Dixon Technologies (India) Limited

28th July, 2023

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 Q1 FY 24 Earnings Conference Call held on 25th July, 2023

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 Q1 FY 24 Earnings Conference Call of the Company held on Tuesday, 25th July, 2023.

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
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Date: 2023.07.28 15:08:00 +05'30'

Ashish Kumar
Chief Legal Counsel & Group Company Secretary

“Dixon Technologies (India) Limited

Q1 FY’24 Earnings Conference Call”

July 25, 2023

MANAGEMENT: **MR. ATUL LALL – MANAGING DIRECTOR AND 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 Dixon Technologies Q1 FY '24 Earnings Conference Call, hosted by DAM 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Bhoomika Nair from DAM Capital Advisors Limited. Thank you, and over to you, ma'am.

Bhoomika Nair: Yes, thanks. Good evening, everyone, and welcome to the Q1 FY '24 earnings call of Dixon Technologies. We have the management today being represented by Mr. Atul Lall, Managing Director and Vice Chairman; and Mr. Saurabh Gupta, Chief Financial Officer.

At this point, I'd like to hand over the call to Mr. Atul Lall for his initial remarks, post which we'll open the floor to Q&A. Over to you, sir.

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

Saurabh Gupta: Good evening, everybody.

Atul Lall: Thank you very much for joining these earnings calls for the quarter ended June '23.

Coming to our overall performance for the first quarter. Consolidated revenues for the quarter ended June 30, '23 was INR3,274 crores as against INR2,855 crores in the same period last year, which is a growth of 15%. Consolidated EBITDA for the quarter was INR135 crores against INR101 crores in the same period last year, which is a growth of 34%. Consolidated PAT for the quarter was INR67 crores against INR45 crores in the same period last year, which is a growth of 48%.

Our team's focused execution in a fairly challenging operating environment helped deliver strong earnings and 60 bps improvement of EBITDA margins year-on-year, led by operating leverage, cost optimization and efficiency measures across all businesses and also continued implementation of strategic price hikes across ODM businesses, both in washing machine and lighting.

The financial position continues to remain very healthy. with gross debt-to-equity at 0.14x. Our basic approach to capital policy always has been to maximize the return on invested capital and financial ability. Our ROCE and ROE in the last quarter was 32.4% and 23.1%, respectively, as on 30, June '23. And we feel confident the same will keep improving in the last coming quarters and years on account of improved earnings and working capital efficiency.

Looking ahead, we believe that we have a platform to sustain an extremely strong revenue growth moving forward with the strengthening in the overall demand environment and also our balance sheet, and most importantly, new customer acquisitions and getting into new domains.

Now let me introduce the performance and the strategy in each of the segments going forward. Consumer Electronics, revenues for the quarter were INR882 crores with operating profit of INR30 crores and 3.4% operating margin. Operating profit margins expanded by 70 bps year-on-year on account of operating leverage and continuous focus on backward integration and also increasing in the ODM share in our revenues. Revenue is 5% lower year-on-year as Q1 of FY '23 the segment also included INR71 crores contribution from our AC inverter controller board business, which has subsequently been transferred to a JV with the Japanese company, Rexxam. Excluding that, the revenue in this business had been flat.

We are on the way to roll out our Android-based solutions from Google by Q2 of the current financial year. And also we have entered into partnership with Samsung for their Tizen operating system, which will be rolled out in Q3 of the current financial year.

As shared in the last call, we have now started our backward integration into injection moulding, and the commercial production has already started. Further, our investments in the LED bar segment is online, and we hope we start manufacturing LED bars for internal consumption sometime in Q3 of the current fiscal.

We are also exploring new product range, which is commercial displays, which are used in public advertisements and information displays and also interactive boards for use in education institutes and offices. We feel that we should be able to roll them out by Q4 of this financial year. We already have some initial orders in this particular product category.

Lighting. Revenue for the quarter was INR222 crores with an operating profit of INR19 crores and an operating margin of 8.7%, which is an expansion of 150 bps year-on-year achieved through a combination of reduction in [crude 0:06:08] prices, inventory planning and value engineering and significant initiatives in sourcing.

Apart from sluggish consumer demand, the reason for the lower revenues year-on-year are high reduction in pricing due to drop in commodity prices and also migration of LED bulb technology from driver-base to DOB, like driver on board, which apprised approximately 25% lower. Since LED bulb is the single largest category in lighting, it had an impact on our revenue growth.

We have been very aggressive in new product introduction in the last three quarters and will continue the momentum with the launch of strip and rope lighting in Q2. This has already happened and the commercial orders have come to us.

Also, we are working on professional lighting launches, which should happen by Q4 of the current financial. Also, smart lighting products are ready for commercial launch based on Bluetooth mesh technology by Q3 of the current financial.

After getting export orders from the new customers in UAE in Q3 and Q4 of '22, '23, we have received our export orders from Germany, which will be executed in Q2 of the current fiscal. We are also in advanced stages of discussions with the potential customers, both in US and UK.

We have met our threshold investments in '22-'23 under the PLI scheme for LED Lighting Components in line with our backward integration strategy, which will make us more cost competitive. And the new plant for the LED lighting component in Dehradun has already started commercial production in May '23.

