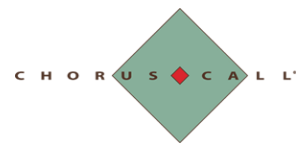




“Redington Limited
Q3 FY '26 Earnings Conference Call”
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Moderator:

Ladies and gentlemen, good day, and welcome to Redington Limited Q3 FY '26 Earnings Conference Call. This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. The statements are not guarantees of future performance and involves risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. A very good morning, everyone. It's a pleasure to be here, and I'm delighted to share with you our results for Q3 '26. This has been our best quarter so far, both from a revenue and a profit perspective. We recorded nearly INR31,000 crores, to be precise, INR30,959 crores and a quarterly profit of INR436 crores.

Our revenues grew at 16% and profit after tax grew at 9%. Overall, PAT percentage was at 1.41% for the group and excluding Arena, PAT was at 1.56%. It is a continuing story of profitable growth with growth coming in strongly across business segments and across geographies. From a geography perspective, the revenue growth was contributed by many of them. India continues to be very strong at 25%.

UAE was strong at 19%. GCCL, this is a cluster of countries outside of UAE and KSA, including Levant countries, grew at 29% and Africa grew strongly at 14%. Within India, while we had growth across, we did see a strong uptick in the upcountry driven by our focus and initiatives in the upcountry.

The Cloud and IT infra investments in the Middle East by the government and corporates is proving to be a good opportunity. Our focused efforts in Africa on Software Solutions Group is yielding results.

Now moving on to performance by business units that I can provide a color on the growth and what's driving the growth. Most of the business units contributed well. Mobility continues to be a good shining star for us at 15% year-on-year, contributing to 35% of the top line, driven by strong demand in the premium segment, impact of the NPIs in the previous quarter and strong execution in the direct-to-retail segment in India.

On the End Point Solutions Group, the PCs, we saw some really nice growth this quarter at 21% year-on-year, contributing to 32% of the top line. The PC demand was strong, partially driven by the component shortage and the price increases.

However, if you dive into the details, the AI PC penetration in India Commercial PC segment was on the rise with 28% of the revenues coming from AI-focused PCs. In the Consumer segment, gaming continues to do well. And desktop PCs saw a surge as brands gained share from the white label due to the component shortage.

Now coming to the Technology Solutions Group. While we saw a decline at 7%, it is largely driven by timing of large deals executions across quarters. There's clearly a lot more data center business and deals with the emergence of Neo cloud and sovereign cloud players in the market. We have an opportunity to participate in this growth and have closed several deals in this quarter. A few have fruited and got recognized in Q3, and we'll continue to see some of them driving the growth in the upcoming quarters.

With the recent announcements in the budget on tax holiday for data center investments from foreign companies, this area definitely holds great promise for us. We are building a strategy to start focusing on the data center space and looking at a variety of approaches from power system solutions, cooling system solutions, various services into the data center and also matching demand for colocation, etcetera, for the mid-market.

Coming to our Software Solutions Group, which has been our clear growth story for the last several quarters and a couple of years. Our focus has really helped. SSG for us, software solutions encompasses the Golden Trinity, the Cloud Hyperscaler business, the Software business and the Cybersecurity business. and Professional Services, of course, not forgetting that. SSG grew 40% this quarter, contributing to now 18% of the top line.

If you remember, when we talked about the year gone by, it was 15% and then the last 2 quarters, 16% and now 18%. So clearly, the focus and the market both exist. Double-digit growth was recorded across all the subsegments within SSG. It also delivered higher-than-average profit after tax. Within the Cloud subsegment, we're working closely with the hyperscalers and taking advantages of the enterprise transition to cloud and digital transformation.

The Cybersecurity and Software business, we are increasing the breadth of our offering and the brand offerings that we have, and we're also increasing the intensity of our go-to-market. We're also rolling out this quarter an enhanced version of the digital platform that we have, what we call as CloudQuarks with more features and analytics for customer life cycle management.

We're also investing more in technical presales and solutioning teams, also investing in the Redington Academy to create more certified professionals within the company and, of course, within our channel partners. Our Professional Services business, though small, continues to grow very well and delivers value add for the Cloud resell business. Coming to AI, we talked a little bit about it.

Now it's becoming real. We have started to create several targeted initiatives to make this practical and real for us and for our partners and customers. We are creating a capability center

in Chennai. It started with an AI competent team to work on its internal and external use cases and proof of concepts. We're also creating an AI go-to-market team, both in India and Middle East to work on these customer use cases.

We are in the middle of developing an AI Agentic catalog, which will go live soon. Working with our ISVs that will be a good starting point to fast start to deploy AI agents with customers. We'll hear more about this in the next few quarters and what we plan to achieve and what are the outcomes. Let's move on to operations. It's again been a great story.

