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16th August 2018

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

Sub: Transcript of the Conference Call to discuss the Impact of depreciation of Turkish Lira against US Dollar

Dear Sir/Madam,

This has reference to our letter dated 14th August 2018 intimating the details of Investor/Analyst call on the Impact of depreciation of Turkish Lira against US Dollar scheduled on 14th August 2018.

In this regard, we are enclosing herewith the transcript of the Conference Call. The same is also available in the Company's website www.redingtonindia.com.

Kindly acknowledge the receipt of our communication.

Thanking you,

Very truly yours,

M. Muthukumarasamy
Company Secretary.

cc : BSE Limited
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001

Redington (India) Ltd

Conference Call to discuss the Impact of depreciation of Turkish Lira against US Dollar

Aug 14, 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. NITIN PADMANABHAN – INVESTEC CAPITAL SERVICES**

Moderator: Ladies and Gentlemen, Good day and welcome to the Redington India Limited Conference call to discuss the recent depreciation of Turkish Lira against US Dollar hosted by Investec Capital. 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. I would now like to hand over the conference to Ms. Hiral Shah from Investec Capital. Thank you and over to you!

Hiral Shah: Thank you. Good evening, everyone! On behalf of Investec Capital, I welcome you all to the conference call of Redington India Limited to discuss the impact of depreciation of Turkish Lira against the US Dollar. We have with us today, the Senior Management team of Redington represented by Mr. Raj Shankar, Managing Director; Mr. S V Krishnan, CFO; Mr. S Jayaraman, Vice President - Treasury; Ms. Sowmiya M, Manager - Investor Relations. I will now hand over the call to Mr. Raj Shankar, for his opening remarks, post which we can open the floor for questions. Over to you, Sir!

