Dixon Technologies (India) Limited

28th October, 2024

To Secretary Listing Department BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	To Secretary Listing Department National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Mumbai – 400 051
Scrip Code – 540699 **ISIN: INE935N01020**	**Scrip Code - DIXON** **ISIN: INE935N01020**

Dear Sir/Madam,

Sub: Transcript of the Q2 FY 25 Earnings Conference Call held on 24th October, 2024

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III thereto, please find enclosed herewith the transcript of the Q2 FY 25 Earnings Conference Call of the Company held on Thursday, 24th October, 2024.

The said transcript has also been uploaded by the Company on its website and the same is available at https://www.dixoninfo.com/earning-call-transcript.php .

We request you to kindly take this on your record and oblige.

Thanking You,

For DIXON TECHNOLOGIES (INDIA) LIMITED

ASHISH KUMAR

Digitally signed by ASHISH KUMAR
Date: 2024.10.28 16:59:12 +05'30'

Ashish Kumar
Chief Legal Counsel & Group Company Secretary

Encl: As above

"Dixon Technologies (India) Limited Q2 FY-25 Earnings Conference Call"

October 24, 2024

MANAGEMENT	**MR. ATUL LALL – MANAGING DIRECTOR & VICE CHAIRMAN, DIXON TECHNOLOGIES (INDIA) LIMITED**
	MR. SAURABH GUPTA – CHIEF FINANCIAL OFFICER, DIXON TECHNOLOGIES (INDIA) LIMITED
MODERATOR:	**MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Q2 FY25 Earnings Conference Call hosted by DAM Capital Advisors 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 Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you, and over to you, ma'am.

Bhoomika Nair: Yes, thank you. Good evening everyone and a warm welcome to the Q2 FY25 Earnings Call of Dixon Technologies.

We have with us the management today being represented by Mr. Atul Lall – Managing Director, and Vice Chairman; and Mr. Saurabh Gupta – Chief Financial Officer.

I will now hand over the floor to Mr. Lall for his initial remarks post which we will open up the floor for Q&A. Thank you and over to you, sir.

Atul Lall: Thank you so much Bhoomika. Good evening, ladies and gentlemen. This is Atul Lall, and we have on the call today our CFO, Saurabh Gupta.

Saurabh Gupta: Good evening, everybody.

Atul Lall: Thank you very much for joining this earning call for the quarter ended September 2024.

First coming to our overall performance for the 2nd Quarter. Consolidated revenues for the quarter ended September 30th, 2024, was 11,528 crores as against 4944 crores in the same period last year, growth of 133%.

Consolidated EBITDA for the quarter was 420 crores against 200 crores in the same period last year, growth of 110%. Consolidated PAT for the quarter is 412 crores against 113 crores in the same period last year, which is growth of 265%, this includes fair value gain of 210 crores in the value of Dixon stake of 6.5% in Aditya Infotech Limited. Excluding this gain, the adjusted PAT for the quarter was 236 crores, which is a growth of 109% year-on-year.

With strong capital allocation discipline and effective working capital management, we were able to expand our ROC and adjusted ROE to 38.9% and 31% respectively, as on 30th September 2024. We feel confident the same would keep improving in the upcoming quarters and years on account of improved earnings, working capital efficiency, higher asset turns in mobile and IT hardware business. Gross debt to equity ratio stood at 0.162 and cash conversion cycle of negative three days. We believe strongly that we have a platform to sustain a strong revenue growth moving forward through the strengthening in the overall demand environment and addition of new customers across all businesses.

Our foremost objective continues to be part of India's long term growth story and to write the country's robust consumption narrative and Make in India initiative to achieve industry leading growth.

Now, I will share with you the performance and the strategy in each of the segments going forward.

Mobile phones and EMS divisions. Revenue for the quarter were 9444 crores, there is a growth of 235% year-on-year. Operating profit was 308 crores, a growth of 231% year-on-year. In addition to the four operational facility and one facility with 1 million square feet under construction, we have taken additional 1.5 lakh square feet facility in Noida on lease to cater to the increased demand of our principal customer, which is expected to start in the current quarter with a monthly capacity of another 400K smartphones per month.

We have successfully consummated the acquisition of Ismartu on 13th August 2024 and we have a healthy order book for Transsion group of brands that's Tecno, Infinix and Itel and another brand Nothing. For Motorola, we have been consistently clogging a volume of 1 million per month, and order book looks healthy in coming months, including some decent export orders for North America market. The volumes for Xiaomi and Oppo and Q2 witness significant growth quarter-on-quarter. Production for a large global brand through Compal is expected to commence by end November 24, they are also in active discussions with another large global brand. We have finalized location for manufacturing of displays in partnership with HKC. We expect to start manufacturing by Q1 end or Q2 beginning of next financial year. We are also looking to further deepen the level of manufacturing, and looking to get into precision components, mechanicals and camera modules and the same is under deep study and we are working on possible partnerships.

Consumer electronics with LED TVs and refrigerators. Revenues for the quarter were 1413 crores, with an operating profit and margin of 52 crores and margin of 3.7% out of this, the revenues for refrigerator business were 188 crores. LED TVs, we have on boarded a few multinational brands on our TV ODM solution like Hisense and **(Inaudible) 5:42** for Google TV and Linux platform, we are working closely with Amazon Fire TV solutions in NG for Web OS, which is expected to be rolled out in Q4 of F25. In addition to interactive flat planning display, we have now started manufacturing digital signage solution from 65 inches to 100 inches, with decent order book. A state of art R&D center for display devices has been set up in Noida for superior product development in TVs, IFPDs and signage's. In order to deepen our component base in TV we are exploring a tie up with global player for open cell bonding facility. We are into actively exploring for partnerships manufacturing to industrial, institutional and automotive displays.