Very efficient management of working capital has led to the overall lowering our working capital days to 28 days. Despite the investments we are making in the growth areas like software solutions and others, opex control continues to be good at 9%, growing slower than revenue growth, giving us operating leverage.

Our digital platform for hardware continues to evolve very well and reaching more partners. More than a third of our business in India this quarter went through the digital platform. Our back office and logistics business are beginning to deploy AI agents, which are resulting in productivity improvements and cost savings.

Now coming to Arena, which we have again covered in every one of our calls separately. Our subsidiary continues to wade through the economic challenges in the country, but it's getting better. While inflation has been coming down to 31% and policy rates to 37%, the situation continues to be challenging. In order to reduce interest costs in the Arena operation, as we spoke in the past and to minimize local currency exposure, Arena has divested from their Vodafone contract as informed last quarter. This has been executed well.

However, there are still impacts on this transaction in the current quarter. The overall loss in Arena for the quarter was INR22 crores for us. Over the last few quarters, Arena has been taking a series of actions as we have discussed, but I want to just bring your attention starting from Paynet divestment, tightening of opex and working capital, managing AR more closely, understanding the market in terms of concordat cases, divesting from local currency business, all heading to improve the health of the business. The trajectory is definitely showing and going in the right direction, and we remain very hopeful Arena will get to healthy levels as we approach 2027.

To summarize, I'll just say a few comments. A defining feature of Redington's market perception is trust, which we are really proud of. Earlier this year, we won the most trusted distributor award from VARINDIA in July. Our key stakeholders in the system, the brands, the partners, the customers, bankers and the shareholders have told us that they have very high confidence and trust in our company.

We would like to thank every one of you for believing in us through our journey. As we transform the company from being a distributor to an orchestrator in the new world order defined by cloud, software and AI, we will be shifting to an unlock next approach to a sharper future-facing outlook.

This is not a mere narrative, but a bolder approach to unlock growth opportunities, to unlock more efficiency, to unlock access to more opportunities, continue to unlock trust and continue to unlock impact, all this while maintaining your trust and confidence. We want to enable progress across markets, across businesses by bringing right technology, partnerships and expertise together and to help our customers from their intent to transform to impact faster.

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

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

Nitin Padmanabhan: So, I had a couple of questions. So, one is to start with this government mandating appointing a reseller from a data center perspective for global guys for selling in India. Does that sort of open up a large opportunity for us? Or that's not a given in terms of an assured opportunity? So that was the first one, and then I had a few others.

V. S. Hariharan: Okay. Thanks, Nitin, for the question. It's early days, but we think it is definitely an opportunity. We are reaching out to the hyperscalers to explore the direct business that goes into corporates, and we are getting ourselves prepared. If moving that business is beneficial financially for them and we can take over that business, we'll definitely be very keen. So, it's early days, Nitin.

Nitin Padmanabhan: Got it. And your thoughts on this chip shortage and how that's sort of impacting business at the moment. Are you seeing people sort of preponing their buying decisions because prices are on the rise? And are you seeing a situation wherein it's flying off the shelves, inventory days are falling, right? You're seeing better working capital conversion on these and thereby better margins? Or how are you basically seeing and how do you see this evolve?

V. S. Hariharan: Okay. Thanks, Nitin, for this question. It's an interesting one, and this will evolve as we go along. Clearly, a couple of things have happened. One, there is definitely the second-tier channel, the reseller partners that work with us have picked up inventory.

We've still yet to see a big uptick in demand for the end customers. But we believe that will happen because there are more price rises coming up. So that's one. And there's clearly a lot of work as we work with the brands in terms of juggling the type of models, the type of SKUs to sell, the inventory management, all of that. But -- and we are seeing, like I mentioned, desktop suddenly, there was an upsurge -- and we are seeing higher-priced PCs also getting a bit more traction.

But has it resulted in more margins? No. Has it resulted in a slightly better weeks of supply for us? Yes, not enough, but slightly better, yes, in the ESG side of the house. If I look at how it will pan out, clearly, prices will be on the higher side.

We are yet to see the demand being picked up because the pricing will somewhat sober out the demand also, we think. So, we just have to wait for a few more quarters, Nitin, to play this out. That's the short answer. The demand from -- the customer demand has to be there so the channel partners have picked it up. But the sell-through, we have to work through this quarter and see how that pans out.

S. V. Krishnan: Nitin, it is also early to put a number or a guidance to this. But if your question is also related to why working capital is down to 28 days, is this because of that? Very clearly, the answer is no.

Nitin Padmanabhan: Yes, yes. Yes. Got that. And then just a couple of ones -- quick ones. So one is, I think mobility grew 15% year-on-year.

But when I look at the top vendor there, the growth has been amazing. It's grown 27%. So what's been the drag in that business? Otherwise, you would have shown a far better growth. The second bit is on -- just a bookkeeping question on factoring costs. And finally, any one-off impacts on profitability for Arena that's driving the INR22 crores loss there?