Raj Shankar: Thank you very much and once again thanks to everyone who have joined us on this call today. I would have certainly liked for this to be a much better occasion to share a happy news but given the seriousness of the situation, we thought this will be a proactive step that we should take, to keep the investors, analysts and the larger community informed on exactly what the implications are on account of the recent depreciation of Turkish Lira against the US Dollar. To start with, a couple of factual points and then I will share with you what it means to us. I think all of you know that as we speak, from January this year, the extent of depreciation of Turkish Lira to the dollar was about 82.7% and only in the month of August, that is, from the 1st of August till today, the depreciation is about 40.4%. Now this is the kind of depreciation that we have never seen before, though I must remind some of you that in 2008-09, there was similar level of depreciation that happened but not to this level. But it is important to mention that even during this time, the same company, that is, Arena, has used all of its knowledge, wisdom and its astuteness to manage what was otherwise perceived to be a very big problem. So, at the outset, I wish to give all of you the comfort that here is a company, that is Redington Group, which has a very high adversity quotient and here is a company, that is, Arena, our investment in Turkey who have also demonstrated over time, their ability to understand and manage some of these extraordinarily difficult circumstances. Let me just share with you what we have done before we get down to some of the specific details on the implication. We adopt three Commandments under such situations. The First Commandment is to protect capital fiercely; the Second Commandment is to be absolutely paranoid about risk and the Third Commandment is to reduce cost as much as possible. So, I just want to mention that every single day and in every call with Turkey, the most important thing that we talked about is to protect the capital, absolutely manage risks and be paranoid about it and make sure to reduce every single dollar of cost that we can. So, at first, I want to give you the comfort that we are on top of the situation and the second important aspect is if you permit me to explain some of the specific steps that we have taken, before we get down to all the details. In this situation, the first thing that we have done is to hold all the orders placed with the vendors and wherever possible cancel the orders. In the last 3 days, that is, Friday, Monday and Tuesday, we have now put 42% of orders on hold with the vendors and we have fully got the support of the vendors and they continue to be empathetic towards our problem. The second is, the Sales team's efforts have now been completely devoted to collection and only collection. So we are going to be spending our time not selling but collecting all our money. The third is we sell what we sell only profitably, that is, we sell with margins or we don't sell at all. The fourth point is we purchase in dollars, sell in dollars and hence collections are also in dollars and to that extent, we are naturally hedged. The fifth is with regard to cost, we have taken the target of reducing 10 to 12% of the cost in this quarter and this would me mean we would let go anywhere between 25 to 30 people which represents about 10 to 12% of our work force. The sixth is we have taken as a very clear measure to reduce the working capital during this quarter in absolute amount, between 35 to 40 million dollars. The seventh is, we are also very clear that this is the time that we are not driving growth and we don't want to be selling at all costs, we want to slow down sales but whatever we sell, we want to make sure that we sell profitably. The last point is we want to make sure that we are completely hedged and to that extent, there are some transactions in which the payment comes in Turkish Lira, towards which every day in the morning, this position is completely squared up ensuring no open positions during this time. Now the reason why I am going through these three Commandments and what we would call as the eight rules is to tell you that we are trying to do everything that we can under this extraordinary circumstances. Now that one thing which is not entirely in our control is the computation of tax and the effective tax rate and on that, let me just share an important information. In Turkish Lira terms, the effective income tax rate is 20% which starting this year, that is CY18, is 22%. Since all of our purchases is in US dollars, our sales is largely US dollars and our bank liabilities are in US dollars, we therefore, for a historically long period of time, have our financial statements in US dollars. In other words, our functional currency is US dollars. Now therefore in a way, on one hand, the tax computed in Turkey is computed on transaction basis and therefore it depends not only on the profits that you make but it depends on the exchange rate that is prevailing at the time of purchase and at the time of sales. Just as an example, if we purchase the product at $100 and sold it for $100, in reality we made no money in dollar terms. However in Turkish Lira, if for a moment, at the time of purchase it was 5 Turkish Lira to a Dollar, it would mean the purchase was 500 Turkish Lira but at the time of sale, it is 6 Turkish Lira to a Dollar, it would mean the sales was 600 Turkish Lira and the difference of 100 Turkish Lira which is the difference between the sales and purchase will be considered as profit and is subjected to 22% tax and we would pay 20 Turkish Lira as tax, which we wouldn't have to pay in the first place, since in dollar terms we actually haven't made any money. Therefore I'm just giving a very layman's example, I am sure most of you understand beyond this as well. So the point that I only want to make is the way that tax is computed is such that in the times of depreciating currency, the tax is something that will come to haunt us but we want to make sure that everything else we can do about the business is all prim and proper under this extraordinarily difficult times, so that when the tax is computed we don't know the extent of Lira depreciation but whatever it may be, we can certainly deal with it. Let me give you some specific examples. To give you an idea, I have now taken the historical data of Arena for the last 3 years and 6 months in calendar year terms that is, CY15, CY16, CY17 and H1CY18. The EBITDA in each one of these years was 3%, 2.7%, 1.6% and 1.6%, respectively. When we look at the PBT, it was 1.7%, 1.7%, 0.4% and 0.5%. However, when you look at the PAT, it was 0.9%, 0.9%, 0.1% and (0.3)%. Now it is important that as we look between PBT and PAT, what has happened to the effective tax rate. The effective tax rate was 47.7%, 46.9%, 71.1% and 156.6% respectively. Please bear in mind that income tax rate in Turkish Lira terms is 20% until CY17 and 22% in H1CY18 and you can now see how the effective tax rate has worked out. So during this period, now when you look at the Turkish Lira and see how has that depreciated, it was 25.4%, 21%, 7.2% but in H1CY18, it depreciated by 20.9% in just the first 6 months, that is Jan 2018 to June 2018. So, the first point I want to make with this analysis is to tell you that this company has managed situations of depreciating Lira over a 12 month period in the earlier years, however the biggest challenge that we are now facing is when the Turkish Lira depreciation becomes rapid and very quickly, it declines from one week to another week and one day to another day, it is only then that things go completely awry, purely from a tax point of view. However, if you see, the sales may have suffered a little bit but in terms of EBITDA, we were able to hold reasonably well and also to certain extent on PBT but because of the effective tax rate, PAT looks depressed. I just want to reinforce this point with a more recent example - Let's take Q1FY19 and when you compare that with Q1FY18, Arena's sales has come off by 9% yoy to 98 million dollars but the EBITDA improved from 1.4% in Q1FY18 to 1.6% in Q1FY19. Also, PBT improved from (0.4)% in Q1FY18 to (0.2)% in Q1FY19. Interestingly, despite the negative PBT in Q1FY18, our PAT for that quarter was +0.1% and the reason is we had 123% of effective tax rate, which had positive impact. So in as much as depreciating currency situation, we can have negative impact on account of the effective tax rate, we can also have a positive effect, in an appreciating currency situation, like in Q1FY18. Whereas, in Q1FY19, the PBT of (0.2)% dropped to (1.0)% at PAT level, because the effective tax rate for Q1FY19 was 460%. So, the point which I am saying is, in one particular quarter, we had a huge depreciation of 20-25% and which had a telling effect on the tax rate but I just want you to understand that we have tried to make sure that every other parameter is brought under control. Now, let me take you to another important point. While I talked about all these things, I also want you to please understand an important aspect which is the contribution of Arena to Redington's consolidated revenues and profits. I think it is important to understand that. If you look at FY16, the revenue and profit contribution from Arena was 9.4% and 4.8% respectively. In FY17, it was 8.6% and 2.3% and in FY18, it has dropped to 7.5% and 0.2%. Now when you look at Q1FY19, the contribution has further dropped on revenues to 6.4% whereas from the point of view of PAT contribution, since there was loss of Rs.3.1 crs in Q1FY19, this represents ~3-4% negative contribution to consolidated profits of Redington