Refrigerators against a capacity of 1.2 million direct cool refrigerators across 190 to 235 liters, we are now achieving 90% capacity utilization. We expect the similar run rate in the coming months, in fact now we are looking to expand our capacity to almost 1.6 million. We have health order book with marque Indian brands, we have started mass production for Voltas, Kelvinator, Acer, Lloyd and BPL. We have backwardly integrated many production processes and further exploring investment in deep freezers, mini coolers, wine chillers, etc., along with two door frost free and side by side refrigerators.

Home appliances revenue for the quarter were 444 crores, that's a growth of 22% year-on-year. Operating profit was 49 crores, a growth of 17% year-on-year. In Q2 we clocked a monthly run rate of 30,000 units of fully automatic category, which is 50% growth year-on-year. In line with a backward integration strategy, we have added multiple more than injection molding machines to reduce our dependency on imports. Further we have started extending molding support to our business segments and have done molds for the lighting and telecom business. Our footprints in Tirupati and Dehradun are now BS and NABL certified, which strengthens their competence and reliability for deepening relationship with customers. We have a healthy order book, and we are targeting double digit growth in this business in this fiscal.

Lighting, revenue for the quarter was 233 crores, with an operating profit of 17 crores. Both revenues and operating profit have grown quarter-on-quarter. They are continuously introducing a new product range in the category of down lighters and outdoor professional lighting. We have boarded marquee global customer IKEA, for domestic market.

Telecom and networking products. Revenues in this segment for the quarter were 660 crores. We are looking for more than 3x growth in revenues in this fiscal as against last financial year, We have added one more facility in Noida to meet the increasing requirements for our anchor customers. We have also ramped up our production for 5G, fixed wireless access, outdoor and indoor units for domestic market, and planning to double the capacity for the same to meet the customer requirement along access points, GPON, ONTs and internet set-top boxes. We are in the process of introducing IPTV boxes for the domestic market and production commence in this fiscal.

Laptops, tablets, that is the IT hardware products, we have finalized business with HP and Asus and the definitive agreements are in the final discussion. And now along with Acer and Lenovo, we have four global brands on board out of the top five brands in India. The manufacturing of Acer has already started in production for Lenovo is expected to start in this quarter from our Noida facility. Our 3 lakh square feet Chennai facility will be ready by end of December 2024 and production for HP, and Asus is targeted to commence by Q4 25.

Wearables and hearables revenues for this segment the 263 crores for this quarter with healthy operating margin and superior ROCE. We have decent order book in this business**.** Rexxam Dixon Electronic the JV will Rexxam achieved revenues of 90 crores in this quarter, despite Q2 being a lean season for this business. And we have also now started supplying to the Sri City plant of Daikin, which is our principal customers.

I would like to stop here, and me and Saurabh are there to address your questions. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Sanidhya from Unicorn Assets. Please go ahead.

Sanidhya: My first question would be related to the IT hardware, PLI scheme. So, last concall management indicated that we are doing a 150 crore CAPEX for 1.5 million units. And we are slowly, eventually adding to 3.5 million units. So, is there any additional CAPEX that would be required for the ramp up. And in terms of total PLI for the IT hardware was near about 17,000 crore if I am not wrong. And out of this, how much did Dixon permitted or got like from in terms of total percentage, if you can share absolute number that would be great, that's the first.

Atul Lall: So, in phase one, the committed CAPEX is around 150 crores in our Chennai plant, which is going to be creating a capacity for around 1.2 million units. Let's see how the business pans out, and then we are committed to putting more CAPEX to expand the capacity to almost 3 to 3.5 million. In our business plan submitted to the government, we have committed to the government a revenue of 48,000 crores over the period, over the tenure of PLI. So, when this business ramps up in the initial phase, in the 1st Phase it is going to stabilize at around 4500 to 5,000 crores by year three annually.

Sanidhya: Sure, sir. So, you are saying 4500 crore could be revenue from 1.51, 1.2 million units that you are committing right?

Atul Lall: That's right.

Sanidhya: Okay. And secondly, on the total addressable market. So, if I see for FY23 there were total 11 million units that were imported for the notebooks or laptop side for the top five players, out of which we have bagged for four players. One is missing, Dell is missing from our portfolio right now. So, any comments on Dell, and any comments on till when are we planning to reach like 50% as we say, that we want to reach 50% of the total market share. So, out of 11 million, how much, 5, 5.5 by when are we planning to reach?

Atul Lall: So, please appreciate, as we shared in our opening remarks, that out of five top brands in India, we have now on boarded four brands. And initially what we are targeting is, see this $11 billion of imports that you are talking about is the sale value. The production value is almost 55% to 60% of that.

Sanidhya: Sure, another million revenue I was referring to.

Atul Lall: What we feel is that, finally when we reach around a million, 1.2 million, we are going to generate a revenue around 4500 crores, but subsequently it is going to be significant gains, because that's the kind of forecast that we are getting from customers. But we will have to move in the steps. There have to be building blocks, we have to generate adequate confidence on our capability to deliver, this is an entirely new product line which requires an additional technical bandwidth, and then it will happen. I am confident that what the team has been able to deliver, let's say in mobile phones as a category, we will be a very, very large player, possibly the largest in the sector. As far as contract manufacturing is concerned. What that number is going to be, it's slightly premature to give that idea, but what I am sharing with the stakeholders is, that we are going to be at around 4500, 5000 crore level in next two to three years.

