Redington Limited Q3 2025 Earnings Conference Call

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MANAGEMENT: **MR. V.S. HARIHARAN – GROUP CHIEF EXECUTIVE OFFICER, REDINGTON LIMITED**
MR. S. V. KRISHNAN – FINANCE DIRECTOR, REDINGTON LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Redington Limited Q3 and 9M FY '25 Earnings Conference Call.

This Conference Call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

V.S. Hariharan: Thank you. Good morning, everyone. I am really happy to share with you our Q3 '25 Results.

This has been the highest quarter revenue recorded at INR 26,764 crores and the highest quarterly profit ever at INR 400 crores. Our revenues grew at 14% with profit growing at 17% faster than the revenues. Overall, PAT percentage was at 1.5%. It has been a continuing story of profitable growth over the quarters with growth coming back strongly. Strong execution across business segments and across geographies contributed to the performance.

From a geography perspective, the revenue growth was contributed by strong growth in UAE at 26% and India at 18%. We are seeing signs of profitable growth recovery in Kingdom of Saudi Arabia and Africa has continued its momentum on growth over the last few quarters.

From a business unit perspective, all business units registered good growth with Cloud business unit being a stellar performer with a 42% top line growth, driven by continued success in the Hyperscaler business and the subscription software in our portfolio.

CSG continues to contribute well to the profits and contributing to above average net profit. The Technology Solutions Group this quarter grew well at 28%, driven by strong enterprise demand across the theaters and big deals. The Mobility Solutions Group was steady at 9% and the End Point Solutions Group was steady at 6%. The growth of the business units was seen across both India and Middle East Africa.

The business teams and operations did an excellent job of working capital, and we achieved 33-day working capital, an improvement of 3 days. ROCE was at 27%. Our lower average working capital, and our 3 working days also helped us with the lower interest costs. OPEX control on spend was very good this quarter. It just grew at 1%, much slower than the revenue growth.

Now coming to Turkey. The high inflationary and interest rate environment continued, though softening a bit. Inflation is now down below 45%. The Lira interest rates have been getting revised and now down to 45%.

The decline of market demand is also flattening out. Our subsidiary, Arena did a better job in managing inventories and receivables, resulting in lower working capital costs. We also managed the operating expenses very well, resulting in a small profit this quarter and a better result.

With regards to the Paynet divestment from Arena, approvals from Competition Commission have been obtained. We are still awaiting approval from Central Bank.

With the new growth trends on cloud, AI, digital transformation, we remain optimistic on the outlook going forward. For Q4, with the fiscal year-end for India for many corporates and government with the budget spend, backlog of deals we have carried over from Q3 as well as momentum in both the Cloud and the Technology Solutions Group, we are optimistic on Q4.

March being a festive month in many parts of Middle East and Turkey, we could see some slowness in demand in that part of the world. We are also planning on an analyst meeting in the next 1 or 2 months. And as we get closer to the date, we will keep you all informed.

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

Moderator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*"and 1 on your touchstone telephone. If you wish to remove yourself from the question queue, you may press "*" and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we'll wait for a moment while the question queue assembles.

The first question comes from the line of Nitin Padmanabhan with Investec. Please go ahead.

Please go ahead Mr. Padmanabhan.

Nitin Padmanabhan: Okay. Great. Sir, wanted your thoughts on the working capital intensity. So, I think on a year-on-year basis, the contribution of the Non-Mobility business is actually higher. But we still see that the working capital days are down to around 33 days. Do you think there's something from a mix perspective here that could keep it at these levels? Or do you still think that the normalized working capital days can be higher?

S. V. Krishnan: Okay. We still feel, Nitin, the working capital range on a steady-state basis, we should consider between 35 to 40 days. If you recollect last quarter, there was a substantial reduction. And from there, there is a bounce back. So, to answer your query, yes, the contribution from Non-Mobility increased, but still the working capital growth is lower than last year because we have had an excellent September closing. That's the reason. But on a steady-state basis, I think 35 to 40 is a proper range.

Nitin Padmanabhan: Got it. Got it. So, I think in your commentary, you did mention that at least it looks like for India, Q4 can be strong, because it's fiscal year-end and things get passed on for closure. So when we look at both India and SISA and the Rest of the World business, it looks like SISA could continue the current growth rates, but the Rest of the World will see moderation. Is that a fair kind of understanding?

V.S. Hariharan: I think we are optimistic, Nitin, in UAE and Kingdom of Saudi Arabia as well for Q4, based on everything we see. But because the last month of the quarter is the festive month, so we cannot anticipate it will be a change or not. But based on where we are, we see similar projection in terms of growth rate and optimism. I don't want to call it moderation, but we just need to be prepared if there is a surprise in March in terms of the flow.

Nitin Padmanabhan: Got it. And just 1 last question. I think from a Turkey perspective, is the current quarter's increase in factoring costs related to Turkey? So that's one. And do you think the Paynet, I think the amount sort of comes in, in Q4 and post that we should start seeing moderation.

