



“Redington Limited
Q4 FY26 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to Redington Limited Q4 FY26 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

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

V. S. Hariharan: Thank you. A very good morning, everyone. I am pleased to share with you our results for Q4 '26 and full year FY26. This has been our best quarter so far from both revenue and profit perspective. We recorded INR33,269 crores of revenue, a growth of 25% year-on-year.

Quarterly profit at consol level, excluding exceptional items, was INR467 crores at 1.4%, our best profit performance so far. We closed the year at INR119,347 crores, nearly \$13.5 billion, marking a Y-o-Y growth of 20% on revenue, a full year PAT growth excluding exceptional items, was 17% and PAT margin at 1.3%.

This has been a strong year for Redington, reflecting sustained momentum across our core markets and continued progress on our strategic priorities. It is a continuing story of profitable growth across business segments and geographies. It is also a performance coming on back of several geopolitical challenges like the West Asia crisis that we saw during the quarter. Our performance was driven by resilience and defined by discipline. I'll get into a bit of geography and business unit perspective.

From a geography perspective, India had a fantastic quarter, the business grew top line by 50% and a profit after tax by 41% during the quarter. The growth in India reflects our ability to conquer and execute in our largest market. Within India, we had growth across all business units. There was a good uptick in the PC business driven by demand due to anticipated component shortage as well as large deals. There was a strong demand in mobility with continued momentum in the premium segment.

And with the cloud security, cybersecurity and IT infra investments in India paved way for higher growth in the quarter as well as contribution from both the SSG side of the business and data center deals with neo cloud operators.

There was continued traction in upcountry expansion initiatives. We grew 45% in the up-country part of the business and strong adoption of digital and platform-led distribution. In Middle East, the geopolitical tensions during the last month of the quarter pulled down the performance in March. However, we did see a demand spike for cloud and cybersecurity, both from government

and enterprise segments. Africa continues to see encouraging momentum driven by expanding IT adoption and increased contributions from solution-led business, particularly SSG.

Now moving on to quarterly performance by business units. Most of the business units contributed well to this growth. Mobility grew 19% year-on-year. It's about 33% of the top line now for this quarter, driven by strong demand in the premium segment and strong execution in the direct to retail segment in India during the quarter. While this segment remains volume driven, it continues to play a critical role for Redington in driving scale and partner engagement.

Many new initiatives on mid-market enterprise segment reach, development of IR channel are underway to create future growth. On the Endpoint Solutions Group, primarily marked by PCs. This grew at 28% year-on-year, contributing to 30% of the top line. PC demand was strong, partially driven by the component shortage, as I mentioned before, and anticipated larger price increases as well as large deals during the quarter of nearly INR500 crores, again, I repeat INR500 crores. AI PC penetration into the commercial segment continued to grow with 41% of the revenues in India from AI PC greater than 40 tops.

TSG, Technology Solutions Group had a growth of 34%, contributing to 19% of top line, driven largely due to timing of large deal executions. We had mentioned in the previous earnings calls, part of these deals moved from Q3 to Q4. Some of them were recorded this quarter. In TSG, all cylinders fired data centers, networking, server storage and achieved the highest revenue ever. We did large deals of more than INR1,100 crores in TSG during the quarter.

Now coming to SSG, Software Solutions Group. Continue to have good momentum grew by 31%, it contributes to 17% of top line now. For the full year, SSG contributed to 17% of the top line as well versus 15% in fiscal year '25. SSG now represents a strong and growing share of our business and a higher quality earnings stream, continuing to deliver higher gross margin and PAT compared to the group. We continue to expand partnerships with Tier 1 OEMs and hyperscalers, increasing our solution intensity in go-to-market and build joint business plans to drive wallet share.

During the quarter, I wanted to call out, we are building a lot of capability building initiatives and several of these got rolled out that will realize future potential. Our next version of Cloud Quarks platform, we call it 2.0 internally, has been rolled out this quarter. We have greater capabilities for digital life cycle management of customers with analytics. We're also executing automated platforms for renewals of subscriptions supported by customer success teams.

On the AI front, many areas of progress. We found an AI lab or capability center at Chennai headquarters deploying solutions are both internal and external use cases. We have launched an AI Exchange, which is like a marketplace with over 200 AI agents that brings ISVs and AI innovators and our customers through our partner ecosystem together. This has the potential to accelerate the adoption of AI agents by industry vertical through a distribution approach.

We've also rolled out this quarter 5 AI learning centers in Tier 2 cities through our CSR program to create more AI human capacity in the country. Our professional services team in India scope

and approach has been shaped to provide a range of productized services around the customer life cycle. So that's for some of the capability building initiatives.

Moving on to operations. Efficient management of working capital and higher mix towards mobility solutions led to the overall lowering our working capital days to 30 days. ROCE was at 22% despite the investments we are making in the growth areas, opex control continues to be good and grew slower than revenue growth, giving us operating leverage. During Q4, there was a slight uptick on opex, a combination of factors. Certain war-related premiums on both insurance and freight, one-off AR provisions in geos, all these led to a higher opex during the quarter. On a full year basis, opex to revenue declined by 17 bps.