Sanidhya: Sure, sir thank you for that. And just if you can share the breakup for the 1100 crore revenue for Ismartu number of units?

Atul Lall: So, this has come on board from 13th of August, that's when it was consummated, to 30th of September. And in this the volume is going to be approximately around 800K of smartphones,

Saurabh Gupta: Yes, 800K of smartphones broadly.

Sanidhya: Okay, sir. At what proportion would this be right to estimate like 10% to 15% of overall yearly revenues?

Atul Lall: So, we feel that Ismartu revenue should be in the range of around 7000 to 7500 crores.

Sanidhya: For the next year, right?

Atul Lall: For this year, for the current year.

Sanidhya: For this year, and 9000 to 10,000 for next year?

Atul Lall: So, next year hopefully we are going to reach that particular number. What we are referring to is the current year.

Moderator: Thank you so much. The next question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: Sis my first question is on mobiles, can you please call out the brand name of the mobile along with the production that we are doing monthly for them, and where can we scale that in future?

Saurabh Gupta: So, Natasha, we don't want to share any customer wise numbers with the market. So, I can give you an overall number, how many smartphones we have sold in this quarter, but customer wise, we don't feel comfortable sharing it.

Natasha Jain: Sure. Sir if you can even give the overall number.

Saurabh Gupta: So, smartphones, we did almost 81 lakhs, or 8.1 million in this quarter, and another 13 odd lakhs of Samsung smartphone.

Atul Lall: So, there is significant growth. If you see smartphone last year, for 2023-24 was 1.43 million, which has gone up to 8.13 million, which is a growth of 468%.

Saurabh Gupta: And in the first six months, we have already done a smartphone number of almost 12.2 million, excluding Samsung.

Natasha Jain: Understood sir. And sir in terms of gross margin can you call out why we have seen a decline of 200 basis points?

Saurabh Gupta: See gross margins and EBITDA margins again, it's a function of the mix, so large part of the revenue contribution is coming from mobiles, which is relatively a lower gross margin and lower EBITDA margin business. And also, the selling prices of some other phones for the brands have also gone up because of migration from 4G to 5G. So, the gross margins is basically a function, majorly on account of the change in sales mix.

Natasha Jain: Understood and sir lastly, where are we in terms of the export customer for lighting?

Atul Lall: So, lighting, the export orders from Germany have already matured. They are in the execution stage, with one large customer in US we are almost at the final stage.

Moderator: Thank you so much. The next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: Saurabh and Atul sir just couple of questions, maybe just wanted to first get how much of the feature phone number this quarter, are we sort of looking at going higher than the guidance of 25 to 30 million smartphones for the year. And maybe then I will sort of follow up with a couple of questions after that.

Atul Lall: You are specifically talking about feature phones, or smartphone, feature phone both?

Deepak Krishnan: I remember last quarter you had given a number of so; you have already given the smartphone number. Feature phone was 6.6 million last quarter, so just wanted to check the corresponding number for this particular quarter as well.

Saurabh Gupta: It is around 9.1 million feature phones, as compared to 8.3 million last year same period. And overall, in six months. Yes, we have done a number of almost 15.7 million feature phones.

Deepak Krishnan: Sure, and any sort of PLI incentive booked this particular quarter, and any reason why the other income is sort of negative?

Saurabh Gupta: Yes, so we have booked a PLI income of almost 70 odd crores in quarter two. And the other income is negative, mainly on account of the FX loss majorly on account of our CAPEX machinery payments, which were majorly in the Japanese yen. And Japanese yen, as you know in this quarter is really appreciated. It is again now the Indian rupee has appreciated lately in the month of October. So, it's a kind of a notional kind of a loss that we are at mainly on account of the FOREX loss.

Deepak Krishnan: I am sure, because given the strong start of 12.2 million smartphones in 1H, are you still guiding to 25 to 30 million or do we think that we can even cross the upper end of the guidance?

Atul Lall: So, we have not given any guidance. And order book, please be rest assured is extremely strong.

Saurabh Gupta: Yes, order book looks strong.

Atul Lall: And particularly now with the acquisition of Ismartu materializing the order book looks extremely healthy.

Deepak Krishnan: One final question. Just wanted to understand TV, even if we saw the consumer electronics, even if we include refrigerators it's a Y-o-Y decline, the TV volumes were relatively weaker or is it a function of pricing that has cost a decline in the standalone TV business?

Saurabh Gupta: The main reason for a lower revenue number in that category is mainly because of the dip in volumes year-on-year in TV. So, we did almost 9.7 million LED TVs in quarter two, as compared to 10.8 so there is a de-growth of almost 10% which is reflected in the lower revenue number as well.

Moderator: Thank you so much. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: First question on again, mobile side possible to highlight some insights into the pricing for generally the customers like Xiaomi and Oppo, because with the pricing side we have continued to see some price. So, if you can just highlight some trends across the customers?

Saurabh Gupta: Yes, so basically the broad pricing for Xiaomi of course keeps changing model-on-model, but yes, the broad average pricing would be somewhere in the range of Rs.6000 odd our pricing and Oppo would be somewhere around Rs.8500 to Rs.9000 odd and more.