S. V. Krishnan: Okay. So on the mobility front, this time, the -- I mean, the performance of Apple compared to the Android is better. Second, in Arena, we exited from the Connect business, which is a Mobility business. So that has offset the growth of the mobility in the other places. Second, the factoring cost you wanted, just give me a second.

Okay. So I'm telling you the factoring in Arena. For this quarter, it is INR18 crores. Last year Q3, INR36 crores. So it has dropped by 50%. But if you take the interest cost, Arena's interest cost for the current quarter is INR43 crores vis-a-vis INR38 crores last year. So net-net, overall, INR60 crores in the current year vis-a-vis INR73 crores last year, a 17% drop.

Third, your question on Arena performance. See, we have been -- as Hari detailed, we have been taking a lot of steps to correct. And you would have seen in Q1, we have had a loss of INR9.5 million.

In Q2, it came down to INR8.5 million. In the current quarter, it has come down further to INR4.9 million. Our expectation is in Q4, this will further come down. But as we speak now, it looks like there will be some loss. So very clearly, the loss situation is coming down.

And a part of this loss this quarter, last quarter and some in the next quarter will be towards the exits that we are doing in the Connect business as well as in the Turkish lira business. But some of the key points, which may be interesting to you to understand is the closing working capital, which was last quarter end at INR179 million is down to INR129 million, INR50 million drop.

Closing debt has come down from INR126 million to INR94 million. Interest cost is all inclusive, including for our internal purpose, we consider credit card commission, rediscounting charges, all are part of finance cost is down from INR13.8 million to INR7.5 million. So you can see across the board, there is an improvement, but still we are in a loss situation.

I think next year, we might move towards a breakeven. That's the thought process. But all the efforts are on to make sure this turnaround is in place. We have cut down the business, and we are being very, very picky. But having said that, we have to do some -- I mean, some threshold business to be in the reckoning when there is competition in this market.

V. S. Hariharan: And to add the SSG part of the business, especially Hyperscaler, that's becoming a little bit more interesting in the Turkey market. So we're trying to step up in that area to counter whatever declining revenues we've had and also to get more profitability, and that looks strong.

- Moderator:** The next question is from the line of Vinay Menon from Monarch Capital.
- Vinay Menon:** Congratulations on great execution. A few questions from my side, sir. Like you mentioned there were large deals in TSG, and I think that was a bit of a drag on margins as well. So how could we look at this going ahead? Because as you -- as Hari sir mentioned that we are going to be looking at more data center deals also. So should we see this as a trend continuing for the next few quarters?
- S. V. Krishnan:** See, first of all, large deals that got executed in the current quarter wasn't substantial. But having said that, as Hari said, we have a lot of orders in the pipeline. So you will see this moving up as we move forward. I just want to recollect the earlier calls that we have had Vinay, wherein we said irrespective of the gross margin or the working capital deployment, our focus will mainly be on ROCE. We will protect our ROCE.
- I'm sure you can very clearly see for the quarter, the ROCE stands at 22.1%. So that's something which is very critical for us. Yes, in terms of percentage margin, it would be lower than the normal, but that's the nature of the beast.
- V. S. Hariharan:** And as we spoke earlier, we -- our focus is to make sure that our opex and our structure is supporting the run rate business and the deals come as a kind of a cream on the cake -- or topping on the cake. So in that -- we just manage focus on ROCE and the incremental approach on this.
- Vinay Menon:** And there was a small goodwill impairment you have taken in this quarter. Can you just throw some more color on that?
- S. V. Krishnan:** This is in ProConnect, this is out of an acquisition we did about 7 years back. And we thought it may be important to have a clear review and take -- because this depends on a few of the contracts. Each of these contracts keep coming up for renewal or RFQ every 2 to 3 years. So we made some assessment, we took some probability, and we thought we need to take an impairment, and that's about INR9.2 crores in the current quarter, and that's completely one-off.
- Vinay Menon:** Okay. Okay. And one last thing from my side is that SSG continues to show that 40% plus growth. So can you just give me like a few things which is working for us? And since we are like one of the largest players in India for this. So anything which is really working? And what could be the momentum going ahead?
- V. S. Hariharan:** Yes. So there are many things that are working for us right now. I mean let me go piece by piece. So the Hyperscaler business, we have a real great partnership with the key players, AWS and Microsoft in terms of how they look at the business and what we need to do in terms of managing the KPIs. So we have clear plans laid out and we have teams working on achieving those KPIs, which are leading indicators, leading to the revenues, etcetera.
- And that requires a lot of operational work and the joint business plans. So that's clearly, I would say, great focus, and that's why we enjoy a good share in both India and the Middle East markets. Then when it comes to the Software business, we have a few brands which we do an extremely focused and good job.

And we have -- in some cases, we have -- I don't want to name brands, but there is a brand where we have 60-odd people in the team focused exactly on how the brand goes to market and maximizing customer connects and outcome-based selling. So we do what is called as outcome-based selling.