S. V. Krishnan: Okay. See, the increase in the factoring cost from INR 33 crores last quarter to INR 71 crores in the current quarter is mainly contributed outside of Arena. We have had some large deals with a higher credit base, and we had decided to sell these receivables. That was 1 of the factors. And in Arena, it has moved up from 31% last quarter to 36%, which is about 14% quarter-on-quarter increase. And outside of the Arena, it is more one-off that may not sustain.

Nitin Padmanabhan: Okay. Fine. Fair enough. I will come for a follow-up later. Thank you so much.

S. V. Krishnan: Let me answer this also. See, a part of this margin would have been there in the margins for those larger deals.

Nitin Padmanabhan: Got it. That’s helpful. Thank you so much, and all the very best.

S. V. Krishnan: Thank you.

Moderator: A reminder to all the participants that you may press “*” and 1 to ask a question. Next question comes from the line of Aejas Lakhani with Unifi. Please go ahead.

Aejas Lakhani: Yes. Hi, team. Congratulations on a very good set of numbers. The efforts made by the Management over the last couple of quarters have started to bore fruit. So, congratulations to the team. Krishnan, sir, Hari, sir, I wanted to first understand that could you call out what are the demand drivers in India and UAE that is reflecting in these kind of growth rates?

V.S. Hariharan: Okay. I will try and answer in one dimension, and Krishnan, you can add. So clearly, TSG has made a big contribution this quarter, both in India and Middle East, Africa, and both small and big deals and the demand has been strong. Again, TSG, we have a range of products, hardware and software. So, I would say it has all come through and the execution has been good.

Mobility has actually been quite strong in India, both on Apple and Android, and that has contributed to the growth as well. And I would say these are 2 big factors that has driven the growth.

And just our execution on OPEX, our execution on working capital, or execution on everything else has also contributed and uplifted the profitability to grow as fast, if not faster than the revenue. I would say primarily the Technology Solutions Group, followed by the Mobility Solutions Group.

Sorry 1 more thing is… I just wanted to add..

Aejas Lakhani: UAE also, what are the demand drivers?

V.S. Hariharan: UAE, again, it is Technology Solutions Group and the Mobility. Those are the 2 business units. Cloud is also a driver. But in terms of actual numbers, and contribution, these would be the 2 direct ones. If you are following the trends on UAE, there's a lot of investment going on in Cloud and AI by government and corporates in UAE. So, we have taken advantage. There's been a fair amount of deals won in UAE, which has contributed to the growth this quarter.

And 1 more item I wanted to add is the India festive season clearly played a role in the first month of the quarter, that was a big uplift. The consumer demand softened a little bit the second and third month, but the first month, the consumer demand was hot because of the festive season.

Aejas Lakhani: Got it. Sir, my second question is on the gross margin. So, if you adjust for the inventory provisioning that was there, especially in FY '25, because first 2 quarters, there was higher provisioning, and then because of what we did in Saudi and then we have taken a write-back. But if you look at the 9-month number Y-o-Y and compare them, excluding the inventory provisioning, we are still lower. So, the number 9 months prior was 5.7% versus 5.2% in this 9 months. So, how do you see the gross margins incrementally from here on in the fourth quarter and in the next year?

S. V. Krishnan: Okay. So first of all, I need to tell you in first quarter and second quarter, we have had a higher inventory provision. And if you recollect in the last earnings call, we did talk about this will come back in H2, and we were confident. And a part of it has happened in the current quarter, and which is the reason why you will see the inventory provision reversal in Q3. For 9 months, the inventory provision broadly tracks our long-term average.

I would say there are a couple of factors for the gross margin drop. 1 is, there is normalization that happens and which all of us know. And I would want to mention here that we have looked at all the global tech distribution companies, their profitabilities in the recent quarters. Very clearly, our profitability is on top. Everyone is in the range of about 1% to 1.2%, 1.3%, and we are at about 1.5%. So very clearly, because of various actions that we had taken, our margins are better than the rest of the industry. But there is a normalization factor, which we need to keep in mind.

Second is, the large deals, again, we had spoken last time, would not come at similar terms. Either we may have to make a compromise on the margin or on the working capital that also is 1 of the contribution to this.

And the third is, of course, we being a market leader in many of the markets, there are increased competition. And obviously, this is something that we have to absorb it as a new norm and we need to work on it, but we are trying to do our best. Also, we need to understand that there are normalizations that are there and we are trying to address it in the form of better operational efficiency and better working capital management.

Aejas Lakhani: Got it. Sir, could you just speak about now the EBITDA line item and how we should think about it for the next year?

S. V. Krishnan: Okay. So, we had been talking about an EBITDA between 2.3% to 2.5%. We still feel that can be the trend as we move into the future. This quarter, we had been in the top end of the EBITDA, which is at 2.5%. But if you take for the full 9 months, it is at 2.3%. I just want to mention here, this EBITDA calculation considers other income, which is how normally we do, and that has been our request to the market participants also all the time.

Aejas Lakhani: Got it. So, sir, you feel confident of being able to maintain the 2.3% to 2.5% band in the next year. Is that a fair understanding?

