"Redington Limited
Q2 FY '25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Redington Limited Q2 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

V. S. Hariharan: Good morning, everyone. Seasons greetings, warm wishes and happy Diwali to all of you. I'm happy to share with you our Q2 '25 results. This has been the highest quarter revenue recorded for Redington at INR24,896 crores. And our revenues grew at 17% quarter-on-quarter and 12% year-on-year. It has been a continuing story of profitable growth with growth coming back strongly.

Similar to last quarter, I will first focus on our performance, excluding Arena, the unit in Turkey, to provide enough color on our performance, and I will talk separately regarding Arena. Our profit after tax grew 10% quarter-on-quarter and 2% year-on-year with a PAT of 1.34%. Our profits did not grow as fast as revenue contributed by 3 factors: a mix change towards the mobility business, which I'll talk about a little bit later, which traditionally gives a lower margin; a larger proportion of bigger deals with lower margins; and some of the challenges we had, in places like Kingdom of Saudi Arabia on reprioritization of government IT investments, which led to higher inventory provisions.

Other large markets, India and UAE, which constituted almost 60-plus percent of our business, had stellar growth with growth rates of 25% year-on-year from India and 24% year-on-year from UAE. We are seeing definite signs of profitable growth recovery in West Africa and the smaller GCC markets in the Middle East.

From a business unit perspective, all business units registered strong double-digit growth with cloud business unit being our stellar performer with a 54% top line growth year-on-year, driven by the continued success in the hyperscaler business in the subscription software in our portfolio.

CSG is also beginning to contribute very well to the process. And this quarter contributed to above average net profit. The Mobility Solutions growth came back strongly this quarter at 26% growth year-on-year with the NPI and its momentum. Both ESG, the Endpoint Solutions Group and TSG, the Technology Solutions Group, were steady, at 12% and 11% growth, respectively. And the growth of the business units was seen across both India and Middle East - Africa.

The business team and operations did an excellent job of working capital, and we achieved one of the best-in-class working capital of 25 days. Our lower average working capital, coupled with lower interest rates in some of the geographies, helped us in lowering our interest costs. Our operating expenses are also very well managed this quarter and grew slower than revenue. We also achieved a cash flow of INR2,260 crores. Our best performance outside of the COVID period.

Moving on to Turkey now. The challenges in Arena and Turkey will be high inflationary and high interest rate environment continues, though we see inflation coming down for the first time below 15%. And there's also a decline in market demand, which we had called out the last quarter for the IT business, about 15% to 20% decline.

However, our subsidiary, Arena, did a better job in managing the inventories and receivables, resulting in lower working capital costs and also manage the operating expenses really well, resulting in a lower loss and a better result. We expect that this will continue to get better in the upcoming quarter with the peak season of the year coming up.

We're also happy to report some notable milestones that was reported this quarter. First, for the analysis and report by VAR India. We are proud to say that Redington continue to be the number 1 IT distributor in India for 2023-24. We had embarked on several sustainability initiatives over the last few years, which are beginning to yield results.

We've been recognized by a Business World amongst the top 250 companies in India for sustainability with the ranking at number 31. Our headquarters building in Chennai Redington Tower has secured the LEED Platinum Certification. Overall, we will continue the march on sustainability as one of our key pillars in our growth in Redington.

With the new growth trends that we see on cloud AI, digital transformation, we remain very optimistic on the outlook going forward. With the festive season in Q3 in India, the NPI momentum across the world, backlog on deals both in India and EMEA, the momentum we have built on CSG, we are optimistic on the Q3 outlook. Most of the geographies we are in are seeing positive trends outside of any potential geopolitical risk that may come up.

We look forward to your questions. Thank you very much.

Moderator: Thank you. The first question is from the line of Nitin from Investec India. Please go ahead.

Nitin: Congrats on a very solid quarter and the execution as well. I had a couple of questions, maybe a little more longer term. So one is that, I think if you look at the last many quarters we have seen this trend of gross margins actually coming off, and well, broader interest rates have been on a rise.

So just want your thoughts on what is it that will sort of change that dynamic or stabilization or improvement on a going-forward basis? And also, if you give some context on both gross margins and EBITDA margins maybe over the last 5, 6, 7 quarters of how that is? What solely driven that deterioration? So that was the first one.

The second question is around -- I think what we have done in the last 10 years has been incredible in terms of scaling size being a very high-quality distributor. Now if you think about maybe the next 5, 10 years, I just wanted your thoughts on how you think this portfolio should change. And what are we doing to really drive that change?