When it comes to security, we're clearly broadening our portfolio. And as we focus on SSG, we clearly realized that we didn't have the complete breadth of portfolio. And also we are strengthening our solution architects, presales teams, and we are making some organizational changes to bring them and align them in a way that we can maximize what the brand wants to achieve in the market. So it's all about doing these little things. But going forward, clearly, the investment in capability is going to help.

We're investing in Professional Services capability. We are investing in the cloud quarks platform, automation, even simple things like renewals when a product and a subscription is coming up for renewal, we need to start looking at it 3, 4 months before the renewal cycle and how we focus on it to make sure the churn doesn't happen. So there are a variety of things that happen, and we're just stepping up the game in terms of the sheer focus in all of these areas.

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

Aejas Lakhani: Congrats on a good set. Team, first question is that, could you speak a little bit about the slightly weakish gross margins? I understand the seasonality with regards to mobility, but is there anything else to call out here?

S. V. Krishnan: Okay. See, overall gross margin is down just by about 47 bps on a year-on-year basis. Out of this, about 38 bps is on account of Arena alone. And the balance, it is on account of drop in TSG. In fact, in a few other businesses like SSG, etcetera, the gross margins have gone up, which offset this drop.

So let's talk about these two. In Arena, like I had said, we are taking right steps. Since the local currency business has a very high interest component. If I just need to take you through on some quick math, even if you take a 60 days of working capital in a 40%, 45% interest rate, that's about 6% to 7% of interest cost as a percentage of revenue. This needs to get recovered in the form of higher gross margin.

So some of these businesses have higher gross margin, but still we are not making money because of high interest rates. That's the situation. Those are the things that we have now taken the decision to exit, which has resulted in the overall margins coming down. But we think it's -- I mean, it's a correct decision. And what we have is something which is robust and sustainable.

Second, on the TSG, yes, the margins in TSG, like we discussed in the earlier calls are coming down, and we are trying to correct it. This is -- mainly to do with the ecosystem. But whatever we could do to make sure that our profitability is protected, we are doing it.

Aejas Lakhani: Understood, Krishnan sir. Sir, on -- just a follow-up. So sir, in Turkey, sir, you had called out that last year, same time, the total factoring cost was INR71 crores, of which Turkey was INR36

crores and then you had some one-off incrementally higher factoring costs. For this quarter, sir, you mentioned the Arena factoring cost at INR18 crores. What is the overall factoring cost, sir?

S. V. Krishnan: Overall factoring cost for the current quarter is INR33 crores vis-a-vis INR71 crores for last year.

Aejas Lakhani: Understood, sir. Sir, could you speak a little bit about the concordat cases that are there in Turkey? How are they trending? The provisioning that you had created, are you seeing any reversal opportunities there?

S. V. Krishnan: No reversal opportunity. We should feel lucky that there has been no additional provision Aejas. I'm being very open. Out of INR20 million, as we discussed, about INR8 million we had provided and the balance INR12 million. It's going to take time.

We are in the process of collecting. There is some slow movement that's happening. As we speak now, that doesn't seem to be a concern.

Aejas Lakhani: Understood. And sir, incrementally, as we enter fourth quarter and first quarter, the factoring cost related to Arena, given that the lira business continues to decline and you are exiting that, how should we think of the incremental factoring and interest cost in that geography?

S. V. Krishnan: Okay. See, U.S. dollar, that interest rate will continue. The Turkey -- I mean, the TL interest rate -- interest cost will come down. It will not become 0 because there will be some business which is happening in Turkish lira, so we need to borrow.

Whether it is a normal bank borrowing, whether it's a factoring, that is more to do with the availability of funds and the sources. So overall, I would think this TL interest cost will come down. And overall, the Turkey finance cost will come down as we move forward.

Aejas Lakhani: Understood, sir. Sir, the other thing is that you've not called out the labour cost impact. In the notes to accounts, we read that it was not material, but has there been any one-off expenses in the employee cost on account of this?

S. V. Krishnan: Because of the Labour Code, there is no significant impact. But there are certain assumption changes in the actuarial valuation that has resulted in some incremental one-off cost, and this is to the extent of about INR13 crores, INR14 crores.

Aejas Lakhani: Understood. So sir, incrementally, going into next year, our employee cost on a quarterly run rate, of course, depending upon the payouts, etcetera, will remain in that broad range of INR380 crores, INR390 crores ballpark there plus the increment cycle. Is that broadly correct?

S. V. Krishnan: We think so. I mean, in terms of working capital, we are quite at it. Interest rate, we only see that coming down across the board. So we don't expect any major movement.