Now coming to our subsidiary Arena. From a Q4 performance perspective, there was a loss of INR44 crores, Redington portion being INR22 crores related to exit costs on the Lira business. The company's wholly owned subsidiary, Redington Gulf carried out an impairment of the trade name classified as an intangible asset arising from its investment in its subsidiary in Turkey Arena.

Based on the assessment taking into account challenging economic conditions in Turkey and revised future projections and impairment loss has been recognized and disclosed as an exceptional item in the financial results. The impact on the group PAT after minority interest is INR75.2 crores. In the previous year, exceptional item represents gain on divestment of Paynet, our step-down subsidiary.

To summarize, FY26 has been a year of strong growth, transformation and disciplined execution. We have scaled up our business, strengthened our solution capabilities, maintained capital discipline. Our core markets continue to deliver, our solution business scaling rapidly, we're making the right investments for the future.

While we remain mindful of macro challenges, we are confident in our diversified presence, our evolving business mix and our ability to deliver sustainable long-term value. I'd like to reinforce that Redington strength lies in the human capital, partners and vendors. The current quarter is a testimony to it. Spellbound performance in India, risk management and business continuity in the Middle East, despite the risks and dangers in building long-term avenues of growth in Africa through SSG.

Following the onset of West Asia conflict on 28th February, 2026, our Middle East operations were conducted under significant constraints. You will be pleased to know while the quarter was impacted by software demand, supply chain disruptions, the withdrawal of war risk insurance coverage, inventory challenges, delays in receivables, our teams on the ground demonstrated strong resilience, ensuring business continuity after multiple data center attacks where we had our own customers and partners as well.

Sustaining warehouse operations. We have initiatives that started yesterday such as Tech Citadel, which is an alternative to physical face-to-face events between OEMs and partner customers. We're also seeing increased demand for cybersecurity and cloud products. And we'll

continue to look for opportunities and upsides in these tough moments while we continue to manage business continuity and downside in these markets.

The board has also declared INR6 per share of dividend for the year ended 31st March 2026, which is 30% of profits. We are very sensitive to our shareholder needs. We have additional capital needs for growth opportunities and are cautious about the evolving geopolitical uncertainty.

Thank you for your continued support. We look forward to your questions.

Moderator:

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

Nitin Padmanabhan:

Congrats on a very solid performance in a very tough environment. I had a couple of questions. The first is, if you think about all the challenges and the way things have evolved this year, how are you thinking -- how should one sort of think about the next year considering that India has been very solid this year. We possibly benefited from some prebuying and all of that this year. So that's on one side.

And well, on the other side, you have had the rest of the world business be relatively weak. Do you think the growth sort of flips between -- from an India to ROW, with ROW sort of improving a lot more next year? And maybe India sort of growth sort of tapering down. So that's the first one.

The second is in the context of the large deals and the pipeline, how is that sort of -- how is the sort of the shortage, the price increases sort of impacting that? And is that sort of -- you do think that has a higher sort of impact from a margin perspective? Or how do you manage that? And finally, on the Software Solutions Group, this business has scaled extremely well, now 17% of business. Do you think that at this level, growth sort of tapers or there are certain capability sets that we have been adding, which would help sort of sustain the growth as we go forward?

V. S. Hariharan:

Thanks, Nitin. I will try and give some answers and Krishnan, please jump in if I miss something. So let me start with the growth perspective. So Nitin, if you look at this year, in the previous quarters. Our India business grew very well, but we also grew very well in Middle East and Africa for the first 11 months of the year.

And the previous 3 quarters, clearly, we recorded good growth in UAE and GCCL, we call it, in those regions and Africa, too. It is -- the crisis and the disruption in supply chain and a little bit of softening of demand in the third month of the quarter that led to a slower growth in Middle East. Obviously, we don't know when the West Asia crisis will resolve, right now ceasefire.

And so to give a little bit of perspective on the coming year, clearly, we continue to see good momentum and growth in India. We will see a little bit of softness for the first quarter. We expect the first 2 quarters in the Middle East region, Africa continues to be strong. And as soon as the crisis is out of the way, based on -- I mean some of us were in Dubai last week and we got a first-hand feel for the market as well. Clearly, the government is coming out of a lot of initiatives to support back demand, and there are many initiatives locally.

And we do expect both consumer demand and some of the projects and enterprise deals that got delayed to come back. But none of us know when the crisis will be completely out of the way. So we definitely see some softness this quarter and maybe a bit next quarter. And if it gets resolved soon, we do expect to see Middle East coming back to the band.

In terms of business units, we all know, and this has been shared due to component shortage, we have gaps in supply, we have gaps in supply on the smartphone side, we have gaps in supply on the PC side and on the GPUs as well, and the demand is still very strong in many markets.

And so that will somewhat drive our numbers and ability to fulfill numbers. First half of the year that we have visibility to, the demand in India is strong and the demand in Africa is strong, Middle East, again, will depend on the supply chain disruption. So just give you a high level of how we look at the year out.

In terms of large deals and the pipeline, the data center market in India is 1.5 gigawatts and it's going to 7.5 in a few years. So clearly, there's a lot of pent-up demand there. And that is one part of it. Even on the on-prem, the co-location, the data center, the whole space has got a lot of demand.