So I do understand around cloud and software and all of those. But the pace at which it's moving, it's not meaningful to really make a big difference even in 3 to 5 years. So I wanted your thoughts on how you plan to take this forward?

S.V. Krishnan: So let me drop in, in terms of the first question, Nitin. See, the gross margin, you need to compare it on a steady-state basis. If we look at the gross margin over the last 5 years, which also included about 2 to 3 years of COVID period, there was some incremental gross margin, as you know, because of various factors. That normalization was expected, and that's the normalization that was happening in the industry, not all of a sudden, step by step. And this is what we have seen in the last few quarters.

Is there a pressure on the margin? Definitely, yes. And is the pressure expected? It was expected, maybe sometime. As the pendulum settles down, it will also can [inaudible]. In terms of managing this, we don't foresee any concern on this, while there is a drop which we need to manage. How are we managing it? We are managing it through operational efficiency in the form of using better opex control, better working capital control, and also the interest rate being -- interest cost meant to be at the optimum level, which is what has helped us. I mean we have a clean balance sheet, if I may say. That's something that gives us confidence.

As things come back into the future, we should be able to do well. The interest rate has peaked out, all of us know. And in many markets it started this thing coming down, not yet in India, not yet in Turkey. But as that comes up, we think that can be an added advantage in terms of profitability, but we have to wait and see.

V. S. Hariharan: Thanks, Nitin. For the second question, in terms of long-term trends and where do we see margins and everything else. So clearly, we keep talking about these trends on Cloud and AI. And those are 2 trends that are going to be important that we leverage those. So when I talk about Cloud, the whole subscription business is not just the CSG business, which is a hyperscaler business, but also comes from the Technology Solutions Group, where we have Platform-as-a-Service and Subscription-as-a-Service.

Clearly, that market, one is growing as the industry transforms and also can result in higher margin, both from the kind of subscription products we'll deal with as well as the one-step consumption services, things like migration, etcetera. So clearly, for Redington, there are a few things. One, we need to organize ourselves to take advantage of the opportunity.

Today, we are focused very heavily on the cloud part of the business from a hyperscaler business, but we're going to go after the Software-as-a-Service, Subscription-as-a-Service business also.

Second is, it requires investment on a cloud platform, which requires to create an ecosystem with our partners and ISVs. So we're going to work on all of those. We clearly see that as a trend and we must do much larger amount of business there and go after it in a very systematic and structured manner.

Second, from an AI perspective, clearly, all devices that we sell in the market, whether it's mobile phones, smartphones and PCs will all become AI and the servers as well. We continue to resell those. However, there is an opportunity there as well in terms of new use cases and new solutions. So clearly, we need to understand how that will happen and what kind of partnerships we need to have in terms of selling AI solutions in the market and participate that.

It's still early days. I think it's the start of a big transformation in the next 3 to 5 years. But clearly, we see few opportunities in both of these spaces for us to play a larger solutions role as a distributor and appropriate higher share in the solutions and the margins there.

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

Aejas Lakhani: Congratulations team on very solid execution in the quarter. Krishnan, my first question is that sequentially there has been, if you look at the delta of revenue, a large part, about close to 50%, is coming through mobility solutions, which, as we know, has lower gross margins and lower working capital days. Is this the sole reason for the working capital reduction that we have seen in the business? That's question one.

S.V. Krishnan: So let me answer that. This is one of the main reasons, I would say, not the sole reason. We are driving working capital efficiency very, very rigorously across all the geos, and this includes -- just in Turkey. If you see in Turkey, vis-a-vis last quarter, there is a significant drop in the working capital. So that's something that we are driving as a practice.

Yes, the mobility has helped -- the share of mobility and the new product launches that had happened towards the end of September definitely helped. But also, some of the large deals we could structure it in such a fashion where we will get our money back. So all those have helped.

Aejas Lakhani: Sir, my second question is on the slightly lower gross margin than anticipated. So could you call out that is it due to the weakness in demand, which is like you had called out last quarter, transient on the enterprise side? Or is it that the mix is a little on the lower side because of the nature of the large proportion deals that you have picked up this quarter? And how should we see the gross margins for the next -- for the second half of the year?

S.V. Krishnan: As Hari mentioned, the drop in gross margin in the quarter has been on account of multiple factors. One is the mix we just discussed. Second, yes, you are right, there are some large deals where it may not come at the normal -- within margins. But overall, so long as it helps us in terms of maintaining the return ratio, we're quite okay. So either it will help us from working capital or it will help us from the gross margin, and we have to make a trade-off there.

