Redington (India) Ltd

Q1 FY 2019 Results

Conference Call

July 31, 2018

MANAGEMENT : **MR. RAJ SHANKAR – MANAGING DIRECTOR – REDINGTON (INDIA) LTD**
MR. S. V. KRISHNAN – CHIEF FINANCIAL OFFICER - REDINGTON (INDIA) LTD
MR. S. JAYARAMAN – VICE PRESIDENT, TREASURY – REDINGTON (INDIA) LTD
MS. SOWMIYA M – MANAGER, INVESTOR RELATIONS – REDINGTON (INDIA) LTD

ANALYST : **MR. ROHIT DOKANIA – IDFC SECURITIES**

Moderator: Ladies and Gentlemen, Good day and welcome to the Redington India Q1 FY2019 Earnings Conference Call hosted by IDFC Securities Limited. 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. Rohit Dokania from IDFC Securities. Thank you and over to you, Sir!

Rohit Dokania: Thank you. Good evening, everyone, and welcome to the Q1 FY2019 results conference call of Redington India Limited. I would like to thank the Management for giving us the opportunity to host this call. The Management team is represented by Mr. Raj Shankar, Managing Director; Mr. S V Krishnan, CFO; Mr. S Jayaraman, Vice President - Treasury; Ms. Sowmiya M, Manager - Investor Relations. We will start the call with a commentary from the Management and then move into the Q&A. Thank you, everyone. And over to you, Mr. Raj Shankar!

Raj Shankar: Thank you, Rohit, and thanks to everyone who have joined us on this call today. During this quarter, our numbers look lower than what we had originally planned. Our consolidated revenue grew by 9%, EBITDA degrew by 2%, profit before tax degrew by 5%, profit after tax degrew by 10%. I will share with you in greater detail in the subsequent part of my briefing.

As I continue, I am pleased to first share with you, when you look at revenue growth we have grown in every business, both in India as well as outside India. In the consolidated level, we grew IT by 4%, Mobility by 14% and Services by 39%. A good part of this growth, both in IT, Mobility and Services have come across in India as well as overseas. IT grew by 1% in India, and 6% in overseas; Mobility grew by 16% in India and 14% in overseas; and Services grew by 40% in India and 37% in overseas.

The other interesting aspect is that we have managed to reduce our total working capital quite significantly in India and at a consolidated level, we have managed to bring it down by 1 day, but in India we have brought it down by 7 days, that is from 59 days in Q1FY18 to 52 days in Q1FY19. While on this subject, there was a 15 days reduction in inventory largely on account of Mobility, although we managed to bring down inventory across almost every business unit. Though the debtor days had gone up in India by 6 days that was largely on account of the delays in payment on the enterprise side of the business. Overall, I repeat again, India working capital has come down by 7 days.

As far as overseas is concerned, it has gone up by 2 days, largely on account of inventory, which is more to do with the Mobility business for the last quarter. But having said that, at 39 days of net working capital, this would mean close to about 9 working capital turns and some of you will recall, we had said that our blended working capital should be around 45 days to 49 days. So, I think overall, we have managed to achieve that as well. Thus, overseas continues to be doing well and India is certainly on an improvement path.

The other positive news for this quarter is we have generated our free cash flow essentially coming out of India. The consolidated free cash flow for the quarter was Rs.117 Crores and when you look at the operating cash flow, it is Rs.82 Crores. From the point of view of Debt to Equity, the Net Debt to Equity was 0.3. We have managed to contain the Net Debt to Equity for the last several quarters.