The capital employed in this business has been reduced by INR168 crores year-on-year on account of huge focus on current asset management, which is resulting in improvement in ROCE to 36% from 22% a year ago.

Home appliances. The revenues for the quarter was INR259 crores with an operating profit of INR28 crores with expansion in profit margins to 11%. This is mainly by increasing in prices, improved operating leverage and cost optimization measures. The ROCE in this business also improved 30% from 25% a year ago.

A new state-of-art facility of semiautomatic washing machine will be operational in a couple of weeks from now. In line with our backward integration strategy, we have set up our own poolroom for in-house pool manufacturing, which is already operational.

In our fully automatic top loading business, we have added Voltas Beko now as another anchor customer apart from Bosch. Supplies to Voltas Beko for fully automatic top loading have already started. And we've also expanded our customer base by including Lloyds, Reliance and Panasonic in FETL category. These products to these customers are going to be launched sometime in Q3 of the current fiscal. We're investing increasingly on this segment, more on R&D and we feel that the growth is going to be extremely healthy in this particular business.

Mobile phones and the EMS division. The revenues for this quarter was INR1,795 crores, a growth of 38% year-on-year with operating profit of INR53 crores with growth of 61% with an expansion of operating profit margin by 40 bps to 2.9%. We have got increased order book from Motorola for 1.3 million to 1.5 million smartphones in Q2 as against at least 1 million in Q1. We expect the volume to increase to 2 million a quarter, including some large export orders from Q3 of the current fiscal.

The large stint in this business is the new customer acquisition in mobile category, which as I have been sharing. So one, we've acquired Transsion Group, which is the owner of itel phones for smartphones and feature phones, which is the fifth largest brand in India. We have already commenced production for itel for feature phones, which is approximately 1 million a month. And from the month of September, we start production for their smartphones, which is going to be almost 0.8 million to 1 million smartphones a month. Also, our production for Xiaomi for smartphones is targeted to start sometime in September or early October of this year.

Also, another highlight of our recent success is, securing a large order of Jio Bharat phones from Reliance Jio. We've got an order for 15 million units. We've already delivered 1 million units and this business looks very healthy. It's almost a INR1,500 crores business for us in the current fiscal, which is -- for which the commercial production has already started.

So this is going to be our major, major growth area, which we have been talking about earlier also. In order to meet increased demand of our customers and gain in large market share, we have leased a large 3.2 lakh square feet facility in Noida in addition to our existing three facilities and is expected to commence production sometime in mid-August next month.

As we move forward, the next phase of growth remain focused on manufacturing expense, quality, efficiency and customer satisfaction.

Telecom and networking products. Revenues in this segment for the quarter under review was INR102 crores. A new facility in Noida got operational in December '22 is now getting stabilized, and we have an extremely healthy order book from Airtel. We bagged a large order of HD ZAPPER set top boxes and also Android set top boxes, which is expected to start production in Q2 of the current fiscal.

We've also got a large order from Jio for Internet-based set top boxes, which will commence production in Q3 of the current fiscal and also 5G CPE devices, which also will start production in Q4 of the current fiscal. In this, we are also a beneficiary of PLI. We have already achieved the thresholds of both capex and minimum revenue in the first year, and we have filed our incentive claims with the government.

We are also in active discussions with some very large global brands for existing and new product categories and building a team of joint R&D for both servicing in the domestic market and the global market.

Laptops and tablets, IT hardware products. Revenue for this segment was INR86 crores. The government has recently announced revised PLI scheme for IT hardware products with a higher incentive payout, we'll definitely be part of this scheme. Presently, we have Acer as pour anchor customer in this business. We're in advanced stages of discussions with some very, very large global brands. We're very hopeful that these discussions are going to be positive and is going to be fructify into this business.

Wearables and hearables. We are in partners with boat. In this segment revenue was INR189 crores. We have an extremely healthy order book and now we are clocking a monthly rate of almost 2 million devices per month. Recently, they have placed orders with us in addition TWS all the smartwatches for which the new line is being set up and will get operational in another couple of months. We are targeting to almost double our 50% share in revenues with healthy operating margins and superior ROCE in this business. Also, as a part of our backward integration strategy, we will start SMT of PCBA in the current financial year.

Security Surveillance. Dixon's 50% of shares of revenue for INR114 crores. We expanded our capacity from 10 million per annum to 14 million per annum and had two new 2 lakhs square feet facility in Kopparthi, which got operational on May 15, in the current fiscal. Operating profit margins in this vertical have come down, mainly due to shifting expenses and the two gross structures running. It will get optimized in a quarter or so.

In our JV with Rexxam, wherein we manufacture the inverter controller boards for air conditioners. In this JV, we achieved the revenues of INR9 crores. The revenue potential in this business is huge because we've now also got the export opportunities of this particular SKU from Europe and also from Latin America. And this business also, we have achieved the capex and revenue threshold for PLI and the claims have been filed.

Refrigerators. The construction is underway at the new 20-acre facility in Greater Noida for 1.2 million direct cool refrigerators. This is in the product categories of 190 Liters to 235 Liters, and we are expecting to start production -- commence production in Q3 of the current fiscal, sometime around October.

I would like to stop now and look forward to answering your questions. Thank you.

