

Dixon Technologies (India) Ltd.

3rd June, 2022

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 Q4 FY 2022 Earnings Conference Call held on May 30, 2022

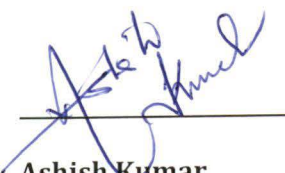
Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III thereto, please find enclosed herewith the transcript of the Q4 FY 2022 Earnings Conference Call of the Company held on 30th May, 2022.

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
Group Company Secretary, Head – Legal & HR



“Dixon Technologies (India) Limited
Q4 FY 22 Earnings Conference Call”

May 30, 2022

MANAGEMENT: **MR. ATUL LALL - VICE CHAIRMAN AND MANAGING
DIRECTOR, DIXON TECHNOLOGIES (INDIA) LIMITED
MR. SAURABH GUPTA - CHIEF FINANCIAL OFFICER,
DIXON TECHNOLOGIES (INDIA) LIMITED**

MODERATOR: **MR. NAVAL SETH - EMKAY GLOBAL FINANCIAL
SERVICES**

Moderator: Ladies and gentlemen, welcome to the Q4 and FY '22 results conference. Call of Dixon Technologies hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing '*' then '*' on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Naval Seth, Emkay Global Financial Services. Thank you, and over to you, sir.

Naval Seth: Thank you, Peter. Good evening, everyone. I would like to welcome the management and thank them for this opportunity. We have with us today, Mr. Atul Lall, Vice Chairman and Managing Director; and Mr. Saurabh Gupta, Chief Financial Officer. I shall now hand over the calls to management for their opening remarks. Over to you, Saurabh.

Saurabh Gupta: Yes. Good evening, everybody. Good evening, ladies and gentlemen. This is Saurabh Gupta. Of course, we also have on the call, our MD, Mr. Lall. He is slightly unwell. So I'll be sharing the opening remarks.

So thank you very much for joining the earnings call for the quarter ended March, 2022. We are very pleased to report a strong performance in the fourth quarter with a 60 bps improvement in operating margins sequentially. So as we have been guiding on the earning call, so our operating profit margins improved from 3.4% in Q3 to 4% in Q4. And this has been on account of operating leverage and continuous improvement in the cost structures across all businesses and continued implementation of the strategic price increases across ODM business or washing machine and lighting, which of course is to negate the cost pressures of the inflated raw material prices.

The further price increases are being implemented as we speak, wherever gaps still exists and we are instituted cost optimization and efficiency measure across all our operations to support and to restore the margins.

Our cost optimization initiative and proven working capital management will help us to sustain growth, profitability and even make the balance sheet even stronger. Overall, we are very happy that we could end this year on a good strong note with healthy growth across all the verticals, despite many headwinds; headwinds relating to raw material, inflationary pressures, geopolitical concerns, and consumption setbacks caused by the COVID disruptions.

Now coming to the overall performance for the quarter four, our consolidated revenues for the quarter ended March 31st was INR 2,953-odd crore as against INR 2,110-odd crore. So, which is a growth of 40-odd percent. Our EBITDA for the quarter was one INR 120-odd crore as against INR 81 crore in the same period last year, which is a growth of 49-odd percent.

And our PAT for the quarter was INR 63 crore as against INR 44 crore in the corresponding period previous year, which is a growth of again 43-odd percent.

Now I would like to share the performance and strategy in each of the verticals going forward. So let me start with consumer electronics. So in this vertical, the revenues for the quarter was almost INR 1000-odd crore with an operating profit of INR 28 crore. And there's a sequential a Q-on-Q improvement of 60 bps in operating margins to 2.8% as against 2.2% in Q3.

In the current quarter, within this INR 1000 crore, the revenues of AC PCB and reverse logistics business was INR 76 crore and INR 1.6 crore respectively. Now we are expanded our annual capacity to 6 million sets out of the total market in India from 15 million and we are backwardly integrated in LCM and SMT lines, and we are the largest capacity in India catering to almost 35% of India's requirement.

We now have a total area in Tirupati campus of almost 4,50,000 square feet, which is fully backwardly integrated. We are now further investing on complete SMT line of TV and injection molding line in the campus in line with our backward integration strategy.

As mentioned in the call last time, we've got a huge order for LED TV under our own design solutions from one of the largest brands globally. And I'm glad to share that the business has commenced in this month of May. And we expect significant volumes from that brand in the current financial year.

We expect that LD volumes this year should grow by another 40% mainly on account of this big order win and from the 3 million sets that we've closed in FY'22-'23 and we should see further improvement in margins or the margins should be almost similar to what we have reported. This is on account of the operating leverage as well as more backward integration that we are planning.

As far as monitors is concerned, we got orders from two of the largest global brands for manufacturing LED monitors and the production for one of the brands is already commenced in the month of April. The expected volumes this year should be in the range of around 0.5 million and we expect that the order book should significantly increase in the coming years. And the margin profile in monitors should be almost similar to what you are seeing on the LED TV side.

Now, the next vertical lighting, the revenues for the quarter was INR 305-odd crore with an operating profit of INR 22 crore and there has been a Q-on-Q improvement in margins from 6.5% in Q3 to 7.1%, which has been on account of passing on the input cost increase to the customers and the various cost efficiency measures, which has been taken.