S. V. Krishnan: Yes.

Aejas Lakhani: Okay. Okay. Got it. Sir, could you now comment, please, about how is Turkey as a region shaping up? And also, I didn't catch your earlier point that the total factoring cost had a one-off, and the normalized Arena factoring was at INR 34 crores. So, could you just break up what was the one-time factoring cost and how Turkey is shaping?

V.S. Hariharan: Okay. I will address how is Turkey shaping up. So, I need to break up the business into, let's say, 2, 3 parts. 1 is the Software business in Turkey. We have a pretty nice focused software business that's growing quite well despite all the conditions. And that's largely enterprise and government consumption. That's a combination of licensing and subscription models. It's roughly about 10% to 15% of the business that's growing nicely.

The PC business was declining in the high teens in the last 2 quarters. But this quarter, based on the results that we saw, the decline was not as bad. It is still declining. So going forward, we don't see a recovery, but we see the decline in the market opportunity not to be as steep.

With the inflation rate coming down below 45%, and the Lira interest rate trending downwards, we do expect to see a little bit of optimism, though the projected GDP rate for the next year in Turkey is a decline year-on-year. So, those are the 2, 3 parts.

The Mobility channel continues to be flattish with a small growth maybe. So PC decline, Software growth, Mobility flattish. So, I think it's a holding pattern, and we want to make sure that we are operationally efficient with OPEX and our management of inventory and account receivables, so that we continue to move in the direction of being in the green side on profitability.

S. V. Krishnan: If I can add on Arena with a little bit of numbers, Aejas. If you look at the first 2 quarters vis-a-vis the third quarter, our revenue degrowth has come down quite significantly. It's only about 5% degrowth in Q3 vis-a-vis double-digit degrowth in the first 2 quarters. PAT was a significant loss in Q1, improved, but still was loss in Q2. But this time, it became positive.

We have had a positive missing profit in Q3. Net debt end of Q1, we were at about $153 million and end of December, it had come down to $137 million. Also, working capital days had come down. The percentage of aged inventory to the total inventory had come down. The percentage of overdues have come down. So, it's an all-round reduction that had been attempted.

And also on the headcount, you have to give the credit to the team, about 15 percentage, there is a reduction in the headcount from the time where they started the year. So, in spite of the economic challenges and the borrowing challenges that are there, all these have happened. And we think we will be at it.

As far as factoring is concerned, I think what you had seen in Q3 is something that should continue in Q4, subject to, as Hari said, we are waiting very eagerly for the Paynet closure. Whenever that happens, it will have an advantage in terms of our interest and finance cost, which includes factoring. The one-off factoring that I had mentioned, see, this we keep doing even outside of Turkey.

In Turkey, as we had mentioned, we do this because we have a challenge in terms of sourcing funds from the banking channels. Here, in rest of the places, we do factoring as a risk management exercise. As you know, normally, we can take only about a limited amount of credit days. If we had to do some deals which call for much longer credit days, we also find a way to hive it off, which is what has happened. And that's why I said to Nitin that there is a one-off cost in this period. And it is built in the gross margin also.

Aejas Lakhani: Got it. Krishnan sir, just very quickly, we have had a very good year from a revenue growth standpoint, and we have been able to curtail costs extremely tightly. And some of the excessive costs that were sitting, which we have spoken about maybe 3 quarters, 4 quarters back, we have now been able to normalize them and we are sitting at an extremely tight cost structure. But how should we envisage this going into the next year?

V.S. Hariharan: Yes. So, Aejas, to answer to that question. So first of all, we have played a differential role between where there is no growth or where we had excessive cost in terms of optimizing cost. We have invested in areas like Cloud and Technology Solutions to make sure that we can keep up with the need in the market and Mobility as well. So, as we go into the next year, obviously, we have taken out all the unnecessary costs and rightsized investments, rightsized the people investment as well. But we will see growth now and OPEX growth keeping in line with revenue and gross margin growth, because we do need to invest in the business in all the growth markets.

S. V. Krishnan: And if I can supplement, there are a lot of efforts being taken in this direction. And whenever you move in this direction, there can also be some one-off additional costs that will come in, which also is there. But having said that, I think into the future, since industry is evolving more into the services and technology, et cetera, and the technology investment is very important. Some of this, we also keep in mind, we don't want to underinvest and then risk the growth into the future. So that's something we would want you to reckon, as we look at the numbers in the future.

Aejas Lakhani: Noted, sir. Thanks for that. And sir, finally, could you just speak about the signs of recovery you're seeing in Saudi. From the last 2 quarter calls, you've been calling out that Saudi has seen a reorientation in the budgets. So, could you just speak a little bit about how the micro market is shaping up?

V.S. Hariharan: Yes. So, we don't have all the exact details on how they reprioritize budgets, but clearly, we have been in Saudi for the last 2 quarters. I personally have been a couple of times and we have met with ministers. We have met with the local teams on the ground. And on the value side of the business, clearly, there is optimism in terms of how the numbers will come back and they have reprioritized some of the budgets based on their Vision 2030 plan that keeps getting revised. So that part of the business, the Technology Solutions Group and the Cloud, there is huge investments.

