"Redington India Q2 FY16 Earnings Conference Call"

October 29, 2015

MODERATOR: MS. PRIYA ROHIRA – AXIS CAPITAL LIMITED

MANAGEMENT:

MR. RAJ SHANKAR – MANAGING DIRECTOR, REDINGTON INDIA
MR. S. V. KRISHNAN – CHIEF FINANCIAL OFFICER, REDINGTON INDIA
MR. S. JAYARAMAN – VICE PRESIDENT (TREASURY), REDINGTON INDIA

Moderator: Ladies and Gentlemen, Good Day, and Welcome to Redington India Conference Call hosted by Axis Capital. As a reminder, all participants' line would 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priya Rohira from Axis Capital Limited. Thank you and over to you, ma'am.

Priya Rohira: Thanks Aman. A very good afternoon, good evening, and good morning to various participants joining us from various time zones. It is with great pleasure I welcome you to the Second Quarter FY16 Earnings Call for Redington India Limited.

We have with us Mr. Raj Shankar – Managing Director; Mr. S. V. Krishnan – Chief Financial Officer and Mr. S. Jayaraman – Vice President (Treasury) from Redington India Limited. The call will begin with a brief management discussion on the performance for the quarter ended September 2015. This will be followed by an interactive Q&A session. The conference will be archived and the transcript will be available. I will now hand over the floor to Mr. Raj Shankar for the initial presentation and would like to also congratulate them on a great set of numbers. Thank you. Over to you Mr. Raj Shankar.

Raj Shankar: Thank you, Priya. Thanks to everyone for joining us on this call.

Very quickly, the second quarter for our current financial year FY16 has been good on all three parameters of top-line, middle line and the bottom-line. Overall at a consolidated level the revenue has grown by 8%, EBITDA by 13% and the profit after tax by 12.4%. The good part is both in India and outside India we have demonstrated growth again on all these three parameters, India has grown the top-line by about 9% and the bottom-line by about 8.5%, overseas has grown by top-line by about 7.2% and the bottom-line by about 16.5%. Now when you look at from a half year point of view the overall revenue growth has been about 6.8%, EBITDA growth of8.8% and the profit growth of 9.2%. Like in Q2, for H1 as well both in India and overseas there has been strong growth on revenue, EBITDA and PAT. Just to give you a sense, India has grown on a half year by 8.4% on revenue and by 6.9% on profits, overseas has grown by 5.7% on revenue and by about 11.6% on profits.

There has been a few other good news this particular period. We have as you know in UAE signed a distribution contract for Apple iPhone, though that is effective the second week of October, but we were fortunate to be able to participate in the launch of new product introduction which is the 6S and the 6S+. Some of those results would get captured in the next quarter which is our Q3. We also finalized our investment in a company called link plus in Turkey, we will be paying US$5.75 million to acquire 70% equity share in that company with the balance 30% to be bought equitably over the next three years at about six times the multiple.

Now while there are lots of good news, there is one area where we still need some more improvement. We think that in Q3 and more importantly in Q4 we will be able to make this change and that is to with our net working capital. Compared to the previous quarter we are almost at the same level where our net working capital was 58 days in Q1 and it has come down by 1 day to 57 in Q2. But as compared to the previous quarters there is an increase and this is largely on account of two factors, the main factor of which is the reduction in the payable days purely because during this period we have optimized our purchase resulting in less payable days. However, from an inventory point of view it has got slightly better, significantly better compared to the previous quarter and slightly better compared to the previous quarters. However, with regard to the debtor days, this is an area where we have not made a significant improvement, we have again come better off by one day compared to the previous quarter and gone up by one to two days compared to the previous quarters. So working capital is one area where we are continuing to focus, but these are some extremely very difficult times, more outside India especially given the current economic situation, the oil price, the political situation and the war scenario in the Middle East, Turkey and even parts of Africa. Under these very difficult circumstances I am pleased with the results of Redington in Q2.

With this I am going to take a pause and take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Priya Rohira. Please go ahead.