We are hopeful to bring in operating profit levels to normalized levels by Q2 of the current fiscal year. So it'll take us another quarter or so, and then the margin should be slightly better than what have been reported.

We are the India's largest ODM player in lighting and has the largest capacity in various SKUs. In LED bulb, we have a capacity of 300 million, which is 50% of India's requirement. We've already expanded the capacity in batten to 5 million against the total market of 9 million a month and downlighters, we have a capacity of 1.5 million against the total Indian requirement of 3 million a month.

We are closely working with now some global customers and hopeful that we should get the necessary factory and product approvals in coming months and exports should happen in this financial year.

We are also a beneficiary of the LED lighting components and we have made a subsidiary to do that business, which is Dixon Technologies Solutions Private Limited in line with the backward integration strategy and we will be making our investments in the first year from INR 20 crore this year and overall investment in this five-year period is to the tune of INR 100-odd crore.

The next vertical is home appliances. So this vertical saw a growth of 60% year on year from INR 147 crore in Q4 FY'21 to INR 234 crore in Q4 FY'22. Out of this, revenues of fully automatic washing machine, which we started only in December. Between December and March, the revenue is around 33 crore. So that business is also getting ramped up and stabilized and volumes are increasing month on month.

The operating profit increased by 81% year on year from INR 10 crore in Q4 FY'21 to almost INR 19 crore in Q4 FY 2022. The operating margins have also increased, improved, expanded to both at the Y-on-Y level and Q-on-Q level at 7.9%. Again, this has been possible because of the passing on of the impact of commodity cost to the consumers to our principal customers on account of the improved operating leverage, and also on accountable cost optimization measure.

Presently, we have one 160-odd models in semiautomatic category with the largest portfolio in India, from 6 to 14 kg category. Now we are further expanding the capacity and taking the capacity in washing machine to 2.4 million and our additional infrastructure footprint in Dehradun will be ready in next couple of months to meet the increased demand ahead of the festive season.

We have added more customers in this category and order book in this vertical looks very healthy and we are expecting a 30% growth. So again, growth and volumes in this

category. So as against 1.1 million that we have closed, we are expecting the volumes to be 1.6 million in semiautomatic category this year.

In fully automatic category, we have a capacity of 0.6 million, again with 96-odd variants from 6.5 kg to 11 kg, and Bosch is an anchor customer there.

Recently, we've added customers like Lloyd and Thompson, and also got into agreements with some big customers, whose production is likely to commence by Q2 this fiscal.

We are increasingly now focusing and investing on making the segment more R and D driven to serve the industry with the latest and innovative technologies.

The next division mobile phone with the EMS division. So in this vertical, the revenues was around INR 1294 crore with an operating profit of INR 46 crore and an operating profit margin of 3.5%. So here, of course, in the mobile business, our anchor customer is Motorola and that business is now completely ramped up and stabilized with monthly volumes touching almost 4 lakhs and we have a strong order book from 1.5 million in Q2 this fiscal and that will be both for domestic and export markets.

We've also started manufacturing Nokia's feature phones in addition to the smartphone that we are already manufacturing. The expected monthly volumes once stabilized will be almost half a million per month. And in addition manufacturing for, we've got another customer on board called Itel in the feature phone category with annual volumes expected to be around 1 million and that production is likely to commence by next month, June, 2022.

So for this, so meeting the demand for this new order book or new customers, we have also taken a new 2 lakh square feet facility in Noida. Apart from this, in addition to the 2G phones that we are doing for Samsung, our orderbook with Samsung on the 4G and 5G phones are increasing, and they're already increased from 1 million a month to 1.5 million a month, and is expected to grow to around 1.7 million a month in coming months. So we are making more investments in this category for Samsung 4G and 5G smartphones.

And also, I would be happy to share that we are the first domestic company to achieve the ceiling revenues for FY '21-'22, which is the first year under the PLI, both on the capex and the revenue, capex and the investment thresholds and our workings, the whole numbers have been audited in April by the project management agency, which is IFCA in this case and they've already submitted the report to the Ministry of Electronics, and we expect to get their incentive claim to come into the system in the coming months.

As far as the set top box business is concerned, we manufacture 6.6 lakh set top boxes for JIO, which is through the company done in Hathway, Dish TV, SITI Cables, Sun TV in Q4 and reported revenues of almost INR 77 crore with a 2.3% operating margin. And orderbook in this vertical also looks stable.

Now the next vertical of security surveillance, where Dixon has a JV with Aditya Infotech. So Dixon 50% share of the revenues for this quarter was around INR 110-odd crore with operating profit of INR 3.8 crore, and a 3.4% operating profit margin. The orderbook in the segment also looks very healthy, and we are going for further capacity expansion from 10 million per annum to 14 million per by Q2. For this, we are relocating from our existing setup in Tirupati to Kopparthi electronic manufacturing cluster, where we have taken 2 lakh square feet constructed facility.

