Redington
SEAMLESS PARTNERSHIPS

Registered & Corporate Office
Redington (India) Limited
Redington House, Centre Point,
Plot. No.11 (SP), Thiru.Vi.Ka Industrial Estate,
Guindy, Chennai- 600032. Tamil Nadu, INDIA
Tel : +91 44 4224 3353 Fax : +91 44 2225 3799
CIN : L52599TN1961PLC028758
www.redingtongroup.com

February 12, 2022

The National Stock Exchange of India Limited,
Exchange Plaza,
Bandra-Kurla Complex,
Bandra (E), Mumbai – 400051.

Symbol: REDINGTON

BSE Limited
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai — 400 001

Scrip: 532805

Dear Sir/Madam,

Sub: Q3 - FY 2022 - Earnings Conference call transcript

This is further to our letter intimating the details of Investor/Analyst call on the unaudited financial results for the third quarter and nine months ended December 31, 2021, held on February 8, 2022.

In this regard, we are enclosing herewith the transcript of Conference Call hosted on February 8, 2022. The same is also available in the Company's website: https://redingtongroup.com

We request you to take this information into your record.

Thanking you.

Very Truly Yours,

MUTHUKUMARASAMY MUTHUKRISHNAN
Digitally signed by MUTHUKUMARASAMY MUTHUKRISHNAN
Date: 2022.02.12 12:53:33 +05'30'

M. Muthukumarasamy
Company Secretary

Redington (India) Ltd

Q3 FY 2022 Results

Conference Call

Feb 8th, 2022

MANAGEMENT

MR RAJ SHANKAR	VICE CHAIRMAN & MANAGING DIRECTOR
MR RAJIV SRIVASTAVA	JOINT MANAGING DIRECTOR
MR S V KRISHNAN	WHOLE TIME DIRECTOR & GLOBAL CFO
MS SOWMIYA M	SENIOR MANAGER, INVESTOR RELATIONS

MANAGEMENT DISCUSSION SECTION

Moderator:

Ladies and gentlemen, good day, and welcome to the Redington India Limited Q3 FY2022 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 performances 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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajiv Srivastava – Joint Managing Director. Thank you and over to you, Sir!

Rajiv Srivastava:

Thanks a lot, and good evening and welcome to everyone for joining this call. We have got Mr. Raj Shankar – Vice Chairman and Managing Director of Redington on the call with me along with our Global Chief Financial Officer - S V Krishnan and Sowmiya Manickam, who is the Investor Relation Leader for the country.

The way I am going to do this is, I will give you a topline or headline commentary on how our performance has been in Q3. I will handover to Krishnan to take you through bit more detail on the financial performance of the company and then I will give you a bit of a color on what is happening, the way the market is reacting and behaving now, the direction in which the IT industry and technology industry in general evolve and then we can open it up for Q&A.

Let me begin by giving you a topline commentary in Q3. We had a consolidated revenue of Rs. 16,620 crs which is 2% degrowth over same period last year but that is because we changed our accounting standard from a gross accounting of earlier times to a net accounting. If it was regular numbers as just the way we have reported last year, we would have seen a 2% positive growth but this allies with the global accounting standards.

Just to give you a sense on EBITDA, we have had an EBITDA of Rs. 544 crs which is a 22% growth YoY and a PAT of Rs. 388 crs which is a 103% growth YoY. This is for us the all-time high PAT we ever had and our PAT for nine months now happens to be greater than the PAT for the whole of last year. I think it has been very, very nice, sounded sort of a performance.

Just to give you a split between India and Overseas as a measure of businesses, our India revenues are at Rs. 7157 crs which is a degrowth of 7% just because of gross accounting but the

EBITDA is grown to Rs. 204 crs at 10% YoY and India PAT is Rs 140 crs which is 261% growth over same time last year.

Just giving a color on overseas revenue as well. Our overseas revenue was Rs. 9463 crs which is a 2% YoY growth, if it was on gross accounting, it would be a 5% YoY growth. Our overseas EBITDA is Rs. 340 crs which is a 30% growth YoY and overseas PAT of Rs. 248 crs is a 62% growth YoY.

I am just going to leave you with one more statistic. I know there have been a lot of numbers we have been talking, just to give you a sense on business segment, the overall IT growth for the company which is the PC, server, storage, network, printer all of that, as per consolidated levels which is India and Overseas is at 12%. Consolidated growth should be 18% if it was gross accounting basis. Mobility is a down -22% and services are a +5% growth, so those are the numbers at high level, and we can get deeper into numbers or anything else that we would want but I am going to hand it over to Krishnan to talk you about some of the financial ratios and specific financial numbers.