The couple of areas where things have gotten a little worse is to do with the provisions, essentially on both inventory as well as bad debt. The bad debts have particularly got more precipitated during this quarter on account of a new format in which the provisions are made, which is the Estimated Credit Loss or ECL. On the basis of this particular approach, one has to take the empirical data for the last, let us say, 5 to 7 years and then it becomes more of a statistical based model which has unfortunately increased the provisions. In fact, the number of customers for which provisions had to be made through this particular formula was in the vicinity of about 450 customers in India alone, which has largely aggravated the situation. Apart from the above, there is also 1 or 2 customers where there were a case of wilful default in which we have taken a legal action and we are hopeful of recovery on account of having built a strong case. This new provisioning format is the reason for the big gap between the Gross Margin and the EBITDA

Even though we have grown at a Gross Margin level, we have degrown on account of EBITDA. Just to give you from a statistical point, if you for a minute eliminate or adjust this incremental provision on account of bad and doubtful debt, our EBITDA would have been flat instead of a minus 20% as shown here.

Now with regard to ProConnect, we have had another good quarter. Our revenue grew by 43%, EBITDA by 19% and profit after tax by 17%. There is one point that I just wish to clarify that during this quarter, we had the impact of Share Appreciation Rights (SAR), which certainly impacted our P&L. So as all of you would know, you had approved the Share Appreciation program for the employees and there is an accounting treatment that has to be given towards this SAR. Even though it is for a 3-year period, we have to take the hit for every quarter irrespective of the movement of stock price

If for a brief moment, we did not reckon the SAR as far as, for example, in the ProConnect business, then our PAT, which has grown by 17%, would have actually grown by 26%. Similarly, if you look at it from an India point of view, if you eliminate the SAR and also the SAP which is the ERP that we have started to rollout, our actual growth in EBITDA would have been 4% for India total. I am not giving this as an excuse, but I certainly thought that this is an one-off or is something that did not exist earlier. So, between the SAR and SAP, it has certainly increased the Opex and therefore it has impacted our EBITDA performance and of course notwithstanding that the ECL, which I just described a few minutes ago, is also another reason why we have got ourselves into this situation.

From the point of view of overseas, I am actually very pleased to share with you that the overseas has done quite well. They grew revenue by 11%, EBITDA by 20%, profit before tax by 20%, and because of the astronomical tax rate in Turkey on account of the significant depreciation of Turkish lira, unfortunately the PAT growth was only 4%. Therefore if we look at the performance of overseas without Arena, which is our company in Turkey, the overseas revenue growth would have been 13%, EBITDA growth would have been 18%, PBT growth of 16% and a profit after tax growth of 10%. So, the point here is that overseas continues to be doing well for the last couple of years and for the last almost 8 quarters and this Q1FY19 also happens to be another good quarter.

In terms of Turkey, just to conclude on the point regarding the effective tax rate, unfortunately given the serious depreciation of Turkish lira and since the functional currency that we have in Turkey is U.S. dollar, even though the income tax rate in Turkish lira is only 20%, the effective tax rate went way beyond several hundred percent. So, it is more of an aberration, but of course the next logical question is whether we expect the Turkish lira to continue to depreciate. Our own sense is that it would depreciate, but we hope that it does not depreciate as significantly as it did in the current year. Between January and June, the depreciation of Turkish lira was close to 22% and this has been one of the low lights unfortunately for Q1FY19

With this, I will hand it over back to Rohit and then for any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and Gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Nitin Padmanabhan from Investec Securities. Please go ahead.

Nitin Padmanabhan: Thanks for taking my question. I wanted to understand your thoughts on the provision for inventory and bad debts. Do you think if you adjust for those wilful defaulters, where would be this number? Also, I just wanted your thoughts in terms of going forward, what is the sustainable rate we should look at in terms of these provisions because it seems to be much higher than what it was historically?

S. V. Krishnan: See, Nitin, in case if we need to make this adjustment and standardize for the normal provision rate, as Mr. Raj mentioned, there would be a positive growth marginally in terms of EBITDA. Going forward, this is more an aberration because of the formula and the inventory that we carried by the closing date. Therefore, it should get settled. We do not expect the earlier rates of about 0.10% in terms of debtors provision and about 0.05% in terms of inventory provision to get disturbed much.