So this is all about the existing verticals and I'd also like to update you about the opportunities with the companies pursuing of the new verticals that we have recently started. So I'll start with refrigerator. So refrigerators, now we will be creating a capacity of almost 1.2 million direct cool category, which will be ultimately expanded to frost-free category as well. So Indian market for direct cool side is around 10 million. So we broadly will be around 10% to 12% of Indian market. And the balance 4 million is the frost-free and the other category. Our product portfolio will be from 190 to 235 liters with multiple features and different star rating.

The product designs have already been made. The technology partner has been finalized. We already have the land bank with us, 20 acres land bank in in Greater Noida. The

construction is expected to commence soon and the order for the machinery will be placed in the coming weeks.

We have started engaging with potential customers, and we expect that the mass production is likely to commence somewhere around Q2 of FY '23-'24.

Now on the IT hardware products, we started manufacturing for Acer in December, 2021 and the volumes, though they started small, but they're expected to increase. And we are also in advanced discussions to close an agreement for manufacturing of tablets with one of the largest brands and we expect that the production for them should commence about Q2 of this physical.

As, as you know, we are again a beneficiary under the PLI for IT products. And in Q4, we have achieved both our revenue, the threshold revenues and we have already also done our investments in Q4. So we've also qualified for an incentive claim in Q4 in FY '21-'22.

On the telecom and networking products, we started manufacturing OMPs for Airtel and the production is already started. And this is again, we have very strong orderbook from Airtel in this category.

As you know, this is a 51:49 JV, which has been made with Betel and we are beneficiary under the PLI scheme for telecom and networking products.

Another venture, which is the inverter controller boards for air conditioners. So a JV has been formed with Rexam to manufacture inverter controller boards for air conditioners. As you know, Rexam is a design and technology partner for Daikin, and they bring a lot of strength in PCB designing, and clearly Rexam wants to make India as a manufacturing hub for its customers on both the domestic and global markets, and this JV company, which is a 60:40 JV, is a beneficiary of the PLI. Total investment that is required to be made over a period of five years is around INR 51 crore. So Dixon's share of investment will be around INR 20-odd crore. We have finalized the manufacturing location in Noida and the production under the JV is expected to commence in Q2.

Again, the revenue potential is quite immense in this vertical as well and we should have some healthy EBITDA margins and strong return ratios.

On the variable side, the Indian market is the third largest market globally and one of the fastest growing markets. Our 50:50 JV has been formed with Imagine Marketing for its flagship brand, Boat for manufacturing variables in hearables. Currently, we are manufacturing the largest selling SKU, which is TWS and we have an estimated yearly volume order of around 7 million units. And we would soon start the production of neckband, which is another high selling SKU for both with an estimated yearly order of around 4.44 million units at our Noida manufacturing facility.

As the partnership strengthens, we expect that both categories will come into the JV like Bluetooth speakers and smartwatches. Smartwatch is another category, which we see as a very high growth market. So all of these products will also over a period of time will come under the JV.

So I would like to now just stop here and would like to answer any questions along with Mr. Lall.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

Our first question is from the line of Bhoomika Nair with DAM Capital. Please go ahead.

Bhoomika Nair:

Yes, good evening, sir. Thanks for the opportunity and congratulations on a good set of numbers. So just want to understand the mobile business a little better given that we are looking at a very sharp ramp up. If you can just talk about what is the kind of ramp up that we are looking on Motorola specifically, how was being the exit in March and how is it scaling up right now? And if you can also talk about Samsung given that they're looking to scale down their feature phone business as well?

Saurabh Gupta:

So Bhoomika, as I mentioned in the remarks, so clearly our volumes with Motorola are ramping up and they've already touched closer to a level of 4 lakhs and we have an order book with Motorola for almost 1.5 million in next quarter, and we expect that the monthly volume should go to around 5 lakhs for us. So clearly the ramp up is happening at a faster pace now.

And we are expecting that as against INR 3000 crore revenue that we have done in the mobile and EMS division out of which a significant portion has come from mobile business. Our mobile business in itself this is fiscal year should translate into almost INR 7,000 crore to INR 7500 crore revenue, which will be significantly led by Motorola as an anchor customer and within Motorola, significant portion, 60% of the proceeds for Motorola will be exported to North America markets.

So clearly that's the outlook on the wild side as far as Motorola is concerned and also as I mentioned that we've also added customers like Nokia on the 2G phone side, where they have a decent market share, and also Intel, again, they have a decent market share as far as the 2G phone or the feature phone market is concerned.

Now to your second question on the Samsung side, clearly yes, Samsung is planning to exit out the feature phone business, and they should exit either by December or by March this financial year. Clearly our volumes are already coming down for feature phone business as far as Samsung is concerned, but they were increasingly shifting more and more smartphone business to us, 4G and 5G phones to us. So as far as the overall revenue and profitability is concerned, clearly we see that since the realization on a smartphone is much, much higher than what we are making on a feature phone, and they increasingly shifting volumes. They started with 5 lakhs and now clearly we are looking at a number of almost 1.5 million and then gradually even increasing beyond that.

So, we should be fine as far as the overall profitability and revenue potential is concerned in case of Samsung business. So yes, they will be reducing the feature phone volumes, but at the same time, they're increasing the smartphone volume's base.