Moderator: Thank you. The first question comes from the line of Dhananjai Bagrodia from ASK. Please go ahead.

Dhananjai Bagrodia: I wanted to ask you regarding your margins Q-on-Q across segments, we've seen a margin dip. Any reasons particular of that?

Saurabh Gupta: There is no particular reason, Dhananjai. Basically, if you look at the whole margin profile across four quarters. Q1 generally stands slightly slower quarter for the consumer durable business. Basically, investment goes into the AC business, the cooler business. So it starts to pick-up in Q2. Q2 is generally before the festive season, is the best quarter for us. Q2 and Q4 are considered as the best quarters for us. So historically also, you will see that Q4 margins would always have in the Q1 margins. And then there can be a kind of a mix kind of impact also. This quarter, we had higher revenues coming in from -- the basic I think, this would be the reason.

Dhananjai Bagrodia: Okay. Sure. And sir, now as we're seeing in terms of lighting and consumer electronics. For consumer electronics, what would have been the reduction in open sell prices?

Saurabh Gupta: Year-on-year, if you look at consumer electronics, the prices have actually gone up from last year because the reduction had already started to happen from the first quarter. So last year, the weighted average selling prices for our entire portfolio is around INR11,400. And this quarter, we have closed at around INR12,000-odd.

Why it shows a decline, there are two reasons for it. One, last year, we had some sales of our AC inverter controller board, which also was reflected in the consumer electronics business, which was INR71 crores. And then from there onwards, we started the JV with Rexxam, which is now no more there in the current Q1 numbers. So that's a INR70 crores kind of impact. And also, the volumes have been lower. So quarter 1, our volumes have been lower by almost 6% to 7%. So as against 7.7 lakh TVs that we sold last year, we sold around 7 lakh TVs this year. So majorly it is volume and the impact of the AC PCB and inverter.

Dhananjai Bagrodia: So sir, you said volume reduction of 7% year-on-year, right?

Saurabh Gupta: 7%, yes.

Dhananjai Bagrodia: Okay. And how is that shaping up now?

Saurabh Gupta: 5%, sorry. As we sold 7.4 lakh TVs last year. And this quarter, we had sold around 7.1 lakh.

Dhananjai Bagrodia: And sir, lighting? So regarding that reduction?

Saurabh Gupta: Lighting, there are two reasons. One, of course, there has been a big -- as mentioned by Mr. Lall in his remarks, there's been a big value erosion in our LED bulbs, which is almost 65% to 70% of our portfolio today, and there has been a value erosion of almost 25%. And overall, there has been -- the market has been very slow as far as the lighting products are concerned. So these two are major reasons why our revenues dipped lower in lighting.

Moderator: Thank you. The next question comes from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Yes. I have two questions. First, on your mobile phone. Now after your recent tie-up with Xiaomi, could you discuss the road map of manufacturing for Xiaomi in terms of the volume that you're expecting, the kind of capex that you might have to do for this particular tie-up?

And also, if you can talk about if there is any discussion with respect to manufacturing of the Google Pixel phone also given that they also want to manufacture in India. So that's my first question. Thank you.

Atul Lall: So on Xiaomi side, the capacity creation and infrastructure setup is on. The teams have been sent for training. The IT infrastructure is being set up. And our target is to start production sometime in mid-September. But I think it's going to start in a couple of weeks here and there. And the initial plan is to reach up to production levels of 0.5 million per month. That's what we are planned for. And then step-by-step it's going to be scaled up in the next phase to almost 1 million.

On the second question, there is -- when you're talking about Google Pixel, there are certain confidentiality clauses. And I'm extremely sorry, it'd be difficult to share the details of that. On Xiaomi, this is the road map.

Rahul Gajare: Okay. But when you said you want to ramp up from 0.5 million per month to 1 million. So how much time will this ramp-up take?

Atul Lall: So there is no timeline being worked out on that. It is on the execution of the Phase 1, which is 0.5 million. I feel this is going to take 8 months to a year to ramp it up in the next phase for 1 million.

Rahul Gajare: Okay. Sir, continuing with this mobile phone question. Now in this particular quarter, if we were to remove the variable set top box, telecom, etcetera, growth of mobile has been only about 6%. So could you throw some light on that? Thank you.

Atul Lall: So please appreciate the Motorola production has been kind of flat. It's 1 million units. In the other mobile segment, there's a significant increase mainly in the feature phone side. In the second quarter, the coming quarter and the order book of Motorola is much higher and we are targeting almost 1.3 million to 1.4 million and also the bulk of Jio Bharat production. And also the itel feature phone production would increase the numbers and these numbers would significantly go up from Q3, because the Motorola production increases, the itel production increases, Xiaomi's production come into play and also Jio Bharat production come into play. And also, Nokia, the present running rate -- run rate is almost 1 million a month. It's going to grow to 1.4 million to 1.5 million.

Rahul Gajare: So my last question is on the refrigerator. So you did touch up on some aspects of the refrigerator, but maybe I missed some of those things on the refrigerator side. So in terms of capex capacity, the payback or the target ROI that you have in mind as far as the refrigerator business is concerned? Thank you.