Atul Lall: But the other large customers, because it's migrated to 5G, the price points were significantly higher. So, for us, it's not, we will not be able to share the customer-wise pricing.

Siddhartha Bera: Got it sir. And in in terms of the ramp up, how do you look at in terms of customers, where do you see the biggest potential, and given your understanding and discussions, where do you see which customer has the biggest potential from where we are currently?

Atul Lall: So, please appreciate that in the smartphones, we are the largest manufacturer today, and practically all the brands in Android ecosystem are our customers. A brand like Motorola is doing exceedingly well. And even the other brands who are our partners, I see lot of buoyancy and lot of positivity in their order book. So, the business in the order book looks good. I feel that Q4 particularly is going to be very good.

Siddhartha Bera: Got it sir. Sir last question is, when you talk about Ismartu of 7500 crores, so this is for the period of this year starting 13th August, or that is sort of indicating for the full year?

Saurabh Gupta: This is on an annualized basis.

Moderator: Thank you. Our next question is from the line of Ms. Bhoomika Nair from DAM Capital. Please go ahead ma'am.

Bhoomika Nair: So, you mentioned that our smartphone volumes has been about 8.13, now this is including Ismartu, or this is excluding Ismartu sir?

Atul Lall: This is Ismartu from 13th of August.

Saurabh Gupta: 45 days.

Atul Lall: 45, 47 days.

Bhoomika Nair: Okay. Sir how are we seeing all our existing customers of this kind of scaling up. If you can give some sense on what was the September exit monthly run rate, and we can understand then possibly how it can scale up over the next couple of months?

Atul Lall: So, Bhoomika including Ismartu, the present run rate is around 2.7, 2.8 million per month. This is without Samsung volumes. Now, I feel that post Diwali, the market is slightly slow, so there's going to be a dip in this volume, but it's going to recover and possibly become slightly better from Q4.

Bhoomika Nair: Okay. And by then we will also have the Compal and other customer that we are looking to add on?

Atul Lall: Compal is going to start by end November. Other customer, it's in works.

Bhoomika Nair: Okay. So, the other question was in regards to our HKC, JV for the backward integration. You mentioned that, it will start functioning in these first or 2nd Quarter of next year, if I remember correctly we were looking at some 25 million capacity. So, how should we look at utilization in the first year of operations and how are we looking to kind of scale that up at a subsequent level?

Atul Lall: So, Bhoomika, please see that we are already at around 3 million and with additional customer acquisitions and hopefully larger share of customers wallet, we should be at around 3.5 million or so every month. The HKC tie up is the phase one is 2 million units per month. That is for mobile phones, because the approvals and technical approvals it takes some time, the project has to get involved with the brand owner at the POC stage for every new model development. So, first we have to achieve 2 million, this is going to be captive. Then immediately we plan to double the capacity to 4 million. That's the plan and this is going to be for captive, and any overflow is going to be supplied to the other factories of Android ecosystem. And then in this plant, we are immediately going to set up line for displays for notebooks, which is going to be a million a year to start with, which is again going to be for our captive and as the quantity keeps on increasing, this capacity would keep further enhanced. Then there is a possibility of looking at automotive displays in the same unit, it is capable of doing that. And if there is a fiscal correction on the import duty structure for panels for TV, the panels for TV would also be planned there. So, this is a roadmap.

Bhoomika Nair: Okay. And this would be over a three-to-four-year perspective, I am assuming that FY26 is the first year for HKC, year two, year three will be the scale up for the mobiles, and then subsequently for IT, auto, TV, et cetera or do you think it could happen sooner?

Atul Lall: No, it's going to be in phases. First is mobile and IT products, then an expansion of mobile capacity, and then others.

Bhoomika Nair: Okay. So, the other thing was on the industrial PCB, just wanted to get an update out there, have we done any client additions, what is the scale up, when can we start seeing revenue from that segment to start tricking in and any customers where we are in very advanced stages?

Atul Lall: So, we are in advance stages of discussions with a large industrial electronics PCB customer. It is almost at a final stage. This complex approval system for the business to start commercial production will take some time, but we are almost there, it's in final stages.

Moderator: Thank you so much. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: So, on the mobile phone segment we have seen a very, very sharp ramp up this quarter. So, just wanted to understand how much seasonality is involved. Like you mentioned that post Diwali there may be a bit of a slowdown. We have hit the run rate of 2.7 to 2.8 million phones per month. So, how slow does it typically fall to and then how sharp is the recovery in 4th Quarter?

Atul Lall: So, Aditya, I feel that in quarter three, that is the present running quarter this 2.8 million should be around 2.3, 2.4 million run rate until that 2.4, 2.5 and by Q4 it should go again back to 2.8 to 3.

Aditya Bhartia: Understood sir. Sir, secondly, on the components ecosystem, can you just give some more indications about how we are planning it, which all components can we get into, what kind of CAPEX are we ready to put in. Can any of the components be significantly CAPEX intensive, or are they going to be more or less similar to the HKC kind of an arrangement that we are having?

Atul Lall: So, Aditya, what we are working upon is to capture the value addition on the non-semiconductor side, and the target is, let's say with HKC, we are able to capture almost 8% to 9% of the bomb. What we are working upon is on camera modules, which is going to give us another 7% to 8% and we are working on the mechanicals, that is basically the enclosures, the precision components and the die cuts, which would give us another 8% to 9%. So, this is almost going to be 27% of the bomb that we are targeting to do in-house. And this is margin accretive business. We are looking at the potential partners with some other partners we are in advance stages of discussions. As far as the CAPEX is concerned, it is going to be almost of a similar order of

HKC in some components slightly up, in some components slightly lesser than what HKC project profile is.