Atul Lall:

Also Bhoomika, coming in here, you see customer acquisition is always a very focused exercise in Dixon. So on the smartphone side, we are an advanced stage of discussion with one of the largest global brands operating in India. We have successfully qualified the technical audits. We are awaiting the commercial negotiation to be launched very shortly. So please be rest assured mobile as a vertical is going to be the largest trigger of growth for Dixon in the forthcoming fiscal and in the coming years.

Bhoomika Nair:

Got it sir. Sir, the other question is on the washing machine side. You spoke about the scale up in addition of customers, etc. out there. What kind of volumes can we look at in FY'23? And the second aspect is on the margins. Why? Yes, there is an improvement 4Q '21 and also over the previous quarter, the margin profile still remains lower than the double digit that we have been seeing in the past. So, when do we see these margins coming back to the double digit profile or closer to that 9% to 10% kind of range?

Atul Lall:

So Bhoomika, last year we closed in washing machine at 1.1 million as volume. We are budgeting 1.6 million in the current fiscal. In addition to that, we are budgeting 289 K for fully automatic top loading. So the combined figure is almost going to be 1.9 million, which is a significant increase from 1.1 million of last year.

Now margins, the teams have worked on the cost optimization, and also we have been able to pass on partially to our customers the cost increases, but these are challenging environments. And the exercise is on. I don't think in the current fiscal, we will be back to double digit, but definitely there'll be some improvement from the existing operating margin levels. But, back to double digits, I don't think so. What we'll get is absolute number increases and some improvement in the operating margin.

Bhoomika Nair:

Right. But just from the top line, we are looking at 1.6 from the 1.1. Like the TVs, is the demand still holding on or it's just purely driven by new client editions, etc.?

Atul Lall:

So it's a combination of both. In getting the larger share of existing customers' wallet and also new customer acquisitions. A combination of both. The order book looks pretty healthy.

- Moderator:** Thank you. Our next question is from the line of Aditya Bhartia with Investec. Please go ahead.
- Aditya Bhartia:** Hi, good evening, sir. So my first question is on the lighting business, where in growth has been a bit disappointing in the last couple of quarters. Just want to understand what is that on account of and how we're seeing traction building up in battens and downlighters?
- Atul Lall:** Sure, Aditya. In last two quarters, one saw significant headwinds in this business. We had gone through significant cost optimization exercises and there was a minor improvement. However, I feel lot of work needs to be done. We have a good order book, but the inflationary trend, we were not able to pass onto the customers. Somewhat we have not been able to achieve that in the last quarter, and also in the current quarter. A lot of consolidation exercises, form improvement, taking advantage of the operating leverage of this scale. All that has happened. You will see some improvement in the current quarter, but I think it's going to take a couple of quarters to come back to the original levels of 8.5% and 9%.
- Aditya Bhartia:** Sir, my question was not so much on margins, but on absolute revenue numbers wherein lighting business growth has been a bit lackluster. So just trying to understand has the market itself slowed down significantly, especially as far as are concerned? And with all the expansion that we had done on the downlighters and batten side, how's the traction over there?
- Atul Lall:** The market indeed has slowed down. I don't see a very significant one growth in this particular vertical, but yes, our quantities both in downlighters and battens, the kind of order book one is seeing, we will keep on improving month and month. So you'll see some improvement. LED bulb would be kind of constant, but there will be improvement in battens and downlighters in the forthcoming months.
- Aditya Bhartia:** Understood sir. Sir, on the TV business, you've spoken about large customer moving on, giving you larger quantities on ODM business. What exactly does the ODM part of the business entail in case of TVs given that still a lot of components, I guess, would need to be imported and what could that mean for margins? That's point number one. And just on the same segment, are you seeing any issues from your largest customer in the segment after some of the actions that were taken by the government against them?
- Atul Lall:** So responding to the first part of the question, Aditya, when we talk about ODM or what we call as ODM and also JDM with the largest global brand, you see more and more global brands are looking at outsource solutions. Now we are working on four SKUs. We are working on 55 inches ultrahigh definition and 43 inches ultrahigh definition wherein the PCBA, because Samsung operates on Tizen operating system. The technology is from Samsung; however, the mechanicals of the displays and the audios, it's all designed by Dixon aligning with the Tizen operating software of Samsung. So this product has already been launched and the commercial production has started just last week.
- Then there are two other solutions, which is again in 32 inches and 43 inches HD, in which the PCBA is also Dixon's offering. So that's a kind of complete offering from Dixon's tables. Now that is it. So this four SKUs are Dixon, ODM, and JDM solution for Samsung. Now it's a big up for us, really appreciate that we grew from 2.7 million to almost 3 million in the last fiscal and we are targeting almost 4.2 million in the current fiscal. This is when the market is not exactly growing. So there's a big plus for us.
- Now, as far as margins concerned, I expect the margins to expand a bit, but if you see Dixon's trajectory, whenever you launch a new project, it takes some time to stabilize, just like you would've seen lately in mobiles, but I feel that a quarter or so, one needs to ramp up and stabilize and then after that, you'll see some improvement in the margins on the ODM, BDM side by the time the supply chain and sourcing stabilizes.
- When you're looking at our other large anchor customer, yes, it was a setback. And I personally engaged with the leadership in Beijing and in Bangalore and they have assured me that there is no dilution. And I also see no change in their forecast plan. It continues to be at 1.8 to 1.9 billion in the current fiscal, and also there have been no impact at all on our current assets. Our payments are approving absolutely smoothly.
- Moderator:** Thank you. Our next question is from the line of Renu Baid with IIFL. Please go ahead.