Third is, when you make a comparison between last year Q2 and this year Q2, there is also some inventory provisions at play, and this is primarily in ESG and TSG business and also in KSA, as Hari has mentioned, in Kingdom of Saudi Arabia, where because of some slowdown, last year, we have had an inventory provision reversal.

This year, we have had inventory provision. That delta had an impact in terms of gross margin, which we think is more within transitionary short term, and we should get that back in Q3, Q4 time.

Aejas Lakhani: Just a follow-up on that. Could you quantify what is the inventory difference between second quarter of last year to this year? Could you quantify that number?

S.V. Krishnan: In total, about 41 bps. Last year, it was negative 29 bps. This quarter, it is positive 12 bps. That's about half of the Gross margin drop.

Aejas Lakhani: So from a value perspective, that would be roughly about INR80 crores?

S.V. Krishnan: I don't know exactly the value, Aejas, but I mean, as I said, it's roughly about half of the gross margin drop between last year and this year.

Aejas Lakhani: Okay. Sir, could you just call out on Turkey? We've seen the quarterly losses coming down. So if you could expand on how that geography is doing, what is the situation? How have you managed to significantly reduce the working capital in that region? And what is the outlook going forward for the second half?

V. S. Hariharan: I'll try and answer that. So as I mentioned, we have been tracking the market size specifically and how the market opportunities are unfolding. So there is a clear decline of around 18% to 20% on the PC business from a market opportunity and a market size perspective. When the sudden decline happened last quarter, we were caught a bit off guard because despite the inflationary and the interest rate environment, the market demand was not softening. It was quite okay. So we quickly adjusted to this.

We worked very closely with our brand and vendor partners in terms of bringing the inventories down and making sure we have the right amount of inventories in the market. We also went ferociously after receivables to keep a good control on receivables. And both these things allowed us to bring our working capital down significantly, which allowed us also to help -- play a better role in terms of cost management on interest cost.

Because as you know, the interest costs in Turkey are high. On the lira, it's like 50% on -- even on the U.S. dollar, it's more than 10%. We also went back to the drawing board on opex. Both on people and on everything we did in the market, we -- stopped things which were not immediate return on investment, any initiatives and activities that are not critical for the upcoming 2-3 quarters. And wherever we felt we can also rationalize headcount resources, we did that as well.

So it's a combination of actions we have done and that really, and I must commend the team the way they approached it. We had actually 5 or 6 very critical balance sheet parameters that we track and manage to get everything as per plan, significantly reduced our exposure.

Aejas Lakhani: And the outlook for Turkey in the second half and also a bookkeeping question on factoring costs and interest costs that you've incurred for the quarter.

V. S. Hariharan: I can talk about the first one as Krishnan gets ready for the second. So the outlook is better for the Q3 and Q4. One will continue the initiatives that we have started in terms of managing working capital and opex. But normally, calendar Q4 is a peak quarter for Turkey. So we are expecting that things will get better.

So a higher revenue will yield higher gross margin and higher EBIT. That should help us. And we expect Q1 also to be good. But normally, calendar Q4 is the best quarter, and we will continue our actions into calendar Q1. So we should expect a better result in the second half.

S.V. Krishnan: So the overall interest cost -- and the second question is just the overall interest cost, which is interest in the balance sheet plus factoring cost for the quarter is INR88 crores, vis-a-vis INR174 crores Q2 of last year, a drop of 50%. If you take out for a moment, Arena, the interest cost for the quarter is INR30 crores, vis-a-vis INR73 crores for last year Q2, a drop of 59%. So it is across the board reduction. And while a part of it is because of interest rate drop, a significant part of it is because of reduction in the working capital.

Aejas Lakhani: And sir, what was the factoring cost this quarter?

S.V. Krishnan: It's about INR4 crores (Correction, it is INR31 crores).

Aejas Lakhani: Sorry, sir, you said INR4 crores?

Srinivasan Krishnan: INR4 crores -- INR4 crores (Correction, it is INR31 crores).

Aejas Lakhani: INR4 crores. Okay. That's a significant decline, right? So from, last quarter, I think it was INR67 crores. So that has significantly declined, how come?

S.V. Krishnan: Yes, it is because of some actions that we have taken as Hari had mentioned. I mean, we reduced our working capital quite sizably. And the deals which were not coming at any reasonable terms, I mean we had let it go. We also had a one-time advantage of receiving some advance from a customer, which also helped us. So some of these were the factors were lower overall interest cost in Turkey for last quarter.

Some may continue, but some may not continue as is. I just want to make a mention there, but we are trying to do whatever best as we can. Please understand our interest -- sorry, our opex for the quarter, the real opex has gone up by 7%, and this in spite of a 46% increase in the inflation in Turkey. So if you eliminate that, I mean it will be much better. So we are very clearly focused on some of these factors.