Nitin Padmanabhan: Okay. So, it should revert to the historical means and this quarter is an one-off?

S. V. Krishnan: Hopefully, yes.

Nitin Padmanabhan: All right. And the second thing was I just wanted to understand from a margin perspective for, let us say, the quarter and if we look at it year-on-year, how would the impact be from SAR, SAP and provisions? And if you could just call each of those out separately in basis points, it would be helpful.

S. V. Krishnan: Sure. SAR will have the fixed charge that we will be taking on a quarterly basis, which would be about Rs. 4.5 crores per quarter, at a consolidated level. As regards SAP, which is the ERP that we are in the process of implementing, the charge will be marginal for the next 2 to 3 quarters until SAP goes live. But once SAP goes live, there will be an additional depreciation cost. Overall, we expect between Rs.11 Crores to Rs.12 Crores of charge as part of the depreciation on account of SAP from Q4 onwards or from Q1 onwards of next year.

Nitin Padmanabhan: Is the SAP figure for the full year or only the first quarter of the next year?

S. V. Krishnan: Depreciation on account of SAP will be Rs. 11 Crores to 12 Crores for the year

Nitin Padmanabhan: Okay. And how about the provision for inventory and the provision for receivables? If you look at this quarter, what would be the impact on a year-on-year basis?

S. V. Krishnan: The provision percentage was about 0.28% of revenues in terms of provision for inventory and 0.26% of revenues in terms of provision for debtors.

Nitin Padmanabhan: All right, fair. Would it be a fair to assume that most of this impact is primarily visible in India?

S. V. Krishnan: Yes.

Nitin Padmanabhan: All right. Fair enough, that's helpful. And we expect it to normalize going forward?

Raj Shankar: Yes, Nitin, we took that impact of ECL in this quarter. There was also an impact on revenue because of the fact that the way the revenue gets recognized on account of the IND AS standard. Thus, beginning this financial year, we had to take close to about Rs.100 Crores of impact on revenue owing to change in revenue recognition norms. So, lot of one-offs have happened in this one quarter. So, going forward, keeping aside Q2 because some of these could also spillover a little bit into Q2, although not as significantly as Q1, you should see that starting Q3 it would be back to our normal level. We expect the bad and doubtful debt provision to be in the vicinity of about 0.10%, as Krishnan said, and I would put a similar number to provision for inventory given that we are planning to really step-up our game on the enterprise side of the business.

Nitin Padmanabhan: Sir, fair enough and thank you so much. I will come back for a followup. Thank you.

Moderator: Thank you. The next question is from Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: Thanks for the opportunity. Most of my questions have been answered. Only one follow-up question. Sir, you suggested that in the next quarter, we should see some impact of this to continue. Can you give some color as to what could be the quantum of the impact for the next quarter?

Raj Shankar: Okay. So, the reason I was alluding to that is because ECL is done in a particular way, so we took a big impact in Q1. We expect collections to be normal and we are increasing and stepping up our collections in Q2. If it works through our plan, then there will only be an incremental amount of provision that would be provided as against our normal provision. So, I was only saying that once we have got this ECL impact out of the way completely, then we should be able to see our normal levels prevail. We are hopeful of getting all our collections in place, there is nothing that we think should turn out to be a negative surprise or anything of significance. Therefore, for good order sake, I would expect the provisions for bad & doubtful debts to be between 0.10% to 0.14%

Pranav Kshatriya: Okay. Sir, the second question is a related question. Since these are all provisions and historically you have observed significantly lower provisions, should we expect reversal of provision in the next couple of quarters on account of having been collected, thus leading to improvement in margins?