Priya Rohira: Just wanted to check in terms of how has been the non-IT growth both in India and overseas business? Second thing, in the last quarter you commented that the IT business in India has seen some enquiries from the systems integration partners, if you could throw some light what has been the heads up over there? Lastly, if you can just entail how has been the performance of ProConnect and ensure support services?

Raj Shankar: On the first question Priya, when you have compared to Q2 of FY15 where our IT contribution was about 62%, now the IT contribution has grown in Q2 FY16 to 66%. So there has been a definitive growth and in the same period the non-IT business from 36% in India has come down to 32% but having said that I also want to place on record that our overall Apple business has grown in Q2 FY16 over the same period last year. Now on the other hand when you look at, even though you did not ask, just for the purpose of reference to the context, overseas the non-IT has grown marginally from 11% to 13% if that gives you a sense, number one. The next very specific to IT growth in India, I am very pleased to share with you that we have registered once again a double-digit growth in IT at 12.8% in Q2 FY16 compared to Q2 FY15. So, so far IT business has been holding this year in the last three quarters has been growing and holding quite well.

to your next question on ProConnect. With regard to ProConnect, our revenue growth is about 50% and our profit growth is about 65%. So once again, this is a business where as you can see for last four consecutive quarters we have been reporting extremely strong performance both in terms of top and bottom-line and we continue to be very bullish about this business. Thank you.

Priya Rohira: Just also on the Ensure Support Services if you can throw some light and also on the e-commerce part of the business.

Raj Shankar: So on the e-commerce, in all fairness I must confess that that has provided a good momentum particularly to the ProConnect business, we are for some of the e-commerce companies managing their fulfillment centers, very large fulfillment centers for different product category and this is definitely giving us a lot of tail wind. And as far as Ensure is concerned, this is a business where it still continues to be sluggish, so Q2 for us was a very modest top-line growth but that is largely in the context of the business going through a migration where from being a pure break fix service provider providing essentially warranty and out of warranty services we are now moving into more up in the value chain, so that is taking us a little time where in the initial phases where we are investing in people, we are investing in capability and therefore it is taking a little longer time for the business to fructify in to the kind of growth both in top and bottom-line.

Priya Rohira: And what would be the share of e-commerce, how have you seen the traction? You mentioned that you have been in talks with couple of the large players, if you can just give us some qualitative comment over there.

Raj Shankar: With almost no exception we are actively engaged with the e-commerce companies both on distribution and on our logistics side of our business. On the distribution, again we are actively engaged with them both on IT as well as non-IT but what we are continuously also trying is in order to avoid a situation of becoming over dependent only on online or e-commerce as a go-to-market segment we are continuously participating in the other GTMs as well which is the LFR business, we are actively growing the offline business particularly with the dealer and the channel business and we are of course also making sure that we get a fair share of the file on the online business. Thank you.

Moderator: Thank you. Our next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: I think this quarter the non-IT share has gone down, is it because we are late in the festive season this year over last year by a month, would it fair to assume that?

Raj Shankar: Just to give you first of all the overall statistics, coincidently both in Q2 FY16 and Q2 FY15 our IT contribution was 78%, our non-IT contribution was 20% and the balance 2% came out of services, essentially ProConnect and Ensure. Now when you double down only on India then you are right, there has been a decline of about 4% from 36% contribution from non-IT last year to 32% this year. This even though I must tell you that our overall Apple business as I mentioned to you has grown which is to do with the iPhone, Mac and the iPad, the larger part of the reason for this small lesser contribution is essentially to do with the iPhone business which has marginally reduced. Though, I hasten to had that in unit terms we have actually grown much more compared to last year, but however when it comes to value because of the product mix, it has come off a little bit.

Tejas Sheth: So there is no unfavorable base effect on year-over-year basis?

Raj Shankar: Not really, and as you would know especially when a significant part of the non-IT business is driven by Apple, particularly when it comes to iPhone OND tends to be ther strongest quarter and their Q4 which is July-August-September tends to be the weakest quarter both for Apple and for Redington. Though, if you go by the results that Apple has announced two days ago they continue to be growing significantly, that probably is in markets outside India.