Aejas Lakhani: And sir, ex of KSA, what is the Enterprise outlook -- Enterprise demand outlook?

V. S. Hariharan: The enterprise demand outlook remains strong, Aejas. And even on KSA, we expect that to come back. There has been a reprioritization of investments, and we are -- want to make sure that we -- as a distributor, are aligned with the government initiatives. Definitely, Q3 is a good quarter normally for the Technology Solutions to the value business, so we expect that to come back.

We obviously need to execute very well because these solutions are all very complex and long decision cycles. And there are many T's and C's need to cross. But the outlook is, if you look at the backlog and the demand, very promising.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir, I understand that from the previous question, our gross margin has been pressured over the past few quarters due to various reasons. When I look at some business perspective, the 2.4% to 2.6% kind of margin raise on the operating level. It looks far size currently. As seen in the past 4 quarters, there has been some kind of externality that have been affecting our business.

So when can we expect the initiative of margins to sustain for our business? Or do we see these kind of pressure for additional 4 to 6 quarters going forward? So some thought on that.

S.V. Krishnan: If you eliminate large deals where I said the terms would be different, but overall, our objective is to ensure reasonable return ratio. I think we should be able to maintain from a medium to long term, the range that we've talked about. We're quite okay, we're not concerned.

Madhur Rathi: Do we have some kind of time line as we see that the larger deal as well as the externalities go away? Or do we think that this pressure would extend for some few quarters?

S.V. Krishnan: Yes. Your voice is not clear and hence the question...

Madhur Rathi: I wanted to understand about the time line when we reward them to our long-term averages.

S.V. Krishnan: See, these are incremental business Madhur. I mean we are only looking at it that way. The steady-state business, we are quite okay in terms of continuing at these margin rate. And these are some large deals that keeps come -- this thing coming. So long that these are all not, I mean commercially backed, we are quite willing to take those.

Madhur Rathi: So like our revenues have been growing at a very good rate, but that is not low because of the larger deals. And so when you give us the steady-sheet guidance, you just considered that the project business that are very cyclical as well as the lower margin on the spectrum. So is this considered, or is this an overall incremental whatever we get margin or our core business? That's why it will be lower as and when the larger deals come and go away?

S.V. Krishnan: Yes. See, going by the deals that are happening in the market, we think some of these larger deals will keep coming up for the next few quarters too. And we will do efficiently, basis our risk consideration and the returns that we get.

Madhur Rathi: So Krishnan Sir, just a final question. So for the FY '25, for the remaining H2, do we expect our margins -- operating margins to be in the sub-2% range? Or can we expect it to inch up based on your outlook on the project business as well as the overall business we think?

S.V. Krishnan: Overall, we think it will be definitely much better than H1.

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

Priya Rohira: Firstly, congratulations on excellent execution. While you've outlined in terms of the growth and the macro environment with respect to – little more properly and Cloud and AI being the growth drivers, I just wanted to understand the overall trend. If I just look at particularly into India, I do understand overseas has seen uptrend. But if I look at India, the revenue growth was 24% and the EBITDA growth was 4%. So there's a wide divergence in terms of top line and EBITDA performance.

And while you have been making investments, a color on that would be helpful. Now from the point that when do you see it going -- trying to match the top line growth? Second thing is, is this 24% growth which you've seen in India, would this be at one of the peak levels? Or do you see this traction being there given that whatever you would have seen from the festive or the enterprise business segment side?

V. S. Hariharan: Priya, I'll try and answer the first question on growth. So there were -- obviously, all the business units, as I said, are expected to continue to contribute to the growth this quarter. We see, number one, the mobility momentum to continue this particular quarter. Typically, you see Q2 and Q3, when the NPIs happen, we have good surge there. The Technology Solutions group, we continue to see a lot of big deals. So we will see good growth rates there. CSG continued its momentum.

On the PC side of the house, with the Tech refresh on AI as well as the Windows 10 to 11 migration, we do see the PC market growing. So my view and outlook again based on what we hear from Gartner and IDC. The growth rates will continue. I don't know whether it'll be 24%, 25%, but really a significant double-digit is what we see on the outlook for India in terms of growth rates.

S.V. Krishnan: Just to add, Priya, for the quarter, as Hari has said up-front in the call, by BU, I'm eliminating for a moment, Arena in this. ESG has grown their revenue by 12%, TSG by 11%, MSG by 26%, and the Cloud Solutions grew by 54%. So it's a strong growth across verticals. It is just not the deal-based business. I mean, deal-based business is something that comes on top, we are able to see growth across the board. And this is true even if you want to see it by markets.