Raj Shankar: Absolutely, Pranav, I think that is the right conclusion. We would be reversing the provisions as and when they are collected. Although, there are few cases of wilful default, which means that the customer has the money and cash flow is not the problem, but for whatever reason there is a dispute, we have initiated legal action, and as you would know, some of these have a tendency to take a long time. But we also have a track record of winning most of these legal cases either as an out-of-court settlement or with the verdict in our favor. So, to answer your question, yes, we should see a reversal of these provisions, but then it could take time depending upon whether it is a legal case or not.

Pranav Kshatriya: Just to dig a little deeper on that, so the 0.26% provision for inventory and 0.28% provision for doubtful debt, is inclusive of the wilful default? If so, it will be very helpful if you could please quantify the wilful default in absolute amount or in the percentage form

Raj Shankar: Okay. So, I do not have that detail readily available with me but let me give you the comfort. I would like to believe the wilful default in the case of bad debt would be in the vicinity of about 30% to 40%. The balance 60% is in the normal course. But these wilful cases would be legal cases and we will have to battle it out.

Pranav Kshatriya: Sure. Can you talk about how the GST benefits are panning out for you in India business?

S. V. Krishnan: Pranav, GST is unfortunately still in the process of settling down. Many of other measures are yet to completely take effect. One of the examples is the automatic seamless credit mechanism that is not yet automatic. The E-way bill is still settling down. There has been four times of GST rate revision downwards and the last one happened about 15-20 days back. So, it is still work in progress from a regulatory side as such. And also, across the trade channel, because of these delays in terms of implementation or implementation in phases, a lot of working capital has got locked into it and this has choked the finance within the channel system. I am explaining all this just to tell you that, although we are still positive about the GST benefits, but that is not something which we would be able to reap immediately. We are definitely working on it and we have already initiated certain actions. Maybe you will start seeing some of these benefits coming in 1 or 2 quarters later, but definitely it will come in. Just on the point of working capital, even if you take Redington as an example, yes, we have had a positive cash flow for the current quarter. Still about Rs.100 Crores is blocked just on account of GST. If that gets corrected, we can easily release another Rs.100 Crores from the business. So, it is work in progress, it will take some time before everything settles down. But we will see the benefits as we move forward, Pranav.

Pranav Kshatriya: Thank you from my side and I will come back in the queue if I have more questions. Thank you so much.

Moderator: Thank you. The next question is from Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Hello Sir. Recently there was news that Apple might revamp its distribution strategy in India and there would be only two vendors. So, what are your views on that**?**

Raj Shankar: So, in lighter vein, that is the same news article we have also read. But on a serious note, we are hoping some of these are going to take effect over a period of time. From what we understand, one has already taken effect from July 1st but as regards the balance, it would take full effect only by the end of March 2019. So, till then, instead of five distributors, it would be four before it finally settles down to a new normal.

Madhu Babu: Okay and there is also speculation that Apple may directly sell to the online channel. So, how would that impact us?

Raj Shankar: So, we will have to wait and see. We have not got any formal or official communication on their plans, distribution landscape or allocation of go-to markets. At the moment, we have the opportunity to address all GTMs on a Pan India basis. So, we will have to wait and see as to the adoption of go-to market models once the new landscape is in place. One way or the other, we believe whatever is going to happen in the future is going to be an advantage to Redington.

Madhu Babu: Okay and Sir, what are your thoughts on the new launches, which might come in from September or October from Apple? And just one last question, who are the wilful defaulters? Is it the retailer or the enterprise segment? And are we seeing this kind of thing in recent times or historically, have you seen any such big default?

Raj Shankar: With regard to the first question, honestly, we have no idea what the new product introduction will look like. But knowing the vendor, they will always come up with something very interesting and very exciting. So, we are extremely hopeful and bullish as always. With regard to the wilful defaulters, this particularly happened in the case of Mobility business and this is a case where some people got probably a little carried away in this Mobility business and then suddenly got themselves into some kind of challenge. Anyway, to answer your question, it is resellers and in the Mobility space.

Madhu Babu: Okay Sir. Thanks.