Aejas Lakhani: Okay. And sir, could you just also speak about the fact that you've called out that we are probably at the cusp of a refresh cycle. But given that chip shortages are getting more acute, there is a price hike, which is imminent. Hari sir even mentioned that this could, of course, have some

impact on volumes incrementally. Does that set up a situation where the refresh cycle is getting delayed and volumes could be a little bit under pressure in the next year?

V. S. Hariharan:

Yes. I think it is very possible. We're still not seeing that refresh cycle on the 10 to 11 that active anymore. People are delaying those refresh cycles. But given the price increases, I think it's highly possible that volumes could be under pressure while ASPs go up and margins will remain similar, but volumes could be under pressure because it looks like it's going to -- the industry is going to take 12 to 18 months to recover from the whole increasing the manufacturing of components and ramps for meeting the requirement.

Aejas Lakhani:

Understood. And sir, just finally, could you call out your growth outlook for each of the geographies and any headwinds you see in specific markets?

V. S. Hariharan:

Okay. So I mean, I'll start with business unit. So clearly, ESG, the End Point Solutions Group and PCs, while the short term looks rosy, there will be some headwinds in terms of quantity availability, how do we do supply-demand matching, etcetera. And that will be across. And on the Mobility side, India continues to be strong.

I think the premium segment in India and the direct-to-retail, all of that, we continue to see some good traction, and we continue to see that going forward, whereas I think we see some of that in Middle East, Africa, and we could see Mobility slow down a little bit in the next few quarters and not be as rosy as what we have seen in the last 2, 3 quarters.

When it comes to TSG, we definitely are seeing some correction on the on-prem to cloud migration. So if you look at our TSG business this quarter, we declined 7%, but that's partly linearity. But for the year, YTD is a 5% growth. And we are increasing our focus there both on gross margin and top line growth.

However, there are limited opportunities. The bigger ones there is data center deals. We definitely will continue to look at what data center deals can count for us from a ROCE perspective and continue to participate there. So I see a bit of -- the growth may not be double digit, but high single digits. SSG will continue to be the 40% plus growth in all markets, and we'll see that across India, Middle East, Africa, Turkey and Southeast Asia.

So that's how we see it. So SSG across, Mobility continue in India. ESG, we will maximize based on availability and TSG will be what we do today in run rate and data center focus. India will continue to be -- India less headwind and Middle East, KSA and UAE. UAE, very good strong momentum.

Saudi Arabia has actually reprioritized and you might have heard even on the Vision 2030, they have delayed some of the participation of the big international events, etcetera. So clearly, we are seeing there a little bit of a challenge, but we'll continue to grow, but not as hot as we've grown in the previous -- not the year gone by, but the year before that. Africa continues to be promising, especially for SSG and TSG. Southeast Asia, we're just getting started. So we'll see where we go on that, but that's where we are.

Sarath Reddy:

Thank you, Hari. Good morning. This is Sarath. Good morning, Mr. Krishnan. I'd like a clarification on one aspect that we've discussed in earlier -- in fact, I think in the previous call, where Mr. Krishnan, you guided us saying there could be a need given the high growth rate, there could be a need for an increase in working capital. On the other hand, we are seeing quite a significant improvement and a significant reduction in working capital.

In fact, this is probably one of the lowest levels of interest plus factoring cost that I think we've seen in a long time. Could you help us understand these improvements in working capital? Are they sustainable?

S. V. Krishnan:

Okay. So is this the lowest outside of COVID? This is the lowest, both in terms of working capital days as well as in terms of interest cost. Just to tell you, interest cost for 9 months outside of Arena is 22 bps of revenue, which is one of the lowest that we had seen. I can only tell you the intensity at which the working capital is getting defined across the board is very high. Having said that, the market reality is not that easy.

Some advantage we get on account of higher growth in the Mobility business. But having said that, there is a risk of increasing -- increase in working capital. We keep telling you that the normal range will be between 35 to 40 days. I think -- I mean, on a steady-state basis, that's the range that we all need to look for. Second, with the data center type of a business, which requires sometimes high working capital deployment.

Second, the growth in SSG and the growth in TSG, which calls for higher working capital, we also need to watch out for the mix. As there is a high growth, there is a possibility for higher capital. And we today have enough legroom for capturing additional growth, and that's a comfortable situation to be in. But is there an upside risk, the upside risk is there.

Moderator:

The next question is from the line of Tarang from Old Bridge.

Tarang:

Just a couple of questions. Firstly, on gross margin, perplexed slightly because if I see on a year-on-year basis...

S. V. Krishnan:

You are -- I think we lost you for a few seconds. Can you start from the beginning, Tarang, please?

Tarang:

Yes, yes. So on gross margin, just perplexed a little bit because if I see on a year-on-year basis, your TSG business has degrown, okay? And secondly, there seem to be some pricing tailwinds when it comes to the ESG business, which has grown by about 21%, which is higher than the consolidated average.

