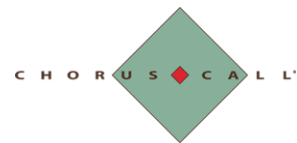




“Redington Limited  
Q1 FY '26 Earnings Conference Call”

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“E&OE -This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on July 30, 2025, will prevail.”



**MANAGEMENT: MR. V.S. HARIHARAN – MANAGING DIRECTOR AND  
GROUP CHIEF EXECUTIVE OFFICER – REDINGTON  
LIMITED  
MR. S.V. KRISHNAN – CHIEF FINANCIAL OFFICER –  
REDINGTON LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Redington Limited Q1 and FY '26 (Please read it as Q1 FY26) Earnings Conference Call. As a reminder, all participant line will be in listen-only mode and there will be an opportunity for you to ask question after the presentation concludes.

This conference may contain certain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of the future performance and involve risks and uncertainties that are difficult to predict. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

**V.S. Hariharan:** Thank you. Good afternoon, everyone. This is Hariharan. I'm pleased to share with all of you our Q1 '26 results. This has been our best Q1 so far from a top line perspective with strong growth in both top and bottom line compared to the quarter 1 of '25. Our revenues for the quarter grew by 22% and profits by 12% year-on-year. Excluding Arena, our subsidiary in Turkey, our revenues for the quarter grew by 24% on revenue and profits by 15% year-on-year.

Outside of the challenges with Arena, which I'll talk in a moment, our subsidiary, the profit performance has been good. Our overall PAT percentage stood at 1.32% for the quarter, excluding Arena.

Now let's get into a little bit of detail on geographies and business units. From a geography perspective, the revenue growth was contributed by strong growth in many geographies. India at 24%, UAE at 35%, Kingdom of Saudi Arabia at 32%, rest of Middle East at 18% and Africa was stable.

India had an overall very strong performance with profit after tax growing faster than revenues with most business units contributing well, the Cloud Group, the Mobility Group and the Technology Solutions Group.

Coming to business units. The Mobility Solutions Group led with a stellar performance this quarter at 44% growth and demand on the premium segment of the market across India and Middle East was strong. Cloud Solutions continued its momentum, as you've seen over the last few quarters with 41% top line growth and continued success in the hyperscaler business, and we continue to take advantage of the cloud transition and digital transformation enabled by AI.

The Technology Solutions Group performed well on top line this quarter at 21%. There were a lot of big deals in India and UAE, though margins declined due to a combination of mix of larger deals as well as general margin stress in the technology solutions space.

The software businesses in security solutions, infrastructure software and application software continued their growth momentum. This is an area we can do a lot more, both increasing the breadth of our offerings and gaining share. Hence, we are putting efforts and investments in all the geographies to increase our intensity and focus here.

The Endpoint Solutions Group with the PC business was steady at 3%. It's been flattish for a while. We do see signs that we've been talking about for a while on refresh cycles on PCs bought during the COVID period as well as the Windows 10 to 11 upgrades and hope to have and look forward to more growth in the second half, and we are seeing signs of that.

We saw good growth from all the top 10 brands in our portfolio, and we also see several software brands getting into the top 10 of our business. Now coming to working capital and opex and gross margin, the hygiene factors. Continued efforts on efficient management of working capital resulted in 37 days closing working capital, which is 2 days lower than the previous year Q1.

Our overall financing costs, excluding of Turkey, reduced by 8% due to efficient management of working capital and our superior credit rating, AA+, allowing us for better borrowing rates, especially in India.

Opex control continues to be good and grew much slower than the revenue growth at 6%, giving us good operating leverage. Gross margin has been below expectations, and it's a combination of the mix shifting towards mobility for this quarter, the big deals in TSG and also market pressures on the TSG run rate business.

Now coming to Arena. Our subsidiary Arena's performance was impacted due to provisions. We believe these are 1 time, but we are monitoring and watching them closely.

Due to the market conditions in Turkey, we see a rise in the number of concordat cases last quarter. Concordat is a temporary relief given by the courts to companies facing financial difficulty to restructure their debts with creditors. A few of our partners have filed for concordat. The situation we have encountered was unexpected. And while we have taken provisions, the team is taking all necessary actions to recover outstandings.

Though there is a tempering of inflation in Turkey and anticipation of lower lira interest rates, the outlook remains uncertain. Our subsidiary, Arena is recalibrating our approach to the business in Turkey and taking proactive steps to manage the business cautiously by tightening working capital, managing overdue credit limits closely and reducing our Turkish lira exposure. We are hopeful that we will recover from the Q1 challenges of Arena as we go forward.

With the new growth trends that we see on Cloud AI, digital transformation, we remain optimistic on the outlook going forward. As mentioned in the last quarter as well, Q1 is normally our softest quarter of the year, but we executed well based on the addressable opportunities and retained our share in the market.

We also encountered geopolitical tensions, both in India and in Middle East, but managed to weather through those. We feel there are opportunities to grow faster in software solutions, subscription models and infrastructure hardware space.