Tejas Sheth: Sir you mentioned in your opening remarks that we have optimized payables, is that the reason the gross margin has increased by 23 bps year-over-year?

Raj Shankar: No, what I really meant was that we had a higher inventory both in Q2 as well as in Q1 than we would have liked. Because of that we therefore manage to optimize our purchases such that our payable days went down and hence to that extent when you look at net working capital which is stock plus receivables minus payable, it shows that our working capital has gone up, in affect it is not on account so much on inventory or receivable, it is essentially on account of the payable, that's what I meant.

Tejas Sheth: But there is no impact on the margin side?

Raj Shankar: No.

Tejas Sheth: And sir lastly, how is the IT growth looking for rest of the year since we have grown at a healthy rate in the first two quarters?

Raj Shankar: We see this prospect continuing, we think even this growth honestly has got very less support as far as the external environment is concerned be it government or for that matter the large corporates, there is some effect but definitely not the kind of effect that we were all expecting to happen in the second half of this calendar year. So to answer your question, we expect in H2 our business performance on IT to continue in terms of the growth.

Moderator: Thank you. Our next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: I just wanted to follow-up with two, three more questions. Is it possible to entail what has been the growth in Apple Mac because that is one product which has seen a good traction over the last few quarters? And second, in the ProConnect could you share the pie of the external business? And lastly, how has been the traction on Xiaomi, I know because it is an offline thing you will have to build it up but just wanted to see because of the various price points the product is present in.

Raj Shankar: So on the first point with regard to the split of business in ProConnect between Redington and the external, the interesting part and Priya I can say that with a sense of pride that 48% of the business came out of Redington, 52% of the business came outside of Redington. So this is at a time when both are growing, so it is not that the Redington business is de-growing but we have been able to definitely garner a much better and a stronger customer base and business on the third party customers, so this is point number one.

To your next question about Mac business, just to give you a sense, this has been another very strong quarter, I sometimes hesitate to give particularly Apple information but just to give you a sense, it is north of 60% or north of 55%. So there has been a very good traction for this business, so I am very pleased. But I also must confess, I would not say this is for whole half year, this is not specific to the quarter gone by, I am giving you a sense. However, I would not say the same for iPads which has de-grown for us but in our opinion it has de-grown by lesser than what Apple probably has de-grown. But the good news is Mac is holding extremely well and we are extremely happy and excited about it.

You had another question Priya, I am sorry.

Priya Rohira: It was with respect to Xiaomi, in terms of where are we in terms of progressing relationship with them.

Raj Shankar: So we have launched as you know on the offline space and so far there has been good traction and at the moment the way things are looking at, we are tracking well in line with what Xiaomi would expect from us. We are happy because it is demonstrating two things: 1) Somewhere there was a mistake in notion or belief that Redington as a large player was essentially strong as a national distributor, how good and effective are they as example /regional distributor. I think the fact that we have been able to take this product to market and launch it in a number of cities and states is a clear testimony to that. 2) We have a good team and the product is selling well, today I think on a certain models we are constrained by supplies but without getting into details, the overall perspective is Xiaomi is very happy with our performance, we are extremely excited with this opportunity.

Priya Rohira: And if I can chip in one more, how has been the performance of Samsung in Africa?

Raj Shankar: It is approximately in the vicinity of about 12% rough and ready, so in Q2 as I was mentioning earlier 85% of the business came out of IT in Middle East, Turkey, Africa that is overseas, about 13% came out of non-IT off that 13%, 12% relates to Samsung and about 2% from services.

Priya Rohira: And how has been the performance now by Samsung, last quarter was a quite strong quarter?

Raj Shankar: It continues, we are growing and for last quarter I do not have the statistics in front of me but if my memory serves right we grew Q2 FY16 over 15 by 20%.