It's a question of how much we want to play at what margin, at what ROCE, and we have talked about it in the last few quarters. So we'll continue to make those calls as long as they meet our requirement metrics, how much risk we take.

Is the demand there? Obviously, it's very strong. And in fact, some of the deals that have got closed the previous quarter will show up this quarter. And they are significantly more than the numbers I talked about in terms of the size of the deals last quarter. So clearly, we see a good pipeline there, but it's a question of appropriating and getting into deals that makes sense for us from a profitability and ROCE perspective.

SSG, tremendous room for growth still. And I will go part by part. The cloud and the software business has actually been growing above average when we said 31% SSG, both cloud part of the business and the software is growing greater than 30%. The security part of the business is growing slower for us. And we need to have catch-up there, both on market share, wallet share, so we will drive security much harder in the coming quarters.

But within cloud itself, we have great headroom for growth, number of hyperscalers getting into the picture and their growth when we see in the direct business that they are working on. Clearly, on a dTAM, the distribution TAM perspective, cloud has good upside and so does SaaS.

With AI agents in the picture, we do start seeing some traction on the AI exchange I talked about, we have been sharing that and it got launched in middle of march. And we will start seeing revenue from AI part of the business sometime during the year, and that will also start ramping up. So the SSG business, we're still positive to sustain that momentum, if not grow faster than that.

Nitin Padmanabhan: Very helpful. Just one quick follow-up. During the COVID period, when there were shortages. Obviously, working capital intensity went down, velocity of business went up, right? And ROCEs went to the roof. You think that happens this time or it's different?

V. S. Hariharan: It is different, partially because, one, see, there is also an AI trend happening in the market. The low end of -- there was a uniform shortage of supply. Here, you're getting entry-level PCs and entry-level servers not being available and more higher-priced products available. We are also seeing an uptick in end user demand, but not at the same pace that partners are stocking up, etcetera. So, there is a combination of things happening there.

So, it will be a bit different. We also don't know how long this demand cycle will last and when the price increases will stop. So, something we are not clear even from the OEMs and the vendors.

So, in 2 to 3 quarters, I mean, the supply issue is probably going to last for 12 to 18 months from what we hear. But in 2 to 3 quarters, as people pull forward their buying patterns, there could be a change but we don't know. We cannot call it right now.

S. V. Krishnan: Nitin, the biggest difference between COVID and now. COVID, while there was shortage, there was a pent-up demand. There was a high demand on account of work from home, learn from home, etcetera. Today, while supply is short, the corresponding demand spike is not something that we generally see. But having said that, there are actually 2 -- I mean, 2 sets of customers.

The prices are going up quite substantially. There are some set of customers who say, no, no, I would want to buy now and avoid higher price increase in the next couple of quarters. So there is an increased demand in that segment.

Another set of customer group just want to wait for, say, another 3, 4, 5 quarters. And then once the price to get corrected, normalized and then buy. Overall, net-net, the demand environment is okay. But in COVID the demand environment was on the higher side that also resulted in -- while you haven't asked, I just want to touch upon that resulted in higher gross margin in the COVID period, lower working capital in the COVID period.

As we speak now, we don't think that could be visible in the current scheme of things. That's our current assessment. While revenue growth will be there. But again, because of higher ASPs, not units, because of the price rise. And of course, the gross margin, we think we'll be able to maintain and working capital could stay where it is or maybe it could go up because we may have to give more credit, as Hari said, or we may have to stock excess just to avoid stock-out situation.

Moderator: Next question is from the line of Deepak Lalwani from Unifi Capital.

Deepak Lalwani: Yes. Congrats on the results. Krishnan, sir, the first question is, can you please break up the receivable and inventory provisioning across India and rest of the world separately for the quarter and full year and how we should look at it for FY27?

S. V. Krishnan: See overall inventory provision is well under control. And for the full year, we have had an inventory provision situation of about 3 bps vis-a-vis what has been our long-term average at about 5 to 6 bps. AR for the current quarter is on the higher side, as Hari explained, there had been certain one-off provisions we had to take in example, Saudi Arabia, in India because there are some government receivables, which has taken some time, etcetera.

These are cautionary provisions. We are still confident of recovery, but it's going to take some time. It had already taken a bit of a time. So overall, AR provisions are on the higher side vis-a-vis our long-term average, and inventory on the other hand, has been lower than what it was in the past.

Deepak Lalwani: Understood, sir. And could you just call out how should we think about both these line items for FY27 akin to what we have seen in Saudi Arabia and your provisioning style there in the earlier quarters, do you expect some of this to reverse maybe in the first half? Or is it more second half led?

S. V. Krishnan: We think AR provision may get normalized. Some part of it could come back. We are unable to estimate when these collections could happen because it has already taken some time. Inventory provision, I think we should be able to maintain. We don't foresee any big challenge of the inventory provision. AR for the ensuing year as a percentage, it could come down.

Deepak Lalwani: Noted, sir. Sir, my second question is specifically on the Mobility segment, where we have seen that India has grown extremely well and premiumization continues. But mobility, even if you adjust for ex Vodafone, if you knock out that element, in the rest of the world has not grown as fast as India is growing. Could you explain how we should think about the mobility aspect?