- Renu Baid:** Yes. Hi. Good evening, sir. Sir, my first question is with respect to the incentive share out from mobile, how is the process in terms of the cash reimbursements coming in from the government? So are these largely in terms of duty payouts or cash reimbursements and by when do we actually see the payout or the incentive payout materializing for us?
- Atul Lall:** Saurabh, would you like to take that or I respond?
- Saurabh Gupta:** So Reno, as I mentioned, so we have already filed our incentive claim. We are the first company to actually achieve the revenue and capex investment thresholds. So the way it works is there's a project management agency, which is IFCA in this case. Comment your factors, they'll audit those numbers, appraise the entire workings and then they present the report to Ministry of Electronics. As far as our case is concerned, so that part has already been done and the report has already been submitted to Ministry of Electronics.
- Now the next step in this case is that there is an empowered committee, which constitutes the Secretaries of Ministry of Electronics, Ministry of Finance, Ministry of Commerce, and it is headed by -- and then they will of course evaluate your case and based on that, they will finalize and the cash, it'll be reimbursed in the form of an RTGS kind of a transfer, which will come to your account. So these are the steps that will be followed.
- Renu Baid:** So basically the cash payout to us will come by second half of the current fiscal for the previous year.
- Saurabh Gupta:** No, my sense is, Renu, as far as August to December is concerned, so that part has already been appraised. Depending on when this meeting of the empowered committee happens, so that should come in the next 30 to 60 days. As far as January to March is concerned that may take another 3 to 4 months and then accordingly, there will be a lag of every quarter or so.
- Renu Baid:** Sure. The second is, if we look at the washer portfolio, can you update how I have seen now, the order book can wrap up on fully automatic washer and how are the margins and profitable on this portfolio stacking up?
- Atul Lall:** So, the fully automatic uploading, we've finalized two platforms of washers. The first platform is up to 8 kgs, and the second platform is up to 10 kg. So what has been rolled out is platform one, what we call it a P1 and at present, we are at a volume of around 12K to 15 K. This month, we would've done around 12K. That's the order book like and the P2 platform that is up to 10 kg will be under reliability testing. The tooling and all are all with us. The reliability testing with wash is a long-drawn effect, and I think it's going to be rolled out in the quarter of October to December.
- We have also launched now another P0, which is an economy model, and that tooling I'm expecting it to arrive by 15th of June. That's not for Bosch, but that's for various other brands, which are looking for an economy solution. That's going to be easier and faster to roll out. I think it's going to be rolled out in the quarter, in the month of July, August. So that is the plan.
- The operating margins initially, because there's a ramp up cost, but finally it's going to be in the similar range as semiautomatic, slightly better than that.
- Renu Baid:** Got it. And, while you've mentioned that on the rest portfolio, we would also be extending our offerings beyond direct cool to frost-free as well. So does that change our capex outlay and investment required in terms of capabilities for the products and by when are we expecting both as in the production eventually and commercialization of the facility for direct cool and will frost-free be simultaneously or it would happen with a lag of couple of years, once DC is fully stabilized, then it ramps up.
- Atul Lall:** So Renu, the first focus is on DC only. What we have done and what we had shared earlier with the stakeholders was that we are planning a capacity of 0.6 million, but looking at the prospects, we have increased the capacity to 1.1 million. So this is that what the project has been rolled out. Now except for the tooling and some modifications, are the lines ready for frost-free? Yes, they would be ready for frost-free. As of now, have we calibrated and defined our plan for frost-free? No. So the first focus is going to be on launch of DC. The targeted date for trials is March 23. I think, as Saurabh said by Q1 or

slightly getting into Q2, we should be rolling out this product. Frost-free, yes. One has to wait. One has not even defined the plan.

Renu Baid: Sure. And my last question pertains to the LED bulb portfolio. While we have seen some of the leading players on the bulb side have been losing shares, how should we read it? You mentioned that bulb portfolio might be flattish, but are you seeing any red flags in terms of Phillips losing a bit of share on the bulb side of the business and how is the export to the European or the U.S. market? How is that part of the portfolio scaling up?

Atul Lall: So I don't want to give details about the specific brands, but yes, one can see that there has been a flattening of demand for the last two quarters, as far as the LED bulb is concerned. So when we interact and when I personally interacted with the leadership of our principles, they feel that the demand is going to come back by August or something like that. And also I'm seeing lately that the inventories in trade have been corrected. So that's what, I feel is going improve from the next quarter. That's what my sense is.

As far as exports is concerned, yes, we have got the usual approvals for U.S. and we've got the technical approvals for Europe. In fact, just a couple of hours back, when I was checking through my mail, yes, we have almost got a first order from U.K. So that's it. I think it's going to take time, but we'll have those breakthroughs.

Moderator: Thank you. Our next question is from the line Ms. Sonali Salgonkar from Jeffries. Please go ahead.

Sonali Salgonkar: So thank you for the opportunity. So my first question is with so many new verticals and new customer ads ramping up, what kind of a guidance in terms of revenue and margin trajectory, would you like to give at this point for the coming one to two years?