S V Krishnan:

Thank you, Rajiv. First on the working capital, for the quarter at consolidated level, it closed at 12 days, which is similar to the Q3 of last year. While in India it has come down from 11 days to 8 days, there is a corresponding three days increase in overseas from 12 days to 15 days all on an YoY basis. While inventory days and debtor days have gone up, there is a corresponding increase in the creditor days resulting in the working capital days being similar to what it was last year at 12 days.

Moving to cash flow for the quarter, the free cash flow has been negative at Rs. 445 crs and this is on account of 7 days of working capital in the previous quarter, which was an all-time low and if you look at for 9MFY22, the cash flow from operation was Rs. 909 crs and the free cash flow from operations after taking into account Rs. 460 crs of dividend payout is a positive Rs. 296 crs and this is on top of about Rs. 5800 crs of the positive cash flow in the last five years.

On account of better profitability as Rajiv mentioned, our return ratios are quite high. Our ROCE for the quarter at consolidated level is at 93.6% while in India it is 103%, in overseas it is at 89%, so quite substantially high and this is mainly on account of lower capital employed.

Moving to return on equity for the quarter, at consolidated level it is 29.7%, India contributing 31.2% and overseas at 28.9% which again is substantially high. Debt equity ratio is still well maintained, the gross debt to equity ratio is at 0.1x, the net debt equity it is -0.5x and I need to mention here this quarter except for Arena, every unit has closed with the net debt being negative, so this is something very important to mention.

Mr. M Muthukumarasamy,
Compliance Officer,
https://www.redingtongroup.com
Ph. No. 044 – 4224 3353

Redington (India) Ltd
Redington House, Centre Point, Plot No. 11(SP)
Thiru Vi Ka Industrial Estate, Guindy, Chennai 600 032, India
CIN - L52599TN1961PLC028758

Moving to the balance sheet, our network as of December 31, 2021, has exceeded Rs. 5,400 crs and the capital employed at Rs. 2733 crs, so you can imagine Rs. 16,620 crs revenue has been generated for the quarter with a capital employed of Rs. 2733 Crores in an working capital intensive business.

Finally moving to the provisions, the provision for inventory is broadly zero. There has been no provision for inventory for the quarter at the group level. The provision for bad debt is at 0.14%, which is 14 bps, it is slightly higher than our long-term average of about 0.1% and is mainly because of one provision that we have taken in India. While we are confident of collection, we thought it has taken sometime and so we have to provide for it.

I will hand it over back to Rajiv now.

Rajiv Srivastava:

Krishnan, thank you so much, really appreciate your commentary. I just wanted to give you all two more colors for this; one is that while we have seen a very strong performance on an YoY basis, even on a QoQ basis it has been a very powerful performance. Our QoQ revenue growth is 13%, QoQ EBITDA growth is 19% and QoQ PAT is 26%. I think all of that has been in line with expectation that we have a very strong performance.

I just wanted to give you bit of a context to what is going on in the market and that has really put in perspective the performance that we are having right now. You would see that there is a strong tech adoption by both end customers, enterprise and private sector enterprise customers and SME and also by government, so there is a very strong consumption that is coming in place.

The regions that we operate in, the regions of India, South Asia, Middle East, Africa, Turkey all of these countries happen to be in a very positive zone from a GDP perspective. The prognosis is going forward for each of this country is very strong positive GDP growth and also an associated strong ICT growth as well. The reason why ICT and GDP are going hand in hand over there is, there is a very strong infrastructure push by government in these regions, in these countries to make sure that there is investment led growth that is taking place and obviously that is consumption led but largely most of these regions were driven by consumption but now they happen to be driven by investment as well and that is something which is far more sustainable from a long-term perspective.

We have seen that there is an adoption of digital tech which means projects that people were planning for years on long-term basis earlier, they are getting rolled out in a couple of months and pretty much every sector of the economy, be it, manufacturing, education, work from home, learn from home, retail, digital economy from a financial services perspective, payment, fintech and if government policy support all of these are literally leading to a very strong tech option in countries like India, UAE, Saudi Arabia, Egypt, Qatar, Nigeria, Guinea, Ghana all of these countries that we are talking about

The other thing which is important is from a tech adoption perspective is what technologies are really finding favor with the market and the technology that are finding favor are of the nature of backend data centre, high end systems of enterprise which is server, storage, network, software and then also led very strongly by a cloud subscription model, so these are based on foundational applications like SAP, CRM, customer experience but clearly many more app driven consumption is what we are seeing now.