With the creation of Software Solutions Group, the focus and investment towards creating additional value add for brands and ecosystems should pave the way for faster growth, though this will be a multiyear journey. We'll continue to emphasize and enhance our core hardware business, which has been executing well and growing nicely. Before I close, I wanted to share something special.

This year, Redington was recognized as the most trusted company in the technology distribution sector by VARINDIA. This award isn't just a recognition of our business strength. It's a reflection of the trust we have built with our partners, our customers and all of you, our shareholders.

Trust is not built overnight. It comes from showing up year after year with consistency, transparency and purpose. This award belongs to every Redingtonian who brings in their best every day and to each of you who believed in our journey.

Thank you. We look forward to your questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin from Investec.

**Nitin:** So I think we had a very great quarter from a growth perspective. Just wanted your thoughts on the margin side of things. You did mention 3 elements which sort of impacted the margin. If you could give some more color there as to why it is. So I think anything from a philosophy standpoint, these large deals that we are seeing in which geographies are they?

And how are the sort of -- are you happy with the kind of requirements on working capital and all of those for those deals? And how should we think of margins overall on a going-forward basis? Do you think there's a different thought process on how you would like to take this on a going-forward basis?

**S.V. Krishnan:** Thank you, Nitin. See, on the margins, if you see between Q1 of last year to Q1 of this year, there is about 60 bps of drop, which was about 5.7%. Now it's about 5.1%. Giving you a broad split of what is this drop on account of, about 10 bps relate to the PayNet divestment because this was there as part of our results last year.

Second, in Arena, like what Hari mentioned, there had been still the economy as well as the industry is going through stress. There is about some 10 bps of drop on account of Arena on top of the PayNet. The balance, which is about between 35 to 40 bps is primarily on account of TSG business. That's where the large deals, I mean, it actually comes into play.

We have discussed that before where while either the gross margin could be low or the working capital could be beneficial, we have to make some compromise these being large deals. We only

ensure that our return on capital employed is -- that requirement is met. So those are taken care, but large deals do come at lower margins.

Second, even otherwise, there are some stress in terms of margin because of higher competition in the marketplace and also vendors are not in a position to offer higher margin in the TSG space. So these are the main reasons why in TSG, the drop in margin is observed.

But otherwise, this is a breakup overall in terms of the year-on-year gross margin drop. Outlook, if I need to give you in the same form, the PayNet is something that is permanent. But Arena, we feel it could get recouped. It will take some time, but we are confident we will bring it back. In the case of TSG, that also links to your other point, we think the large deals doesn't seem to be a one-off.

It's going to continue for some time, and we need to play this in order to make sure that our revenue growth is in place, our market share and also the vendor share is in place. So we feel on the large deals, if there are significantly higher large deals, we will start tracking it separately and also we will see how it can get shared. But outside of it, the rest of the TSG margins, which is on account of the market pressure, we think it is going to take some time.

That's not going to come up that fast. Having said that, overall, at an operating profit and the PAT level, the point which Hari mentioned, I think we have ensured vis-a-vis the Q1 that we have had in the past years, we are broadly in line, and that has come on account of the opex optimization as well as the working capital control, which has resulted in lower interest cost. We think this management of working capital and opex is going to help us from a profitability perspective, but this is the guidance on the gross margin.

**V.S. Hariharan:**

Nitin, just to add one more point on the question that you asked. These deals are happening both in India and in UAE. We don't have a practice of calling out specific deals, but we see an increased number of deals both for data centers as well as the AI space. And clearly, we are only seeing more of these, and we want to take our fair share as long as we are able to get our return on capital employed with the lower margins.

**S.V. Krishnan:**

And one another point, Nitin, that you asked, do we have sufficient working capital for large deals? As we speak now, we think we have. See, end of June, our gross debt to equity was 0.36x. Net debt to equity is about 0.23x.

So do we have enough capital in terms of addressing some of the large deals? Yes. But it all depends on the size of the deals. We think the size of the deals also could go up. If there are requirements at an appropriate time, we will come back and talk to the streets. But right now, we are quite okay.

**Nitin:**

Got it. I just have a follow-up, if I may. So I think this quarter, we also had a reversal of provisions that added some 57 bps on a sequential basis. And so which means that the margin drop was actually higher. Now the question is that these deals -- and it looks like the bigger margin drop, obviously, is in the overseas segment.

So the overseas deals are what have actually dragged the margins more. Now those deals, are they government contracts? Are they private? So in terms of the working capital days there, how comfortable are they? Is it longer than our normal averages? I don't see it in the working capital as of now. It seems to be okay. But broadly, how is it? If you could just give some thought process and some guardrails that you generally have around it?

**V.S. Hariharan:** Yes. So the deals, Nitin, are only private deals. We're not working with the government. We work with people who might be working with the government, but we don't work directly, but all these deals are private sector deals.