Priya Rohira I appreciate the broader direction you've given. Secondly, I think in terms of the margins, if I look at -- and I think you mentioned about meeting investments into the business, when do we see coming back to a consolidated gross margin, which should in the past how we have seen like around 4.5% to 5% because top line growth has been a massive scale up this quarter.

Whether I look at quarter-to-quarter or Y-o-Y, what has been phenomenal. Just the margin has been while Q-o-Q increased, but still what one would ideally look at from this business. Or is it that the business nature is changing?

S.V. Krishnan: See, the thing is we are a very large player, as you know, Priya. We would want to make sure that this leadership position is not compromised, and we grow faster than the market in each of the geos and each of the business verticals. That's something which we think is fundamental.

Second, my request to you will be look at the PAT percentage. We had been saying we would be able to maintain a PAT percentage of between 1.3% to 1.4%. In spite of the drop in margin, we have ensured that. That's on account of various efficiencies that had come in. So we're very confident in terms of the operating profit and the fact gross margins can differ, this is what is the mix of the business that we take.

Priya Rohira And just one last question, if I can ask. Do we see this working capital days sustaining or as what you past guided that it is better to normalize even if it moves from quarter-to-quarter in terms of benefiting us, but better to see it move from the long-term average, which you have guided us.

S.V. Krishnan: Yes. Our submission is please -- I mean, you should be guided by the 35 to 40 days of expectation. We will do whatever we can to ensure we manage this part efficiently. We will not, I mean, leave any stone unturned. Here is a case where we had an opportunity and we are able to reduce the working capital days. But you will find that going back and on a steady-state basis, I think we should be growing by 35 to 40 days.

In the quarter, I'm sure you would have observed, absolute value of working capital -- absolute value of working capital is down quarter-on-quarter, year-on-year in spite of this revenue growth. So that's something which, I mean, we could achieve, but we will try to do whatever best that we can.

Moderator: The next question is from the line of Jolyon from Amiral Gestion.

Jolyon: So maybe just a follow-up on the working capital. So obviously, there are certain transient factors that are causing the working capital come down, and maybe we are opportunistic, maybe in terms of taking the advances. But at the same time, what I'm also hearing is that there are certain structural initiatives that we have done this quarter to bring it down either in Turkey or elsewhere. So why do they -- you are still expecting such a sharp reversion of working capital to 35 to 40 days, I mean, the transient factors aside. Maybe just, that's my first question.

S.V. Krishnan: See, we have been saying working capital on a steady-state basis will range between 35 to 40 days. In this quarter, there were certain large deals where we could get money in advance. As you know, there were some new product launches that happened in the mobility space and otherwise that helped us in terms of getting our cash faster from the customers and some of the efficiency actions like I had mentioned in Turkey.

All these factors have resulted in this significant drop in the working capital. That's more a one-off. You will see the normalization in the future quarters. I don't want you to see there is a significant increase, it's not an increase. In fact, what had happened this quarter was an exception where there is a significant drop. It may not be -- I mean it may not continue on a steady-state basis. That was the message Jolyon.

Jolyon: That's correct. So entirely mostly one-off. Maybe second one, the inventory provision of 12 bps. Could you comment on the nature of this, a little more details to why we are doing this provision? And perhaps in the next few quarters, do you also expect a similar level of inventory provision or any other provision for another -- for the business?

V. S. Hariharan: I'll try and take one part of the question. See, I mentioned Kingdom of Saudi Arabia. So there were some specific inventory of products that we have brought in for some government deals which got delayed. And so we carried those as provisions within our balance sheet for this quarter, given that we could not execute them, and we are working to execute them this coming quarter. And once we execute them, it will come back.

So it is a provision in this quarter. There are similar inventory provisions both across the ESG and the TSG business, largely in Middle East, Africa, and we expect those to get resolved. What happens is especially for back-to-back customer center deals, we do bring in inventories. And if they don't get executed in that particular quarter, we have a provisioning approach and -- which is what we reverse once the deal gets executed.

Jolyon: And so next 1 or 2 quarter, if the deals get executed in Saudi, in Middle East or Africa, you reverse this 12 bps of...

V. S. Hariharan: That is correct. So we are definitely hopeful that everything -- the provisions that were created this quarter that impacted the gross margins will reverse back in Q3 and Q4.

Moderator: The next question is from the line of Sahil Doshi from Thinqwise Wealth Managers LLP.