Atul Lall: So we are making our capex is almost INR400 crores in this business. We are creating a capacity of 1.2 million DC refrigerators, which is with the capacity of 190 Liters to 235 Liters. The commercial production is going to start sometime in the October-December quarter. We already have certain committed offtakes from certain large brands. We're getting into strategic relationships. And the payback period for this business is going to be four years. And the ROCE, we are targeting with the ODM business is going to be 20%-plus.

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

Aditya Bhartia: My question is on the opportunity from IT mobile. How large is the opportunity, because 0.8 million to 1 million units per month sounds like a very, very large number. Are we going to do the complete assembly of the mobile phones including PCB assembly, or is it going to be more of a job?

Atul Lall: It's going to be complete assemblies, Aditya. And you know that itel is the largest manufacturer of feature phones in India. So largely 100% of the feature phones will be somewhere in the range of 1.3 million to 1.5 million will be done in Dixon. And also the smartphones are going to be done by Dixon. So it's a fairly large opportunity, somewhere in the range of around INR5,000 crores a year.

Saurabh Gupta: Aditya, if you look at the large reported numbers in the March financial -- FY 2023, they delivered revenues of almost INR6,500 crores. So that is the opportunity to that we have.

Aditya Bhartia: Sure. And almost entirely, everything is going to be done by Dixon?

Atul Lall: That's what we are aspiring for. It's going to be in phases, but that's what we are aspiring for. And that is the capacity we are building, Aditya.

Aditya Bhartia: Understood. And itel is not the second customer that we were aiming for, that's something else.

Atul Lall: No, that's the second customer.

Aditya Bhartia: So Xiaomi and itel were the two customers that we had spoken about in the last conference call?

Atul Lall: That's right.

Aditya Bhartia: Okay. Understood. And sir, my second question is on the lighting business. Wherein we are targeting to grow our patterns in downlighters business for the last few quarters. But it appears that we are not really seeing a major success out there. So just wanted to understand what are the constraints, because I would have thought that these are similar customers, and therefore, a ramp-up could have been faster?

Atul Lall: Aditya, customer acquisition in any SKUs, even if it's your existing customer, it takes some time. So please be rest assured, the team will add it and is going to happen, and we're getting a positive traction. It's going to take some time. But step-by-step, we are moving towards it. I agree with you entirely that we are a bit slow, but we are confident about it. The R&D team is extremely sure about it. We're getting a very good response on the SKUs that we have launched. It will happen. Its quietly slow, I agree with you.

Aditya Bhartia: Understood. And also on the export opportunity, sir, because you spoke about some contracts from Germany and possibly later from US and UK. How are you looking at it? How large could it be for this year and maybe from two to three years' perspective?

Atul Lall: Germany, trial order is under execution. US, UK, it's in advanced stages of discussions, we are confident. But at this stage, to give a number to it I think it would be slightly premature. So that's the stage at which we are, Aditya.

Aditya Bhartia: Understood. And how large should we assume export opportunity for this year and from a three-year perspective, sir?

Atul Lall: So in the current financials, it's going to be a small opportunity. But if we are able to get breakthroughs, which we are fairly confident about, both in Europe and US, it can be a large opportunity, which can be built into INR80 crores to INR100 crores business in a couple of years.

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

Natasha Jain: My first question is on the Xiaomi onboarding. So you have onboarded that client for mobile phones, but I've also noticed that one of your competitors have seen wallet share from Xiaomi decrease, while yours has increased. So I want to understand at an EMS level, is it just a broader diversification that the players do? Or are you offering some favourable terms that has led to this shift from one of your competitors to your books?

Atul Lall: So I think it's a combination of many, many things. It's a combination of course of a better commercial case and also Dixon's capability to deliver. So it's a combination of both things, which leads to such moves.

Natasha Jain: All right. And sir, my second question is on the Xiaomi TV segment. So can you just give us any growth expectation there? Has the budgeting been done for this year?

Atul Lall: It has been slow and there is the Xiaomi piece -- we expect this year to close at somewhere around 0.8 million to 0.9 million of almost 30%. The Xiaomi's overall TV business, there has been slowdown.

Natasha Jain: All right. And sir, my last question is, since you must have done your annual budgeting by now for your segment, so can you just give us a broad guidance for your FY '24 numbers? And also if you could give segment-wise volume data for this quarter, if that's possible.

Atul Lall: So as far as the revenue is concerned, we don't want to give any guidance. But please be rest assured that it will be an extremely good growth much ahead -- much, much ahead on the industry growth. On the volume side, I'll request Saurabh to share the numbers.

Saurabh Gupta: And on the guidance side, of course, we don't want to give any numbers. But clearly, a lot of things have changed positively for us, especially on the mobile business. So things are looking positive.

I'll check the volume number. For the TV side, as I mentioned, we did a volume of around 7.4 lakhs as against 7.1 lakhs last year -- or sorry, 7.1 lakhs this quarter as against 7.4 lakhs. The semi-automatic washing machine, we did around volumes of around 3.9 lakhs. This is a growth of 10% against same period last year. Last year, we did around 3.5 lakhs. Fully automatic was broadly flat. There is a small degrowth in fully automatic washing machine, but we have a very strong order book now with Voltas coming on board.