So, the submission that I want to make first is, the contribution of Arena from revenue standpoint is not material and is only 6-7% and this will only get lower in the rest of the year. As regards the profit contribution, what was 0.2% in FY18 is now negative in Q1FY19 and on one hand, we expect that to not pull us down further, but on the other hand, it is not going to be material, in a way of speaking. The other point that we must understand is, Arena on a standalone basis has a very solid balance sheet. Compared to the competition, we do have a best balance sheet. Our total shareholder's funds is \$70.6mn, as at June 30th, 2018. I want to remind all of you that Redington has 49.4% stake in Arena and because we have Management control and control on the board, therefore, we do a line by line consolidation. The Debt to Equity position is 0.42:1, which is very much under control and in terms of utilization, out of the total bank facilities that we have, the utilization represents approximately ~25-27%, which means there is enough and more room for borrowing and shows that we have maintained the financial discipline, like we do for Redington. I hasten to add here that Redington has not given a single dollar of any guarantee or any security or any other collateral other than the investment that was made and of course, this company has paid up dividend over time except for this period, when they haven't made profits. The other important aspect that you should know is that our total accounts receivables, if broken down between USD and Turkish Lira, 82% of our receivables is US Dollar denominated and 18% of our receivables is Turkish Lira. Out of this receivables, as of June 30th, 2018, 53.2% is insured, either through promissory note or guarantee from customers or done through credit insurance. We had a much better coverage under insurance in the past but the insurance companies have pulled back on some of the limits, and hence it has dropped to 53.2%. While on this, I also want to be a little more transparent. As of Aug 13th, 2018, the Turkish Lira denominated assets is \$137mn and Turkish Lira denominated liabilities is \$79mn. The net difference between these two is \$58mn, out of which, \$53mn is

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completely hedged and the balance $5mn which appears to open positions, which is collections today, is completely settled or hedged by next day morning. So I want to reiterate this point that we are completely hedged and we take no open positions and this is something we drive very clearly. The other point to reiterate is on the working capital. In Q1FY19, our working capital on receivables and inventory was $133mn and this will be brought down to $92mn in Q2FY19. So, we are completely on top of this subject and we do not see any cause for concern. We understand the Turkish Lira has depreciated quite significantly but from our stand point, if today, let's say, it is 7 Turkish Lira to a dollar, as long as the depreciation is in a staggered fashion, like it has happened in the earlier years, we would still be able to manage and deliver profits. The challenge is when the depreciation is rapid at 40.4%, in a week's time or say, in ten days, that is when the whole computation of tax becomes high. We have put all the levers in places and a fully experienced Management team and we are making sure that we are giving them the air cover, that at every point in time, we are completely glued to what's happening and even in the worst case scenario, we would slow down our business and cut down any potential exposure. I go back to the First Commandment, that is, protect capital fiercely and that for us is fundamental.

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 Edelweiss Securities. Please go ahead.

Sandip Agarwal: Thank you, Raj, for giving us time and explaining the whole situation. Just wanted to know two things. The first is Arena has been giving us some tough times for quite some time now and the currency depreciation has been very sharp now. Our stock price has also been coming down for some or the other reason. Why don't you think of some kind of permanent solution for this issue, or have you thought something in this direction already? We are thankful that you have given assurance already on the depreciating currency scenario but I still believe that we will have to do some write off and pass it through P/L because of restating in Turkish Lira. What kind of impact will be there, on account of this? Also, I did not understand the cost cutting measure that you have suggested. Will this cost cutting measure help us in absorbing some of the losses that we would incur on account of the depreciating currency? Thank you!