Aditya Bhartia: Perfect, that's great sir. And just one last thing, on the TV business want to understand that, is this weakness seen broadly in the industry, or are we seeing something happening on the competition side?

Atul Lall: So, we see that it is largely an industry issue, LED television industry is not growing at all. In fact, it's declining. So, there might be some competitive pressure, but I am not seeing any of my business going elsewhere. Largely in last one year, I see largely the industry quantities to be under pressure.

Moderator: Thank you so much. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance Company Limited. Please go ahead.

Keyur Pandya: Just one question. So, on the mobile side our execution has been phenomenal and the kind of run rate that you are talking about for FY25 as well as 26 probably we would be pretty large probably 30% of the India's volume. So, even larger in terms of the outsourced market, in general, how the discussion is going around say or volumes beyond FY26 or even for FY26 and thereafter once the PLI is over, so for that period, what has been the discussion with the client just to understand the thoughts from the client which is being converted to you. And any ramp up in components, will there be a gap between the ramp up of components and say, end of PLI, just thoughts on revenue, on mobile segment beyond FY26. Thank you.

Saurabh Gupta: So, let me just give you a top-down kind of a picture. Please appreciate the smartphones, the feature phones being sold in India would be manufactured in India. That's no brainer at all. Now the question is, that amongst the Indian contract manufacturers or among the contract manufacturers present in India, is Dixon the most cost efficient, and also do we have deepened strategic relationships to ensure that even beyond PLI, we continue to maintain our pole position. So, we feel confident, our Motorola relationship is extremely, extremely robust, we are the only contract manufacturer. And also, now Transsion that is Itel, Infinix and Tecno brand, which is almost 800K to a million units per month, is our company. So, we are absolutely assured of, these are our accounts and then comes the other accounts. So, that's where Dixon has to work and we feel very confident that, with the kind of scale we have, we generate an adequate operating leverage. And this business is going to be sticky, in fact, we are going to have a larger share of the customers’ wallet. Now, the direction that we are taking of backwardly integrating and operating in the non-semiconductor component space, that's margin accretive. The whole idea is to bring in more efficiency in the value chain, so that we are able to have this pole position, even beyond PLI, so that's the whole idea. And also we are fairly confident that in the non-semiconductor sector, the government is going to roll out PLI in next three to four months, of which Dixon is going to be beneficiary than the whole strategy.

Moderator: Thank you so much. The next question is from the line of Mayur Patel from 361 AMC. Please go ahead.

Mayur Patel: Just one question on this IT hardware journey, which is starting now, and you are talking about scaling up to 4500 crores kind of annualized numbers and things like that. Shall we expect margin profile to be similar to your mobile business and the overall economics in terms of cash flows working capital, or it would be different?

Atul Lall: No, it would be almost similar.

Mayur Patel: Okay. And there also you will eventually try to get into more components also, or it would be more….

Atul Lall: Yes, absolutely. Because see the display plant that we are setting up is going to be producing the displays for notebooks, for laptops and also, we are committed to get into the mechanicals that the enclosures and casing and precision components and die cuts for laptops. Further, the adapters are going to be done in India, in this also the SSDs are going to be done in India. So, it may not be absolutely in-house, but they are going to be sourced in India, because there's a IB PLI 2.0 is linked to that. So, that's the roadmap. So, the strategy, which we are pursuing very aggressively in mobiles, of first creating a very large scale, have multiple customers, have operating leverage because of the scale, and then backwardly integrate, is the same game plan.

Mayur Patel: Sir just one last question. So, what's beyond IT hardware are there any other new businesses which you are thinking to, what you think in to seed as of now, anything on the drawing board?

Atul Lall: So, one large piece is going to be component, because that itself is going to be consuming a lot of bandwidth, and please be rest assured the strategy teams here keep hunting for similar kind of products. So, we are working on industrial electronics and automobile electronics. It's in the stages of intensity, but that's what we want to pursue.

Mayur Patel: Even PCBA was there, in our thought process but when are we in terms of starting anything in PCBA manufacture?

Atul Lall: So, PCBA, I shared with you, in response to Bhoomika's question that we are in advance stages of discussion with a large industrial electronics company, and we are confident that this business is going to mature on the industrial electronics PCBA front.

Moderator: Thank you very much. The next question is from the line of Pranay Roop Chatterjee from Burman Capital. Please go ahead.

Pranay Roop Chatterjee: Sir my first question is on IT hardware again, and this is more qualitative in nature. Firstly, how do you see the overall environment, number one in terms of demand growth in the IT hardware currently. And secondly, from a tendency to outsource, because if I recall when the PLI participant list came out, like those who were awarded the PLI there were more than 10, 15 players including a couple of brands, the top brands, but Dixon has done a brilliant job in converting four of the top five, and probably the only player to announce any sort of partnership, and which can give meaningful numbers. So, how is the outsourcing environment, and do you see some of the other competitors becoming active. Do you see incrementally winning business being harder, easier, just sort of your thought process there?