Also there is a strong push by lot of companies, lot of customers to adopt new technology because we are seeing digitalization is the way to go forward to a far more digital connected organization, connected with their customers, connected with their partners and pretty much playing the whole ecosystem end-to-end from a digitally enabled technology perspective. The technologies that are getting consumed in these areas are clearly Artificial Intelligence, a very strong focus on that, augmented reality, virtual reality but also applications driven by Internet of Things, applications driven by Blockchain. We are finding that adoption has started in those areas and hopefully overtime as 5G becomes much more proliferated and as it proliferates it a lot more, you find that there would be a huge amount of growth driven by 5G. A lot of tech is also driven by voice and video based.

The other thing that we are seeing apart from tech consumption is a manner in which tech is getting consumed. The buying behavior is shifting. What we will buy and how they buy is shifting. So people used to buy in a very capital intensive manner but all of that is shifting to "as-a-service" model, product to service is shift from owned to subscription base model and then people are also shifting from a business model of a brick and mortar which is very strong of the retail into the shop-showroom kind of a buying and they are shifting to a lot more online omni-channel and everything in between. There is an omnichannel world we are seeing to play out as we speak and I feel good about the fact that we are in a very strong position to maximize and capitalize on all the trends that are taking place right in the market because our play is purely technology.

So, let me stop over here and open it up here for any questions and answers, any comments that you guys might have.

Q&A SECTION

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia:

Good evening gentlemen and congratulations on great set of results. My very first fundamental question is that over the last few quarters, we have seen your EBITDA margins trend from about 1.8% to about 3% odd right now and what we understood was that Apple is a good customer who gives us higher margins than other guys. However, contribution of Apple in this quarter is lower but despite that your margins are quite high, so can you please throw some color on the sustainability of these margins going forward? That is my first question.

Rajiv Srivastava:

EBITDA margin is going in right direction and that is absolutely a reality and the reason that this is taking place is because you would find that we are in the market situation where there is a demand and there is a demand which is chasing supply right now, so it is not the other way around. As demand is outstripping supply at the moment, that allows you to have a higher gross margin business and we are just close to higher EBITDA margin as well. That is one part of the business. Secondly, while Apple has been lower in business but the margin is happening. Also, a lot of these margins are driven by a growth in the enterprise business, enterprise business which is server, storage, network, software, cloud, and services around that, those are ones which is a great drivers of margin and profitability. Our enterprise business in this quarter has grown 28%, so I think that is a very strong growth and it is obviously different for Middle East and different for India but overall, at a consolidated level, the business has grown that much. It is a very strong growth and that is really leading to a higher EBITDA margin. It is the business mix that is shifting a lot more towards enterprise which is giving us lot more margins

Nisarg Vakharia:

Got it, Sir. Thank you so much for answering my question.

Moderator:

Thank you. The next question is from the line of Krish Mehta from ENAM Holdings. Please go ahead.

Krish Mehta:

Thank you for taking my questions and congratulation for the numbers. I have a question on the numbers for the Cloud and Cloud Managed Services, if you could split the revenue and margins for both of these?

Rajiv Srivastava:

I will give you a sense on the Cloud business overall. Our Cloud business for the quarter, Q3 is Rs. 411 crs and that is a very strong 35% YoY growth. Services as a proportion of Cloud business is just about 3%. It is not that great but it still trending in the right direction and as you go forward, I think that is the area like I said earlier the consumption for model across the world is changing into much more as a service model and Cloud plays straight into that, from an enterprise perspective. So we expect a very strong growth in Cloud. The margins of enterprise business are better off generally. The cloud hardware and cloud product business, runs at a similar margin as the enterprise level which will be around in the range of ~6% but the cloud services business runs at a much higher margin which is in the range of ~25% to 30%.

Krish Mehta:

Thank you so much.

Moderator:

Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta:

Good evening. Two questions, on the margin side, you had mentioned that enterprise business being higher margin business has grown faster but in the past we have seen that it was actually growing slower than the other category of Mobility. Do you think that this is a sustainable trend for your business wherein enterprise business will grow at a faster pace than the mobility business thereby increasing the margin profile of the business?