**S.V. Krishnan:** Second point on the inventory provision reversal, see, Nitin, Q4 and Q1 are really falls apart. So my suggestion, please don't mix up the reversal of inventory provision vis-a-vis the inventory provision that we have. This quarter, there is a positive inventory provision to the extent of about 5 bps, which is broadly in line with our long-term trend of about 5 to 6 bps. So for this quarter, inventory provision has not been any different from the long-term average. But AR provisions, as Hari explained, has spiked and that's mainly on account of Arena.

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

**Sarath Reddy** The top line and the margin is the good news. The provisions are hard to understand. They seem higher than anything you've taken in the past, and they came without warning. And that's something I'd like to know more about.

Also, the interest costs, we expected that the sale proceeds that you received would have helped you mitigate interest significantly, but your international interest costs seem to have spiked quite a bit. Again, total surprise. I can't understand. There's something about cash flow being INR1,300 crores in the minus. Help us understand that. Also, could you tell us if you continue to use factoring? And if so, how much for this quarter?

**S.V. Krishnan:** Okay. So on the first point regarding provision, see, in Turkey, seriously, the economy is going through a lot of stress. There is -- there are applications, increased applications that are made by companies for concordat. Concordat is like debt restructuring. This is pre-bankruptcy, okay? So I'm just going to -- I mean, specify the number of companies that have applied for concordat.

In the last 7 years, the average has been between 1,500 to 2,000 companies, last 5 years. Every month, starting from Jan 504, February 365, March 414, April 444, May 508, June 541. So consistently, you can see about 500 companies applying for concordat in Turkey every month vis-a-vis about 1,500 to 2,000 companies a year. So I mean, I'm just giving you a perspective how the economy is moving, and we are part of the ecosystem.

So what we had seen in our business, there are some customers who have applied for concordat in the current quarter. So all this, maybe we could have given you a perspective last time, but all these are happening. As we speak now also, it's something that we are keeping ourselves abreast, and we are also putting some actions. So this called for some actions at our end. We felt after

review of all our pending ARs and what has got delayed, there is a need for creating an extra provision.

So we had accordingly done about \$8 plus million of provision in Arena, which we think is onetime, and we should be able to manage as we speak now, the rest of the ARs that need to get collected. But is this a surprise? It's a surprise even for us. But since the market is tough, we need to take a considered view. We think we have taken a proactive view in terms of identifying this case and have dealt with in the books.

Second is the interest cost. Interest cost per se in the balance sheet has gone up by 14%, and that's only the interest. So if you consider the factoring and interest together, for your other question, do we do factoring? Yes. The quantum has come down, but we -- I mean, we still do factoring. Overall, for last year, factoring plus interest together, it was INR148 crores, which is now in the current quarter is down to INR122 crores.

So has that come down? It has come down. It has come down by 18%. But is this what we expected? No, we thought it will come down even further for the reasons that you had explained. Within this, if you take only Arena, Arena's last year, factoring plus interest was INR90 crores, which is down to INR69 crores.

So even in Arena, there is a drop of factoring and interest cost in the current quarter year-on-year. But I'll tell you, there were a couple of factors which has resulted in this not being even more significant this was the expectation.

So the first point is the PayNet money, it came in U.S. dollar. And U.S. dollar rates are about 10% to about 11%, 12%. We had to pay off the loan, which was costing us at 10%, 11%, 12%. But on the other hand, there has been a corresponding increase in working capital. I'll explain why all those. But majority of those increases have happened in the Turkish lira business. And the Turkish lira loans were costing us 50%.

So the delta you can see, while PayNet money has come, which was only taking care of one-fifth of our interest cost reduction. But on the other hand, we had to take loans at a higher cost. Why did this increase happen? There were three factors. One, the delay that we are talking about the concordat related or the general market delays because there are some sluggishness in terms of the overall liquidity situation in the market itself.

Because of this, there has been a working capital blockage that had happened, which part of it we have dealt with and we think the balance will come. It will take some time, but it will definitely come. Second, until the PayNet money came, we had some challenge in terms of cash flow there. And because we were not able to get sufficient bank loans, etcetera, so we were delaying some of our vendor payments.

That pressure, we had been waiting for the PayNet transaction to get completed, so that got paid out. Third, we also thought now it has given us a headroom to increase the business because

please understand in this business, if we remain on the sideline, vendors will push us out. We also need to play the market share game.

While we are not going to compromise on any fundamentals, this is something that we need to consider in a balanced way. So there has also been some build up on account of inventory. So all this have resulted in extra working capital and extra debt and also extra interest cost. While I did say interest on a year-on-year basis had come down, but it would have come down even more faster had we not increased our working capital, but this is where we are.

Third, on the negative cash flow, I think we had discussed that in the past. With our profitability metrics and a 40% dividend payout and if we are able to retain our working capital days, our growth can be in the range of 10% to 12%. When our growth is in the range of 22% to 24% and as Hari has mentioned, the three big markets, which are India, UAE and KSA, all these three constitutes close to 80 percentage of our business.