V. S. Hariharan: Okay. There are two, three things happening here. Firstly, India is a smartphone market. But within the smartphone segment and the premium smartphone segment, if I take, for example, the Apple brand perspective, Pro-Pro Max mix is not as high in India as it will be overseas. So one of the reasons the Mobility has been not growing as fast in the overseas is the demand for Pro-Pro Max and some of the Middle East customer segments is far higher and that has been on constraint.

And as that gets normalized, we do see the premium segment growing as fast and coming back strongly because if you look at UAE and KSA there's a lot of premium customers who want to buy the most premium model of both Apple and Android. So that's one of the phenomenon that will really change, and we expect that to get somewhat normalized during the year.

But having said that, the component shortage will play a role in the premium phone segment as well. And we'll have to continue to just fulfill demand based on the supply available. But we do see overseas can pick up, may not be Q1, but Q2 onwards.

S. V. Krishnan: And there has also been some short supply in terms of supply from the brands. And on top of it, March played a factor in Middle East, where we couldn't function in the normal pace, even though we did make some alternate arrangements in terms of importing into Ireland, Netherlands, Bombay, but still we couldn't catch up with what we would have otherwise done.

Deepak Lalwani: Understood. Sir, my third question is on the opex, which has been a little more elevated because of the one-off of receivable and it's still on the higher side. So could you just comment about opex? What has been some of the factoring costs here as well? And employee costs also in that same breadth has again gone up.

So, could you comment on the opex and employee line item? And then, sir, could you speak a little bit about the dividend because the dividend this time has been a little low. Is this a direct signal that we're going to be using the cash flows for higher growth for '27 and '28?

S. V. Krishnan: Okay. First on the opex, see, yes, employee cost has gone up. And as we discussed in the past, mainly it's because of certain investments that we are -- I mean, that we are making towards capability building, and that we think is important for future growth and more particularly the enterprise segment. So that part of the increase will keep -- I mean, it will keep happening.

There was also some element of increase on account of FX rate. As you know, everything we need to convert into Indian rupees and the INR88 becoming INR94 had advantage across, also had a disadvantage on account of opex. So that's one another factor that contributed to the increase. Third is the increase, which we think is more short term on account of what's happening in Middle East. We saw some increase in cost and mainly on account of insurance, transportation, etcetera.

So the cost of doing business in Middle East is up. And then fourth is on account of technology-related investments, which again like the compensation, we think is going to be on the higher side as we move into the future also because of the capability building.

So overall, we are in control because the revenue is going up quite interestingly, but opex has an absolute amount. We think some part of it is more towards investment. I mean it's not the normal opex. Factoring has actually come down. In Arena, what would normally -- I'm just reading out the numbers, for Q4 last year, it was INR22 crores, which moved down to INR18 crores in Q3, which is last quarter is now down to INR2 crores.

So the amount of factoring has considerably come down and that has resulted in some advantage in the opex overall. But I mean it is more an interest cost increase as we discussed in the past.

Deepak Lalwani: Noted, sir. Could you speak about the dividend and growth aspirations of Redington for '27 and '28?

V. S. Hariharan: Sure. So we have received inputs from shareholders in the past as well in meetings, both one-on-one and group meetings that definitely, if there are growth opportunities, both inorganic and organic, we should look at them. So as we have signalled before we are exploring inorganic opportunities, especially in the professional services area on cloud and security.

And we are actively going through the discussion on types of targets, etcetera. So, we're clearly considering growth opportunities there that can embellish and complement what we're trying to do with regards to SSG and we will be directly in the area of professional services.

And that is one of the reasons we also felt that can we conserve some of the capital for these growth opportunities. Obviously, the West Asia crisis is something to watch out short term for the next 1 or 2 quarters and should we conserve cash for that as well. So those are the 2 driving factors. But clearly, we have many growth opportunities in our radar that we want to look at.

S. V. Krishnan: And just to comment. There are also expectations of higher working capital requirement because of the intended large deals, we expect that's going to be more than what we have seen in the current year. Plus, because of RAM shortage as such, maybe we may have to be prepared for higher inventory or higher AR. We just want to conserve cash to make sure all these are seamlessly handled.

Moderator: Next question is from the line of Vinay Menon from Monarch Network Capital.

Vinay Menon: Congratulations on a good set of numbers. A couple of questions from my side. One, what kind of impact are you seeing on SSG and CSG due to this AI disruption with Anthropic and others coming up in cybersecurity. Are you seeing the subscription model coming under threat? And what kind of guidance can you give there?

V. S. Hariharan: Okay. Again, we have not clearly seen any specific -- see, the way we look at all of these models that are evolving is one, step one, people beginning to use them for creating AI agents that will complement what companies want to do, enterprises want to do. And that's what I mentioned about this AI Exchange that we have created where we have 200 plus agents from our ISVs. But has it had a direct impact on subscription models and the SaaS products we sell. So if I break them into 3 parts, clearly, cloud continues to be on its frenetic momentum.