Atul Lall: So, this is just beginning of this journey of IT hardware manufacturing in India. So, it's going to happen, it is going to happen due to two factors, one, the capability and the competitive manufacturing cost of the Indian players. That's what the Indian players have to acquire and prove to the brands that they can deliver on cost and quality, new product introduction that is one. The second is also the government policy framework. It has to keep on supporting the IT hardware manufacturing that's extremely important. We can see the signs from the government that they are committed to support it. So, initially I feel that it is going to be slightly slow, but once it reaches a certain level of maturity, then it's going to be a very huge steep curve up. And once that happens, I am sure, just like it happens in any industry, then many other players are going to come in. That's the trajectory is going to happen, in this also because it's linked to IDPLI to contour, to guidelines, the deepening of manufacturing is going to be much faster. That's what I feel, as compared to any other electronic product, like mobile that's the way it's going to be.

Pranay Roop Chatterjee: Got it sir. Link to this, there was more than a year back, the government had sort of to give a push to fill it to this outsourcing. They had sort of started import restriction on laptops. And then later after probably the industry push back, they moved to a import licensing system where practically everyone got the license. And recently it was extended as well for a few months. So, do you see significant traction happening and further order wins, before this import system goes away, because at least my understanding is, unless there is a regulatory nudge, even the brands will not even consider outsourcing in a big way.

Atul Lall: So, you are absolutely right, but we can see the signs from the government that there is going to be a deep nudge. That's what we feel, it's just a matter of some time.

Moderator: Thank you so much. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: So, we have seen a very impressive ramp up in the telecom business. So, will it be possible to share how large this business can become few years?

Atul Lall: So, indeed, there has been a significant ramp up in this business. Last year we did around 700 odd crores, this year we are targeting almost 2400 crores, if not more. And the order book looks extremely healthy, and the order book next year can be of almost 6000 to 7000 crores. That's the way it looks.

Shrinidhi Karlekar: And sir second is on Ismartu. So, you have given a revenue contribution of about 1100 crore in this quarter. Would it be possible to share some light on, how about the profitability in this business compared to your overall EMS business?

Atul Lall: The profitability is going to be slightly better than our existing EMS business.

Saurabh Gupta: So, it's slightly better than our existing mobile business, and also because it's slightly smaller balance sheet even the ROC profile as on in comparison with our mobile ROC its slightly better.

Shrinidhi Karlekar: And last if I make, the 70 crore PLI incentive book, is it largely coming from **(Inaudible) 43:27** and telecom related business, or some of it is also coming from Ismartu to consolidation?

Atul Lall: No, Ismartu consolidation there is no PLI we have taken as of now, but there is a contribution in PLI mainly from our other businesses. That is of course mobile Telecom, lighting and air conditioning components.

Saurabh Gupta: But a large part is coming from mobiles only.

Atul Lall: But not Ismartu.

Moderator: Thank you so much. The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: My question was regarding the cost of material consumed, the percentage of revenue has gone up by approximately 2% can you share the rationale behind that, from 90 to 92?

Atul Lall: Can you appreciate there is a change of sales mix, and a very significant part of growth has come from mobile wherein the contributions are lower. That's the reason this change has happened of reduction in the gross margins.

Onkar Ghugardare: Okay. Next thing is on the, you just mentioned a couple of minutes back that you are looking at the other high margin business, which would be increasing your overall margins. So, currently you are at 3.6 by when we can see the inch up in margin, how much time it will take for that, that business will start contributing meaningfully to the overall business?

Atul Lall: See, at present the large part of growth is coming from EMS business, which is going to be low margin business, and that's the way it's going to be for some time. So, because the contribution of the high margin businesses like refrigerators or washing machine, they are great businesses, but the contribution to the revenue is relatively lower, so the margin profile is going to be similar, but margin is going to improve once where completely operational in the component side, then there is going to be a significant upside on the margin profile, which is going to take around 18 months.

Onkar Ghugardare: So, for the component ecosystem thing to fructify, how much time it will take approximately one and half to two years, and how much approx. CAPEX how much we are planning to spend?

Atul Lall: So, we are planning to spend almost 375 crores in our HKC plant and for other projects, the numbers are still to be worked out.

Saurabh Gupta: The other numbers for other backward integration are still getting evaluated, but for both mobile and IT hardware display, it will be somewhere around 370 odd crores.

Onkar Ghugardare: And what kind of asset turn you are expecting in this component business?

Saurabh Gupta: So, asset turns would be somewhere around.

Atul Lall: Somewhere around 7 to 8.

Saurabh Gupta: 8 to 9 times, if the margin profile will be significantly higher.

Moderator: Thank you very much. Our next question is from the line of Mr. Achal Lohade from Nuvama Institutional Equities. Please go ahead.

Achal Lohade: Sir two questions, first on the CAPEX, total CAPEX if you could talk, call outs for FY25 and possibly for FY26, a ballpark number if you could?

Saurabh Gupta: So, first six months we have done a CAPEX of 360 odd crores, and we should be broadly around 550, 580 odd crores by end of this financial year. Numbers for next year, one has to work out.

Atul Lall: There are many opportunities on the table.

Saurabh Gupta: There are many opportunities there too. So, we will be able to better give you the guidance once we are closer to next financial year, starting with next financial year.

Achal Lohade: Okay. And if you could help us with the PLI income for 2Q FY24 like-to-like and also for 1H 24 to 25?

Saurabh Gupta: So, both the quarters you meant?

Achal Lohade: Yes, 2Q 24 if you could help us.

Saurabh Gupta: Q2 is around 70 odd crores, our share.

Achal Lohade: 24 sir.

Atul Lall: Get those numbers and share it with him separately.

Saurabh Gupta: But it would be a lower number of around 14, 15 odd crores, but I have to double check, I don't have the numbers right now with me.