Moderator: Thank you. Our next question is from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: I had a couple of questions. One, sometime ago there was some amount of discomfort because of Apple appointing a new distributor, the question I had was could you give us some sense on what has been Apple sales broadly in India and what has happened to your market share? If I remember right, they did a $1 billion of top-line in FY15, how has the first half been and what has happened to your share overall? That is the first question.

Raj Shankar: So as you would know Apple does not like us talking about their numbers, but I can certainly share with you what our market share is. Our market share is a little north of 30%, I would say closer to 31% particularly for the last quarter. You are talking from an overall Apple or you are talking form iPhone in particular?

Swanand Kelkar: Whichever, if you can give me a comparative number that will be useful.

Raj Shankar: So when I talked about 30% to 31% that is on iPhone because I thought you made a reference to the change in the distribution landscape, so in that context our share is about 30%. This is point number one.

Swanand Kelkar: And what would that number had been say last year or a quarter ago, just to get a sense.

Raj Shankar: So the ideal comparison would be not really a quarter ago where it was a two distributor scenario, in a two distributor scenario we had close to about 55% and that is when we had access to pan-India and when we had access to general trade, so this gave us a huge opportunity. But now we are one of four and to that extent we still continue to have I would say amongst the leading market share for iPhone. However, when you shift gears and look at Mac, I am happy and pleased to share with you that it is closer to 50%, it is anywhere between 48% to 50% and as far as the iPad is concerned, likewise we have anywhere in the vicinity of about 49%, 50%.

Swanand Kelkar: And I think one of Apple officials, without asking you to tell me the Apple top-line number, they had said that the Apple revenue in India they expect to become six to seven times in the next four years, having seeing the first half etc does that seem broadly on track for you?

Raj Shankar: Honestly, I would find it difficult to answer that question, but I can tell you one thing. This team is extremely committed and given the opportunity of not only limiting it only to the three important product categories where we are participating which is iPhone, the Mac and the iPad we see opportunity even in some of the other products including the Apple Watch, whenever that comes into play. So can this company and this business grow multifold in the next few years? The answer is definitely yes and we see tremendous opportunity for ourselves to be able to participate and scale the business.

Swanand Kelkar: My second question was about your aspiration or your target to become free cash flow positive, I am assuming that if working capital slightly expanding in the quarter it would not have happened right now but are you on track to achieve that aspiration within the foreseeable future?

Raj Shankar: So this is one I must confess that we have not made good progress, is that very clearly our mandate? The answer is yes. Have we made improvement in Q2 compared to Q1? The answer is yes. But I must tell you we are still far away and we are committed to making sure, even though we may not be able to clearly quantify how much of positive cash flow but we will certainly endeavor to end the year with a positive cash flow.

Swanand Kelkar: Positive free cash flow?

Raj Shankar: Yes.

Swanand Kelkar: Last question, small one. How much spend are you intending to put out for the ADCs for the next 12 to 18 months?

Raj Shankar: In terms of our ADC for the next 12 months, I would say probably about 20 crores, 25 crores.

Moderator: Thank you. Our next question is from the line of Anup Upadhyay from SBI Mutual Fund. Please go ahead.

Anup Upadhyay: It would be helpful if you could comment on demand outlook in Middle East, particularly in the context of the crash in passive oil. It will be helpful if you could help us understand the entire effect of that has already been seen in most of the countries in terms of the fiscal budget and economic activity in general. Thanks.