Smartphones, there is a growth outside of Samsung smartphones. With other smartphones, we had a growth of 3%. We did almost 11 lakh smartphones. We did almost 34 million -- 34 lakhs smartphones as against 8.5 lakhs smartphones. In case of Samsung, specifically, we did almost 20 lakhs smartphones, similar to last year.

And then the CCTV, DVR, we did volumes of almost 90-odd lakhs. And then there are smaller numbers of set top box. TWS, which is the variable and hearable part of the JV, is around 37-odd lakhs.

Moderator: Thank you. The next question comes from the line of Ankur from HDFC Life. Please go ahead.

Ankur: Starting off in terms of the overall demand environment itself, especially in case of TVs, lighting, home appliances/washing machines, obviously, it's been kind of a soft quarter for us. But clearly, how are you seeing the overall industry? And also, your order books as we get into festive maybe a couple of months down, what is the feedback you're getting from some of your key customers there?

Atul Lall: So Ankur, it's mixed kind of a bag. Now in the categories of television, the demand is flattish. Similarly, in lighting, the demand is flattish. So there is some uptick around the forecasting for the festive season, but it still is flattish.

In washing machines, in our case, both in semi-automatic and in fully automatic, the order book is extremely healthy.

In the case of mobile phones, I shared just now the order book in our case is extremely healthy, but as far as -- but this is mainly because of new customer acquisitions, also increased volumes for both Motorola and Nokia.

The sense that I get from our customers in the marketplace, there has been some uptick, but it's still the demand is subdued. One category in which there's an extremely good demand is that of wearables and hearables. And there the order book is extremely healthy. And we have, in fact, ramped up our capacities to almost 2.7 million devices a month and [airbag 0:34:29] we were barely at 0.67 million.

So mixed kind of a bag. In case of CCTV and DVR, again, the order book looks healthy. So to summarize, in some of the product categories like TVs and lighting, it's subdued. In washing machine, our order book is very healthy, mobile is very healthy, CCTV and also the hearables and wearables. So this is the kind of situation.

Ankur Sharma: Fair. And sir, on the volume growth target for this year, I think you mentioned the number, which I had missed. I think the voice wasn't very clear on TVs. So what would be the growth number or the absolute volumes you're looking there for this year in TVs?

Atul Lall: So we did 3.4 million in the last financial year. In our annual budget, we have taken a number of almost 3.7 million, which is 10.2. So we have done almost 0.7 million. The order book is better. But let's see, one is keeping the fingers crossed. It depends on how the festive season goes.

Saurabh Gupta: It depends on this quarter 2, Ankur. That will really determine what number we close at.

Atul Lall: So in this fiscal, Diwali is on 17th of November, so it's slightly late. I think the Q3 also should -- the demand would sustain.

Ankur Sharma: Right. And sir, I remember a couple of quarters back, you spoke about monitors also becoming a fairly large opportunity. Is there anything to report there? Is the scale-up happening on that side?

Atul Lall: Monitors for Dell and commercial production is happening. But what has been produced in India with Dixon for Dell is largely for the government buying. There, the order book is very moderate.

Ankur Sharma: I understand. Okay. And just one last question. So on the IT hardware PLI, right? And I understand you are still under discussion and getting finalized, but which are the specific areas we would be targeting on the IT PLI side?

Atul Lall: So we are in discussions with some large global brands. And as far as the broad category is concerned, we are focusing mainly on notebooks. But along with that would also come the desktops and also the tablets. But the main production is going to happen on notebooks.

Moderator: Thank you. The next question comes from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Sir, now that you've signed multiple customers in mobile phone segment, just wanted to understand which customer would be in the ambit of PLI scheme and which would not be?

Saurabh Gupta: So Dhruv, everything will be part of the PLI scheme, except for the Samsung smartphone business that we do. Apart from that, everything falls under the PLI scheme.

Dhruv Jain: Okay. And just a clarification on the consumer electronics business. So we've seen a sequential decline in the ODM share. So is it seasonal or something has changed there?

Saurabh Gupta: So year-on-year, the numbers of ODM have gone up, a percentage of ODM has gone up. If you are talking from quarter 4, yes, it would show a decline, but my sense is only a phenomenon this quarter. As we start to roll out our solutions both on Android and also in Tizen, Samsung operating systems, I think so the numbers would start to go up. So this year, we are expecting that this year, the number should be about 40% at an annual level. But once we start -- by Q2, Q3 it should start reflecting at those kind of numbers.

Atul Lall: So in TV business, the maximum growth is going to come in our case from our ODM business.

Dhruv Jain: Okay, sir. And just one clarification on this new itel business that you guys have won. So just wanted to understand what will be the quantum of the smartphone volume in that piece apart from the feature phone volume that you explained out earlier?

Atul Lall: So Xiaomi is completely smartphone and in the case itel...

Dhruv Jain: No, I was talking about itel, yes.

Atul Lall: In the case itel, the smartphone volume somewhere should be in the range of 0.7 million to 0.8 million a month.

Moderator: Thank you. The next question comes from the line of Girish from MS. Please go ahead.

Girish Achhipalia: Sir, just a couple of things. So I wanted to understand your mobile revenue guidance for the year. Sorry, my line was a little bad. So for the full year, are you planning the same INR8,000-odd crores for this year?