Raj Shankar: Okay, so let me tell you that we have been evaluating for quite some time, on some of the other options. I will leave it at this stage since it maybe a little premature for me to say anything more than this. However, please be rest assured that there are some options available with us on a completely different note. Arena is a company that is listed on the Istanbul Stock Exchange and as we speak, the company is valued at ~$16-17mn, even at this kind of situation of depreciating currency. We have 49.4% stake in the company. There are some compelling situations that stops us from taking some logical steps. We think we should ride over the period very soon and hopefully, we should look at some interesting options, in the way forward. I would find it difficult to elaborate more than this but at the right time, we will share with you. Regarding your other question on costs, the cost reduction is only to do with Arena and the point that I am only making is we have to pull down on our costs as much as possible and we are committed to reducing that by ~10-12% and this would mean that a big chunk of that would go into reduction of manpower cost. However, that is an important step that we have to take, under the current circumstances. As regards absorption of some losses that needs to pass through P/L, I agree that the fact remains that we do not exactly know how this currency is going to play out and yes, the currency has depreciated quite significantly since Thursday, we will have to wait and see how this plays out for the rest of the quarter or for that matter, in the next quarter. In the meantime, as I explained to you, we are taking every possible measure to see to that we do whatever that is possible. So to answer your question, yes, there could be an impact, but we would only take 49.4% of that impact and we believe that we should be able to ride over that situation and we are of the opinion that this particular currency depreciation issue should at least somewhere in the near term, improve. Whether it goes back to ~3.5-4 Turkish Lira to a dollar, we wouldn't know but we are of the opinion that this situation should improve in the near term

Sandip Agarwal: Okay, thanks! That's all from my side.

Moderator: We take the next question from the line of Ms. Hiral Shah from Investec Capital. Please go ahead

Hiral Shah: Thank you, Sir, for taking my question. As we translate our financials from USD to INR, will we see some of the translation gain to help in mitigating the effect of depreciation of Turkish Lira against the dollar? Also, what would be the total impact of the depreciation of Turkish lira on our consolidated net profits?

Raj Shankar: Okay, so, to your point, like I said, I gave you an example, in Q1FY18, we had a write back of tax, which is very unusual, even though we had PBT of (0.4)%, which post the effective income tax rate of 123% resulted in a PAT of +0.1%. So, yes, if the currency does appreciate, there will be a positive effect. Now to the extent of depreciation, the impact to Redington's consolidated net profits, as I had mentioned in Q1FY19, there was ~3-4% of negative contribution to consolidated profits. If the current situation continues, it is likely to impact us twice over. This would be a broad estimate. It would be wrong on my part to predict a particular number purely because we don't know, at the end of the day, where the currency will settle down and considering the fact that the tax is computed on a transaction basis, it also depends on what is the exchange rate prevailing. There are far too many factors but if I have to still hazard a guess, my guestimate would be probably in the vicinity of ~8%

Hiral Shah: Thank you, Sir!

Moderator: Thank you. The next question is from the line of Mr. Alekh Dalal from One Thirty Capital. Please go ahead

Alekh Dalal: Hi! I just want to understand the impact to the book value in the coming quarters. What is the carrying value of the investments in Turkey in the Balance sheet and do you have to write that down? Secondly, what will be the impact on EPS? How well can you protect the book value per share of Rs.93? Out of the working capital of 133mn$, what is the split between inventory and receivables? Also, what is the split between inventory and receivables, in terms of protection? Thank you!

Raj Shankar: With regard to the working capital of 133mn$, approximately 60% is receivables and 40% is inventory. During Q1FY19, 53.2% of the receivables was insured. With regard to inventory, we don't have to insure our inventory as they are governed by distribution contracts and we have the ability to, in the event of certain kinds of situation, get the support from the vendors, which makes it very critical for us to engage with our vendors, as there are certain marketing development fund or there are some sell out rebates that they give out and therefore, we can always look to our vendors to support us, in the event of any challenges with regard to selling those inventories. So, we typically insure our receivables through a credit insurance company like Euler Hermes whereas with regard to inventory, the very fact that we have a distribution contract allows us a natural hedge to look to the vendors to be able to help us

S V Krishnan: With respect to the carrying value of investments in the balance sheet, it is $42.48mn and that gets tested for impairment on a quarterly basis and that's not a significant amount normally

Alekh Dalal: Since the market value of Arena is ~$17-18mn, your shareholding must be ~$8-9mn or ~$10mn, will the impairment test not take out the ~$10mn?

S V Krishnan: Basically, the test is not on the market value. There are various factors that gets applied. It wouldn't be substantial, Alekh.

Alekh Dalal: Okay. So, the book value per share is calculated, based on the carrying value of $43mn?

S V Krishnan: It would be there as part of the investments. What is there as the net worth in the balance sheet of Arena and our proportionate stake in it is part of the consolidated net worth and not the entire investment, as the differential will be in the form of goodwill

Alekh Dalal: What is the consolidated book value of Arena?