Rajiv Srivastava:

Very difficult to say that enterprise will continue grow faster than mobility because mobility is in a very good space right now. I will tell you why it is in a very good space and why it will be a much faster growth going forward is because you would see that the world is going to be shifting towards lot more adoption of 5G. Now 5G has multiple implications on the market. One implication of 5G on the market is that it leads to sale of more devices and 5G enabled devices. The countries in which the network of 5G operates, devices consumption goes up and mobility will go up, that is one. The second thing which happens in mobility in 5G is it spins off a lot more consumption because the 5G network enables you to much more from a bandwidth perspective, zero latency it allows you to consume a lot more applications, so 5G and mobility will drive a lot more consumption and growth. The reason mobility business is lower this quarter, it is just because the demand was there, but the supplies were not adequate. The enterprise business has been faster than mobility in this quarter and I hope it will continue to grow at fast pace, whether it will grow faster than mobility or not only time will tell but clearly enterprise business has been in a good space because the world model is shifted towards a lot more as a service consumption which is driving the whole range of shift towards a lot more back end applications. People are redesigning, regenerating applications, redoing their applications plus the fact that digitalization of companies is moving at a really fast pace. A company which used to take years to do projects, they are converting all of those yearlong projects into few months. So, I am hoping for enterprise to continue to grow at fast pace, one could grow faster than the other, we will take all of that but I am pretty certain that both will have good progress.

Sarvesh Gupta:

You mentioned that you have changed the accounting standard for revenues, so what will be the like-to-like EBITDA margin for the quarter versus last year and the for the 9M versus last year if on a like to like basis?

Rajiv Srivastava:

The accounting standard change is only impacting the revenue. It is not impacting EBITDA at all. So, EBITDA is not changing, EBITDA at Rs 544 crs for this quarter, a 22% growth stays whether you change accounting standard or whichever accounting standard you follow and a PAT of Rs 388 crs for this quarter at a 103% growth also stays exactly the same as it would be without it. So it is only a revenue shift. When we do accounting standard change of gross to net, we do not take the whole topline in this, we just take the bottomline as revenues that is the reason for revenue dropping whereas the EBITDA and PAT remains exactly the same.

Sarvesh Gupta:

I was talking about EBITDA margins, so will it be possible to give the margins on a like to like basis for the previous YoY periods for 9M and this quarter?

S V Krishnan:

Sarvesh, the difference is only of 10bps at the EBITDA and the PAT margin level, so it is not significantly higher in terms of percentage of revenue

Sarvesh Gupta:

There was a news report for Apple wherein their shipments had increased a lot in the last quarter of this calendar year, it was I think a 40% sort of a jump while in your case your Apple share has reduced, so is it because you are carrying some excess inventory for this quarter or something else which has happened in India business as far as Apple is concerned?

Rajiv Srivastava:

I think if two things had happened, Apple business would have grown. If you follow the global trends on mobility shipments, you will find that there has been decline in the Smartphone shipments world over including Apple. Q4 2021 which is OND is a decline over same period last year, so it is not as if YoY anybody has grown because globally the Smartphone market has dropped by about 3.2% and it is true for almost all brands and vendors that we are dealing with across our entire region of Middle East, Africa, India, Turkey and all these places. So there has been constraint of supply which is really causing this revenue drop largely. The other thing which is important to understand from an Apple perspective is also the change in the GTM. They had made a change in GTM last year and this was the quarter in which it got impacted. There was a change in GTM from just two of us to a lot more online play which is now serviced directly by Apple. So those are the two things, a supply constraint and the GTM change which caused the Apple revenue to be low but our revenue has gone up in the other products of Apple which is the Apple Mac and iPad, etc and so I think that is going to be a very big story.

Sarvesh Gupta:

Understood. Thanks a lot, and all the best for the coming quarters.

Moderator:

Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya:

Thanks for the opportunity. I have a couple of questions. Firstly, I just want to dwell a little deeper on what are you talking about, you said that GTM change has led to decline in the revenue for Apple, is that correct?

Rajiv Srivastava:

Yes.

Pranav Kshatriya:

My second question is if I look at the revenue composition by brand Apple is one part that there is (..line unclear..) brand and then there is others, so in that other section also I see bit of a drop in terms of the revenue. So just surprised to see that and is it largely because of the mobility biz whereas the enterprises have done well and that is why we have the Dell, HP, Lenovo and even Samsung for that matter doing well?