Atul Lall: Saurabh, would you like to take it or I take it please?

Saurabh Gupta: No, I'll tell it, sir. So Sonali, as mentioned in our remarks, clearly our high growth vertical will be mobile this year according to new verticals like telecom, variables, and of course, existing verticals have expansion plans as well. So my sense is clearly we are looking at a 55% to 60% grant of the growth from the revenues that we have delivered in FY '21-'22 and this will be significantly led by our mobile business.

Sonali Salgonkar: And on the margins?

Saurabh Gupta: Margins, we think that what margins we have reported in Q4, broadly, it should be similar, but yes, you can expect the margin profile of somewhere between 4 to 4.25 operating profit margins

Sonali Salgonkar: For F '23, right?

Saurabh Gupta: F'23, right5.

Sonali Salgonkar: Right. Great. And just an extension to this question. For the mobiles, which is the highest growth vertical for you? What kind of growth are you looking at this year, I'm asking especially because your volumes and the order books are ramping up?

Saurabh Gupta: Yes. So if you look at our mobile revenues, we have done a revenue of almost INR 3138 crore and if I exclude the revenues of other divisions, which are smaller set box, IT hardware, telecom and Medical if I remove that INR 350 crore – INR 360 crore, so we close it somewhere around INR 2,700-odd crore. So this INR 2,700 crore has a potential to go to almost INR 7,000 crore to INR 7.5 thousand crore this year. And, then the balance should come. Yes. So that is the potential for this year.

Renu Baid: Got it. And on the capex numbers, do you foresee any change in your earlier guidance?

Saurabh Gupta: No so capex, we expect that capex of around INR 340-odd crore is what we will do in FY '22-'23, which will be a combination of PLI related capex expansion, the construction and some advances for the refrigerator project.

Renu Baid: Got it. And my last question is regarding price hikes. You did mention in your opening remarks that as we speak, you are implementing further price hikes, especially in the

ODM segment. So if we can understand from April, what is the kind of price hikes that we have taken on an average in ODM?

Atul Lall: So Sonali, there are mainly two ODM verticals. In the case of washing machines, the customers who were kind of, it was work in progress. We have been able to get a hike of almost 1.75 % to 2%. And the lighting side is still in works. We have been able to get hike of 1% to 1.5%, but we need to do more on which we are working. And we feel that in the current month and the forthcoming quarter, we should be able to do it.

Moderator: Thank you. Our next question is from the line of Onkar Ghugardare from Shree Consultancy. Please go ahead.

Onkar Ghugardare: Yes. My question was mainly regarding the balance sheet. If you can see there is a significant increase in the long-term borrowings, and the net debt has also increased. So what is the comfortable level for the management in terms of debt to equity debt to EBITDA?

Saurabh Gupta: You're absolutely right. Our debt levels are increased because we have done a capex of almost INR 400 crore this year and that is there to increase in debt. But even if you look at the balance sheet, our balance sheet still continues to be stronger. And there's enough cushion. If you look at our net debt to equity level, it's still 0.1. So at an overall level, I think, so these are good, comfortable levels to be maintained. And we expect that as the profitability improves, as the cashflow improves, this debt level should see a reduction this year.

Onkar Ghugardare: So the debt to equity would remain at the same level you are saying, or it would gradually increase in the coming years?

Saurabh Gupta: My sense is it'll not go up. It should broadly be in the similar range plus minus something. Yes. But broadly it should be in the similar range.

Onkar Ghugardare: Okay. And as far as the EBITDA margin is concerned, you said that you would be doing around 4% to 4.25%, right for the upcoming fiscal?

Saurabh Gupta: Yes. That's the broad guidance.

Onkar Ghugardare: Okay. And Dixon's next 3-4 years, if you look at it, so where would the majority of the contribution can come from? Mostly, it would be from mobile phones, but apart from that, where do we see larger portion in terms of revenue and again translating into the margin?

Saurabh Gupta: Yes. So it'll be all across, but yes, in terms of revenues, it'll be significantly led by mobile business and then it'll be TV business, and then in lighting, if you're able to get big export opportunities, then the lighting revenue should see a major growth. If you look at our washing machine portfolio this year, we have closed at INR 700 crore. Now that semiautomatic portfolio is going up increasing from 1.1 million to 1.6 million. And then we are additionally doing almost 0.3 million of fully automatic. So my washing machine revenue should also increase from INR 700-odd crore to almost INR 1200 crore this year. And that should be decent growth if the export happens in those categories as well. So it'll be all across. Yes. But major it'll be led by mobile as well as TV in terms of revenue contribution.

Atul Lall: Also, we are looking at three new verticals, which have just been launched. So we've already started production of TWA. TWA's presently, we are only at a level of 100 K per month. Within the next three months, we are targeting 1 million a month. Within the next five to six months, we are targeting 2 million a month. Similarly, the outlook for OMPs and set top box from Airtel is very, very huge and that production has just started. Then the commercial launch of the DC refrigerators. That is again, once we reach the peak, it's going to be almost INR 1000 crore to INR 1200 crore. So all these new initiatives will also be large contributors to our growth trajectory.

Onkar Ghugardare: Okay. So given what you have said that next three to five years, can you say that the management would be thinking at least roughly around 25% to 30% kind of growth?