Specific SaaS products that we sell a whole range of infra software, design software products, we have not seen any let up on the demand on subscription of these products. Security, clearly, continues to have the momentum that it has had, but there are new products that Anthropic has launched recently, and we expect the other providers also to launch where they are real-time threat detection and fixing.

We'll have to see how much of these are stand-alone products or how much of these get incorporated into the SaaS and subscription products. It's too early to call or see anything in terms of softening of demand. Long term, clearly, we see there will be a play for SaaS, Software as a Service and a play for AI agent, which is Service as a Software. And that's why we are dabbling with both so that if there is any softening in the first one, we are able to actually take advantage with the AI agents. But short term, we don't see any impact.

Vinay Menon: Okay. That helps. And can you look at these frontier models as potentially OEMs going ahead? Like if they come up with products eventually? And can they also be tie-ups which you can look at in the future?

V. S. Hariharan: Can you clarify a little bit more when you talk about Frontier because there are many definitions of frontier markets.

- Vinay Menon:** Yes. So basically, looking at anybody like an Anthropic or Claude, eventually, they come up with models which are standard products. Can we look at them as new tie-ups in the future like we have OEMs already working with us in these areas?
- V. S. Hariharan:** Absolutely. Absolutely, bang on. We already do this with Microsoft with Copilot, and there is a lot of movement on how we market Copilot and how we reach mid-market customers and how they can use that platform to create AI agents. And the whole office automation movement with Microsoft copilot is the case in itself, clearly, we will continue to explore the other LLM and the other AI providers in terms of tie-ups.
- We've already -- in discussion, we cannot talk about it yet with a number of these but you will see some of these announcements. And we definitely -- we see that as a great area to focus on and grow.
- Vinay Menon:** Okay. Perfect. And in this quarter and going ahead, like can you call out what would be the ASP led growth and volume-led because ASPs are quite high. And they are looking to sustain also going ahead. So what would be the mix in terms of ASP growth and volume growth?
- S. V. Krishnan:** It's difficult to mention. I'm just making a guess. A significant part of the increase would be on account of ASP and the marginal increase will be on account of units.
- Vinay Menon:** Okay. And we see this trend sustaining for the next few quarters?
- S. V. Krishnan:** Yes. That's the expectation.
- Vinay Menon:** Okay. Okay. Any kind of guidance on large deals for '27? How are we looking at large deals and what kind of participation you can see there?
- S. V. Krishnan:** Let me tell you the past numbers. While for the quarter, the total quantum of large deals are about INR1,600-plus crores. For the full year, it's about INR2,500 crores, close to INR2,500 crores. So you can see what it was in 9 months and what it is in Q4. And believe me, where we see the first 2 quarters of the current year, definitely, this can only keep going up. It's a very interesting space. And that's why one of the reasons why we said we want to conserve cash is to have sufficient capital to fuel opportunities like this.
- Vinay Menon:** Okay. And margins there could be how many? Like maybe 20%, 30% lower to core business? Or how does it work?
- S. V. Krishnan:** See, I don't think in any way we can compare margins in the large deals vis-a-vis the core business. We have said this, the 2 metrics you need to keep that in mind. It's an incremental business and hence, there will be an incremental profit. Second, we are very particular on return on capital employed, no compromise on return on capital employed.
- Maybe gross margin could be lower, working capital could be lower, higher, all those are fine. But no compromise on return on capital employed. These 2 are the metric. But in terms of margins, it's much lower. I mean you cannot get compared with the regular business.
- Moderator:** Next question is from the line of Hitaindra Pradhan from Maximal Capital.

Hitendra Pradhan: I hope I'm audible. Sir, the first question is with regards to the war situation. If you can give us what is our revenue exposure on the main markets, main impacted markets? And any color on consumer versus enterprise exposure?

S. V. Krishnan: See, Middle East, as you know, has been a large part of our business. And we are present in quite a lot of countries. And this time, it's just not one or two countries. It's the region that is impacted. In terms of revenue and profits, about 30 to 35 percentage of our business happens from this market.

Hitendra Pradhan: And sir, but you mentioned earlier that there has been incremental orders on the -- from the government and the enterprise side, especially from DC even in the situation. Is that correct or?

S. V. Krishnan: That is more to do from the security and the cloud-related part because now when there are challenges in terms of IT security, obviously, that part of the demand has been more. But overall, there is a logistics impact and the core business to that extent has got impacted. That's what Hari, also mentioned in his initial brief.

V. S. Hariharan: The SSG part of the business, just to add, we see an uptick on the government and enterprise segment in the Middle East. But the hardware part of the business will be soft until the crisis gets over and we recover.

Hitendra Pradhan: Got it, sir. Sir, the second question is in regards to a follow-up to an earlier discussion on the growth in this inflationary environment. Sir, correct me if I'm wrong, I mean, in this environment, you mentioned like now the prices are increasing and there has been some shortages. So, it is natural to assume that at least in the short term, there will be -- the ASP growth will be higher and that would benefit our growth and our margins as well, especially on consumer businesses and all.

So -- but you mentioned that you are tentative about the growth sustaining unlike what happened in COVID situation. So, sir, like at least in the short term, can I expect any uptick in terms of growth and that could taper off in the medium term? Or how do you think about it? If you can just elaborate on that?