Sahil Doshi: I understand the trade-off between margins and working capital, I just wanted to understand in the global PAT margin that we report. We have seen some kind of a decline from our guided range of 1.3% to 1.4% to 1.1%. So could you just talk what's the situation there? And is this a structural trend? Or how do we try and improve this?

S.V. Krishnan: See, for a moment, you may have to, I mean, consider Arena separate because you know well what's happening there. It will take some time for us to come back to the profitability part that we had mentioned. I'm sure you know there is a large deal that we had done -- I mean, divestment that we have done, which is yet to get consummated, which can happen whenever the approvals are in place.

Once that happens, then you will see Arena profitability will become much better maybe within the range that you had said. Outside of it, without Arena, the numbers are 1.34% PAT, which is what I think is the key.

Sahil Doshi: Sure, sir. Even in the ROW, if I see the PAT margin is 0.8% this quarter...

S.V. Krishnan: That again, because of Arena rate. Arena is part of ROW. That vitiates the picture there.

Sahil Doshi: No, if I see it excluding Arena, it will be 1.09%, 1.1%, as I was saying, is it a particular geography?

S.V. Krishnan: Between the -- sorry. Please go ahead.

Sahil Doshi: Sorry, my clarification was, is there a particular geography within the ROW excluding Arena, which is actually giving this stress at this point of time or...

S.V. Krishnan: This is the inventory provision that we had talked about and majorly in KSA.

Sahil Doshi: Understood. And just to better understand, could you quantify how large are these deals as a percentage of revenue or just value-wise or something on that sort?

S.V. Krishnan: See, we normally would not talk about specific deals, but these are quite large. In the past, I mean, there used to be large deals but maybe once in a while, but now we started getting about INR200 crores, INR250 crores orders quite frequently. If I just need to put a rough number for the last quarter, it's about some INR1,500 crores.

Sahil Doshi: That's helpful. And going forward, sir, what will be our thought on these kind of large deals? Will it yet meet our thresholds in terms of ROCE and these PAT margins?

S.V. Krishnan: It will. That's what I had mentioned, that's our key consideration. If you see on our ROCE for the quarter, consolidated, it's about 21.4%, right? So that has not got compromised. If you see the split between that into SISA and ROW, in SISA, it's about 27.5% and in rest of the world, 15.4%, which is understandable considering the interest rates in those markets.

Sahil Doshi: That explains well, sir. And just if you can just shed some light on Africa and the Kingdom of Saudi Arabia, you had said that you're seeing some kind of revival. So possibly, what's the status? And what kind of revival are we seeing if you can just talk a little more on that as well?

V. S. Hariharan: So if I break up MEA, so there is UAE and KSA. UAE and KSA are largely very stable geographies when it comes to things like ForEx and other things. We had a temporary blip in KSA partially because of reprioritization of IT -- government IT projects that has set us back in the last 2 quarters. If you remember, the last year, we grew 31% year-on-year, and we were expecting the similar growth rates this year.

But because of the reprioritization, the government is going through a process where we are relooking at the next 5 years, how -- what we'll be focused on. That reprioritization has caused a blip, but we expect KSA to come back over the next few quarters. And UAE continue to grow very strongly at 24%.

Within Africa, we've definitely seen good signs of recovery. So if you look at West Africa, we've actually grown significant double-digit growth this quarter and last quarter too. And while inflation continues, the exchange rate is a bit more stable. In East Africa, things have been a lot more stable. And so if you look at Africa as a whole, the last 2, 3 quarters, the Africa growth has been double digits and yielding good profitability.

Because of the currency stability, because of inflation stability and interest rate environment also is while high in some markets, it's still stable. So we definitely see that trend to continue over the next few quarters, except for any geopolitical tensions coming up.

Sahil Doshi: Sir, just one last question on ProConnect. As stated in the annual report last year that the first half was where we had some issues with one major customer. Just could you talk a little on what the status of ProConnect at this point of time? And what are your plans there in terms of scaling up in terms of any monetization or anything going forward?

S.V. Krishnan: ProConnect, in terms of growth is very clearly coming back. Year-on-year growth here, we have seen about 7% growth in terms of revenue and profits about 4x. So it is looking quite strong. The operating profit is about 10%. We are now tracking close to INR250 crores revenue a quarter.

So I mean a lot of things are going well there. We are in the process of scaling up the business. Monetization would happen at an appropriate time, Sahil. I don't want to put a time line to this. Whenever we see value, whenever we see we are very well geared in terms of getting into that part of the space, we will definitely explore that.