- Atul Lall:** Yes, we are very confident about it. Yes. They can be various events globally, geopolitically challenges, inflationary pressures, but the internal brands are directed towards that.
- Onkar Ghugardare:** Okay. And you will be comfortable holding onto this margin or better the margins as the time goes?
- Atul Lall:** We will be pleased to appreciate the maximum growth is coming from the prescriptive business and this prescriptive business, the operating margins are in the range of around 2.5% to 3%, 3.5%. So it's a low margin business. The new vertical of refrigerators and the expanded volumes of washing machine is the ODM business wherein the margins are going to be higher. So it's going to be a combination of both. So margins would be in this range only which Saurabh has just shared.
- Onkar Ghugardare:** But as the operating efficiency kicks in, you won't be seeing any margin increase.
- Atul Lall:** So there will be some improvement, which you would've seen in the current quarter itself, in the last quarter in mobile, that the margins in the mobile business have expanded because the operating leverage. You would've seen the improvement partially because of the unit price coming down, but partially also because the scale and operating leverage in TV. So it'll make a difference, but would it completely change the scenario and have a quantum jump in the margins, descriptive business, no, that's not the nature of that business.
- Onkar Ghugardare:** So overall, it would be in the same range, which were there in the current quarter?
- Atul Lall:** Yes. 4% to 4.2%, something like that.
- Saurabh Gupta:** Yes. So broadly it'll be in the same range with an upward bias because of the factors that you had mentioned, clearly because of the operating leverage, more backward integration, own designing and so the new verticals also in terms of margin profile would be better, but again, a significant portion is coming from the prescriptive business. So my sense is yes, margin should improve, but yes, not a significant improvement, but yes, there should be an improvement year-on-year.
- Moderator:** Thank you. Our next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Sir, thank you for those details. I've just one question. Is it fair to assume, I don't know if you already spoke about it, that the various segments in PLI where you have achieved the threshold of investment as well as the incremental sales, those PLI benefits are already included in our margins? And if yes, if you could quantify what those numbers are?
- Saurabh Gupta:** So as I mentioned, we are a beneficiary of five PLIs sort of which two PLIs we have achieved our thresholds. So one on the mobile side, we achieved our maximum revenue thresholds and the investment thresholds. On the laptop side, we achieved the ceiling revenues on the buy side as well as the investment thresholds. On the laptop side, yes, we are again achieved those investment thresholds and the threshold revenues, the minimum revenues that you have to do to qualify for that incentive claim. Now in these numbers, yes, because of this appraisal, which I mentioned has already been done by the agency, so there is some income which has already been booked and which is reflected in the margins. And that number is to the tune of almost around INR 8 crore to INR 9 crore.
- Pulkit Patni:** INR 8 crore to INR 9 crore for the entire year?
- Saurabh Gupta:** For the entire year. Yes.
- Moderator:** Thank you. Our next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.
- Dhruv Jain:** Hello, sir. Thanks for taking my question. Sir, I had two questions. One was on the mobile phone business. So, we've seen a significant jump in the mobile phone revenue, but you also have a lot of customers. So, we understand that Motorola is the prime customer, but if you could just give a sense of how much contribution, just a broad sense of how much contribution would Motorola be giving in the mobile phone business?

- Saurabh Gupta:** So in this year, as I mentioned, if you're looking at doing a revenue of almost INR 7000 crore to INR 7500 crore and this is of course not taking into account, the new customer whose audit has been done and for which there can be an additional upside. So out of this INR 7000 crore to INR 7500 crore, the other customers apart from Motorola should contribute INR 1000-odd crores and the balance portion would come from Motorola.
- Dhruv Jain:** All right. And sir, the other question was with respect to the consumer electronics, TV business. We've seen a sequential decline. So, what has caused this? Is there some sort of a demand issue that we are seeing?
- Saurabh Gupta:** No, actually what has happened is that, if you remember that in the last earning call, we mentioned that in TV, one should also look at the average selling prices. So what happened in the last post-COVID scenario, the prices of the open sale, which is the largest component, which goes into a TV, that those component prices have increased. And since it is a prescriptive business, so those increases just gets passed on and as a result, the revenues look higher and the margins optically look lower. So if you look at this analysis of Q4 versus Q4, so there is a drop of 20%, right in terms of revenues. So this has been majorly led by the drop in the average selling prices across all our portfolio. Of the 20%, the drop is as high as 15-odd percent. So there has been a volume drop year-on-year, but very nominal, it's majorly because of the selling prices coming down and as a result, the margins are looking better. The operating profit margins are looking better.
- Moderator:** Thank you. Our next question is from the line of Onkar Ghugardare with Shree Consultancy. Please go ahead,
- Onkar Ghugardare:** Yes. With the kind of debt levels you are setting on, would you be looking to raise in equity?
- Atul Lall:** No. We are not.
- Saurabh Gupta:** No. We feel confident that it can be easily done, safely done from the internal accruals of the company. So whatever capex plans we have, it can be done from the internal accruals. So we have no plans to raise an equity.
- Onkar Ghugardare:** Okay. And as far as the AC business is concerned, can you elaborate bit more on that as we are not the front runners in the AC business. So are you looking to expand that business more or are you comfortable with the current levels?
- Saurabh Gupta:** No, we have absolutely no plans to get into the AC business. So there's so much on the plate right now. The idea is to focus and consolidate our existing verticals and the new verticals.
- Moderator:** Thank you. Our next question is from the line of Naval Seth with Emkay Global Financial Services. Please go ahead.
- Naval Seth:** To 4.25% for '23. So, as our PLI business or prescriptive business will increase substantially in FY '23 and your commentary on ODM business margin expansion will be gradual. So, how we will be able to achieve this plus 4% margin because we ended with 3.5% in '22. So any thought, I mean, reconciliation seems a bit difficult to me, so you can explain on that.
- Saurabh Gupta:** Another 3.5% is also a function of a bad Q1, which was impacted by the third where we had margins of only 2.5%. So that is also a function. But if you look at the last couple of quarters, in quarter 3, we had posted the margin of 3.4 and in which we guided that there'll be more passing off of those input costs increases to the principal customers. So some portion of that has already been done, which is reflected in the margins. And we expect that those continued passing on of those input cost increases will happen. We're also working on lot of bond reductions, cost optimization measures internally. Overall at a company level, by expanding into all of the verticals, so in some verticals, the operating leverage benefit has kicked in and in some verticals, it'll kick in over a period of time.
- As we get into more backward integration, as we get into more designing, ultimately all this will lead to expansion of margins. So we are clearly guiding that. What margins