Rajiv Srivastava:

Yes, absolutely even Samsung has been a drop because Samsung also had supply constraints and we do not do Samsung in India you know that. We do Samsung in Middle East & Africa and Samsung is also being constraint on supplies. So that is the only reason why the mobility revenue overall has come down whereas enterprise had good shipment last quarter. When you go to Q2, you find that the shipment for enterprise was little subdued, just the way it has happened with the mobility in this quarter. It was the other way around in the previous quarter, so that is the reason for supplies of enterprises lead to Enterprise biz being strong whereas Mobility was concerned and change in GTM has also caused slow down or de-growth on the mobility space.

Pranav Kshatriya:

The change in GTM is sort of a permanent thing, I do not think that those would come back and considering the share of online portal is sort of increasing, do you think that there is a risk to that extent like mobility revenue growth might not remain just like the overall growth?

Rajiv Srivastava:

On the contrary, I feel that there has been huge amount of stability that has settled now in the manner in which we could buy and it is not only true for Apple phones, it is true for pretty much every single steady state technology product but there is a certain amount of share which the online has and there is certain amount of share that offline has and there is an equilibrium within that. So I do not see that really impacting or changing anything going forward, we do not see a significant increase. Think about it this way, our drop in Apple would have been not a drop in mobility revenue if not for the shift in GTM. Our revenue drop is much smaller and which means that we have at least determined about ~8-10% of growth back despite drop in the mobility revenue. So our engine of making sure that our other revenue engines start to crank up faster, has been a great success story, so that is one thing. Our other revenues streams are kicking in very strongly and that is a very strong and positive factor and second fact that there is a certain amount of equilibrium with tech and I think it has settled now pretty much for every single brand and in Samsung online versus offline, you will find there is an equilibrium, when you go to Oppo or Vivo whatever whichever model or whichever brand you go to all there is equilibrium, Apple just started on that end, so there was a spike and now there is an equilibrium so I think going forward, you will find that the steady state works to our advantage actually.

Pranav Kshatriya:

Sure, last question from my side if you can how much time should we expect the working capital days to take to reach through 35 days to 40 days which would be a steady state considering most of the COVID related things are behind?

Rajiv Srivastava:

I am going to defer that question back to Krishnan, but I will give short answer to your question is, I hope never and that is the way we are trying to build our models in case but Krishnan over to you, please.

S V Krishnan:

Thanks Rajiv. There will be some normalization that will happen in about three or four quarters down the line, Pranav but what normalization is I mean the jury is still out, we still think we should be able to maintain our total working capital to sub 30 days, that is, between 25 days -28 days etc., so that is our thought process.

Rajiv Srivastava:

I think it is important to understand just supplementing to your question, it is important to understand what is happening in the global IT Industry so that you could have sensed as to how long can sustain and I am hoping that will sustain for a much longer time. There is a global shortage of equipment, there is global chip shortage, there is a global commodity shortage pretty much everything that goes into the manufacturing of an equipment, laptop or a PC, cell phone or anything of that nature is in short supply right now, the supply chain is impacted very badly, there are brands which got orders pending for six months, eight months, nine months and only now they are shipping, so there is a huge amount of demand which is change in supply. All our conversations pretty much every leading chip manufacturer across the globe, whether it is Intel or it is AMD or it is sub system manufacturers or equipment manufacturers like Foxconn or (..line unclear..) or anyone, so it is just that this is not going to change in a hurry, so you should be resident of anything as it is in a good shape right now.

Pranav Kshatriya:

Thank you very much. That is it from my side. Wish you all the very best for the coming quarters.

Moderator:

Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan:

Good evening, everyone, and congratulations on the elevation. I had two questions, the first one was what is the contribution of Bright Star on the growth number in the overseas business this quarter and considering the earlier sort of moved away did, is there any impact on the margins that we are seeing on an overall basis from this, so that was the first question?

Raj Shankar:

Nitin, the contribution of Bright Star was just 35 million for the quarter in US dollar terms because technically speaking the acquisition happened on December 1, so the impact of Bright Star to top and bottomline is just not material at all.

Nitin Padmanabhan:

Fantastic, nice to hear your voice, I thought you were not there in the call. The second question was on the profitability that we are seeing today. How sustainable is this gross margin that we are seeing at the moment and how should we really think about it broadly on going forward basis, anything helps from thought process perspective will be very helpful?