Moderator: Thank you. The next question is from the line of Amish Kamani from JM Financial. Please go ahead.

Amish Kamani: Sir, the question is, if the ECL provisions are on the basis of historical data, say 5 to 7 years history, then why do we say that this is an one-off and not recurring? As in, is there a difference in the provision versus the actual recovery even on the basis of 5 to 7 year cycle?

S. V. Krishnan: See, in the earlier standard that was prior to April 1, 2018 when ECL was not in place, the provisioning model was on a case-to-case basis but once this model has come, which is a global model, one cannot provision just on case-to-case basis. You have to go by the historical model and the belief is the historical model will determine what would be the eventual delinquency for the future business but as Mr. Raj said, we are confident in terms of collection. Once if those collections happen as we move forward, you should see some of these reversals happening at that point in time.

Raj Shankar: Just to supplement what Krishnan said, I want to be very clear and very candid that our risk management practices, our credit and collection focus has not got compromised or diluted. Yes, in terms of many of these cases that we are talking about, these are in the past and they had a different provision treatment. Now with this new model, there is a different treatment given to it. But this does not dampen or hamper our profitability and as a company, we attach a lot of importance to the credit and collection. In Redington particularly, people are paid for what they have collected as incentive or as performance. If you have not collected, then you do not get your incentive. So, to that extent, this is something that is extremely driven down and socialized very much within the organization. This particular quarter it has got accentuated and makes it appear that the provision towards bad and doubtful debt have not been managed well, however it is more to do with the standard. Thank you.

Amish Kamani: So just to understand, Sir, are we saying that the historical period, say last 5 to 7 years, actual experience of the bad debts and provisions are higher than what you think is going to be for the current year or in future?

S. V. Krishnan: See, it is not historical bad debt, but it is basically the money that has not got collected for a historical period. We may feel confident in terms of collection, but the data says that it has not got collected and has become an overdue. So obviously it will push up the provisioning rate and that is what has impacted us. So, it is not delinquency, I do not want you to take it that way. It is purely the outstanding, which are overdue, which will fall into this bucket for the purpose of arriving at the rate.

Amish Kamani: Okay, So you are saying that the extra portion of the overdue which historically probably would have been defaulted and hence the provision which we believe is, at least will not be the delinquent or unrecovered in the current context?

S. V. Krishnan: Correct.

Amish Kamani: Right. Okay and Sir, just to clarify here. Is there one period, say one year or six months data point in one of these years which was a bad year for us and is impacting the statistics or do you believe that last 5 to 7 years were in general more difficult and we believe at least next 2 years are not so as bad?

S. V. Krishnan: Okay. It is more the overdue that relate to the period as on a given date. So, if you need to do this testing for June 30th, the overdue as a point in time - whenever I say overdue, you should take it as delay in payment. That is what I want to caution, it is not a delinquency. That delay will get tested on a mathematical model and the percentage provision is arrived with that.

Amish Kamani: Thanks a lot, and all the best, Sir.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Just to highlight again on the previous question, if the historical data is reflecting a particular level of delinquencies and that is now being reflected versus the earlier methodology based on a views of individuals, why should we not believe that the historical data is actually if more accurate than the earlier provisioning policy?

S. V. Krishnan: It is historical delay rate rather than historical delinquency rate. So, it is a delay and that delay is reckoned for the purpose of calculating the ECL percentage. So, it hasn't become delinquent in our view. In the earlier methodology, we had the view in terms of taking a decision on a case-to-case basis. Now this being a mathematical model that has to come by default, we still believe these outstanding will get collected and upon collection, this will come back into the P&L.

Raj Shankar: Just to supplement what Krishnan said, to give you a perspective, in the past we made a specific provision. So even though there was a delay, as long as the customer was making some payment towards that outstanding, then we would not make a provision because the customer has a willingness to pay, is also making payment according to a collection plan, therefore it may not have warranted a provision. Today it does not matter. The minute it comes within a particular delay, then automatically there is a provision that is created notwithstanding whether the collections are happening, and payments are coming. The fact that it is overdue, it will attract the provision. This is what we are trying to say. Probably we can get into greater detail at a later time.