Raj Shankar: Honestly speaking, to us it is one of the most difficult period in our entire existence in that part of the world. Our biggest issue is that on one hand we have a situation where when you look at different countries, just to give you a sense, Saudi Arabia has made a budget with about $87 a barrel and if one were to assume, at $43 a barrel this would represent almost a change of almost negative of 14.2% on their total GDP. Similarly if you look at any market be it UAE or Oman or Bahrain, all of them are seriously in the negative territory, though many of them are taking different kinds of measures to try and overcome the situation. The only exception at the moment seems to be Kuwait and Qatar where at the price levels at which they have budgeted they seem to be still slightly above the positive territory. So to give you a perspective therefore a lot of these government are now folding back or holding back on their investments at least in the near term. So this has a telling effect in terms of the overall business opportunity for us, but having said that this is not something that has manifested into a reality only last quarter, this is something that one has been seeing for a few quarters. The only comment I want to make is, in spite of a very difficult environment just imagine where almost every country is going through a currency devaluation, imagine for last quarter Kazakhstan had a devaluation of 31%, Turkey of 12%, Kenya of 5%, Uganda of 10%. So with oil price on one hand being all time low and slated to go down further and on the other hand you have the currencies really being extremely weak and devaluing and we are do not forget in an import dependent business, all this and the other constraints being in some of the countries getting access to dollar is also becoming a huge challenge. Under these extremely difficult circumstance I can only tell you to have delivered a 7.2% growth on the top-line and a 16.5% growth on the bottom-line for the last quarter and a 5.7% for half year on the top-line and a 11.6% growth on the bottom-line has been in my opinion one of the best performances, though it does not reflect only by numbers, but if you look at in relation to the context.

And to your fundamental question, how do we see demand playing out? It is very difficult in this environment to exactly predict whether demand is going to go down further or whether the demand is going to stay flat. So we are in the current context taking it as one quarter at a time, we are not even taking a half year or a one year outlook and our current view is we tend to be a little more conservative so that we do not end up in a situation of high inventory and having to struggle for collections. I do not know if I have answered your question.

Anup Upadhyay: That answers my questions very well sir. Thanks a lot.

Moderator: Thank you. Our next question is from the line of Sumit Surana from Hai Tong. Please go ahead.

Sumit Surana: Sir is it possible to give the contribution of value and volume segment within the IT product portfolio in India as well as overseas?

Raj Shankar: I must confess I am not very prepared for this question, but if you are fine with an overall answer, all that I can tell you is better part of the growth in IT in India has come out of the value business and likewise outside India I am extremely happy that our value business has grown very well by a strong over 20% but whereas when you look at the consumer business or the volume business has in fact declined marginally that is outside India. As far as in India is concerned, like I said the value business or the enterprise business has also delivered good strong growth numbers.

Moderator: Thank you. Our next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.

Mahesh Sarda: Sir you mentioned at the start of the call that though the working capital has not improved you are seeing a significant section in the third quarter and fourth quarter, can you please elaborate that what are the efforts you are going to take on that? And if you can guide this 57 days what are you looking at by the end of this year?

Raj Shankar: So one of the things that we would like to do is that we would ideally want to see for the end of the year a net of about 53, 54 days, so we want literally one day to come off starting from this quarter. So we think somewhere around 53, 54 days would at least put us to one level of respectable number, though our eventual end state is to look at 48 days which is what we did about two, three quarters ago. So this is what we would want to do consistently, so for end of the year we are looking at somewhere in the vicinity of about 53, 54 days.

Mahesh Sarda: Sir but can you elaborate what would lead to this reduction, will it be the inventory or the receivables which will come off or…?

Raj Shankar: So we think point number one is our payable days has definitely come down, just to give you a sense, the creditor days about five quarters ago was probably about 25% more than what it is now or whichever way you put it, when I say 25% more our creditor days was 38 days whereas currently it is at 31. So for seven days to have come off has definitely had a telling effect on the net working capital days. So one, we would want to make sure that our credit days is managed in such a way even if we cannot take it to 38 we would want to see it come to something like in the vicinity of about 35, 36 days. This is number one.

So in a way of speaking, all other things being equal while we definitely see a day or two improvement both in debtor days and inventory days with about three to four days at the minimum on creditor days, so for us take a crack at 53 days net working capital is within the striking range.

Mahesh Sarda: And just one more thing on this creditor days, when you said that it has come off quite sharply, what was the reason, you paid them early or what could have lead to this sharp decrease from 38 to 31?

Raj Shankar: Simply put, we bought less.

Mahesh Sarda: Because you had inventory piled up, you said during the call?

