Dixon Technologies (India) Limited

30th October, 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 Q2 FY 24 Earnings Conference Call held on 26th October, 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 Q2 FY 24 Earnings Conference Call of the Company held on Thursday, 26th October, 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: 2023.10.30 15:57:27 +05'30'

Ashish Kumar
Chief Legal Counsel & Group Company Secretary

"Dixon Technologies (India) Limited's Q2 FY'24 Earnings Conference Call"

October 26, 2023

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

Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Q2 FY24 Earnings Conference Call hosted by DAM Capital Advisors Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please select an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair. Thank you and over to you ma'am.

Bhoomika Nair: Good evening, everyone. Welcome to the Q2 FY24 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.

I'll now hand over the call to Mr. Lall post which will open up the floor for Q&A. Thank you and 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. Thank you very much for joining this Earning Call for the Quarter Ended September 2023.

Coming to our overall performance for the 2nd Quarter:

Consolidated revenues for the quarter ended September 30, 2023, was INR4,943 crores against INR3,866 crores in the same period last year which is a growth of 28%. Consolidated EBITDA for the quarter was Rs.200 crores against Rs.146 crores in the same period last year, growth of 37%. Consolidated PAT for the quarter was Rs.113 crores against Rs.77 crores in the same period last year, which is a growth of 47%.

Our teams focused execution in a challenging operating environment helped deliver strong earnings and improvement in operating margins year-on-year on account of operating leverage, cost optimization, efficiency measures across all businesses. We continue to invest in our capacities and diversify, introduce product categories to support long-term growth opportunities with huge focus on quality, manufacturing excellence and consistently meeting the needs of our principal customers and to strengthen our position as a key player in the industry.

With a strong capital allocation discipline, effective working capital management and earnings improvement, we were able to expand our ROC and ROE to 32.9% and 24.4% respectively as on 30th September '23, and we feel confident that the same would keep improving in upcoming quarters and years on account of improved earnings, working capital efficiency, higher asset turns in most of the businesses. The strong balance sheet, high liquidity and enough credit lines from bank enables us to direct growth capital swiftly and enables us to invest in the long-term development of our business for long-term value creation.

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

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

Consumer Electronics:

Revenues for the quarter were 14,140 crores with an operating profit of 49 crores, that is 3.4% operating margin. Operating profit margin expanded by 50 bps year-on-year on account of operating leverage. Continued focus on backward integration and increasing share of owned land due diligence.

Revenues for the quarter was 4% lower year-on-year as it included 79 crores of revenue contribution from the AC inverter controller board business, which was subsequently transferred to the JV with regs in the current. Also, the festival calendar shift has led to spillover of some consumer demand from Q2, Q3 in this fiscal. We have rolled out India's first ODM-based Google TV distributions from Google in the quarter under review and we're getting a positive response.

We have also entered into partnership with Samsung for their Tizen OS, an operating system will be sub-licensed for us to offer to other domestic brands and it is expected to be rolled out in Q4 of the current fiscal.

We have started injection molding shop for TV and have also invested in LED bar assembly line in line with our continuous focus on backward integration strategy to deepen the level of manufacturing in India.

We've also advanced in exploring newer products such as commercial displays used in public advertisements and information displays, and interactive boards for use in education institutes and offices, and have got some initial orders.

Lighting:

Revenue for the quarter was 181 crores with an operating profit margin of 7%. Apart from sluggish consumer demand and increasing comparative intensity, reasons for lower revenues year-on-year, high reduction in price due to drop in commodity prices and freight rates and migration of LED bulb technology. Two DOB that is a Driver on Board which are priced approximately 30% lower as against the same period last year. Since LED bulb is the largest category lighting for us, it has a major impact on revenue growth.

We have launched a Strip & Rope Lighting in Q2 and have received extremely good response from our customers.

We are on track to launch professional products by Q4 of this financial year. New product introduction across all product categories will continue at a rapid pace for the rest of this financial year.

We've expanded our export business with new customers coming in, in Germany and UK. We are expecting to close with some other export customers in the coming quarters.

Home Appliances:

Revenues for the quarter were 364 crores with an operating profit of 42 crores with expansion on operating profit margin to 11.6% led by passing on impact of commodity cost and exchange rate fluctuations to customer. Improved operating leverage and cost optimization measures in line with the backward integration strategy we set up our own tool room for in-house mold manufacturing and already started manufacturing the same for Bosch in semi-automatic categories and Panasonic for the automatic categories. They have started manufacturing for the automatic washing machine for Voltas Beko, which is a large customer for semi-automatic category and also launching new models for Lloyd, Reliance and Panasonic in FTL category in the current quarter.