Riddhesh Gandhi: Sure. So, if there is an account, which is actually delinquent on their payments, proactively we may not have recorded it. Now we have to as per the new norms, but are there new norms effectively recognizing the percentage that historically the delinquent payments have actually defaulted and therefore the new norms are more accurate representation or is there a reason to believe that the norms are overly aggressive?

S. V. Krishnan: Actually, the new norms are much more aggressive. In the historical method once if it becomes delinquent is where the provision requirement comes in. Now even when there are delays, it is part of the modeling and hence provisioning is required. So, this is more aggressive than what it used to be then.

Riddhesh Gandhi: Got it. And then a last question is that, given effectively speaking, all of these adjustments, which we have taken in Q1, is there any change in your guidance towards your FY19 numbers and how should we be looking at that?

S. V. Krishnan: Yes. This was answered before. We do not expect any significant change in terms of delinquency rate moving forward. We expect the earlier provisioning norm, which was about 0.10% to 0.14%

Riddhesh Gandhi: No, I am saying overall in terms of your revenue, EBITDA and the PAT estimates for FY19, do you expect any change in this area or you are still expecting a growth over FY18 in FY19?

S. V. Krishnan: So just to give you a sense, we had indicated on our last call that we expect H1 to be a little subdued, but we expect definitely a strong H2. We continue to maintain that and therefore when you look at our overall full year performance, it should reflect that.

Riddhesh Gandhi: Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai: Good evening to the management and thanks for the opportunity. Keeping all the one-offs, the expenditures and new regulations that we have implemented in terms of recognition, could we get some sense in terms of what could be the impact in terms of the next quarter and going forward into FY20 in terms of margin and the outlook in terms of reverting to higher than around 2% at the EBITDA level?

Raj Shankar: So, first is, Vishal, I want you to understand that the India business and the overseas business is on a good step, particularly the overseas business is tracking well on all parameters. As far as India business is concerned, I repeat again, from a business standpoint, whether it is IT, mobility or services, we are growing. Now the question really is, and from a margin point of view, while some of the businesses are going through a challenge, even though GST got rolled out on July 1st, 2017, I must confess that on the enterprise business, the GST issue still continues to be haunting whereas on the consumer, it is behind us, if at all we should only start seeing benefit in the way forward. While on that subject, I must tell you, in India on the volume side of the business, we grew by 13%. So, on the enterprise, we are just hoping that a good part of those issues should get addressed this quarter, that is in Q2. Once that happens, I repeat again, our Q3 and Q4, that is our H2 performance, you will see us really reflect our strong performance and some of the numbers that you had mentioned in your question should get delivered.

Vishal Desai: Sure. And just a follow-up question from a bookkeeping perspective, could you break down value versus volume segment in India, overseas and consolidated please?

Raj Shankar: Okay. Yes, so just to give you a sense, as far as overall, when you look at the consolidated number, the value business contribution is 43% though in India the value business contributes to 55% and overseas at 35%. The contribution of volume business at a consolidated level is 57%, with contribution of 45% from India and 65% from overseas.

Vishal Desai: Do you expect overseas to be the major growth driver in FY19 or we expect India to come back in a big way going forward and probably land up being an equal contributor in FY19?

Raj Shankar: When I talked about H2 being good and strong for us, it definitely has India driving a good part of that growth. And this would be across all businesses.

Vishal Desai: Thanks, and all the best gentlemen.

Moderator: Thank you. The next question is from the line of Manju Bhashini from Sundaram Mutual Fund. Please go ahead.