Raj Shankar: Absolutely.

Mahesh Sarda: Thank you. Our next question is from the line of Aishwarya from Spark Capital. Please go ahead.

Srivathsan Ramachandran: Hi, Srivathsan here. Sir just wanted to get your thoughts on the cross currency headwinds that we typically phase, any thoughts? Yes, I do understand that a lot of them typically operate in the Middle East or a GCC country on currency but given the state of volatility any special risk precaution matrix are we talking, just wanted to understand what will be the impact if suddenly one of these big currencies decide to resettle?

Raj Shankar: So this is one area where we keep getting ourselves paranoid, so what we do is the first and foremost we are trying to make sure first at a treasury level all our monies both equity and very importantly the debt are largely in dollar, so we try and avoid taking, as you know we have a central treasury, a large part of the capital need are essentially made out of Dubai for the overseas business and there we have all our liabilities and loans in US dollar so that even if there is any change as far as the currency is concerned it should not impact us, point number one.

With regard to the sale, we are also wherever possible and wherever it is allowed we try to sell keeping dollar as the basis and not sell basis the local currency. So to that extent we are also making sure to a large part we are doing the entire transaction on a dollar denominated basis rather than doing it on a local currency.

The third, wherein many companies where it is possible for us to take a forward cover without fail we make sure that we hedge our risk by taking a forward cover. There are however a couple of places where either the forward cover is not possible or it is very prohibitively high, then in such cases we try and make sure that we keep the total cash to cash conversion cycle very short so that we are able to remit it out as soon as we possibly can.

And the very last step we have also taken in certain countries is to change the whole reporting to US dollar, so for instance in Turkey as you would know, while it has come to haunt us in terms of the effective tax rate having gone up which is quite another point but we state the entire financial statement in US dollars so our liabilities with the banks are in US dollar, our purchases are in US dollar and we state the financial statement in US dollar. But I must also add here that having done that for Q2 our effective tax rate was 84% and for half year our effective tax rate was 73%, but anyway that is beside the point. If that answers your question?

Srivathsan Ramachandran: Sure, thanks for the detailed response. My next question was more on the medium-term growth outside mobile and IT, are there any other plans to expand into within this distribution space or even in the services side, there is a lot of activity that is happening on the services side also. Just wanted to understand what will be the medium-term plan for these two businesses in India specially.

Raj Shankar: So the first is, we are as you correctly understood now taking baby steps with regard to expanding into other adjacencies, at this point in time it is a little too premature for us to be able to share some of those details but I certainly want to give you the comfort that we are certainly not limiting the scope of the distribution opportunity only to IT and non-IT and what we do thus far. So going forward we are taking some very small baby steps, but this should start to fructify as things move along. With regard to services, I think outside of what we are doing today there is little else that we are doing today or do we have plans. So we will continue to focus a big time on logistics that is our ProConnect business which is doing well and there we are expanding our capabilities and we are also moving into the whole end to end logistics area. And as far as the Ensure services which is our IMS or infrastructure management services, there again we are moving up to services value chain which I have touched upon earlier in my call.

Moderator: Thank you. Our next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Rishabh Chudgar: Sir I just wanted a more clarity on your IT business in India, like you have supported strong performance. I just want to know where the growth is coming from and in H2 FY16 also in FY17 is this growth sustainable and where is the growth likely to come from?

Raj Shankar: On IT as I had mentioned a little short while ago, if you look at it our value added distribution business has done quite well, just to give you a sense without dwelling into too much of micro details, our commercial and enterprise business group had grown by 15% in this half year. Our software and security business group for the quarter had grown by close to about 5%. So and as far as cloud business is concerned, that is another area where we have again taken some baby steps but I am very pleased to share with you that we are making significant progress there. So almost all areas have grown, now when you look at the consumer business that is an area where it has grown slower but when look at it, we have grown by 11% on the consumer business in this half year and by 16% in Q2 alone. So if you look at overall in IT I think every business group that we are participating is firing, whether it is a commercial, enterprise, consumer, software, security and the cloud. So we are seeing good traction though there are some business groups which are obviously growing faster than the other.