Mobiles and EMS Division:

Revenues for the quarter were 2,819 crores, a growth of 77% year-on-year with operating profit of 93 crores, a growth of 119% year-on-year with the margin expansion of 60 bps to 3.3%. We've got increased order book from Motorola.

One of the recent noteworthy highlights is securing a large order for Jio Bharat phones with an order book of 15 million units, mass production for sale started in September with 1.5 million units already manufactured till date.

We've entered into strategic partnership with Nokia and we're manufacturing more than million phones for them per month.

We have started manufacturing Xiaomi's smartphones in a new 3.2 lakh square feet facility in Noida. We expect the volumes to ramp up to 0.3 million per month in Q4 and then 2.5 million per month in subsequent months.

This large order wins showcase our reputation as a reliable and the most preferred manufacturing partner in mobile industry. We are further also in discussion with some other large global brands for smartphones. We're fairly confident of concluding this business in this current fiscal.

Telecoms and Networking Products:

Revenues in this segment for the quarter was 173 crores. Our new facility in Noida got operational in December '22 is now stabilized in mass production of Android Chatterboxes for

Airtel in partnership with the global ODM has commenced. Also, manufacturing of HD Zapper Set Top Boxes for Airtel will start from current quarter.

We've also got a large order from India's largest telecom for internet set top boxes, which commences by Q3 of this fiscal. And also, 5G CP devices which is expected to start from Q4. We are in active discussion with some large global brands for existing and new product categories and building a strong team for joint R&D with our partners to support our end customers from India.

Laptops and Tablets:

Revenues for this segment was 52 crores. The government has recently announced PLI Scheme for IT hardware products with higher incentive payout. We have filed the application under hybrid category and committed investment of 250 crores with much higher revenue and incentive potential. We expect the approval from the government to be coming in shortly.

In addition to those, our order book has been increasing monthly. We are in now advanced stages of discussion to some large global brands in this category.

Wearables and hearables revenue for this segment was Rs.385 crores, healthy operating margins and high ROCE. We clocked strong volumes of TWS for both and have healthy order book for upcoming quarters and we'll be adding smart watches in our portfolio in next couple of months in this order book.

In line with our strategy to deepen the level of manufacturing, the SMT, PCB will also be done in-house in the current fiscal and we are also exploring the possibility of starting the manufacturing of battery packs.

Security Surveillance Systems:

Dixon's 50% share of revenues for the quarter was 140 crores. Operating profit margins are lower in this business due to under absorption of the duplicated fixed cost structure both in Tirupati and Kopparthi campuses.

We have already expanded the capacity from 10 million per annum to. 14 million per annum in our new facility in Kopparthi, which already got operational in the first quarter of '24. Further expansion of capacity in Kopparthi plant is planned in line with the increased order book from our principal customers, which indeed to improve profitability and margin expansion from Q4.

Rexxam Dixon Electronics, a 40:

60 JV with Rexxam of Japan to manufacture inverter controller board for air conditioner. The JV achieved revenues of 74 crores in Q2 with healthy margins and 100% ROC in this business. We have strong order book for this JV. We supply to Daikin and also, we're planning to start

exports under this business by next fiscal. We have achieved the CAPEX threshold and revenue thresholds for the current fiscal year under the PLI.

Refrigerators:

We have created capacity of 1.2 million direct refrigerators, which is more than 10% of India's requirement under various product categories of 190 liters to 235 liters. There are multiple features. Mass production is expected to start by Q4 of the current fiscal. The trials have already started. We will further introduce Glass Door models and also do repository in the next financial year. We've got a positive response from both global and national bank in this business.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead, sir.

Aditya Bhartia: So, my first question is on the consumer electronics business wherein if you could guide us how exactly the order book is looking like because we are having a delayed Diwali this time around, so what proportion of those seasonal sales are likely to be coming through in third quarter? And within that while you mentioned a bit about buffer integration initiative, if there's anything more that you can add to it, what's the kind of value addition that overall increases and what kind of benefit can we see at the bottom line?

Atul Lall: So, Aditya, Diwali is around the corner and a lot is dependent on how the final consumer sale takes place in the next two weeks or so. But overall, we feel that in this business there will be marginal growth and volume on the yearly basis. Last year, we had closed around 3.4-odd million. If things go right on Diwali, we should close this current fiscal at around 3.6, 3.7. That's the number look as of now. On the backward integration piece, the injection molding plant has already become operational. And in that concerned business there is an approximately in which we are able to do the injection molding, an expansion around 40 to 50 bps, and in the case of LED bulb, which is expected to start in a couple of months, there would be another 15 to 20 bps expansion.