Our growth rates are north of 20% in U.S.A. and KSA it was North of 30%. When we are growing at that pace, definitely, there will be capital requirement. We will not have the same free cash flow, which is what we have seen the case in Q1. But we think it is more to do with the growth and we are quite comfortable with that. Sorry, I'm not sure. I've answered. It was a long answer. If there are further queries, I mean, please tell me, sir.

**Sarath Reddy**

Yes. On the subjective the provision, on earlier occasions you've clarified that you have an insurance I'm not sure if that's limited to India business or also it covers your global business. Could you help us understand if this is covered by insurance?

**S.V. Krishnan:**

Okay. My answer at that point in time would have been for other markets. For example, in India and in MEA, our AR is majorly covered, but that's not the case in every other markets. For example, in Turkey, in Africa, in a few other countries, insurance, either you don't get insurance or you get far less insurance. So in this case, is there an insurance? There is an insurance, but the coverage has been quite small.

**Sarath Reddy**

Okay. So given what you've told us about the need to -- if you operate in Turkey, you need to be a serious player to retain market share is important. But then given the risks and the costs and the factoring costs and the interest costs and the never-ending provision costs, it's been several quarters of this?

When will you evaluate whether you need to be in Turkey? You have many markets in which you're doing well. Why would you destroy all the good work by continuing to break your head on a market that doesn't reward you?

**V.S. Hariharan:**

Fair question, Aejas (Please read as Sarath). This is Hariharan. And we've spoken about this before. It is challenging to get into a market, but not very easy, but we can exit markets easily. So as we speak, we are recalibrating our strategy in Turkey. So over the next few months, we are going to see what is the best way for us to do business and continue in Turkey. So it is being done.

So there is a strategy discussion that's happening with our subsidiary as well as with the Board. We will keep you updated as we progress on this, but it's a fair question.

**Sarath Reddy**

For us as shareholders, you must understand that maybe we are less -- we are able to be a little more dispassionate because there is some distance between the business and others. But when you have recurring troubles in the market and you're actually increasing exposure, putting good money that you received from the sale of your subsidiary into increasing business that's resulting in increasing provisions, it's very, very frustrating, sir. And it's disappointing that management has to be told this by a shareholder?

**V.S. Hariharan:**

No, we definitely take your point. And I don't think we feel the same frustration. Believe me, we are as objective and dispassionate because we want to be closest to the shareholders and we are working for you. So clearly, we understand as much on this and as frustrated because we were seeing light at the end of the tunnel, and we were expecting a good profit turnaround with the PayNet divestment and using that money to focus on the cleaner business.

That is clearly our strategy going into this year. But we are also equally frustrated and we want to make sure that you understand that we are clear that we want to do good business and make sure that we have a good return on investment. So we are very clear about that.

**S.V. Krishnan:**

Sir, just one add-on point. I think it's important to understand the facts here. I don't want you to think we have allocated more capital just to increase our business. Maybe I have not conveyed that correctly. A part of the money is struck because of delay in collections, which is a regular part of the business. There is no increased allocation, but there is some money that is struck and which we have seen in other place also in the past.

So that's not something -- this is a business risk, and that's a conscious risk that we need to take and move on. So that's an environmental situation that we are faced with, and we are confident we will handle it in the best possible manner. Second, I had also said there had been a lot of delays to the vendors in terms of payment. Those are obligations. It's not an increased allocation.

At some stage, we had to end up in paying. We were holding on, we were stretching it. And that once we got the money, that had to get the thing paid. The third one where I said we have increased the -- I mean, we were trying to buy more to make sure that our market share is maintained. Maybe that's where there can be a judgmental view. But I just thought I need to make it clear. And if I still need to give you roughly -- I mean, the proportion, it could be 1/3, 1/3, 1/3. So we are only talking about 1/3 where there is a judgment involved.

**Sarath Reddy**

Okay. Noted, sir, beyond a point, we don't have enough understanding and visibility of the day-to-day you're dealing with or the issues that you deal with. We respect what you're going through. But it's important in the spirit of the award that Hari talked about in his opening remarks, the shareholder trust is also contingent upon a realistic assessment of exit, not just entering businesses.

And it's been a long wait. There's been a fantastic progress in India and in your Middle East businesses, your Saudi and UAE are doing terrific P&L and growth. But for some reason, you all have taken unnecessary time to resolve something that should have been done. That's our view. We may agree, not agree, but that's our view and I think we thought we should share it?

**V.S. Hariharan:** No, I don't disagree with it Sarath. So we will definitely give it our best in terms of viewing our long-term strategy in Turkey. We are also not running away from being objective and dispassionate about it. You can be rest assured.

**Aejas Lakhani:** Sir, I have one follow-up. Sir, you mentioned that 500 companies continue to come in the debt bankruptcy. So what gives you the comfort that the onetime \$8 million provisioning may not repeat in the subsequent quarter? And could you just call out that the credit insurance that you have, how much do you expect to collect out of that 8 million from this credit insurance?