Rajiv Srivastava:

I think it is like I said earlier the situation of the global supply chain industry on the technology front continues to be feasible right now and what it does to us is and that is pretty much every vendor and every partner and the whole ecosystem is it makes the whole ecosystem far more and liquid far more sustainable and far more profitable in that sense, so my sense is I think this is here to stay for a bit, our gross margin situation should continue to be where it is, we are absolutely tight twisted on our cost control, so we are not going to allow cost to go spiral out of control so the equation of gross margin and cost control is helping us to be far more possible, it will continue for the time period that this whole supply demand supply situation convinced over the course of next few quarters at least.

Nitin Padmanabhan:

Sure, and this one bookkeeping question if I may, what would be the creditor days, inventory days and debtor days for the quarter?

S V Krishnan:

The debtor days for the quarter is at about 48 days, inventory days about 22 days and the creditor days 58 days taking the networking capital to 12 days.

Nitin Padmanabhan:

Perfect. Thank you so much and all the very best.

Moderator:

Thank you. The next question is from the line of Deepak Khatwani from Girik Capital. Please go ahead.

Deepak Khatwani:

Thanks for the opportunity and congrats on good set of numbers. I have a question on growth, right now we are in abnormal scenario, so once the scenario normalizes let us say three–four quarters down the line, what is the kind of growth that you anticipate will be in the market in a steady state?

Rajiv Srivastava:

Very interesting question because there is a certain amount of linkage that we have from a market perspective. At the way in which GDP is trending, the way in which ICT industry is trending and fortunately for us on both these dimensions, that is GDP as well as ICT across India and Middle East Africa, South Asia, we are in a process, so all these regions are expected to grow faster from ICT and GDP perspective. It is difficult to hazard a guess on from the perspective of what exact growth number would you want to look for but I can tell you the prognosis for ICT industry in India is 8.8% growth over the course of next one year, the prognosis for ICT industry in the Middle East and Africa over the course of next couple of quarters which is the full year is about 2.7% to 2.8%. The thing that I can show you is that we will always be trying to grow ahead of the market beating a market by a factor, I think that is all I think it is only products to say but our growth does not come literally only from that growth, our growth has got many other dimensions. These are their dimensions of what brands we can acquire, what geographies is that we can open up for ourselves, what new markets we can really capture and how we can do share gains, all of that from playing last year the industry whatever it did and we are doing much faster than the industry and we should continue to grow faster than industry over the course of next couple of quarters.

Deepak Khatwani:

If I rephrase the question, do you have a growth target in mind for the company on a consolidated global level?

Rajiv Srivastava:

Yes, we have a double-digit growth target. I cannot give the exact number. That would be very forward-looking statement, but I can let you know that we will take target double digit growth.

Deepak Khatwani:

If I may ask another question, would be able to share the growth of the industry in the last quarter and India and Overseas separately if that is possible?

Rajiv Srivastava:

The IDC number for India and Middle East separately has not come out. I can only give you the global number right now and this is only available for PCs, it is not available for server, storage, or higher end technology yet. On the PC the world market grew by 1% versus that we have grown 13% in the consumer IT space, which is PC, laptops, and all of that. That is where it is and for smartphone, I told you earlier that it is a negative 3.8%.

Deepak Khatwani:

Sure, and do you see the growth rating impacted by the learn-from-home and work-from-home being like getting normalized, people are going to back to offices and schools?

Rajiv Srivastava:

Very interesting question again, but my personal sense on this one is and the way I have seen the demand shift, when people started to get to home, work-from-home and learn-from-home, children learn-from-home, people started to work-from-home, suddenly a huge amount of demand shifted towards home kind of equipment which is a laptop or PC or big screen monitor, a collaboration equipment, some software for collaboration and some software for security, so those are the things which got bought at the homes, so that is huge amount of demand. Now when people are going back to the office after two years suddenly everybody is realizing that the equipments they used to work on are good in pieces but they are not good overall, so I think there is a huge shift that has taken place in technology, application has moved ahead, Microsoft Windows 11 has come in that has moved up, so there is a huge shift which is taking place which is going to be forcing people to do a refresh. So my personal expectation is that learn-from-home, work-from-home and in the office is going to be consistent. It may shift more towards home and less towards office or more towards office and less towards home depending upon which part of the world you are in, which pandemic cycle you are going through but I do not see a demand which is softening at all

Deepak Khatwani:

Sure, okay. That answers my question. Thank you.