So one would have presumed that all these factors would have resulted in higher gross margins and especially because composition, the mix has improved in favor of businesses which are generally accretive. So I'm just curious as to why has this come across? So I understand the Paynet -- sorry, the Arena argument that you called out, but is there some dissonance in my understanding?

S. V. Krishnan: No. Okay. See, ESG, can that result in higher gross margin marginally, very marginally -- like it was answered for the previous question, I mean, the price increase that's happening hasn't resulted in any extra margin for us in this segment or in this quarter at least. In TSG...

Tarang: It hasn't resulted. I'm sorry, it hasn't resulted in any increase in gross margins, is it?

S. V. Krishnan: Yes. But your voice is not very clear, Mr. Tarang, but we have understood, not a problem. So TSG, very clearly, there is a drop. And the drop is on account of the drop in the gross margin that's happening in the business and also on account of the inventory provisions that we need to take.

So both these -- it is more a market environment, but we are trying to address in the best possible manner that we can. There is an excess competition in this space. Even the brands are compressed in terms of margins. So we see not much legroom in terms of increasing the gross margin unilaterally. That's where we are.

Tarang: Got it. Got it. And one would presume then the margin compression in the TSG business has been quite palpable for the simple reason that despite the reduction or despite a superior mix, we've seen an overall dilution to some extent?

S. V. Krishnan: The answer is yes.

Tarang: Okay. The second question is great work on net working capital days. Just curious how much of those days reduction was on account of your distribution business coming off? In other words, were working capital days of the distribution business that you have hived off was inherently more than ROW average?

S. V. Krishnan: When you say coming off, are you talking about the Arena one?

Tarang: Yes. So the Vodafone distribution transaction that you've called off, right, I'm sure that would have also had an implication on your working capital days. So I'm just curious how much of it is on account of operational synergies? How much of it is on account of some working capital-intensive businesses you clearing yourselves out of those businesses?

S. V. Krishnan: Okay. Let me answer it this way. I don't have a very sharp answer. See, in Arena, our debt levels used to be in the range of INR130 million, INR140 million last quarter. Now -- for the quarter end, we have dropped sub INR100 million.

Maybe on an average, we can take for the current quarter, we would be at about INR110 million or so. So there is a INR30 million drop, say, that had happened in the case of Arena for whatever reasons. That's about INR300 crores. But having said that, I'm just making a comparison between last December and the current December. Our net debt is down by INR1,000 crores, INR1,000 crores absolute value.

And going by just the calculation of INR300 crores for Arena, the rest of the business, even though had grown by 22%, the net debt has come down -- I mean, the net debt has come down by INR700 crores. So I'm just giving you a rough calculation. So to answer you, is the rest of

the business working capital debt levels have come down? Answer is yes. It's just not on account of Arena.

Tarang: Got it. Sir, given the potential intensity of working capital increasing in the business and given how certain parts of the business, you're seeing tailwinds, whereas in some parts of the business, you're seeing some element of gross margin compression. How confident are you to be able to maintain this 21% to 23% clip on return going forward and continuing to grow your business?

S. V. Krishnan: Our internal target, I mean, that's the threshold which we would not want to breach is 16% for sure. Our expectation, we should range between 18% to 20%. ROCE for this quarter at 22.1%. I don't want you to consider this as sustainable. Could become sustainable in a few years once the SSG scales.

But right now, I think you should be looking at between 18% to 20%, and I think we are fairly confident to maintain that.

Tarang: Got it. And sir, last question on the SSG business because in Hari sir's opening comments, he did call out incremental investments on the opex front. So just trying to understand on the SSG business, is the absolute EBITDA growth of the business higher than the revenue growth there? Just trying to understand the element of operating leverage that could play out in that business.

V. S. Hariharan: Yes. I'll give some general comments to begin with, and then Krishnan, you can jump in exactly the numbers. See, clearly, there are two areas we need to invest in, people and technology. And some of it we have done over the last couple of years, and we're going to intensify that going forward because we believe we will get above average profitability, both at the EBITDA level and the PAT level. And so we are working towards that.

And -- but as Krishnan mentioned, we need to get scale. And the opportunity is large and the way we are growing, if you can see the 40% growth on top line, which is available across all the subsegments of the business, then we can actually realize the investment and the return on investment over the 3-year period.

S. V. Krishnan: It may not give operating leverage in the short term. Definitely, medium to long term, it will give operating leverage. As we speak now, we are not spending enough, but that's going to come in. So maybe for some time, the leverage may not be visible. The opex could be more than what we would normally see.

Moderator: The next question is from the line of Shrinarayan from Baroda BNP Paribas AMC.

Shrinarayan: My first question is on SISA. So SISA revenues posted 24% growth, but only 1% to 2% EBITDA and PAT growth, while rest of the world EBITDA and PAT growth was in line with revenue growth. So can you explain the divergence between 2 business verticals?