Achal Lohade: Sure. And first half, if you could first half FY25 PLI income?

Saurabh Gupta: Around 50 odd crores.

Achal Lohade: 70 plus 50 you mean?

Saurabh Gupta: Yes, 70 plus 50 right.

Moderator: Thank you very much. Our next question is from the line of Saumil Mehta from Kotak Mutual Funds. Please go ahead.

Saumil Mehta: So, most questions have been answered just two quick ones. Now going forward, obviously we will be getting into businesses where the asset turns are lower, but obviously the margins are going to be far higher. Now internally, do we have a threshold in mind that we will be only chasing business where the ROC is obviously will be about 25% or 30% or something internally what we are just a broader thought process on that?

Atul Lall: So, we are working towards an extremely good blend of businesses. These businesses that we are getting into, they might be having slightly lower asset turn, but on a blended business basis, it is going to generate a 30% in fact higher ROC on a continual basis. And it's going to be margin a creative and it's also going to be beyond numbers. It's going to create a mood for us in enhancing our stickiness with the customer. So, that's the key thing and also we are expecting a PLI for these components to be rolled out by the government and in our internal budgets till now we have not taken those PLI numbers in our budgeting. So, there's going to be even further enhancing and expanding our margins. So, please be rest assured that the businesses of a non-semiconductor electronic component that we are pursuing is not going to have a very significant impact on ROC.

Saurabh Gupta: In fact, we feel that the ROC that you have seeing will be sustained it can be better, because there will always be a fine balance between your IT hardware business, which are high asset turns, and some of this backward integration projects which may have low asset turns but then again, those will have double digit kind of margins, so the ROC profile would not change much at a company level.

Saumil Mehta: Sure, that's very encouraging. And second and last question now, obviously mobile now a dominant part of business, incrementally will also be having the IT hardware and hopefully even the component business, but most of these businesses now again this might be a repetitive question indirectly, but most of these businesses are PLI linked. At some point in time, maybe three years out or five years out. Do we believe that the businesses we get into, or incrementally we will have businesses which will be more self-sustaining despite having the PLI, any thought process over there?

Atul Lall: Please appreciate, PLI is only an added advantage. The Indian electronics industry is going to completely service the Indian requirement, or the markets. So, there is no question about it. PLI is only an added liver, which was required by industry in the stages of infancy. And is it going to have an impact on Indian electronics manufacturing once the PLI tenure is over, I don't think so at all.

Moderator: Thank you so much. The next question is from the line of Madhav from Fidelity. Please go ahead.

Madhav: Just wanted to understand the construct that for some of the backward integration projects, you said that ROC is a pretty healthy even without the PLI. I am just wondering, why do things projects need a PLI from the government at all in case we can generate pretty healthy ROC despite the incentives. Just curious, that's my first question.

Atul Lall: So, you see, the PLI the government first of all we will have to wait for the guidelines, but the first cut draft that we have seen, which has been shared with it by the government. The government's intent is that in these particular components, India should become a part of the global value chain. So, these components are required, not only to service the requirement of the devices being produced in India for domestic market, but also for global market. And when we are looking at global markets, there is some support required from the government for some time. That's what PLI is all about. So, PLI on component is not for enhancing competitiveness, for servicing domestic market. It is for servicing the global market, and it's across various components, non-semiconductor components. So, it's required because the Indian industry still needs some support in this category.

Madhav: Okay. So, you think that the ROCE, which you were mentioning, is more for meeting the domestic requirement right now, so the export could be different?

Atul Lall: That’s right.

Madhav: Understood. And secondly, I just joined the call a little late sorry for that. Did you give a guidance to the mobile phone volumes for FY25 at all?

Atul Lall: No, we don’t give guidance.

Moderator: Thank you so much. The next question is from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: Have a few question regarding our lighting business, like if you could explain how is the competitive intensity and how do we expect the industry and our lighting segment to grow in particular, so if you could highlight something?

Atul Lall: So, we have grown as compared to last year, and also on quarter-on-quarter. It's profitable business for us, the ROCE in this business has improved. We have acquired new customers. We have expanded the product portfolio; we have expanded our product portfolio for down lighters and ceiling lights. We have done a lot of value engineering, we have backwardly integrated. We have got our own tooling’s, we have set up our own extrusion plant, we have diversified into the next product category of professionals. So, industrial light, and also the flood lights, and now the street lights have been rolled out. So, that's the way. Now, as far as the industry situation is concerned, I still feel that on the consumer product side demand is under pressure. But as far as the pricing is concerned, lately I am finding the pricing has stabilized. There was a huge pressure on pricing, and price erosion was happening, which lately I am seeing there is some level of stability in pricing.

Karan Sanwal: Okay. Did we experience a price decrease in the first half?

Atul Lall: Last quarter I have not seen a significant price erosion, they were almost same.

Karan Sanwal: Okay. And one last question, if you could also highlight the hearable and wearable segment that we have, who are our major clients and the industry competitiveness in that particular segment?

Atul Lall: Sorry, I am not able to get your question.

Saurabh Gupta: Sorry which segment are you talking about?

Karan Sanwal: The hearable and wearable segment that we include in our PMS side.

Saurabh Gupta: Yes, so it's only one customer which is Imagine Marketing which has a brand Boat, and we are dealing with them, so we only have one customer it's kept absolutely captive to them. And it's a decent margin.

Atul Lall: It's a descent profitable business with decent ROC.