Atul Lall: So we don't want to give any specific guidance for mobile as a vertical, but it will be the largest piece of growth for us. Also, please appreciate that the manufacturing has just started. And any ramp-up, it takes some time. So it undoubtedly will be the largest growth driver for us and it's a larger opportunity in our papers.

Girish Achhipalia: Okay. And can you comment on Xiaomi's volumes that you will be doing typically for this year, whenever you start doing it? Would it be the annual volumes for Xiaomi, because they've been losing market share given the regulatory issues that they had. I don't know if the worst is behind, but just wanted to understand how much volumes have they committed to us?

Atul Lall: So as I shared in response to earlier question that initially, we're starting off with 500K a month and we feel that in phases it can be ramped-up to 0.8 million to 1 million a month. However, that's linked to our execution. So that's the road map.

Girish Achhipalia: And last one for Saurabh. Just on capex. So we've incurred about INR110 crores-odd this quarter. Should we assume INR400-plus crores kind of capex this year? Or if you have any specific number to share? And any breakdown will be helpful.

Saurabh Gupta: Girish, that would be the number. It's around INR400 crores to INR420-odd crores should be the number that we have budgeted for this year. And broadly, the capex that we will go into one into the mobile for expansion for new customers of itel and Xiaomi. Second on the refrigerator project. Third, we are also constructing and will be operational in August only. Our facility -- the washing machine facility for semi-automatic -- so there -- and then whatever committed capex is under the PLI for IT hardware, for telecom, those would be there.

Moderator: Thank you. The next question comes from the line of Bhoomika Nair. Please go ahead.

Bhoomika Nair: Yes, just wanted to check on lighting. You did mention that the market has been quite slow and weak. But just wanted to get a sense in what is the outlook? Because -- is the pricing erosion still continuing? How is the volume growth that we are looking at. So if you could just first talk about this aspect and then I'll get into the other aspects of the lighting segment.

Atul Lall: So Bhoomika, as Saurabh had shared, once the market has undoubtedly been very subdued on the consumer-lighting side, the demand has been extremely under pressure, particularly for the SKUs like LED bulbs and batons, which were the largest contributors to our revenues in lighting.

The second is because of migration and technology, particularly on the LED bulb side, strong driver on DOB base, there has been a price erosion to the extent of almost 30%. So the unit value is also eroding. Now these two combined have led to an impact on the lighting business for the industry, and so is the case for Dixon. So what is the way forward? The market trend is shifting more towards the downlighters and sealing lights. And that's what we are gearing up for.

Then also, we have launched a new product category, which is having a significant traction in the market. Of ropes and the strips, they have been commercially launched. And we feel that,

that can be almost INR80 crores, INR90 crores business for us in the coming quarters. INR80 crores, INR90 crores on an annualized basis.

Third large piece that in Dixon's product portfolio we have built out is on the professional side. So we have a strengthen in R&D, particularly with Kunal, who was heading Philips R&D coming in and heading our R&D. So those product launches are being planned. Then we have planned and we have gone in for an acquisition of a smart lighting design company, Ibahn, which has already been operationalized, which is based on Bluetooth mesh technology. Those products have also been prepared, and we commercially launched them sometime in Q3, Q4. So these are the actions taken, which hopefully will get the lighting business back on track.

On the other side, we have consolidated our footprint. We are a part of a PLI, for which the thresholds, both in investments and revenues have been met, that will expand our margins. We have expanded our margins as compared to last year by almost 170 bps. We are mainly focused on capital efficiency, and the ROCE is significantly improved in this business to 30%-plus. And by managing the current asset better, we have leased almost INR140 crores in this business. So these are the initiatives taken. And this is the path we're going to pursue.

Bhoomika Nair: Sure, sir. Sir, this ropes and strips and professional lighting, how large is the market size, what can it be? Because clearly, the traditional LED, as you said, is under tremendous pressure. But these new segments can become how large, how large is our addressable market, etcetera, if you can just throw some light on that aspect?

And lastly, on the -- you spoke about some trial orders in Germany, etcetera. How large are these orders currently? And what can they potentially scale up to in a period of two to three years?

Atul Lall: So we feel that the strip and lighting business, strip and rope business can add to our top line almost INR5 crores to INR6 crores to start with, and then it can scale up.

On the professional lighting side, please appreciate it, almost 40% of the Indian lighting industry is on the professional side. So that's what we are getting into. That was a complete miss out in Dixon's portfolio. It is going to be slightly slow, but we hope to launch these products sometime in Q4 of this financial year. Now that’s a big opportunity that is going to be scaled up step-by-step.

On the export front, the Germany trial orders are in the process of getting executed. We feel that both European and American opportunity in a couple of years can be INR100 crores business.

Moderator: Thank you. The next question comes from the line of Abhishek from DSP. Please go ahead.

Abhishek: Sir, if you can just talk about the competitive intensity mostly in the TV and lighting segment in terms of how is the competitive landscape? Is it deteriorating, improving, stable? Just the thoughts that will be helpful, sir.

Atul Lall: So when we're looking at TV, have we lost any market share? Has there been any significant customer shift from our side to competition? No, that does not happen. There has been some competitive intensity increasing because of a multinational entity setting up an EMS base in India. But till now has it had any significant dent on our business. No, that's about TV.