S. V. Krishnan: Okay. So within SISA, India distribution had done fairly well. But as we discussed in ProConnect, we have had a onetime charge on account of the goodwill impairment for about INR9.2 million and odd. Plus in SSA, which is Singapore and South Asia, we also had some AR provision that's coming in on account of some collect -- I mean, collectability issue in

Bangladesh. That's again a one-off. These have resulted in SSA profitability being lower. Sorry, want to correct. The ProConnect one, INR9.2 crores, not million, sorry.

Shrinarayan: Yes, yes. So all this is done now? Or do we expect Q4 also to be similar?

S. V. Krishnan: No, no. Done. Q4 will come back clearly in both the businesses.

Shrinarayan: Okay. Okay. And sir, regarding this impairment, so is this related to, I mean, specific geography and why we could not able to identify this when we impaired Turkey business earlier. So what was the trigger for this impairment?

S. V. Krishnan: See, impairment just happens on a continuous basis. It gets done periodically. It also gets done whenever we see some events happening. So when we see that the specific customers keep going in for RFQs every 1 or 2 years, we are bidding for it. We are getting it.

We also feel there is a good chance we will get it this time, but it's a view that you need to take and there is a probability that is attached into this. So it is a view that we have to take along with auditors on some of this.

Shrinarayan: Okay. So are there any geographies which are in your watch list as of now with respect to impairment that you see there might be some risk in next 2, 3 quarters?

S. V. Krishnan: Okay. See, Turkey has always been a volatile market. We discussed enough about Turkey, what we are doing, how are we correcting, etcetera. So, if there are any untoward situations, that's another aspect that we need to keep in mind. Other than...

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

Sahil Doshi: Sir, just checking again on the SISA related to the Bangladesh impact, could you quantify that? And secondly, I just wanted to understand the gross margins which we have reported in SISA one of the lowest, if I see from the COVID times at 4.33%. So there's almost a 41 bps compression here on a Y-o-Y basis. So could you just help understand this a little better that what's really playing out here?

S. V. Krishnan: Okay. So Bangladesh, that AR charge is about \$1.4 million. SISA gross margin, see, even in the past, if you make a comparison in terms of gross margins, India gross margins were on the lower side. The overseas gross margins used to be on the higher side. However, from a PAT perspective, India would still be at a higher percentage because of low opex.

The operating leverage in the India business is quite high. So this is one of the things that we see in terms of overall gross margin as the India pie keeps going up, the gross margin percentage weighted average will come down, may not be significantly, but it will come down because India gross margin is on the lower side.

So this is one general aspect, Sahil. Second, the MSG business, as Hari mentioned, both Android and this thing non-Android has been growing quite attractively. And this is one aspect which is also from a margin perspective is impacting, but ROCE is maintained because ROCE is quite stronger as far as MSG is concerned.

And this gives us advantage in the form of working capital while in SSG and TSG working capital is higher, that gets majorly funded by the growth in MSG business on the working capital advantage we get out of it.

Sahil Doshi: No, I really appreciate that, sir. But structurally, is there a margin pressure playing out in SISA in particular because the decline is pretty concerning in terms of -- if I see the PAT margin as well, it's almost 30 basis point decline in the SISA business. So -- and the mix of MSG actually on a Y-o-Y basis is pretty constant. So, if you had to see it in that, what other factors do you believe is really impacting here?

V. S. Hariharan: Again, I don't think there's a structural issue. We did talk about TSG, there is a margin compression. But in terms of MSG, ESG and SSG, we see stable margins there. The mix of the business is what is contributing to the gross margin decline as we see it. But in the TSG business specifically, there is a margin dip

S. V. Krishnan: See, Sahil, the opex percentage in the India distribution business is 1.3%, very fine, okay? So the -- I mean, the profitability is protected, margins are lower and the PAT percentage for this quarter is 1.43%, very similar to what we see at the global level.

Sahil Doshi: Understood, sir. I appreciate that, sir. Sir, secondly, I just wanted to check if you see the -- we give the top revenue contributor at the top 5. And if I see Dell in particular for the last 2 quarters, there has been significant decline. Is this on account of the entire supply chain issue? Or is there any other loss of business or geography or something on that sort?

V. S. Hariharan: You're talking about brand now?

Sahil Doshi: Yes.

V. S. Hariharan: Clearly, I mentioned this in my opening comments and later as well. We do see a movement from on-prem to cloud, clearly, and that's one of the things that's driving the lower growth on our Technology Solutions Group and why the Hyperscalers are picking up some of that growth and also the data center piece, that's kind of driving that. We continue to be a very strong player in Dell. We continue to be -- enjoy a good share. But just the fact that more people are moving from on-prem to cloud is driving some of that.

Sahil Doshi: Sure. And just lastly on Turkey, on Arena, I just wanted to check, we had called out that as we get out of the distribution business, there could be certain onetime costs related to that. So is there anything on account of that in this quarter? And how do we think about Arena from Q4 onwards? What should be a steady-state business in terms of revenue and incrementally thereafter?