Moderator: Thank you. We have follow-up question from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: If I can just chip in two more questions. Is it possible for you to entail on the capacity utilization in some of the ADC centers, I know that Chennai was almost at its optimum level. Second, in terms of the CAPEX, you did outline for ADC the 20, 25 but for the entire consolidated entity how do you see the CAPEX? And lastly in terms of outlook on the Turkey arena business.

Raj Shankar: Priya, in lighter way this is now your 10th question. So point number one, on ADC yes our capacity utilization you could say is almost up to the brim, so what we are doing for instance in Chennai is to set up or if you will an ADC 2 and this is something that we are fortunate that we have a huge land that already belongs to us and we are putting up the next one adjacent to the current distribution center, so this is something that we are investing on. And similarly as far as our Calcutta is concerned, I think we have managed to raise the utilization to as high as about 80% and that is also doing well for us and as you would know a significant part of that is the third party business and not the Redington capital business. As far as CAPEX is concerned I will look to Krishnan to probably give you a comment or two, I will take your last question on arena.

What I want to tell you is two things, when you look at example PC as a product category, for the quarter gone by in Turkey the PC de-growth is in the vicinity of about 34%. However, I am pleased to share with you that for arena we have grown both in desktops and in notebooks, so in other words we are gaining market share and we are also continuously adding brands. So arena on the volume business particularly on PCs are doing very well and this is also true for the printers and supplies. On the value business, like it is true in India, like it is true in Middle East and Africa, it is also true for Turkey that the fastest growing business today is the value added distribution business even though it represents probably about 17% 18% of what arena does but it is the fastest growing business. Over to you Krishnan on the point regarding CAPEX.

S. V. Krishnan: See on the CAPEX if you take the next 12 months' time line as we discussed just sometime back, we expect about 20 crores would be the outflow and in the subsequent 12 months we think it can range between about 40 crores to 50 crores max, so that is what we expect in terms of additional CAPEX on ADC.

Vishal: Hi Krishnan, thanks, Vishal here. Just one small question on the Turkey acquisition, would you be able to share the size of the acquisition that you did, the recent one?

Raj Shankar: So if you are referring to size of acquisition, we are investing about US$5.75 million for acquiring 70% of the company.

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

Manju Bhashini: Sorry, if this has been answered earlier, just wanted to understand on both ProConnect and Ensure, if you give it a couple of years to mature as a business what would be the kind of broad guidance that you could give us in terms of matrix, in terms of what kind of profitability, what kind of return ratios that these businesses can individually kind of contribute to?

Raj Shankar: So let me give you a different context, today 2% of the total revenue comes out of services which is essentially the logistics that is ProConnect and Ensure. However, when you look at it from a profitability point of view it is in the vicinity of about 7%, 8%. Our endeavor is in the next three years we should start seeing the profit contribution of the services business overall growing scenario should go probably about twice over in the next three, four years. So it is going to scale up and scale up quite significantly.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions I would now like to hand the floor over to Ms. Priya Rohira for closing comments. Thank you and over to you, ma'am.

Priya Rohira: Thanks everyone for joining on this call. On behalf of Axis Capital I would like to thank the management team of Redington India for giving us great insights. I would now like to hand over the floor to Mr. Raj Shankar for the final remarks.

Raj Shankar: Thank you Priya again. Thanks to everyone for joining the call. It has been another difficult but a good quarter where we grew across all geos we have grown across all parameters and this is true for both Q2 and H1. In spite of all the adversities more so outside India and given the opportunity that we see in India going forward, we continue to believe that we will deliver strong numbers both in Q3 and Q4. And we continue to believe that while our cash flow has been in the negative territory for the first two quarters we will definitely make significant progress in the next two quarters. Thanks to everyone for joining us on this call.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Axis Capital that concludes this conference call. Thank you all for joining and you may now disconnect your lines.