When we are looking at lighting and definitely, the competitive intensity has increased. There are a couple of players who have increased their presence, which might have had some small impact on our market share, not so much on the bulb side, but on tubelight side, yes. So that's the status.

Abhishek: Great, sir. Sir, the other thing is, what is the broad utilization scaling of our new factories are, because in the last 18 months, you've done a lot of capex and how should one see the impact of operating leverage as you scale up revenues from this INR12,000 crores of top line in FY '23. When you scale up, how should one see the impact of operating leverage into the margin profile, if you can just help us with that, sir?

Atul Lall: So if you see, across all our businesses, the margin profile has improved and it is primarily because of the scaling up and generating and operating leverage. And also migrating to more-and-more ODMs and also the backward integration piece. So you will see that in the case of washing machines, at some point of time, we had come down to around 7%, 7.5%. We have been able to restore it to 11%. Partially, it's because of value engineering and also scale. And now with new factory becoming operational, we feel it's going to add up to our operating leverage capabilities.

In televisions, we generate an ROC of 100%-plus. We have managed the gross box very, very well. We have managed the capital efficiency very, very well. And now two backward integration pieces are going to be operationalized. One is the injection moulding plant has already become operational, is going to help us improve in our margins.

Second, the LED bar, this is also an important input and to television is also going to get operationalized sometime in Q3 of the current fiscal. So that helps us in further improving the margins in this business. But definitely, the largest piece in our business is the mobile opportunity. And it's going to be scaled up to a very different level. But that kind of scale coming up, operating leverage will definitely kick in. Initially, it's going to take some time, possibly a couple of quarters. With any ramp-up, it takes some time to stabilize. But I feel the operating leverage will kick in on Q4.

In the case of wearables and hearables, wherein we have upped the production from around 0.6 million, 0.7 million pieces and this current month, it will be over 0.7 million pieces. You'll see that getting reflected on numbers for the current quarter itself. So that's the situation.

Abhishek: Great. Sir, just one last question from my side on the Xiaomi bit of it. In terms of the whole protocol of go-getting the product approved and other things. Are those processes simultaneously going on? Or once the capacity comes in, then it happens and then will that ramp-up? If you can just help us with the sequence of events?

Atul Lall: So we are at a very start -- advanced stage of execution and the target date for launching commercial production is September. But let's see, it's a tough call, but that's what we are targeting.

Saurabh Gupta: But to answer your question, Abhishek, since all those projects are going on parallelly.

Abhishek: Saurabh, your voice is not clear.

Saurabh Gupta: I'm saying all those process -- some of them have been concluded also and some of them are going on parallelly.

Moderator: Thank you. The next question comes from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Building on the earlier question with respect to itel, which is a new client that you've signed up. Can you discuss who are manufacturing for itel earlier? And since you were talking about starting with a volume of 0.7 million to 0.8 million, do you see itel becoming bigger than Xiaomi over time for Dixon? So that's the first question.

Atul Lall: So presently, its their in-house manufacturing. It's being outsourced to us, responding to the first part of the question.

Rahul Gajare: transition, right?

Atul Lall: Dixon is going to be larger, only time will tell. We want all of them to be larger than...

Rahul Gajare: Okay. Sir, with respect to the total mobile revenue, almost INR6,500-odd crores. How do you break this up into the smartphones and the feature phones? That's the last question. Thank you.

Atul Lall: Almost 80%, 85% of the revenues are going to come from the smartphones only.

Saurabh Gupta: The average selling price for a feature phone would be something in the range of INR500 to INR800 of a number. So significant portion will still come from phones.

Atul Lall: Almost 80%, 85% of mobile revenue will come from the smartphones.

Moderator: Thank you. The next question comes from the line of Alok Deshpande from Nuvama Institutional Equities. Please go ahead.

Alok Deshpande: First question on the mobile production ramp-up that we have for the next 12 months, 18 months. I just wanted to understand the new production that will come -- while I understand there will be operating leverage, but just wanted to understand whether given it's a very large-sized contracts and multiple contracts, will they be at similar margins as the current margins or lower margins, higher margins? Any color that you can give on that?

Atul Lall: So the margin profile of the business will be somewhere in the range of 2.3% to 2.7% something like that.

Alok Deshpande: Okay. This is the EBITDA margins, you mean?

Atul Lall: Talking about operating margins. But in this, there'll be no working capital intensity. It will be miniscule.

Alok Deshpande: Understood. And my second question is, do we have any plans of getting into manufacturing of medical equipment, etcetera, which is slightly sort of going away from the consumer electronics part?

Atul Lall: Not as of now.

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

Natasha Jain: I just wanted to understand a little more on the refrigerator segment. So assuming that it starts from quarter 3 for this fiscal and since you've already started putting up the capex, you must be in talks with certain players. So can you give us a sense as to how the ramp-up will happen here? What kind of volumes can we expect this year?

Atul Lall: Natasha, the commercial production, we are targeting in quarter, October-December. But please appreciate, refrigerator is a complex product. It's Dixon design product and the approvals because the brands that we're talking to are large, global and Indian brands. It will take some time for the technical approvals to come up. The commercial production will start to put the numbers to what volume we'll be doing this year is slightly premature. But finally, what we aspire to do is almost 0.8 million to 1 million units in the next financial year.