In fact, the coming weekend, there is an event called LEAP event, which is on Sunday, Monday, Tuesday, where all the tech giants and their leadership team and CEOs are there. Clearly, everyone is seeing the market recovery on the value side of the business, leading from the government investments and the corporate investments there.

So, the outlook is there, but we have to wait and watch the next few quarters. This quarter was a nominal growth. And the coming quarter, Q1, we do expect to see nominal growth as well. But into the new fiscal year, starting April 1, we are bullish on Saudi.

Aejas Lakhani: Noted. And sir, just my final question is that the enterprise deals carry with themselves slightly lower margins and lower working capital, and we have had a higher sort of contribution from enterprise deals. So, if we adjust for that base, is it fair to say that the business is trending more already in the lines of the EBITDA that we envisage for the business?

S. V. Krishnan: It is already there with, that's what I had mentioned, right, in the range of 2.3% to 2.5%. For this quarter, it is at 2.5%, Aejas, and for 9 months it is 2.3%. So, we are already there, including the deals. See the deals could come and go. We don't want that to materially impact. If that impacts, we will definitely tell you. Right now, whatever we are telling you is all inclusive.

Aejas Lakhani: Noted, sir. Thank you, and all the best.

S. V. Krishnan: Thank you.

V.S. Hariharan: Thank you.

Moderator: Thank you. Next question comes from the line of Jolyon with Amiral. Please go ahead.

Jolyon Loo: Thank you for a fantastic result. So, I have 2 questions. So, the first question, could you just quantify the various one-off impact on margins this quarter? I think there should be some reversal in the inventory or reversal provision they were done this quarter? If you can just quantify that for this quarter?

S. V. Krishnan: Jolyon, your voice is not clear. Can you repeat the question, please?

Jolyon Loo: Sorry, no I just wanted to ask for any clarification on any one-off this quarter impact on the margin. Any reversal of inventory or receivable provisions that was done. So, needed to quantify that for this quarter? Thank you.

S. V. Krishnan: Yes. So, as we discussed, only key one-off that I would want to call out is the inventory provision reversal. We discussed, if you recollect in the last call, we have had more inventory provision vis-a-vis our long-term average. And we did say that these were one-offs and will get reversed, we will be able to liquidate in the rest of the year. So, a part of it has got addressed and that had come in, in the gross margins.

Jolyon Loo: Could you quantify that please? How many bps?

S. V. Krishnan: It's about 11 bps reversal. Normally, on average, you will find about 6 bps the positive provision. So, the delta is about 17 bps.

Jolyon Loo: Okay, great. Thank you. And the second question is on the reappointment of Hariharan as the MD and CEO. Could you call any incentives or any target, which is new appointments in the next 5 years? Any key KPIs that we should be looking at? Yes, that's all. Thank you.

S. V. Krishnan: Okay. See, there are some standard performance metrics the Board evaluates, the complete leadership team, and accordingly, the CEOs. We do follow the same metrics in this case. I can tell you whatever you track, plus we consider ROCE as an important metric is what we are all the thing weighted on, plus the strategy into the future.

Jolyon Loo: Okay, great. Thank you so much.

Moderator: Thank you. A reminder to all the participants that you may press "*" and 1 to ask a question. Next question comes from the line of Priya Rohira with Emkay Global. Please go ahead.

Priya Rohira: Yes. Hi. Thanks to the Management on a great execution. Once again, it's been a very decent quarter, if I look at across the geographies with all the verticals showing great performance, especially with respect to the TSG segment, if you could throw some light what we have seen across, both across SISA, ROW, and then boiling down to a 28% growth for Global. What sort of trends you're seeing in the macro market, which is driving this growth?

And secondly, does this include the data center services or the data center supplies, which you would be going through? And any color over there would be helpful.

My second question is on free cash flows. I do see that because of the inventory, your working capital days have gone down. And since you highlighted that it's going to normalize to 35 to 40 days, do we see that changing in the coming quarters? Yes, these are the 2 questions, and maybe I will just take a follow-on.

V.S. Hariharan: Okay. Let me talk a little bit about the growth rates. Clearly, cloud is an area we are seeing, and when I say cloud, it includes software licensing, software subscription, SaaS, Platform as a Service, all of that put together, not just the Hyperscaler business. We definitely see that as a growth, and we are taking underlying advantage of that growth trend in all markets, India, UAE, Saudi as well as Africa and in Turkey, too. And that is actually driving part of the growth rate in Q3.

And that comes in CSG, the Cloud Solutions business as well as the Technology Solutions business. Data center is also clearly a driver, both in India and in UAE. And both these markets, we have participated both directly in the purchase of equipment into the data centers as well as when the data centers create capacity, and we need take care of that demand through our mid-market. So, data center is a key component and that's contributing to some of the large deals also in India. So, if I had to, at a high level, say these are the 2 big ones.

The Mobility Solutions in India, the premiumization, the Indian market is looking for premium phones, so the premium consumption of premium smartphones in the market has grown. So that has resulted in a growth in the Mobility segment over the last 2 quarters, both on Apple and Android. That's clearly there.

