sitting on cash, putting it in deposits, making money was those 3 years of COVID, right? As you know, we have debt all the time. If at all, if there are any flow taxes is what is getting deposited, which is very miniscule considering our total scheme of things.

Other income mostly comprises of interest income that we collect from our channel partners because we assume we need to give them 60 days credit, we decide to give them a 90-day credit. So that also has a component of, I mean, working capital, right? So we do consider this as part of our margins. We think that overall margins have stabilized. This can be considered as a steady-state margin going forward. If at all, with the services focus, it can only become better.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Mr. Hariharan, Group CEO, for closing comments. Over to you, sir.

**Hariharan:** Thank you, everyone, for joining the conference. And as we have said that our focus continues to be on profitable growth and return on capital efficiency. And we'll continue to make sure that we maximize the business in the market. And not lose any share with the focus on profitable growth as well as return on capital efficiency. And as I also said in my opening remarks, we do have a Board meeting coming up in June where we'll discuss and decide on the dividend. As soon as that is done, there will be communication to the market. Thank you so much.

**S. V. Krishnan:** Thank you.

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