Saurabh Gupta: It is a descent business, descent margin, very small balance sheet and Boat as a brand is doing very well in the marketplace.

Moderator: Thank you so much. The next question is from the line of Nirransh Jain from BNP Paribas. Please go ahead.

Nirransh Jain: Just some bookkeeping questions. Is it possible for you to share the revenue split of IT hardware as well for 2Q as well as volumes for the semi-automatic and fully automatic machines?

Atul Lall: So, IT hardware in this quarter was minuscule.

Saurabh Gupta: It's very small number so that's why we didn't report, it is a very single digit kind of a number. So, semi-automatic washing machine we sold around 5.5 lakh units, as against 5.2 same in Q2 FY23-24 and fully automatic was around 0.9 lakhs in quarter two.

Atul Lall: So, we were 50% fully automatic.

Nirransh Jain: Okay, perfect. And sir lastly one question on the rising interest cost. So, I just wanted to better understand what is leading to this rise in the finance cost for this quarter. It has been rising in the first quarter as well. So, any thoughts on what exactly is leading to this?

Atul Lall: Yes, one we have funded the acquisition through the combination of our internal accruals and debt. So, that debt has led to higher finance cost the Ismartu acquisition that has been done, and also the CAPEX intensity has been high and third is of course the more properties we keep taking on rental premises. So, this includes also the NDS adjustment on the interest on lease obligation, because the entire rent gets split between the depreciation and the interest cost. But mainly on account of the acquisition and also, if you look at the balance sheet between March and September the debt levels have gone up, one on account of acquisition and also on account of the increased business.

Nirransh Jain: Got it. And sir what is the reason for the sharp jump in the tax expense as well, like related to the deferred tax that we have seen in this quarter?

Saurabh Gupta: Deferred tax is basically entry which has been made on this one-time gain, because the way this whole investment will be treated is that, it will be restated every quarter, this AIL Dixon investment and our fair value gain on this so it will be restated. The value of the gain will keep getting restated every quarter. So, the auditors have kind of created a deferred tax liability on that. And so, at some point of time, maybe in Q4 or Q1 of next financial year, this will further get listed. So, it will keep getting restated every quarter and that's the reason the deferred tax liability has been created.

Moderator: Thank you so much. The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: This exceptional gain which you have received, how you plan to utilize that reinvesting in the business again?

Saurabh Gupta: No, sir as of now, it's a notional gain only because we have taken a stake in that company, but that stake is an unlisted company right now which they have filed the DRHP, and they should get listed in the next six to eight months, and then we will take a call on our investment. We think they are growing as a company, profitable company. They will be investing more on designing backward integration and on. So, yes this is a monetizable opportunity for us. So, we will take a call as and when the opportunity comes for monetizing it. So, then it will become a cash inflow for us, but as of course it's an accounting entry for right now.

Onkar Ghugardare: Okay. Another thing is that I guess for the next two years, most of the growth could be coming from mobile business and the IT hardware business and after that, we can see contribution coming from the high margin business, which you just mentioned, is that understanding correct?

Saurabh Gupta: Absolutely. So, mobile will be the largest trigger for growth, in a couple of years IT hardware should follow mobiles. It will be the second largest, and then the focus on backward integration, which we are pursuing. More opportunities can come in. But as of now these are the things that is the growth drivers for us.

Onkar Ghugardare: Okay. In terms of qualitative analysis, how big is the opportunity in the high margin business you talked about, is this as big as IT hardware or not that big, it can eventually become. That's what I am asking?

Atul Lall: Will you please appreciate that we are talking about in-house production of around 3, 3.5 million units. And if I talk a $100 phone, we are talking about doing in-house around $20 to $25. So, $25 into 3 million phones, we are talking about $75 million a month. That's the kind of opportunity we are talking about. Finally, that's what the canvas is. So, we are talking about almost $800 to $900 million opportunity in this component business which is a very large opportunity because it's highly marginal.

Onkar Ghugardare: It's too early to ask this question, but still on a blended basis how much that double digit margin can affect the overall profitability of Dixon?

Atul Lall: It's too early.

Saurabh Gupta: It's very difficult to say, but please be assured, the margins should go up on account of operating leverage benefits, on account of backward integration. But still, please understand and appreciate that a large part of our growth will come for mobiles, and IT hardware, which is relatively a lower margin business. So, there will be a fine balance, but overall, yes, margin should keep expanding, by how much it's very difficult to quantify.

Onkar Ghugardare: Just to conclude, whatever margin expansion would be seen that would be seen after two years, that's what we can say, or it can gradually keep on moving upwards?

Saurabh Gupta: It should start reflecting by senses in the next 15, 18 months it should start reflecting.

Onkar Ghugardare: Start expecting margins to move up gradually?

Saurabh Gupta: Yes, it should slightly move up in the next 15, 18 months. Once the backward integration piece is stabilized, and we have enough quantities in that, then it should start reflecting in that.

Onkar Ghugardare: And till that time, how much you are expecting around 3.6%, 3.8%?

Saurabh Gupta: That should be sub 4%, 3.6%, 3.8%, 3.9% somewhere around that range broadly.

Moderator: Thank you very much. We will take that as our last question. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Thank you very much sir for giving us the opportunity to host the call and answering all the queries. Thank you very much and all the participants, and wish you all the very best, sir. Thank you.

Atul Lall: Thank you Bhoomika, thank you everyone, really appreciated.

Saurabh Gupta: Thank you Bhoomika, thank you everybody.

Moderator: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.