We may not have got that much benefit of that in Middle East, Africa. The PC business is growing, not growing at the same pace that we would have wanted. We expect in the coming few quarters as we get into this year with the more high-end AI PCs, we expect a little bit more traction on AI PCs as well as the Windows 10 to 11 refresh that is happening, because the Windows 10 support is going away. We will see that. But as of now, the trends that you see in terms of business growth is largely driven by the cloud consumption, the cloud demand that's there.

Priya Rohira: Sure. This is very helpful, Mr. Hariharan. Just a small follow-up on that. Would you say that you are more confident at the end of Q3 or the start of CY '25 versus what you were at the start of the quarter, given the vibrancy you're seeing across all the segments?

V.S. Hariharan: Can you repeat that question again, please? What is the exact question? Sorry?

Priya Rohira: So Mr. Hariharan, what I am trying to understand is that the start of CY '25, are you more confident than what you were seeing at the start of the October quarter with respect to the demand upbeat since across all the verticals have participated in the growth?

V.S. Hariharan: Absolutely. Absolutely. Today, see, normally what happens in the year is our Q2 is driven largely by Mobility, because of NPIs. Q3 and Q4 is largely by Technology Solutions and Cloud. But this coming year, we do see all of the business verticals cranking, like what I said, I think the Mobility will continue, because you will see AI-enabled smartphones tend to make a difference. So, we will refresh that faster.

The Technology Solutions and Cloud will continue to move, because the cloud adoption and the AI enablement will make that grow. And I do expect the second half of the year to be quite good on PCs, based on the trends we see and the products our OEMs are going to launch. The first half may still be muted, but in the second half, we see that. So, CY '25, we definitely see bullishness across all the verticals.

Priya Rohira: That's very helpful, Mr. Hariharan. And Krishnan, if you can just address on the free cash flow. Was this purely because of the working capital improvement, and you would see normalization since it's 35 to 40 days, which you mentioned. So that returning back to the positive free cash flow?

S. V. Krishnan: Okay. So the first submission, as I would normally make all the time, please, please look at free cash flow over a longer period. Because of too many moving parts in this business, and many of, the working capital metrics depends on how do the vendor behave, their product category behave in that market, et cetera, there will be volatility in shorter period. So, to answer you in short, there is a jump from 25 days to 33 days. The end of September, we all know it's not a normal working capital level. It was far low. That has moved up and that has resulted in the FCF being negative. And this is on top of the INR 3,000 crores, if you recollect the free cash flow in Q2.

The comfort that I can give you is if you look at the debt levels, debt levels are under tremendous control even at these growth rates. Our gross debt to equity is about 0.4x. Net debt to equity is about 0.2x. That's the way we are geared. And if the Paynet transaction gets consummated whenever it is, that's going to have an added advantage in terms of this debt equity ratio. So, we are very well positioned in terms of, fueling the growth without the balance sheet getting diluted.

Priya Rohira: Thanks, Krishnan. This was very helpful. And congratulations to the Management team on a great quarter. Wish you all the best for CY '25.

S. V. Krishnan: Thank you, Priya.

Moderator: Thank you. Next question comes from the line of Saurabh Dhole with True Beacon Investment Advisors. Please go ahead.

Saurabh Dhole: Thank you. Good morning. My question is with respect to the MSG segment and other verticals where you're catering, where your end client is a retail individual. What I want to understand is that what proportion of the sales or what proportion of the distribution that happens in these verticals, what proportion gets routed through Qcom? And what is the impact on channel margins as well as the working capital requirement as compared to the traditional retail stores?

V.S. Hariharan: So, if I can understand the questions again, 1 is the distribution of the business across the different verticals. That is 1 question. And second is the impact of Quick comm. Is that correct?

Saurabh Dhole: Yes, distribution of, let's say, smartphones or, let's say, PCs, and other ancillaries where the end client is a retail individual and not an enterprise. So, what proportion of the sales are you making to this particular end customer through Qcom channels? And what is the impact on channel margins and working capital requirements, when you compare that with your traditional retail stores?

V.S. Hariharan: Okay. So today, while Quick Comm is a really good growing segment. And actually, we do partner with the Quick Comm players in our logistics business to enable them and help them. So, we have partnered with some of the Quick Comm players. But in terms of actual sales of smartphones and PCs through the Quick Comm channel, it's just the beginning of that phase. It's still groceries and electronics, and there is some catch-up happening there. There may be some small portion going through that, but it's not big yet.

In terms of margins, we have not really seen, there is a differential margin between retail and Quick Commerce. As this segment grows, we'll see if there is a value-added there in terms of time of delivery, and if there's an extra margin available or not. But today, it is not the case.

Saurabh Dhole: Thank you. Got it.

Moderator: Next question comes from the line of Payal Shah from Billion Securities. Please go ahead.

Payal Shah: Yes. Good morning. Thank you so much for the opportunity. I have 2 questions. First, as you can see, there is a good growth in MSG segment. So, just wanted to understand more on this segment. Like can you share which all brands do we have other than Apple in India as well as out of India?

V.S. Hariharan: So, we don't specifically get into brands, but I will just go through category by category. In the Mobility segment, we play in premium brands. So, just like Apple, we have brands like Motorola, we have brands like Google. So, we play with premium brands.