Manju Bhashini: Thanks for the opportunity. Just one clarification, you talked about a mathematical model, which is throwing up a number that needs to be provided for, and it is not based on a subjective decision this time around. So, what are the inputs there and why should that change in the ensuing quarters, if this has been the trend for the last 5-7 years based on the empirical evidence? If we believe that provision of 0.28% is an exceptional one, then are we saying that adjusted for that, assuming all this is largely for the India segment, the EBIT margins would have been ~2.8% percent instead of ~2%? Is that what we are implying here?

S. V. Krishnan: Yes, definitely if you eliminate this, there will be a corresponding increase in EBITDA percentage. And if you look at the year-on-year growth also, there would be a marginal growth in EBITDA in India part of it.

Manju Bhashini: Sure. Sir, in this mathematical modeling, the inputs will be based on certain threshold levels criteria, right? What is that delay period that needs to be provided under expected credit loss provisioning here? What is that criteria that needs to be met for you to take extra provisions here?

S. V. Krishnan: Okay. That is for a given 5-year period, which has crossed, I mean 2 years before. So, anything that has that delay which is beyond two years is considered for the purpose of arriving at a percentage and that percentage need to get applied on the closing debtor. And whatever is the actual provision vis-à-vis what you arrived basis this model, the differential has to get provided at that point in time, which in this case is Q1.

Manju Bhashini: Okay, o the delay beyond two years is the same between the traditional model that we were using and the current model, and it is a percentage that needs to be provided for, that is different. Correct?

S. V. Krishnan: Yes.

Manju Bhashini: Okay. And can you also help us understand what is that difference in the percentage there? Earlier we were providing for greater than 2-year delay, maybe 15% to 20%, and now that has got accentuated to 50% to 60%. What is the difference like, for us to understand better?

S. V. Krishnan: Okay. The earlier model, I was talking about when I say earlier model that is the erstwhile standard, which was till 2016-2017, it was purely on a case-to-case basis. We have to decide based on the movement in that account what needs to get provided and that would get validated with auditors. Hence the provision gets created. Here it is not on a case-to-case basis. It is purely I mean, a percentage that needs to get applied for whatever is the due that is outstanding as on a balance sheet date.

Manju Bhashini: Okay. I am still not getting the fact here. Okay, I will touch-base with you separately, Sir. Thank you.

S. V. Krishnan: Definitely, Manju Bhashini.

Moderator: Thank you. The next question is from the line of Shreesti Rastogi from ICICI Prudential Life. Please go ahead.

Shreesti Rastogi: Good evening. Sir, can you please help me out with this provision for inventory? Why do we see an increase in that?

S. V. Krishnan: That is based on age of the product. I mean, since we have some slowdown in terms of the enterprise part of the business, there are some inventories that had become aged that need to get provided for. So, if the material gets sold, this provision will get reversed at that time.

Shreesti Rastogi: So, are we seeing a slowdown in sales in enterprise business?

S. V. Krishnan: Yes, because of GST in India, there is a slower growth on the enterprise business that had impacted the inventory carrying as on the balance sheet date.

Shreesti Rastogi: But you were expecting a pickup in enterprise business from this quarter, right?

Raj Shankar: Just to clarify, this happened particularly in the case of two brands in one product category called the networking business where we were compelled to have certain inventory, but unfortunately the market operating price was distorted. Therefore, we decided that we are better off not selling at this point in time and bringing the margins down, thus leading to higher inventory, which unfortunately has attracted provision. So, it is not so much to do with demand, it is to do with a conscious decision to stay on the sidelines because some of the competitors and I refrain from taking specific names were certainly operating at below buy price, which we decided we do not want to do.

Shreesti Rastogi: Okay. So, the next question is will the provision for bad debt be at the same level or we are expecting them to go down?

S. V. Krishnan: Yes.

Shreesti Rastogi: So, what are the steps we are taking for that?

S. V. Krishnan: Yes. We discussed in this call that we will continue to focus on bringing down our AR days and the overdues. It is just that this provisioning now has impacted for the current quarter. It should not be affecting the subsequent period.