Raj Shankar: Let me give you a perspective. If you really see what we have in the books, we have what we call as the Non-Controlling Interest, which is the intangible portion, as at the time when we paid the premium or the goodwill, there is portion towards the trade name. As we continue to hold the name 'Arena' today, the same is valued at $16mn. So, apart from this, our Non-Controlling Interest is ~$36.8mn

Moderator: We will take the next question from the line of Mr. Riddhesh Gandhi from Discovery Capital

Riddhesh Gandhi: Hi! You have mentioned that there could be ~8% impact potentially on the net profits. Is that on the consolidated net profits of Redington? Is that the best estimate of the impact from the situation?

Raj Shankar: Yes, please

Riddhesh Gandhi: Okay. Given that Turkey contributes only less than 1% of the PAT, you are saying that it could give 8% negative impact, primarily driven by the taxation issue and any potential inventory write off that you might have to do?

Raj Shankar: It is essentially to do with the tax rate

Riddhesh Gandhi: Just to understand effectively, this is sort of a non cash issue, as effectively the loss will be paid for by Arena, as it is an independent entity and we have no liability to pay any of those. As a worst case, we can take Arena to have a low equity value as opposed to having a negative equity value?

Raj Shankar: I think you said it very correctly. The only reason that I am mentioning that is, even though we have only 49.4% stake, we do line by line consolidation. Therefore, it was important to mention that point but you are absolutely right that, as such, there is an investment that we have made, and therefore, at the time of consolidation, the losses will impact the overall profits of Redington

Riddhesh Gandhi: So, it is more of accounting than actual cash loss since Arena being an independent entity, it can handle the situation on its own

Raj Shankar: That's correct

Riddhesh Gandhi: Is there any risk of these numbers getting any larger?

Raj Shankar: It is a very interesting question. So, let me articulate it this way. Let us say, if the new normal, although I hate to take it even as an example, but let's say, the new normal is 7 Turkish Lira to a dollar, and as long as the movement is ±5% of that, there is not going to be much of negative impact in the point of view of tax rate. The issue is only when within a span of 1-3 weeks, the depreciation is say, ~10-11 Turkish Lira to a dollar, and there is a some Force Majeure event that happens, then the impact will be very different for us. This is why, right at the outset, I took the example of three calendar years to explain that even though in CY15, we had 25.4% currency depreciation and 47.7% effective tax rate, we still delivered 0.9% of our sales as PAT. So, as long as there is depreciation but it is spaced out and not a rapid collapse, I think we will be able ride it out and make this profitable

Riddhesh Gandhi: Alright, thank you! All the best!

Moderator: Thank you! Our next question is from the line of Ms. Hiral Shah of Investec Capital

Hiral Shah: Thank you for taking the follow up question. In Turkey business, what is the contribution from Enterprise and Consumer? Also, in each of these business, what is the inventory holding period?

Raj Shankar: First of all, as far as Arena is concerned, ~80% is Consumer and probably less than ~15% is Enterprise. With regard to Consumer, the typical inventory levels are anywhere between 35 to 40 days, and 45 days, at a stretch. In the case of Enterprise, depending on whether we are doing the consolidation or not, it could vary from anywhere from 35 to 50-55 days, purely because we are waiting for the products to get consolidated before we deliver. Given that the contribution of Enterprise business is in the vicinity of ~15-20%, the blended days shouldn't be far off

Moderator: Thank you**.** That was our last question. I now hand over the call to the Management for their closing remarks

Raj Shankar: Thank you and thanks to all the participants in the calls, for taking the time to listen to our narration on this particular incident that has to do with the Turkish Lira depreciation. All that I want to leave with you is here's a company, that is Redington, which has high adversity quotient and here's Arena, which has got a Management who have good experience in handling crisis of this nature. We have adopted some clear commandments and rules on how to handle during these extraordinary circumstances. I want to give the comfort to everyone on the call that we are absolutely on top of it and there is a strong vigilant team that is looking at this whole operation at every single aspect of it. We are making sure that the business continues to scale and drive properly but we are not going to be compromising on risks and we are going to make every possible effort to protect the capital as well as conscious efforts towards reducing the costs. As far as tax implication is concerned, we believe that as soon as this issue gets normalized, we will be back in the game and therefore, we believe the strategy or the approach we are taking is ride through the storm. Thank you very much to each and every one of you

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Investec Capital that concludes this conference. Thank you for joining us, you may now disconnect your lines.