In the PC segment, we work with all brands, all the very well-known brands, whether it's HP, Lenovo, Dell, ASUS, Acer. So, we work with all the leading brands in the market.

And within the PC category, we also work on a lot of emerging businesses, whether it is gaming, whether it is entertainment, so there are screens. So, there's a variety of different equipments, which have different brands that we work with, in Middle East Africa, we do Samsung professional displays, we do surveillance. So, we do a range of things. We almost have 400 brands in our portfolio.

When it comes to the Technology Solutions Group, obviously, we work with all the leading server players, whether it's Dell, HP Enterprise, Lenovo and many others. And similarly, on storage, we work with the leading players. We also have a very large set of brands on software that enable the technology solutions and servers.

And then when it comes to Cloud, we work with all the leading hyperscalers. So, the total portfolio is about 400 brands. The top 20 brands contribute to more than 80% of our business. And then the next 50 brands contribute about 15%, and then there are a few hundred brands that contribute to the last 5% of the business.

Payal Shah: Okay. That's quite helpful. My next question, so I just wanted to understand, can you give some more color on the large projects, which you are working on? And how much of that is completed?

V.S. Hariharan: So, this is an ongoing thing. Every quarter, there are large deals. And just to answer an earlier question, I mentioned about data centers. So, there are quite a few deals around data centers, around storage and around servers that we do every quarter.

And again, sometimes some of these deals consummate once we won the deal in terms of fulfilment and collections in the same quarter. Sometimes they spill over 1 or 2 quarters. So, it's very hard to say which ones and we don't normally share specific customer names, et cetera. But we have large deals which spill over 2, 3 quarters, and we have some of them right now going on, which is the backlog I talked about from Q3 to Q4. But we have some deals that get consummated in the same quarter or maybe in the next quarter.

Payal Shah: Okay, that's it from my side. Thank you so much.

S.V. Krishnan: Thank you.

Moderator: A reminder to all the participants that you may press "*" and 1 to ask a question. Next question comes from the line of Aejas Lakhani with Unifi. Please go ahead.

Aejas Lakhani: Yes. Thanks for the opportunity again. Sir, I wanted to understand that if we look at the business in blocks of, let's say, 4 to 5 years, the earlier part of, say, 2010 to 2014 had better enterprise demand, which helped margins. Then the next block of 5 years had a higher consumer-centric demand. Last 5 years, again, have seen better enterprise demand. And Hari sir, to your point that we are going to see AI mobility products incrementally increase in the years to come, is it fair to say then we are again going to see a cycle of maybe consumer-centric demand being strong over the next block of a couple of years?

V.S. Hariharan: Yes. So, I see 2 types of demand, Aejas. 1, clearly, the value segment, the demand will continue. And where we see growth and that's where we are investing is software subscription growth, both driven by Cloud and AI. So, we believe we need to invest more in Cloud and AI on software as a subscription model. So that's 1 growth we see and that has also drive nice margins. But we also need to put some stickiness and value-added services, so that we are serving our brands and OEMs well and we are serving our resellers well when they are touching customers. And you're absolutely right, the cycle on AI-enabled smartphones, AI-enabled PCs is a cycle that we see coming. The question is what is the inflection point tipping point.

There's a lot of discussion around AI. And there's a lot of discussion around Agentic AI. I think Agentic AI is going to happen both in our devices and in our servers and solutions we sell. So, I would say early days in terms of PCs and smartphones, but definitely, 1 cycle of demand is coming in the next 1 to 2 years, and that will enable people having to change their smartphones and PCs, because the same capability is not available in the previous operating system or the previous chip technology or the platform technology they own.

So, when it is real, when it is a game changer, people will change. Clearly, all the discussions we have on the partner advisory boards, with the OEMs and brands, there is a hell of a lot of work that's going on to change the game on how AI is used in these endpoint products.

Aejas Lakhani: Got it, sir. Thank you and all the best.

V.S. Hariharan: Thank you.

Moderator: Thank you. A reminder to all the participants that you may press “*” and 1 to ask a question. Once again, a reminder to all the participants that you may press “*” and 1 to ask a question. Next question comes from the line of Nirmam with Unique PMS. Please go ahead.

Nirmam Mehta: Yes. Hi, sir. So, sir, I am a bit new to the business. So, just wanted to understand a few points. So, 1 was you mentioned some above normal profitability in the Cloud business. Can you explain a bit about the Cloud business, what are the different segments? And what do we as a distributor have a role there?

V.S. Hariharan: Okay. So, within the Cloud business, the large part of the business is the Hyperscaler business. We work with AWS, Microsoft and Google. We also have a portfolio of Software-as-a-Service in a few different verticals.

Now this business, we do a resell, largely using a subscription model, using a digital platform. And the first part of the value chain is very basic in terms of purchase orders, sales orders, collections, because when you're working with a large number of mid-market and small enterprise customers, there is a lot of people you are touching and reaching, and you need to make sure that you're serving the customers through the reseller. So, the brands and OEMs look up to us to do this work for them.