**S.V. Krishnan:** Okay. Our insurance provision is net of whatever we expect to collect from the credit insurance Aejas. For your first question, how comfortable we are? As we speak now, it's an assessment that we need to take. In our assessment, I think this is good enough. But as you know, these are evolving situations. You need to have trust on us, and we also have trust on the team. But we are at it.

That's what I can tell you. So I mean, this is something -- it's not the first time that we have seen at all. We have seen it in various places in various times, and each situation is different. But somehow in our assessment, an 8 million is good enough to handle this case.

**Aejas Lakhani:** And sir, could you please call out the specific factoring cost for the quarter?

**S.V. Krishnan:** It's about INR45 crores -- sorry, sorry. It's about INR31 crores vis-a-vis INR68 crores in Q1 last year.

**Moderator:** The next question is from the line of Rucha Somaiya from Old Bridge.

**Rucha Somaiya:** Congratulations on a good set of numbers. I just had one question in terms of data center. You mentioned that you are getting demand from data centers. But specifically that I wanted to ask is every hardware that goes into data centers. So does that act as a demand center for Redington's products specifically? Any color on that would be great.

**S.V. Krishnan:** Your question is not very clear. Can you repeat, please?

**Rucha Somaiya:** Question was the hardware demand that goes into data centers, does that act as a demand center for Redington's products?

**V.S. Hariharan:** So sorry. Your question is, does that -- does the data center products add demand to the Redington product?

**Rucha Somaiya:** Yes.

**V.S. Hariharan:** So it does because typically, what goes into our data centers are server, storage. They can be GPUs, non-GPUs, Intel-based. And we work with a variety of brands, both international and local to fulfil these. So definitely, the IT products that go into a data center is something that we work with and been working with for a long time.

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

**Pratik Kothari:** Sir, two questions on TSG. One is you made a comment on the increased competition. So is this some geography specific? You also made a comment that vendors is not very keen to pay higher. So if you can just highlight a bit more on that?

**S.V. Krishnan:** See, there is -- first of all, this is not -- I mean, in one market, this is something that we had seen across markets. So this is more an industry issue than a market issue. There is increased competition because of higher growth in this space. Overall, the growth potential is high. There is an increased competition. And vendors also have restricted margins.

So all said and done, if there are less margin that we can get in the marketplace, we always go back to the vendor equip with him and then get whatever that we can get from them. If they have a restricted margin, they have only so much to share, which is what I meant. Hence, the overall margin that's available in the business as we speak now is constrained, is limited.

**V.S. Hariharan:** Let me add another perspective here. See, there are a few things happening in the technology solutions environment. One, there is a growth of cloud where the data centers for the cloud is being put up by a variety of players. The on-prem products are being played both by global players like HP Enterprise, Dell, Lenovo, et cetera.

And then there are local players that are evolving, which are working on both GPU as well as non-GPU servers. So the intensity of competition is going up for both cloud data centers, on-prem with a variety of different players jumping into the mix.

So what's -- as a result, the global players are pressured in terms of margins, in terms of pricing to compete. And obviously, they're trying to either play the game by going direct, or by trying to work with distribution and channel partners with lower margins. And clearly, the demand is outstripping and the growth year-on-year is fantastic if you add data centers and on-prem servers that are being consumed and with all the cloud -- all kinds of cloud, but the competitiveness has significantly increased.

**Pratik Kothari:** Fair enough. And sir, in these large deals which we called out, I mean, we said the margins are lower, but so are working capital. So the overall ROCE still gets met there?

**S.V. Krishnan:** See, I won't say ROCE will get-- met. If that's the case, it's an easy choice that we need to make. There could be some compromise, but we have some threshold ROCE, which we don't want to breach unless it is too important or strategic that we keep in mind. But see, these are not transactions which will come at regular commercials. That's for sure.

**Pratik Kothari:** Correct. And you called out this 60 basis points dip in gross margins. And so out of this, it seems only Arena is something which can kind of mean revert based on whatever actions that you guys take. Rest all seems to be permanent. I mean, PayNet, obviously, but even say the large deals in TSG, or the competition?

**S.V. Krishnan:** Yes and no. See, the large deals, that's why I said if there are big, big deals which significantly impacts the numbers, we need to track it separately and call it out. Even outside of it, we think as the things settle down, the market operating price could go up, and we should be able to recoup back our profitability in the TSG segment.

Having said that, the software services and the cloud part of the business, we are very positive there. The margins are better. We think the higher growth in that segment is going to help us to bridge this drop in margins.

**V.S. Hariharan:** So just to add to that, the software solutions piece of the business is about -- roughly 15% of our business, and it's growing at 25% right now. And this quarter grew at 24% as well. So that part of the business delivers a gross margin close to 6%. So that should help us counterbalance the dips elsewhere.

**Pratik Kothari:** So sir, ex of Arena, any guidance that you would like to give for the year or next? What does normalized look like, be it at a gross margin, PAT, whatever?

**S.V. Krishnan:** Our objective, we have set out -- I mean, set out clearly and have also called it out. We would want to maintain our operating profit between 2.3% to 2.5%, and PAT above 1.3%. That is something that we are still focused. We are hopeful. We don't see any challenge there.