Moderator:

Thank you. The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

Anuj Jain:

Thank you for the opportunity and congratulations for the good set of numbers. My query is regarding the margins. You have mentioned that two reasons for the margin improvement are demand supply scenario and larger share of IT products versus Mobility products but let us say going forward down from the line what I understand is demand supply scenario should be sorted out and you yourself has mentioned that mobility products will grow much faster rate versus IT products. So should we consider the current margins as peak margins and that they should normalize going forward?

Rajiv Srivastava:

Look I think you got to give it a few quarters before you even get to a situation of that nature. I did not say that mobility will grow faster than enterprise. I am saying mobility and enterprise both will grow at a very fast rate, because enterprise will grow. The enterprise and SMB and the government they are all shifting towards a much more digital environment and that is fueling a whole range of independent procurement and buying an application. Mobility will grow because the 5G shift will lead to a lot more consumption or refresher technology and so I am expecting both mobility and enterprise to continue to grow. This demand supply gap will continue for a bit for a couple of quarters if all the wise industry leaders and the wise companies which are very closely integrated with the supply chain ecosystem are to be followed and you can see the way in which they are stepping up over time to even supply their equipment that they have to and the order books are six months or nine months. So I think that shift is going to continue and that demand supply is going to continue for a couple of quarters. The shift to enterprise will continue and mobility will catch up even more because the 5G transition is there. So I think all in all the whole ICT market, we are going to be seeing a shift in a very positive way. It is not one versus the other. It is not either or, it is and.

Anuj Jain:

Okay, thanks for the response. Thank you and all the best.

Moderator:

Thank you. The next question is from the line of Dhaval Shah from Svan Investments. Please go ahead.

Dhaval Shah:

Couple of questions from my side. Can you just highlight again on the India revenue and my second question would be you mentioned about a 5G being a driver for growth, so say over a next three years to five years period, what sort of incremental growth you think 5G can add to our topline? These are my first two questions.

Rajiv Srivastava:

I can give you a sense on India revenues since your first question is India revenue, India revenue is Rs. 7,157 crs which is for this quarter, so I hope that answers your first question, the second question which is about?

Dhaval Shah:

My question is that what led to degrowth YoY?

Rajiv Srivastava:

It is just a mobility business that led to degrowth. So, we had a very strong IT growth which was IT growth was about 14% and if we do not take net accounting versus gross accounting basis, that is, if I take it in gross accounting it would be IT growth of 31%. So the mobility business was a degrowth of 37%. This is because the GTM shift and supply constraint led to a drop in the mobility business

Dhaval Shah:

Has it got to do with chip shortages?

Rajiv Srivastava:

Mainly to do with the shortages of supplier of telecom equipment.

Raj Shankar:

If I could just supplement, just to give clarity, it is important for you to understand that last year Q3FY21 was one of the best quarters for us from a mobility point of view not only the fact that the product sold extremely well, we also were riding on the back of some solid sales to some of the e-commerce space. That part of the business this time while the demand was good, supply was constraint but on the other hand the opportunity from a GTM point of view was not available like we had last time. So the degrowth in mobility is only to do with when you look at last year Q3 vis-à-vis Q3 of this year. It is important for you to note that the contribution from mobility in India is 28% whereas IT contributed to 71% and if you further breakdown IT for academic information, enterprise contribution was 40% with consumer being about 60%, so this will give you a sense that on IT whether it is enterprise or consumer, we grew double-digit whereas mobility on the back of the previous year being a spectacular year therefore it is showing a degrowth, if that explains.

Dhaval Shah:

Okay, so in last year how much was mobility in India?

Raj Shankar:

Just to give you a perspective specific to Q3, I do not have it in front of me but just to give you an idea 44% was the contribution of mobility in India to the overall revenue in Q3FY21, now that has come down to 28% in Q3FY22 whereas there is more than enough that has been made up by IT.

Dhaval Shah:

Okay, so in terms of the margins, I assume there is no difference between dealing with brands like HP, Lenovo, or Apple because the gross margin has increased?

Raj Shankar:

Yes, it is true but if you recall there is one point I have always maintained that in the past we would be able to sell at normal margins for almost about 70% to 80% of the products but the balance 20% would be sold at lower margins sometimes even at cost. Given that overall environment, there is a shortage for most of the products and particularly with PCs right now we have no margin to give up or leave on the table. We are able to get our normal margins on the entire sale, so to that extent we are able to bring almost all of the gross margin to EBIT or EBITDA level.