The second part of the business in Cloud Solutions is how do we enable consumption and workloads. When customers start consuming, they buy maybe a few licenses and then they start buying more. And then we have a job to drive workloads and consumption by enabling new kinds of things for them, new solutions for them, coming from ISVs, coming from other third parties. And that's what drives volumes for our brands and OEMs or the hyperscalers. So, driving consumption, driving workloads is the second part of the job we do.

The third part is professional services. So, customers who are venturing into cloud, first of all, they look at should I get into Cloud, what part of it I should get in the Cloud. So, there's an assessment phase, there's a migration phase.

Then people start looking at, am I investing too much? How do I do the cost optimization? So, there is FinOps. Then there is modernization. Should I change my applications? And then there is Managed Services. So, what we do is we have competency to do a full plethora of professional services, but we partner with our ISVs and we partner with our resellers to bring all these capabilities to the customers from the brands.

And since we are serving a large base of customers in the mid-market and small enterprise, the value brought by us as an intermediary on all of these things, whether it's the reseller, whether it's consumption or professional services is really valued by the brands and OEMs in a big way. hope that helps.

Nirmam Mehta: Yes. Sir, can you talk a bit more on the profitability part? So, how does this compare with the rest of our business?

V.S. Hariharan: Sure. So, the typical gross margins for resell in the Cloud business is 5% plus. And then when you drive consumption and workloads, specific programs that you bring to the table, you can get on the higher side, maybe 6%, 7%. And when you get into Professional Services, you can make margins 20% plus. So, it's a combination of these things.

Obviously, Professional Service is small and still growing. But clearly, if I look at the margin profile of the Cloud Solutions business from a percentage perspective, it is higher than the Technology Solutions today and it's definitely higher than the PC group, and quite higher than the Mobility group. So, the margin profile is definitely very interesting. We just need to grow this business faster, and get more of the driving consumption workloads and professional services, because those are higher-margin parts of the business.

S. V. Krishnan: There is less working capital deployment in this business as there is no inventory, that enables much better ROCE.

Nirmam Mehta: Yes, that is an added advantage. And so now overall, our business, so we were entering some new geographies also. So, any comments on that? There were some new focus markets, right?

V.S. Hariharan: Okay. So, we have been mentioning in the last few quarters that we are entering a few markets and we are actually making progress. So, South Africa is 1 market we have entered. And we don't share exact numbers, but definitely, we are making progress every quarter. This quarter has been a good progress over the previous 2 quarters in South Africa.

We have also entered over the last few quarters into Central Asia, into Kazakhstan and Azerbaijan. And again, that's a place we are making progress.

We have also stated our intention to enter into some parts of ASEAN. So, Singapore and Malaysia is another area that we are entering with more software and cloud focus, and we are also making progress in that market.

Nirmam Mehta: Yes, that's it from side. Thank you.

Moderator: Thank you. A reminder to all the participants that you may please ask 2 questions max. Next question comes from the line of Sahil Doshi with Thinqwise. Please go ahead.

Sahil Doshi: Hi, sir. Good morning, and congratulations on a fabulous set of numbers and execution. My question pertains to the client-wise data, which we give. If I see the top client possibly say, Apple, the pace of growth is actually lagging the Company level growth, at least in this Q3 as well as in the 9 months. So, is it so that the direct share of Apple is actually increasing and we are losing some share? Or could you give some qualitative remarks with respect to what's the trend here?

V.S. Hariharan: Could you repeat the first part of the question again? Sorry, we couldn't exactly follow the question.

Sahil Doshi: So, if I was just seeing the revenue contribution from Apple, and if I see the growth for the first 9 months, the growth is 7% versus growth of 9%. So, if you see quarter-by-quarter, the observation is the pace of growth is...

Moderator: This is the operator. Mr. Doshi, sorry for interrupting. Can you please come in the range and talk because your voice is breaking.

Sahil Doshi: Sure. I hope I am audible now and it's much better.

Moderator: Yes, go ahead.

Sahil Doshi: Yes, sir. So, my question pertains to Apple. I am just seeing the pace of growth of Apple actually has been slowing down or not in sync with the Company level growth. Just wanted to surmise there that are we seeing some sort of a market share erosion here? Or is the direct sales from Apple growing at much faster pace than what we are able to drive?

V.S. Hariharan: So, let me try to answer the question in 2 parts. Obviously, I guess you're referring to the chart on top 5 vendors and the mix between brands. And that changes partly because this quarter, some of the brands in the Technology Solutions side in the other categories might have grown. So, the portion of Apple might have gone down a little bit. So that happens every quarter. So, you have to look at it over a period of a year or something like that.

But specifically on Apple, no, we are not losing share. We measure on what is called as DTAM, what is Distribution Addressable Market for us. And that's what we are very focused on. Yes, Apple goes direct in a number of channels. But within the DTAM, both in India and Middle East Africa, we are not losing share.

Sahil Doshi: Sure, sir. But do we see direct share of business for brands growing at a much faster pace than the distributed business? Is that a trend which is seen in India or globally?