S. V. Krishnan: Hitendra, sorry, I think I haven't communicated that rightly. We haven't said we are worried about the growth. We are positive about the growth. And we think this ASP increased, the price increase is going to be a good tailwind for the business. And the classic case is what you have seen as part of the Q4 numbers.

What I was clarifying was we may not see a margin uptick vis-a-vis the comparison was with COVID because in COVID, we also had, while on one hand shortage, on the other hand, higher demand enabled us as a distributor for us to make more money. That situation, at least in the short term, we don't foresee. That was the point.

Moderator: Hitendra, I'll request you to come back for a follow-up question. The next question is from the line of Nirmam Mehta from Unique PMS.

Nirmam Mehta: My first question is on Arena. So we mentioned we had some exit losses also in Q4. And earlier also, we've mentioned that you would have these kind of losses. Going forward, how do you see Arena panning out? We've also taken some impairment. So secondly, how much investment is there in the balance sheet related to Arena only the \$8 million that is left?

V. S. Hariharan: Yes. Let me just give a perspective on Arena, how we see going forward. So if you see what we have done over the last few quarters, we exited from the Lira phone business. We also exited from the other Lira mix business, and we should have exited from all of these by the end of this fiscal year. So starting next year, our focus will be primarily on IT, which is PC servers. And of course, cloud as well. There is a good cloud business that's evolving in Arena.

So in that sense, if I look at these businesses, we are positive, and they are largely U.S. dollar-based business. The problem, of course, in Turkey, the conditions continue to be challenging, while the inflation has gone down, the interest rates are going down. But given the Middle East crisis and the West Asia crises, we do see a softening of demand further in Turkey.

And so the conditions are not going to be less challenging. We'll have to do our best, and we have a smaller size, cleaner U.S. dollar-focused business. Krishnan, you want to add color on balance sheet

S. V. Krishnan: See, this impairment, we have explained the rationale, it is more to do with what we saw in the last few quarters, there have been continuous losses. The business performance is not in line with what we had expected, the economic situation, as Hari said, continues to be challenging in this market and accentuated by the recent Middle East war and the oil price increase. So we like to do what we can do. So we have been exiting from the businesses that are not attractive, which depends on the local currency for borrowing where the interest rates are still at about 42%, 45%.

Those actions are taken. But since there is no clarity in terms of an immediate turnaround. I think it's important we need to take a critical view about the investment that gets carried in the books. And hence, the impairment we have taken.

Like you said, we still have about INR8 million in the books. And since it's a listed company, as we speak now, the market value is about \$75 million. If there are any significant corrections, it may call for the investment of current -- I mean, book value also. And which we will take a view as we close every quarter, but the significant part of it has been taken in the current quarter.

Nirmam Mehta: So going forward, since we have only the USD business left, do we see these losses coming down? I mean -- so my question is a lot of this loss in this quarter is because of the exit costs or do we see continuing losses in the USD business also?

S. V. Krishnan: There is a business loss. There are also some one-offs on account of exits. The business-related loss while -- I mean, not that even the IT business makes good profit. I mean, really, the environment is difficult. You can see that -- I mean, between last year and current year, the business is down by half.

And majorly, because of our own conscious call, what was the \$1 billion is now \$0.5 billion. So we expect this loss to continue. The quantum would keep coming down. Initially, our expectation

was maybe towards the end of the current year, we will see profits. I think next year, we will see loss but maybe at a reduced level. And the real turnaround in terms of profitability we expect in the subsequent year.

Nirmam Mehta:

Got it, sir. So my second question is on the TSG business. So earlier, we mentioned about some competition. But we won large deals and we are doing good on that. But so how do you see this space evolving now? How is the competition and how do you foresee it for the next 1, 2 years?

V. S. Hariharan:

See TSG has many dimensions, Naman. So one is obviously the on-prem servers that we sell to enterprise and government customers with the big brands. Second is the data center, where you have neo cloud operators jumping into the picture. There is also an evolution of other kinds of data centers. We call it the edge DCs and AI factories, etcetera.

Clearly, the data center part is a new business, the existing business, we continue to have competition from existing distribution players. But in the neo cloud and the data center, we are also new to the picture. And we are actually, I would say, doing better than a lot of our competitors. But it's a matter of like what Krishnan said, getting the right deals with the right ROCE and the right risk levels, etcetera.

But we see the data center part of the business is the one that will be a huge upside and getting our strategy around it. First is obviously the hardware. Then you have opportunities to work on power systems, cooling system adjacencies, there's an opportunity to work on fulfilling the capacity of these data centers for co-location and managed services.

So there are many opportunities around the data center area. And right now, we are constructing a plan on how to go after it, which part of it makes sense and how to invest around it. But that will be our work in the next few quarters.

Moderator:

Next question is from the line of Sahil Doshi from Thinqwise.

Sahil Doshi:

Just firstly, just wanted some clarity again on the Turkey and the Arena business. So essentially, this quarter what number you've seen in terms of revenue, is that the new normal base? Or we should see further decline from here? And in terms of factoring also, would this stabilize at this? That's my first question.