V. S. Hariharan: And in terms of the business itself, we have now analyzed over the last few years what are we really good at and our focus is on integrated logistics. Our focus is on areas like mission-critical services. So there are specific areas we have called out within our space because it's a crowded industry.

So we want to excel in the areas that we've excelled in, and that's what we've continued to do and continued to grow on, and we are building on that thesis. First, we want to be profitable, and we have achieved that over the last 4 quarters, and we want to continue the profitability trend, but then start building the growth beyond where we have been in terms of 7% this quarter that Krishnan talked about.

Moderator: The next question is from the line of Lakshminarayanan from Tunga Investments.

Lakshminarayanan: Two questions. I just want to understand, if you look at your Apple revenues, how much of Apple revenues comes from the -- I mean how much of that is mobility? Is it like 85%, 90% of Apple revenues is our mobility?

S.V. Krishnan: See, we would not normally talk about a specific vendor. But I can tell you that the Android portion of the business is doing very well. So the overall growth in mobility is also on account of android doing very well. Let me put it like this.

Lakshminarayanan: So if I look at the mobility part in SISA, it has actually grown almost 50%. Can you just explain -- is it like a volume growth or a value growth? Or what really happened, whether it is a low base previous year? Can you just help me understand what drove this good growth?

V. S. Hariharan: So there are 2 parts to add, one, I think Krishnan tried to answer. I think the Android part of the business has grown very well this quarter. And the Apple, though we don't want to especially talk about a brand, the NPI happens this quarter and so there was significant momentum on the NPI. So both of them contributed significantly. Normally, it will be always only the NPI, but Android is part of the business that grew. So both of them contributed.

Lakshminarayanan: And second, if I look at the -- let's look at Apple growth in India, in particular. Any kind of sense of how much of business is coming from Tier 2, Tier 3 cities? Is it because Apple says that around 70% or so of the revenues is coming from Tier 2, Tier 3, I think that's something which I read somewhere. Just want to understand, are we getting a lot of business from some outside Tier 1 cities for Apple in India?

V. S. Hariharan: Yes. So if you see the stated strategy is both N-1, N-2, N-3 SKUs on Apple. And we clearly see a momentum of the N-1 and N-3 SKUs in the upcountry. And almost 30% of the business comes from upcountry, and the growth there is actually quite good because the whole premium part of the market is growing much faster than the non premium part of the market, which is where Apple plays a significant role and our ability to have multiple SKUs split to our advantage to be able to grow the business in the upcountry.

Moderator: The next question is from the line of Pratik Kothari from Unique AMS.

Pratik Kothari: Sir, one very basic question. In terms of cloud solutions, can you explain what is the value add that we do and what is it that we offer?

V. S. Hariharan: So within cloud, the hyperscaler business is a significant portion of the business, even though we have Software-as-a-Service with some nice partnerships we have. There are 3 elements of the cloud business. One is pure resell, and reselling cloud on a subscription basis. That's the first thing that we do.

Second thing that we do is driving consumption and workloads. So as customers adopt cloud and they want to -- we work with them through our reseller partners on growing more subscription units, more licenses, et cetera. So the consumption and workloads, there are specific programs that we work with our hyperscalers along with our resellers to grow that part of the business.

But most importantly, a lot of customers as they migrate to cloud, they need a lot of help, whether it comes to migration from on-prem to cloud or first-time cloud. And we engage in these professional services, we have big competencies in-house. So there's migration, modernization, a bit of managed services, improvement in cost optimization, spin-offs, DevOps, we do play a role in that, but we also reach these competencies to our reseller partners.

So all of these 3 pieces, whether it's resell whether it's consumption, and whether it's professional services, our value-add that Redington brings to the table, which is one of the reasons you see a lot of the cloud brands have moved from being direct to going non-direct. One is obviously to address the mid-market. But even in the smaller enterprise space, they count on distributors to be able to add a big value. And Redington actually has created a pioneering approach both in India and Middle East, Africa, which has been widely recognized by the hyperscalers.

Pratik Kothari: And if I remember from the last quarter we had mentioned that our cloud I mean, your net margin is similar to our overall business.

V. S. Hariharan: Yes. So if you look at the margin part of the business, you're right, the pure resell is similar to the rest of the business. But then when I talk about consumption and workloads, we do work with hyperscalers and are able to appropriate more margins on that. And when it comes to professional services, we can get significantly more margin. But the scalability of that depends on our building competency and our being able to bring along our reseller partners on those competencies and sharing those margins. Clearly, on the consumption workload as well as the professional services, where we will get more margin than normal.