V.S. Hariharan: Not really. We are not seeing that. It sometimes changes when there are realignments on distribution strategy. But if I just take the last year, 1.5 years, we have not seen a lot of change on the DTAM which is the Direct Addressable Market from the brands. There might be small changes, but nothing radical.

Sahil Doshi: Sure, sir. Appreciate that. And the second question is a follow-up on 1 of the previous questions on the gross margin. Now, if I see on a Y-o-Y basis, despite a favourable shift in terms of mix, we have seen some kind of a drop, and we have also seen some benefit of provisioning write-back. So, do we assume this to be a new normal in terms of the gross margin that we should operate at?

V.S. Hariharan: I think Krishnan answered this a little earlier. I think the Technology Solutions side, we see a bit of erosion of gross margin, because of the higher component of bigger deals. We do see big deals coming in the next few quarters as well. So, as the component of big deals versus the run rate business goes up, we might see a little bit of trending in that direction. But we do look at return on capital employed as we take on these deals. So, there'll definitely be good ROCE deals even if the gross margin percentage goes down a little bit.

Sahil Doshi: Sure, sir. And just the last 1. If I see renewable energy, which was a vertical which we just started focusing a couple of years back, possibly in the last 2, 3 quarters, we have seen the rate of growth has slowed down. Any possible reason for this? And how do we look at this business going forward?

V.S. Hariharan: Sure. So, the solar business was largely a business that we were targeting rooftops. And there were regulatory changes in the environment. The large part of the business is done with imported solar panels. And as the ALMM measures came in, we had to readjust our business model and partnering with local solar panel companies. We have done that.

And we have also adjusted to the new Prime Minister Yojana Program that was announced. So, we have actually created now what is called as the Redington Solar Franchise. It's called the RSFC franchise that we have created. And we are working with EPCs who want to be part of our franchisee model, along with the Prime Minister Program of subsidizing rooftops.

We are actually quite optimistic about this. It will take some time to change the business model from an imported to a local and going into this franchisee model. But as we get into the next fiscal year, we do see our ability to play again in this market with a new business model quite strong.

Sahil Doshi: Sure, sir. Thank you so much. And best wishes to the team, sir. Bye.

Moderator: Thank you. A reminder to all the participants, please restrict yourself to 2 questions. Next question comes from the line of Nikunj Mehta with Wealth Guardian. Please go ahead.

Nikunj Mehta: Good morning, sir. My first question is regarding the Rest of the World growth. At EBITDA level, we have about 15% growth. And then at PAT level, the growth slowed down to about 4%. So, what component exactly led to this slower growth at PAT versus EBITDA level? Can you please tell us?

S. V. Krishnan: See, the key aspect is the interest cost, and there is an increase in depreciation in Turkey, because of the inflation index. These 2 have contributed for that. And there would also be an increase in the tax rate vis-a-vis what it was, say, last year. This had happened because of a couple of factors. 1, across Middle East in various markets, the corporate tax had come in, and we had been talking about a 23% to 25% as a steady state, the weighted average tax rate. So, we are at about that range now.

And as we are in this subject, I can also tell you as we move forward into the next year, the tax rate could further go up, because GMT is also getting implemented, Global Minimum Tax in various markets. So, I think a steady-state range should be between 25% to 26% from next year. These are the reasons, Nikunj, in terms of where we are vis-a-vis PAT and EBITDA.

Nikunj Mehta: Understood, sir. And can you give an update on ProConnect, what exactly is the strategy for the next couple of years there?

V.S. Hariharan: Okay. So, first thing first, I think we have stabilized the operation on ProConnect. Over the last 4 quarters, you would have seen that our profitability has been quite consistent and predictable. We make sure that the customers we serve beyond Redington, we understand, we have a clear value proposition, and we are getting the right pricing, et cetera. Within the space of logistics, we have decided to focus in a big way on integrated logistics. So, anything to do with pure freight and pure warehousing is not our target.

Our target is to deliver an integrated logistics, and wherever we can do some good solutioning, the team is actually working through where have we succeeded in the last 10 years in the past, and what's our clear value proposition.

So, areas on integrated logistics across the country, specific models where we bring solutioning, including things like mission-critical, et cetera, there are some specific target areas is where we are headed. We want to make sure that we are driving profitable growth rather than take growth for growth's sake on the logistics side.

Nikunj Mehta: Okay, sir. Thank you so much. And just 1 thing, should we get the sale of that subsidiary closed in Q4? Or is it going to get extended towards Q1?

S. V. Krishnan: We are keeping our fingers crossed. We also wish it will get done by this quarter. We are very confident. Let's see. See, since these are regulatory things, Nikunj, we can't answer this with certainty, but our expectation is this quarter.

Nikunj Mehta: Appreciate it, sir. Thank you so much, and wish you all the best.

S. V. Krishnan: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we have reached the end of question-and-answer session. I would now like to hand the conference over to the Management for closing comments.

V.S. Hariharan: Thank you. Thanks for all the questions, and hope it was helpful. Thank you again for listening in, and we look forward to delivering good results for the coming quarter and we'll keep you informed as the analyst meeting gets firmed up, as we get closer and look forward to seeing you all in person. Thank you. Have a good day.

S. V. Krishnan: Thank you.

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