Moderator: Thank you. The next question comes from the line of Aditya from Retail. Please go ahead.

Aditya: Given the thrust that our government has on semiconductors and PLI and so on and so forth, what is your outlook for Q2, Q3 and Q4?

Atul Lall: Sorry, I didn't understand the question. Can you come again, please?

Aditya: There has been a fair bit of incentivization from our government, right, in terms of getting more SMT production into our country. These are coming in terms of creating a more -- a better ecosystem for this kind of industry as well as giving PLI incentives. So what would be your outlook for Q2, Q3 and Q4?

Saurabh Gupta: I don't know whether we have understood your question correctly, are you talking about specifically the semiconductors or about the general PLI schemes?

Aditya: PLI specifically as well as the other initiatives taken by the government. I'm talking more from sourcing, having more use of norms on sourcing specifically to boost production in India?

Atul Lall: No, I think that's going to take some time. So the government semiconductor policy, the foundation is being laid only now. But foray to start commercial production and how much is going to be sourced within Dixon, it's a very difficult question to answer at this stage. In any case, if at all it happens, it is going to take time.

Aditya: Okay. What is the outlook for Q2, Q3 and Q4?

Atul Lall: So we are not giving any guidance, but please be rest assured that the order book that we have and particularly in certain product categories like mobile, it's going to be a fairly aggressive.

Aditya: Any numbers you could go between in terms of mid-teens, high teens?

Atul Lall: Sorry?

Aditya: Any number that you could guide for, mid-teens or high teens?

Saurabh Gupta: No, we don't want to share any particular numbers. Clearly, the visibility looks good, especially we've got some large orders, which we have mentioned on this call. But we don't want to quantify the numbers, please.

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

Aditya Bhartia: I just wanted to confirm, for these new mobile phone customers, you mentioned that the margins are likely to be 2.3% to 2.7%.

Atul Lall: That's right, Aditya.

Aditya Bhartia: And this would include the share of -- our share of PLI benefit as well?

Atul Lall: Yes. This is on a gross basis.

Aditya Bhartia: Okay. Perfect. And could that also mean that for our existing customers also, there may be your margin reset at a lower level? What I'm trying to understand is that is it that the segmental margin or the overall on the mobile phone business, the margins will get reset at maybe around 2.5%.

Atul Lall: So if you see the margin profile in mobile business, if you take the Samsung business, somewhere has been in the range of 2.7 to 2.9, so I'm being trying to conservative, that's all.

Aditya Bhartia: Understood, sir. So you're saying that pricing and margins are broadly similar to how they've been for the existing business and you're just putting in some questions.

Atul Lall: That's right. That's right.

Moderator: Thank you. The next question comes from the of Amber Singhania from Nippon India Asset Management. Please go ahead.

Amber Singhania: My first question is regarding the JV with Tinno Group. If you can share the status how that is panning out? And are we -- have we started manufacturing for them? What is the timeline and are we sticking with that INR1,500 crores kind of revenue contribution from Tinno Group once it is fully operational?

Atul Lall: So we have filed our application with the government for Press Note 3 approval. It's taking time. We have still not got the approval. Yes. So we are waiting for that clearance to happen to start the project.

Amber Singhania: Okay. And any estimated timeline, sir, which we can see for the production?

Atul Lall: We are working with the government, but Press Note 3 is time-taking and its slightly complex regulatory initiative of the government. So I think we'll have to wait for some time on the Tinno business.

Amber Singhania: Okay. And secondly, sir, just a clarification on itel business. You mentioned on one of the participant questions that earlier they used to manufacture in-house and now that entire thing has shifted to us, sir. So just wanted to understand, is it only because of the PLI benefit the shifting has happened, or there is something else? And what will happen to their idle capacity? Are we also looking to acquire those facilities in the new course?

Atul Lall: So PLI definitely is one of the reasons. And also more-and-more brands strategically are looking at outsourcing than manufacturing. So it's a combination of both the factors. On the second part of your question, yes, the discussions are on.

Amber Singhania: Okay. And just one adding up question on that. Their total revenue, which we mentioned around INR6,500-odd crores. If you can give some color about how much pieces of smartphones they used to do and how much a feature phone they used to do?

Atul Lall: So almost 70% of the revenues are coming from the smartphone business.

Amber Singhania: Okay. And this would be a similar realization than what we are doing for Samsung or Xiaomi?

Atul Lall: Sorry?

Amber Singhania: These smartphones are also of the similar realization what we are doing for Xiaomi and Samsung, or it is a lower-end smartphones?

Saurabh Gupta: Samsung is not on a revenue base, its more on a consignment base. There, we don't book such kind of revenues. And Xiaomi, of course, yes, it would be broadly or slightly higher as compared to the itel smartphones.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Bhoomika Nair for closing comments.

Bhoomika Nair: Yes. I would like to thank everyone for being on the call and particularly the management for giving us an opportunity and answering all the queries of the participants. Thank you very much, sir, and wish you all the very best.

Atul Lall: Thanks very much, Bhoomika, and thanks, ladies, and gentlemen, for being on the call. Really appreciate it. Thank you.

Saurabh Gupta: Thank you, Bhoomika. Thank you, everybody.

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