S. V. Krishnan: See, whenever you exit any business, there will obviously be some leftover cost and exit costs. This is quite normal. I'm sure you acknowledge that. And we are in the process of exiting. Some part of cost we have taken this time, this quarter, some part we expect will come in even next quarter. By March or April, I think we should be fully through. From then on, you will see more of the steady-state business, which is the core IT business.

Sahil Doshi: Sure, sir. Value-wise, that will be \$400 million, sir?

S. V. Krishnan: Okay. See, from a point to point, if you take the answer is yes. For last year, they were a little over \$1 billion. This year, we expect that to be about half of that. But in between, there are actually many things, that's a long story. But yes, you can take about 50% drop in the revenue.

Moderator: The next question is from the line of Samay Sabnis from Helios Capital.

Samay Sabnis: I just have one question from my side. So I see there was a heavy capex of INR112 crores in Q3. So could you just share some color where this was deployed?

V. S. Hariharan: Heavy capex?

Samay Sabnis: Yes.

S. V. Krishnan: Okay. I'll come back. Give us some time.

Samay Sabnis: Okay.

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

Madhur Rathie: Sir, we had mentioned -- we were expecting the TSG deal segment to pick up in H2 of FY '26. But I think because of margin pressure and if you could just help us understand how do we see this segment scaling up because you have mentioned that there are clear headwinds that we see either on the shortage side or on the margin pressure side?

V. S. Hariharan: So as we mentioned earlier also, the TSG deals, definitely, you're right, Q3 and Q4, we have a seasonality uptick in the second half. And we did mention that we have closed some very nice deals where we have not got all the recognition in Q3.

But going forward in Q4 and Q1, the timings have moved out. So, you will see that happening. We also will start sharing when we are ready in terms of what are the sizes of the deals in every quarter, which are large deals. But clearly, you'll see that uptick happening. But from a linearity, we lost a lot, but we will continue to -- we are continuing to work on the deals and you will see that growth.

S. V. Krishnan: Okay. For your earlier question on fixed assets, it is quite spread. There are some investments that we are doing in ProConnect, both in India as well as in Middle East. These are in the form of investment in warehouses, etcetera. Second is, as Hari mentioned in his opening remarks, we are also in the process of setting up certain AI COEs and a part of that cost will be in fixed assets. It is a INR60 crores increase in net assets from INR591 crores to INR653 crores on a year-on-year basis.

Madhur Rathie: Sir, I wanted to understand regarding the ESG segment and what is the additional price hike do we expect from our discussions with the OEM? And the current -- what we understand is that there has been a 20% price hike. So is this passed on to the consumer level currently? Or this is currently on the distribution level and sooner or later -- and when do we expect this to be passed

on to the consumer level? Because you mentioned that most of the demand currently is coming from our channel partners and the sub-distributors?

V. S. Hariharan: Yes. The price rises clearly will be passed on to the consumer. And I think there was a window of opportunity and time where there's still the OEMs are sitting on older stock, which got moved out because there was a window for people to take advantage of. But as we already see in Q3, prices have increased, and there is a new set of price increases in the coming quarter as well. And all of these will be passed on to the customer.

The only thing as Krishnan said earlier, we are not seeing any advantage on additional gross margins for us, but the price is all being passed on to the customer.

Madhur Rathi: Sir, I was trying to understand, have the prices been passed on to the consumers currently? Or it's yet to reflect maybe because of some date where these prices would increase going forward?

V. S. Hariharan: Yes. Some of it is already passed on to the customers, very clearly in Q3 already. And there will be a mix of old inventory and new inventory. So the channels will be sitting on both of them. But all the new inventory that's going in, in Q3 and upcoming quarters, the price increases are definitely in the new inventory is all going to the customer.

Madhur Rathi: Got it. Sir, just a final question from my end. Sir, on the Software business side, we do close to 6% gross margins. So how much of that would actually flow to our EBITDA or the PAT margins? And sir, my assumption was this business is a working capital negative business, but you mentioned that -- so if you could just help us -- help me if I'm wrong on that front? And what kind of working capital days do we require for this business?

S. V. Krishnan: See, you are right, the gross margin is high. Even the PAT percentage compared to the other business verticals is higher. But working capital being negative, there is some wrong notion. It is not negative. What is not there in the space is inventory. But having said that, if you look at our AR base, the expectation is high. So in a way, this AR base increase also compensates for inventory not being there. Having said that, because of higher margins and higher growth, our ROCE is quite attractive.

Moderator: Ladies and gentlemen, that was the last question for the day. I now hand the conference over to the management for the closing comments.

V. S. Hariharan: Thank you so much for all your great questions. We hope that we were able to answer most of them satisfactorily. And we look forward to talking to you again in a few months and look forward to this quarter. And thanks again for listening to us. Thank you.

S. V. Krishnan: Thank you.

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