And the second question was related to the impact of the war, the Middle East impact. So you've stated in the press release that we did see some softening in March. So do we think some further impact in this quarter to play out? Or you don't really expect any material impact because of this same?

S. V. Krishnan:

Okay. See, Arena, the current revenue is the new normal. We hope the current factoring will be the new normal. We are working towards it, and we will do whatever it takes. But the banking environment in that world is not easy.

So I don't want to commit anything here. Middle East impact has been there for 1 month. And incidentally, that 1 month is our peak month for the year. So it hit -- I mean it did had an impact in terms of lower revenue. And accordingly, the lower gross margin and incremental costs.

So this is what has impacted our profitability for the month of March. And as Hari has mentioned upfront, we think this situation will continue for maybe Q1, to an extent in Q2, all depends on how things gets resolved and life coming back to normalcy, it's going to take some time.

V. S. Hariharan: And just to add, the trajectory seems similar compared to March. It's not getting worse, it's not getting better in the coming -- in this quarter.

Sahil Doshi: Sure. That's fair. Secondly, on the cost structure question, sir, you did call out the excess -- the increased expenses because of investments as well as the impact of the rupee on employee cost to an extent. But would it be possible to try and quantify how much is this, which is, a, front-loaded or something of that sort?

And where do we expect at what levels in the following year because in the absence of improvement in gross margin, a large part of the growth seems to be eaten away by this investment. So I'm just trying to understand how should we think about sustainable, profitable number in that sense.

S. V. Krishnan: Good question, Sahil. I think we had already mentioned this. The opex and more particularly because we want to create required capabilities, in the technology space, in the SSG business. is going to be more for some time. And that needs to be looked at more as an investment than as part of the regular -- I mean, cost of doing the business.

So that elevated opex for next couple of quarters, maybe 1 or 2 years would continue is our expectation. Forex-related thing may not happen. The AR provision -- incremental AR provision may not happen. Incremental insurance or transportation cost on account of ME-related challenge that may not happen. All those will get normalized in due course but the capability building technology investment, in our view, we should not be conservative, amidst this opportunity, and this investment will continue.

How should we see the profitability? See, in our view, we should be able to maintain our operating profit, we should be able to maintain our return on capital employed quite strongly that we are confident. That's one on account of the growth in the rest of the business. And while SSG, there is a capability-building cost, which is there, for sometime the profitability could be subdued, but over a medium to long time, we will see SSG profitability being quite interesting. So operating profit and return on capital employed are the 2 metrics.

In our view, outside of Arena about 2.2%, 2.3%, 2.4% is what we expect as EBITDA subject to whatever is the composition of the large deal. And we are quite confident in terms of the return on capital employed being maintained above 18% as we speak now, it's closer to 20%. And these 2 are the important metrics, Sahil.

Moderator: Next question is from the line of Amit Khetan from Laburnum Capital.

Amit Khetan: My first question is on the Middle East business. What is the sort of inventory risk we have here? Is this fully covered by insurance? And are they distributed across multiple locations?

S. V. Krishnan: It is. You had asked a very interesting question. This is something which we would want to explain this clearly. We normally take insurance policies for whatever risk that we foresee, all insurable risks. Similarly, we have taken war insurance for -- I mean, as part of our policy.

But as the war started, the insurance companies joined together with 7 day's notice removed this risk coverage, and it was an unilateral decision. So we had to manage. We did manage in the form of getting some additional cover from other insurance companies.

Also we did transfer of identification of new warehouses in the same location, move some part of the stocks from one place to other in order to avoid the open coverage. There are a lot of things that have happened. I mean full kudos to the team, logistics team there inspite of the missiles going all around the place. So we had managed it well. As we speak now, we think we have the proper coverage and we don't foresee a challenge. But in between the one period, yes, there was some increased retention.

Amit Khetan: Understood. Understood. And my second question is, I think in the SSG segment, in the previous quarters, you've called out gross margins being around 5% to 6%. If you could give some rough sense of how these gross margins differ between the different subsegments of cloud, software and cybersecurity. And overall for the segment, how do you see margins evolving over the medium term, the gross margins?

V. S. Hariharan: Let me attempt the first part. It's harder to give a split on this. But the overall SSG segment, we are expecting and tracking about 5.5% gross margin. And this can only get better as we get more into professional services. The cloud -- see, the normal work that we do on cloud security and software is resell.

And there will continue to be pressure on just the resell portion of the business. But as we do more and more professional services that will create more stickiness and more additional gross margins. Harder to give a split between the 3. Over a period of time, going forward, we would like to maintain between 5.5% and 6% is our intent and plan, and we are tracking so far.

Moderator: Next question is from the line of Deepak Lalwani from Unifi Capital.

Deepak Lalwani: Yes. Sir, could you -- Krishnan, sir, could you please help me triangulate three numbers. Number one is INR467 crores of profit that you have reported in the PPT. Point number two, sir, is the reported profit, which shows in the financial disclosures of INR281 crores. And third is the number, which we have reported post minority at INR391 crores. So can you please help me triangulate all these three numbers, sir?

S. V. Krishnan: Okay. This is a very difficult question on me. INR467 crores, okay, INR467 crores does not include Arena related impairment, which is classified in the financials as an exceptional expense. I'll tell you the logic. If you recollect same quarter last year, we have had an upside in the form of Paynet sale.