**Moderator:** Thank you. The next question is from the line of P. Venkatesh from Corporate Database India Private Limited. Please proceed.

**P. Venkatesh:** I just wanted to understand. So if we have clean-based numbers which are mentioned about complete filing for the debt restructuring. So, we could have called out this risk much earlier, as far as our situation in turkey are concerned. Any thoughts on that? And secondly, kind of provision that you have taken out debt, what is the extent of receivables are kind of doubtful can you spell out that clearly please?

**S.V. Krishnan:** Okay. Venkatesh, these are evolving situations. If we have had so much of clarity, definitely, we would have highlighted the upfront. We had to take a view as we were closing our books. So we think -- I mean, there is no delay, and these are at an appropriate time. But if there are anything more, definitely, we will come back to you at the right time.

Second, very specific to Arena. In our view, about \$20 million is the delay in collection, out of which we had provided for about \$8 million. And we think we should be able to collect the balance as we stand now.

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

**Aejas Lakhani:** Krishnan, sir, a follow-up. I'm still trying to understand the call out of the ability to maintain that EBITDA aspirational margin of 2.3%. Given how the first quarter performance has been, what gives you the confidence that in the remaining 9 months, given the dynamic situation in Turkey, we will have to cover up more than the 2.3%, so that the blended number reaches 2.3%. So what gives you that confidence, sir?

**S.V. Krishnan:** Okay. See, this issue in Turkey is -- we think it is one-off. So we don't see all this, we have to make an assessment at this point in time. Second, in the earnings deck, you would have seen one slide where we had given for a longer period, how have been our Q1 operating profit and PAT percentage. Because I see a confusion that's why some of the concerns are coming up.

There is a comparison between Q4, or there is a comparison with the full year number vis-a-vis Q1, which cannot be the case. Our Q1 has always been the lowest quarter in terms of revenue, lowest quarter in terms of profitability. So you can see in this slide, the trend in terms of operating profit, I'm removing the 3 years of COVID period because those are exception you don't want to reckon.

So the operating profit average, pre and post, is about 2.06%, and we are at 2.09%, better than that. The PAT percentage is 1.16%, I mean, pre and post, and we are at about 1.32%. So have we done better like what Hari said? Definitely, we are.

Maybe if the AR issue in Arena has not happened, it would have very clearly come off. See, look at it this way Aejas. Our AR provision is about 0.39% this quarter. Normally, it's about 10 bps. Let's assume it is 10 bps.

We are now talking about a 29 bps, which is close to 0.3% dip in profitability accordingly, on account of AR, which at the PAT level could be about, say, about 22- 23 bps. The 22, 23 bps impact is built in, in the numbers that you are seeing. So I don't think you need to be worried. We are definitely in this thing not worried. We are confident in terms of what we had said.

**Aejas Lakhani:** Understood. Sir, my next question is for Hari sir. Sir, you had mentioned that you have now created a Software Solutions group. So sir, firstly, I wanted to understand that the hyperscaler, the pure SaaS, the Software as a Service as well as security is a part that encompasses this software solution group. Is that understanding correct?

**V.S. Hariharan:** Absolutely right. Those are the three groupings, so security, software as a -- and even within SaaS is infrastructure SaaS and application SaaS. And cloud was separately -- hyperscaler piece was separately in CSG. But now all three of them will be together in Software Solutions Group, and you will start seeing some of those in the coming quarters.

**Aejas Lakhani:** Noted. And sir, given that this is the highest growing piece for us, could you specifically give some color on what are the gross margins, and EBITDA margins that we have in this specific vertical?

**V.S. Hariharan:** As I said earlier, so we are tracking between 5.5% and 6%, and closer to 6% on the gross margins on these categories. Obviously, we have a lot of work to do. I think we focused very well in the

last 4, 5 years on the hyperscaler piece going beyond just resell, going into consumption of workloads and professional services around it. And you get to appropriate when you do professional services, even higher gross margin, even though it's a smaller percentage of the business.

So as we focus and double down on security and SaaS, there is an opportunity to maintain those kind of gross margins, but there's potential to add services around it. There's also a potential to bring in more brands and get more share.

So there is more growth and more gross margin that can be appropriated. We are building a plan. It's not going to happen overnight. It's a multiyear journey. We started the journey. We are making investments there. So the gross margins you can expect in that business is between 5.7% and 6% kind of gross margins.

**Aejas Lakhani:** Understood. And sir, in the start, you mentioned that the TSG run rate business is seeing some sort of a challenge. So when you're calling out the run rate business, what does it really encompass?

**V.S. Hariharan:** So the run rate business is really channel business that we work closely with global vendors. And these are deals that we work closely with them, which they strike the deals and we fulfill them. And it's an ongoing channel business with their Tier A, Tier B partners that Hewlett Packard Enterprise, Dell and these kinds of brands, and Lenovo, these kinds of brands have, and we work closely with them to fulfill the deals that they work with customers and with us.