you're seeing on washing machine, lighting, should see an improvement further in the coming quarters. So that should add to my margin profile.

And the second thing, which I mentioned that the prices of open sale have come down. So as against an average selling price of INR 14,000 crore to 15,000 crore that we saw in the entire year, last year, those selling prices will now look like INR 11,000 crore to INR 11,500 crore. And TV business as such contributes; so out of this INR 17,000 crore revenues that we're projecting for this year, TV revenues will be almost INR 7,500 crore, almost a significant portion. And if that business, the margins grow by 30 bps to 40 bps like the way it has happened in this quarter, so it'll also have a positive impact on the overall company margins.

So combination of all these factors, and some the new verticals, which we have got into telecom, Boat, Rexam JV, these are also better in terms of margin profiles. So clearly, combination of all these factors gives us this confidence that the margin should be similar or better than what, what we have delivered Q4.

Moderator: Thank you. Our next question is from the line of Onkar Ghugardare from Shree Consultancy. Please go ahead.

Onkar Ghugardare: Yes. With 22% ROE and almost 25% ROC, what kind of scope do you see for this expansion in all those verticals?

Saurabh Gupta: Yes, so historically, if you look at, we have been maintaining a 30% plus kind of an ROC and 24% plus kind of an ROE. We will work towards it to going back to those levels. Now, what has happened in the year that we have just concluded FY '21-'22, we have done a capex of INR 400 crore and in this current year, we are looking at a capex of INR 340 crore. So a lot of the capex has been front-ended as far as last year is concerned, or this year is concerned. And the new verticals are of course the fully automatic, the telecom, the Boat, they will start to deliver optimal revenues and profitability in the coming quarters. So my sense is it will take at least 3-4 quarters to go back to those levels, maybe slightly earlier if it happens. But yes, the idea is to go back internally to similar levels, says 30% ROC and 24% to 25% ROE.

Onkar Ghugardare: Sorry. I missed it. How much time it would take, you said?

Saurabh Gupta: Anywhere between 9 to 12 months, or maybe slightly higher. So nine to 15 months probably.

Onkar Ghugardare: Okay. And as far as the cash conversion cycle or the days are concerned, what would be the comfortable level? Is this the comfortable level around nil days?

Saurabh Gupta: Yes, it's a comfortable position, but continuously there is a focus on managing your cash conversion cycle, on your working capital management. So that's a continuous focus. So wherever we think the working capital intensity had gone up because of the supply chain issues, we are working towards it to bring it down and that's happening. So month-on-month, those -- will keep getting corrected. So hopefully we should be in a better position in six months on this line, on this working capital cycle. So this would even get better than zero days, but yes, broadly, this is a comfortable ratio as far as the overall company is concerned.

Onkar Ghugardare: Can all the problems regarding shipments and ship shortage, are all these behind us, what would you say on that?

Saurabh Gupta: Yes. Now there were problems in April where the shipments, because of the closure of Chinese ports, the shipments got delayed and we had seen impact in the production, which we are hoping that, that production will get compensated within the quarter. Yes, by senses, absolutely there is no issue right now. In fact, the freight rates, the logistics cost have also come down from the peak level significantly. And clearly we are passing on more and more of the price increases to our customers. So as of now, the situation is fine, but I'll also request Mr. Lal if he wants to add something on it. So as of now, the situation is in control.

Onkar Ghugardare: Okay. What about the chip shortage?

Saurabh Gupta: So we are not facing any chip issue right now. There's absolutely no issue on the chip side.

Moderator: Thank you, ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Saurabh Gupta: Yes. So thank you everybody for taking out time for the call. In case you have any follow up questions, any queries, please feel free and I'm happy to answer those questions. Thank you very much.

Moderator: On behalf of Emkay Global Financial Services, that concludes the conference. Thank you for joining us and you may now disconnect your lines.