That was a gain classified as an exceptional income. This time, it is an exceptional expense. If you go back to all of our decks and the explanations. We haven't included that as part of our reported PAT because it was completely a one-off on the positive side.

Similarly, we have eliminated the impairment -- I mean, impairment loss from this, and that leads us to INR467 crores. This INR391 crores is including Arena impairment. Because the impairment amount is about INR75 crores for Redington. INR281 crores, where do you see this INR281 crores? Are you talking about INR287 crores which is there for the quarter?

Deepak Lalwani: Yes, sir. Yes, sorry, INR287 crores.

S. V. Krishnan: That is before minority interests. That became INR391 crores because a part of the loss that we have taken in Arena that goes to the rest of the shareholders of Arena, if you adjust for it, the INR287 crores becomes INR391 crores.

Deepak Lalwani: Okay. Sir, I'll probably take the math from you once again offline. Krishnan, sir, could you just also call out that -- earlier in the Turkey, we had the \$20 million receivable of which we had taken \$8 million. The \$12 million was still at exposure. So could you speak a little bit about that \$12 million there?

And if there is any need for creating provisions on that bucket?

S. V. Krishnan: As we speak now, no. There are some collections. But definitely, the pace of collections could be better. We don't foresee any need for any additional provision at this point in time. We are quite okay.

But we can be better in terms of collections.

Deepak Lalwani: Understood. And sir, just the final thing is, could you call out given the wide range of revenues and verticals across the Middle East as a cluster, Saudi, GCC and the others. Could you just call out how you're looking at the demand environment in '27 probably vertical-wise and region-wise, if you can, please?

V. S. Hariharan: Okay. I will try and answer that. So let me go there are 4 geographies in Middle East, Africa, 4 clusters, we call them. So one is UAE, one is KSA, Kingdom of Saudi Arabia, GCCL which has some of the GCC countries like Iraq, Kuwait and also the Levant countries and the fourth cluster is Africa.

The UAE cluster is the biggest and we have seen the most impact due to the West Asia crisis. And that's where we see good recovery once the West Asia crisis is out of the way. It was growing at around 20%, if you remember the last year, the previous year.

Now within that, let's talk about the verticals. Actually, all business units are firing there, starting with SSG and TSG, software and technology solutions and followed by mobility, followed by PC demand short term because of the component shortage. The next would be GCCL, where there is a big opportunity with our focus on individual countries there. Surprisingly, despite the West Asia crisis, that area, we have still seen growth, good growth and that's probably a combination of some virgin territory that we've not been playing in. The SSG business was quite raw, and it has improved all of that.

And we saw through March and even as we speak, we can see good demand there. And the upsides there are on SSG and TSG and the mobility in that part of the region is also doing well. So that's the second.

Africa is the third. Africa has been doing considerably well. This year has been a very good year for us in Africa. Again, the star performers there are SSG and TSG. And in the past, both on PCs and phones, we've been quite flattish because of arbitrage logistics that we compete with unorganized players.

And fourth is Saudi. We talked about Saudi having a reprioritization by the government on investments, initiatives, etcetera which actually created problems on growth. If you remember, a year before last year -- 2 years in a row, we were growing at about 25%, 30%. But the last few quarters have been challenged, and we expect some of that to continue because Saudi as a country is trying to juggle with all the different initiatives, priorities, vision 2030 and really what are the focused priorities.

And as we look at the IT part of the business, we do see a little bit of a softer demand in Saudi. We are trying to do best to retain our market share, which we have done. But that's the order. GCCL and Africa, we see continued growth. UAE will depend on how fast we recover from the crisis. Saudi will take some more time once we understand the IT priorities.

Deepak Lalwani: Understood. And sir, some of the smaller countries like Qatar and Bahrain, where do you really classify them as a part of GCCL or UAE?

V. S. Hariharan: GCCL.

Deepak Lalwani: Understood. So those smaller territories are also where we've been gaining a lot of share is helping us, right?

V. S. Hariharan: That's correct. And also some of the Levant countries.

S. V. Krishnan: I can give the growth percentage, it could be even more clear. UAE for the full year, we grew at 22%. For the quarter, we grew at 6%. And as Hari said, this is mainly on account of the March impact, the Middle East war. GCCL for the full year, we grew at 33% full year.

For the quarter, we grew at 51% in spite of the war, which is the market share that we talked about. In KSA, for the full year, the growth was 5%, subdued growth. But for the quarter, it's a degrowth of 12%. It's on account of the Middle East war in March. Africa for the full year, the growth is 13%, for the quarter is 26%. So that is quite strong.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as the last question. I'll now hand the conference over to the management for closing comments.

V. S. Hariharan: Thank you so much for all your questions. And I just wanted to emphasize that we feel we have really weathered through a very good quarter despite all the challenges we've had and kudos to the team, the brands we work with and the partners.

In terms of Q1, Q1 is normally a lower seasonality quarter for us, but we are committed, and we want to definitely sustain good momentum. But having said that, it is the lowest seasonality quarter for Redington normally, but we'll do our best. Thank you, and look forward.

Moderator:

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