**Aejas Lakhani:** Understood. And sir, finally, what is the blended interest cost that we are paying on consol debt today, sir?

**S.V. Krishnan:** When you say blended interest cost, you want absolute amount?

**Aejas Lakhani:** No, no, sir, the percentage, like is it 7.5%, 8%?

**S.V. Krishnan:** No, no, no. That varies by market. It's too difficult to put a-- I mean, 1 percentage. Arena, we discussed, right? So in the rest of the markets, maybe -- I should say it varies between 6% to 7.5%.

**Moderator:** The next question is from the line of Sahil Doshi from Thinqwise.

**Sahil Doshi:** My question pertains to that this quarter we've seen a positive delta in terms of the MSG share. But consequently, we haven't seen a similar follow through in working capital in terms of benefit coming through. So could you talk a little on this?

And also, could you quantify the impact of the increased MSG share on the gross margin?

**S.V. Krishnan:** Okay. See, the benefit of mobility growth definitely seen in working capital. Outside of mobility, there is an increase in the receivable days across the board, that's something that we see in the

marketplace. It's just not in the case of Redington, even with other competition, the credit days in the market are more.

But however, if you see end of June last year, we were at about 39 days of working capital closing and now we are at about 37. So there is a drop of 2 days, and this is primarily on account of the mix, which is higher contribution from MSG.

Because of the mix change, the advantage -- sorry, the disadvantage that we have had in terms of the mobility is offset by the ESG. In ESG, our growth has been slower, which is what is taken over by MSG. Both broadly has got neutralized and hence, that impact on the gross margin is not visible. But even if I need to put a figure, there could be about 5 to 6 bps of impact on account of both.

**Sahil Doshi:** Okay. Understood, sir. I appreciate. And sir, the question -- other question pertains to the large deals. Could you quantify what do you define large deal as? And is there any factoring on account of these again in this quarter?

And second is, sir, if we just see a long-term trend, the 5% adjusted gross margin, which we've seen, this is the lowest ever we have reported in any quarter. So structurally, are we looking at growth at the cost of margins? Is this how we should think about? Or have the terms of trade in the entire channel changed and this should be the new normal?

**S.V. Krishnan:** Okay. So, the definition of the large deal, it is too difficult to define because the size of the businesses are going up. I'm just putting it in a very broad level. 1.5, 2 years back, anything more than INR100 crores could be a large deal. And last year, we had handled certain deals which are more than INR200 crores. I'm talking about each transaction.

Now if we look at the businesses that are coming, there are some business which are multiple times bigger than this. So, it's too difficult to put a very specific amount. If it's quite substantial, and it is to one customer, one vendor, I mean, we think it needs to be called out as a large deal.

**Sahil Doshi:** Okay. And related to the factoring and the other question on the growth over margins?

**S.V. Krishnan:** Sorry, which one?

**Sahil Doshi:** Is there any factoring on account of these large deals which you have done? And if you can quantify that?

**S.V. Krishnan:** No, not in this quarter. But in the past, for some of the large transactions, if we think we need to do receivable factoring, we had done, but not in this quarter.

**Sahil Doshi:** Sure, sir. And my other question...

**S.V. Krishnan:** Some of this it is difficult, Sahil, to guide. I'll tell you, this is the challenge in the back-to-back business. The deals come. We need to take a decision at this point -- at that point in time what

to take, what not to take. And each one is a different animal by itself. We are supposed to structure it in that form. So, it cannot get guided in a very simple form.

But wherever we think there are possibilities, we hedge it in the form of a back-to-back payment terms, or if it calls for more credit and there are possibilities for us to factor it with the banks, we do that.

**V.S. Hariharan:**

And the additional -- the other question you had was, is this a new normal? And are we compromising gross margin for growth? See, it's a matter of relevance and market share. For the run rate business, we will maximize and have our share. And the big deal business, if you don't -- if you play in that incrementally, yes, you will get additional growth.

And yes, your gross margin percentages will deteriorate as long as they make sense from a return on capital employed, we have a threshold as what Krishnan said, it makes sense to us. So, we have to play that game. If we don't want to participate in the big deal because it's pulling down our gross margin percentage, we may become less relevant in that category.

**S.V. Krishnan:**

See, one another point I want to make a mention here. See, this is a market which is very attractive and which is pretty large even for the global leaders. And they are all present in that market. So, you have to ensure as a leader, we are the leader in India. As a leader, it's important that -- I mean, you need to play the game in line with what a global player will do.

If the same transaction can be picked up by them, and if we are not able to do, then that advantage goes. So, we are very conscious about the risk. We are conscious about the working capital that we deploy and the returns that we need to make. But these are -- I mean, the choices that we need to keep making as we move forward too Sahil.

**Sahil Doshi:**

Sure, sir. Thank you. I appreciate the candid responses. Just a final one on Arena. If you can just quantify, or you can just call out what's the situation currently? And how should we think about profitability and capital infusion further year on?