Shreesti Rastogi: Okay. So, if my understanding is correct, we will be collecting this receivables and thus provision will reverse. So, will we be seeing a significant jump in EBITDA margin in the quarters going ahead?

Raj Shankar: In fact, this very question was asked earlier and we clarified that our credit and collection team and our risk management practices have not weakened. If at all, it has only strengthened. So to your own point, yes, as and when we collect some of these receivables, the provisions will certainly get reversed. But I also clarified that some of these are legal cases and therefore it takes its own time, but we are extremely confident that because our documentation is prim and proper, we should therefore have the judgment in our favor and as and when the verdict gets announced, the provision would get reversed.

Shreesti Rastogi: Okay. Sir, last question from my end is that like the Apple, which is a big contributor to the revenue is drastically changing the distribution strategy, reducing the number of distributors and reducing discounts. So, are we seeing an impact on sales because of that?

Raj Shankar: With due respects, Shreesti, I think you may have joined the call a little late because this very question got raised. So, since you raised it now, I will give you a brief answer. All that I wish to state is Redington is definitely considered as a strategic distributor. We therefore think that in the way forward, we will certainly ride a good close partnership with Apple on the Mobility space.

Shreesti Rastogi: Let me clarify my question. What I meant was, it is expected that the sales of Apple for this annual year will not be as good as last year. So will that affect our sales or are we seeing anything like that on the ground?

S. V. Krishnan: Just to share with you, our Mobility growth, at a consolidated level was 14%. But in India, we grew by 16%, if that would explain at least some part of your question.

Shreesti Rastogi: Okay. Thank you, Sir.

Moderator: Thank you. Next question is from Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Thanks for taking my question again. I just wanted to understand, was there any India-specific impact on the ProConnect business?

S. V. Krishnan: Nothing specific, Nitin.

Nitin Padmanabhan: Sure. So, with regard to ProConnect, just a clarification, our utilization rates across the different locations are quite high apart from Chennai. I just wanted to understand the rationale for why the profitability has come down.

S. V. Krishnan: This has to do with business mix. Particularly for last quarter, we had higher growth on the transportation business as opposed to the other lines of businesses, and hence you see the profitability come off a little bit.

Nitin Padmanabhan: Sure. Then finally just wanted your thoughts on when we had earlier spoken about H1 being weak, it was pretty clear that Q1 was definitely weak for a lot of reasons that we had in the previous quarter and that would spillover and so on and so forth. But in the context of the way the current quarter has panned out with over 9% YoY growth, is there anything to suggest that Q2 could be weaker than Q1 because we have not seen that kind of seasonality in the past?

Raj Shankar: Not really, Nitin. We expect Q2 to play out better than Q1. So, all that we were saying is that we are expecting H1 to be a little soft and we expect Q2 to be better than Q1.

Nitin Padmanabhan: Great. Thanks for that and all the best.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to the Management for any closing comments.

Raj Shankar: Thank you, Rohit. So, while overall the last quarter was challenging, we have indeed grown both in India as well as overseas, on every line of business whether it is IT, Mobility or Services. We managed to bring down our working capital particularly in India by a good 7 days. We generated positive free cash flow of Rs.117 Crores. The low light essentially being that our provision particularly on bad and doubtful debt was much higher than what historically has been, which is largely attributed towards this new model called the ECL. Outside of that, I still want to continue to share with you that we have a strong risk management practices, a very strong credit and collection team, and we continue to drive that well and we expect that this should normalize itself in the next quarter. Last but not the least, overseas has had another very good quarter with every parameter as in revenue, EBITDA, PBT growing by a strong double digit. And, therefore, we expect this whole performance, particularly in H2 for Redington, to be a very strong half-year. Thank you.

Moderator: Thank you very much. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us, Ladies and Gentlemen, you may now disconnect your lines.