Dhaval Shah:

Even the employee cost has gone down 10% YoY. What had led to the reduction in the employee cost?

Raj Shankar:

This is because you are comparing it with the previous year when we had done a revision. If you remember in 2020, we had to do a salary freeze and we did some kind of a pushup in the previous year. We did a good part of the revision in Q3 last year and that is what is showing as degrowth compared to this year.

Dhaval Shah:

Got it and towards the question on the 5G opportunity for us?

Rajiv Srivastava:

I think 5G opportunity you are trying to crystal gaze in three years to five years' timeframe, 5G like I said is going to be a game changer for a lot of our industries whether it is healthcare or it is retail, it is manufacturing of the industry, food or it has any film editing, video, etc. For all those industries, 5G is going to be a game changer. It is a game changer because the way the direction in which the world is moving, it is moving towards a lot more voice enabled and a lot more video enabled, all of that is fueled by 5G. Now three to five years down the line how much will be the industry, what will be the industry. That will be very difficult to conjecture right now.

Dhaval Shah:

What I wanted to understand is that so we shall also be expanding our product basket when 5G comes in, so you mentioned the applications for end users are many more and that more devices would also be 5G enabled, so will Redington be dealing in more products going forward?

Rajiv Srivastava:

Our view of the world is that we will be playing in the cutting-edge technology all the time. So whatever is cutting edge at that point in time, currency of technology at any point in time, we would be a strong player in that. So that is our stated objective. That is our goal. That is the way we would play, so when new devices come in, it will support the 5G application environment, and the news already has come in to support the applications of or the devices for mobility itself on 5G. So, of course we will be playing a very strong role in that.

Dhaval Shah:

Thank you. I will come back into the queue.

Moderator:

Thank you. The next question is from the line of Faizal Hawa from HG Hawa. Please go ahead.

Faizal Hawa:

Good evening. My question is what should be the share of Apple revenues in terms of percentage of total revenue and the second question is what percentage of revenue could be on cloud business in an year's time?

Rajiv Srivastava:

Faizal, let me just give you the answer to the first question which is the Apple revenues. The contribution of Apple iPhone to revenue at a consolidated level is about !20% and that is where it is. Your second question on cloud, how much of our revenue is cloud. Like I said, our cloud revenue for this quarter is Rs. 411 crs from a total revenue of Rs. 16,620 crs. That is the percentage contribution. Our hope and desire is to get towards at least a 10% of Managed services contribution overtime, it would not happen in just a hurry but it will be right to say that that is the direction in which we will move in.

Faizal Hawa:

Okay Sir. Thank you.

Moderator:

Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Rajiv for closing remarks.

Rajiv Srivastava:

Thank you so much. It has been a very fascinating conversation with all of you. Like I said we have had a very nice and strong rounded sort of a market coverage and rounded growth, very strong one on the profitability as well and we see the trend of ICT industry continuing to be an industry which is really creating and leading the transformation. All the organization are wanting to move towards digitalization and the world of digital is expanding and changing all the time. It is getting far more digital than ever before. The fact that there will be too much more rollouts of the telecom network of the 5G variety will continue to fuel a lot more consumption of devices as well as application. So we find all in all that the industry will continue to see very robust and sustained demand and growth of technology across this zones, across the regions that we work in which is India, Middle East Africa, South Asia and Turkey so these all emerging markets which are tech deficient and they have to be in a position to leapfrog. As we go forward, all of them are very aspirational countries to get to the right level of GDP growth for themselves. So I think we are in a good space. We had a good result and I hope to make sure that we will continue to be on a very strong growth curve as we go forward. Thank you so much for speaking with us. It has been a fascinating conversation. If you have any more questions, please let us know and we will make sure that you get response to everything. Thank you so much.

Moderator:

Thank you. On behalf of Redington India Limited this concludes this conference. Thank you all for joining us. You may now disconnect your lines.

The document has been edited for readability purposes and for factual errors

Mr. M Muthukumarasamy,
Compliance Officer,
https://www.redingtongroup.com
Ph. No. 044 – 4224 3353

Redington (India) Ltd
Redington House, Centre Point, Plot No. 11(SP)
Thiru Vi Ka Industrial Estate, Guindy, Chennai 600 032, India
CIN - L52599TN1961PLC028758