Pratik Kothari: And when you say migration, this is end-to-end Redington takes care of this, I mean, from on-premise to cloud.

V. S. Hariharan: So we can. So we can take care of it. We can also partner with our resellers to take care of it. We can say about 70% of the cases we work with resellers, 30% of the cases we work on our own. But our intent and approach is to be able to work with resellers, build the competencies with them and really bring that value-add and to be able to share the margins that we can scale faster.

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

Nitin Padmanabhan: I just wanted to reconfirm and sort of understand what I picked up. So one is, I think as you go forward, both TSG, ESG should start looking better, Saudi Arabia should start looking better. As execution comes in, the provisioning should come down. And obviously, where you may see a change in mix and maybe some increase in working capital, that will also be -- there will also be commensurate improvement in margins to that extent because of the mix shift. So overall, as we get into the second half, which is a stronger part of the year, things can only get better overall from a profitability standpoint. Is that a fair understanding overall and summary?

V. S. Hariharan: Perfect. You are absolutely bang on. And just to add to that, typically, the Q3 and Q4, normally, the market potential trends are also more positive. The combination of solving for those topics that you mentioned and the market environment, I think it should only get better.

Moderator: The next question is from the line of Saurabh Dhole from True Beacon Investment Advisors.

Saurabh Dhole: Just a follow-up on the cloud solutions answer that you gave about the value-add. I just wanted to understand from a ROCE perspective how superior is this to the base business? Because on -- I think you already answered the margin perspective, but from a ROCE perspective, how does it compare with the base business?

S.V. Krishnan: It will be pretty high because the working capital deployment in this space is quite less, there is no inventory. It's only receivables and payables. So it will be very, very interesting from a ROCE perspective. See, in the cloud space, I mean, a few interesting things that we need to keep in mind is a very high growth rates, which we are seeing very continuously. It's more quarter-on-quarter than year-on-year because of the annuity -- I mean, the nature of business being annuity business. The profitability is quite strong and the return ratios are very attractive.

Saurabh Dhole: And sir, when you broke down the value add, so the first two points, the first one was the pure resell there, remember there is a subscription piece involved. And the second one where you're driving consumption. So this is basically a flow, right? So does Redington actually get some share of this flow as the quarters or as the usage goes up?

V. S. Hariharan: So the first part of the value-add and the resell, it's a pure margin play. The consumption & workload is a programmatic flow, just similar to the way we work on hardware. So there will be programs from the hyperscalers where we work with them to track conceptional workloads. Based on achievements, you get certain additional support from the hyperscalers. So it's a flow.

Saurabh Dhole: Right, and the largest part or the largest component of your revenues, I mean when you break the cloud business revenues across these 3, the largest will be the first one?

V. S. Hariharan: Absolutely. Well, the resell continue to be the first one. So that's where -- that's what generates the baseline of customers and the number of resells we do. But I think over time the consumption and workloads will start contributing significantly as well to our MRR, ARR revenues the way we look at it. Professional services will continue to be important, but it will never be significant. And I think the partnership with the resellers will be super critical there.

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

Aejas Lakhani: Krishnan Sir, could you just give us a brief on where is the Paynet transaction, how is it progressing?

S.V. Krishnan: See, as we discussed, there are 2 approvals that are required, one from the Competition Commission in Turkey and second is a Central Bank in Turkey. Applications are made and there are follow-ups that are getting done. It was expected it will take 2, 3 quarters. So we are doing the needful and we are waiting for the approvals to come.

Aejas Lakhani: Okay. And sir, as we stand, we are expecting the de-closure by the fourth quarter?

S.V. Krishnan: End of the year. Yes. Should happen by end of the year.

Aejas Lakhani: Okay. And sir, just a quick question on margins. If you could comment on how they may -- how you expect them to pan out in the second half? You can quantify it ex-Turkey even if you prefer?

S.V. Krishnan: See, ex-Turkey, KSA is critical. And within KSA, growth will come back in H2. If that's the case, definitely, margin should be much better. And on top of it, there's the inventory provision reversals that we are expecting from what had happened in Q1 and Q2 of this year.

Moderator: Ladies and gentlemen, we'll take this as the last question. I now hand the conference to the management for closing comments.

V. S. Hariharan: Thanks again for all your questions. It is wonderful to get the appreciation as well as the very sharp questions on gross margins and how we have done relative to the growth. I think the growth, definitely, you can see it coming back.

And I think the execution has been strong this quarter. We have some work to do in terms of building our gross margins back based on the one-offs that happened and the mix and the large deals, as we mentioned. We are very optimistic about the coming quarters and we look forward to delivering good results for you. 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.