**S.V. Krishnan:**

No capital infusion. We haven't invested -- I mean we haven't put any capital. We haven't made any commitment in Arena post our acquisition way back in 2010. So, there are no capital investments that are planned.

Having said that, in Arena, economy industry is still going through stress. We have confidence on our people in terms of how they manage, and that's something wherever required, we are pitching in -- I mean, we are pitching in. We are helping them. So, we would be very cautious. We think situation will become better.

As Hari said, we are also looking strategically in terms of what we can do. At the right point in time, we will share with you what's our thought process and what's our plans. But as we speak now, we are trying to do our best in the given situation.

**Moderator:**

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

- Sarvesh Gupta:** Good evening, sir. Sir, just one confusion that I had. In the beginning, you had called out the 60 basis point decrease in gross margin. And out of that, 20 basis points was attributable to Arena and Paynet, and remaining to the TSG large deal business.
- But then later in the call, you mentioned around 30 basis points of AR provisioning. So, I got confused that how much is the onetime thing, and how much is because of the onetime AR provisioning, and how much is repeatable? So, can you please clarify that?
- S.V. Krishnan:** Good. See, AR provisioning is part of opex. It is not a part of margin. Both are independent. Have the margins dropped? The margins have dropped; we have discussed about it. But at the same time, we had brought in opex control, which is why our opex increased, even though revenue growth was 22%, opex growth was 6%.
- Even though gross margin growth was 14%, opex growth was 6%. And interest, we have had a degrowth by considering interest and factoring together. These have enabled the profitability to be strong. If your question is, if the gross margin drop had not happened, if the AR provision had not happened, would the profitability growth would have been more? The answer is yes.
- Sarvesh Gupta:** So, your opex growth of 6%, which was anyways a good sort of number, would have been even lower had it -- had this 30 basis points of AR provisioning had not been done this quarter?
- S.V. Krishnan:** No, sorry. In opex, I have not included AR. Without AR, the opex -- the regular opex is 6%. If we consider AR, our opex growth was 13%.
- Sarvesh Gupta:** Okay. So, this 13% would have been 6%, but for this 30 basis points of AR provisioning that we have done this quarter?
- S.V. Krishnan:** Yes.
- Sarvesh Gupta:** Okay.
- S.V. Krishnan:** Sorry one second. Yes. If you add up AR, including AR, the growth is 19%, not 13%, sorry.
- Sarvesh Gupta:** Okay. So opex plus AR, Y-o-Y is 19%. Only opex is 6%? Hello?
- S.V. Krishnan:** Sorry, one minute. One minute. We are just checking the figures, just give us one minute. Yes, it's 19%.
- Sarvesh Gupta:** Understood. So opex plus AR Y-o-Y is 19%. Only opex, excluding AR is 6%.
- S.V. Krishnan:** Correct.
- Sarvesh Gupta:** Okay. And secondly, sir, on this TSG large deal, so I understood the strategic thing that since we are the market leader, we have to play sometimes. And also these could be something that is more involved going forward as well.

Having said that, I could not -- just if I look at the working capital days, somehow it did not seem intuitive that we got the benefit of the lower working capital days because of these larger deals. So, the days reduction was small and the free cash flow was also sort of negative for the quarter because of that. So how do I -- I mean, did we get the -- what kind of benefit did we get on the working capital because of these large deals?

**S.V. Krishnan:** Not significant this quarter. It wasn't significant this time.

**Sarvesh Gupta:** But let's say, on a normal basis, are those significant like because we take a hit on our margins?

**S.V. Krishnan:** It depends on each deal. That's why I said normally, there could be a compromise, either on the margin or on the working capital. But sometimes, I mean, that may not be significantly built, but working capital reduction wasn't quite significant. It was only 2 days overall.

**Sarvesh Gupta:** Okay. And sir, finally, on the Turkish business, so on our parent balance sheet, what is the net carrying value of the investments that we have done for Arena?

**S.V. Krishnan:** It is currently at about \$30 million.

**Sarvesh Gupta:** 30?

**S.V. Krishnan:** 30.

**Sarvesh Gupta:** Okay. Okay. Understood, sir. And congratulations for steady numbers and all the best for the coming quarters.

**S.V. Krishnan:** Just on that question, I think it's important also for me to tell you, Arena is a listed company and Arena's market cap, I don't know today, it ranges between \$85 million to \$90 million. So, for your question, what's our current investment in the books is about \$30 million. But if I need to calculate what is the market value of that is 50% of this amount, which could be between \$40 million to \$45 million. That can give you some comfort.

**Moderator:** Due to time constraints, that was the last question. I now hand the conference over to the management for the closing comments. Over to you, sir.

**V.S. Hariharan:** Thank you so much for all the questions. I know because of the gross margin declines, as well as the challenges we've had in Arena, our subsidiary, there were a lot of questions. We feel very strong the way we've executed the quarter in all the geographies outside of Arena.

We are confident as we go forward in Q2, we do see the NPIs in mobility, as well as the Technology Solutions and the Software Solutions business building out a decent quarter for us, and look forward to sharing that with you in 3 months.

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

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