Aditya Bhartia: Moving on to the lighting business, that's the business wherein we have been seeing quite a few challenges and you spoke about intensifying competition. What exactly has happened over there because we did have unparallel scale. So how is it that competitors have been able to hurt us and gain market share from Dixon given that their costs are likely to be much higher?

Atul Lall: So, what has happened in this business was that in Dixon's case, there was large dependence on LED bulbs. Now, LED bulbs, because the whole technology has migrated to DOB the unit value was declined by almost 25% to 30%. Second, the overall volumes have also significantly compressed. That is the reason that we have had this hit. These are the two main reasons. As far as the competitive strength is concerned, in these categories, we still maintain that we are most comparative.

Aditya Bhartia: So, in terms of market share, are you saying that there is unlikely to be any major loss that that we would have suffered in the last two years?

Atul Lall: We have grown our absolute numbers in the categories of patterns. If you compare last year in the categories of ceiling line, non-lighters. In the category of LED bulbs, the absolute number has fallen. Partially, we feel it's basically because of decline in the overall market itself. There might be a small loss in the market share. But the main reason for that is the fall in the overall volumes.

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

Deepak Krishnan: Maybe just on the mobile segment, the sharp sequential acceleration we've seen in this quarter, is it largely all related to domestic demand or how do you kind of see the outlook going ahead for the full year and the second half as well?

Atul Lall: So, it is largely due to the domestic demand. Now we are seeing and expecting export volume also to come in from our largest anchor customer in the smartphones. Also, in feature phone in Nokia, we're going to be starting exports. Please appreciate that mobiles are the largest trigger of growth for Dixon. And the large customer acquisitions that we have made in both Xiaomi and Itel. In Itel's case, only feature phone has kicked in, the smartphone still has to kick in. And in Xiaomi's case we have successfully completed the trial and the commercial production is going to get initiated in next month and then the ramp up will happen. So, the order book looks extremely heavy and we feel that it will be a significant contributor to our growth and revenues in the coming quarters. We are further in discussions with a couple of very large global brands. We're fairly confident that we should be able to conclude these large businesses in possibly the next quarter.

Deepak Krishnan: So, you would indicate that maybe 2x still has further legs of room given the healthy order book in Xiaomi and maybe Itel smartphone or yet to kick in, is that understanding correct?

Atul Lall: That's right.

Moderator: The next question is from the line of Renu Baid from IIFL Securities. Over to you.

Renu Baid: My first question is coming back on the mobile segment. While you have mentioned about new customers kicking in, can you also explain would we require to further invest in new capacities because the recently commissioned plant is largely for Xiaomi? So, what is the outlook of CAPEX for the mobile segment? And given that large domestic brands are onboard for the domestic market, what kind of growth and scalability can we look in this segment or category over the next two years?

Atul Lall: So, a lot of CAPEX in the mobile business has already been front ended. So, we've covered what is required to be done. Largely, there would be some additional CAPEX, but largely it has already been executed. On the second part of your question, yes, Xiaomi still has to kick in which hopefully is going to be a large figure of growth and there are other customers that I mentioned is also going to get into the execution mode by Q4, that's what we are aspiring. And then we are working with a couple of other large global brands. If we're able to conclude and we're fairly confident about it, that should get concluded by next quarter and it should come in to execution mode by end of next quarter or by beginning of the first quarter next fiscal.

Renu Baid: Any numbers that we can quantify in terms of the scalability of this vertical for us?

Atul Lall: See, we have already shared the numbers of the two accounts that we have already acquired. So that is kind of we're fairly confident about. On the new businesses, it's still slightly premature to share the numbers on that.

Renu Baid: Then strategically if we look at, while you've participated within the hybrid category for IT hardware, if we look at the backward integration mandates, it requires quite a bit of capability built up on the PCB space as well as some as ATMP activities on various components, so what are the kind of backward integration intensity that we are targeting in the IT hardware PLI 2.0?

Atul Lall: Renu, right from day one, we plan to start with the PCB assembly now. Further in the road map is going to be the localization and either in-house or through partnership on the power supply side, also, on the display module side and also on the mechanical side. Now, these are three major inputs that we're going to be looking at, but it's still slightly early, because once the PLI 2 award still have to come from the government and we are in final stages of discussion with another large global brand. Hopefully, that contract should be awarded to us in the forthcoming quarter. Because this backward integration plan is finally dependent on the expectations of your end customer, because there are various technology inputs required there… global partnership required. But largely, the backward integration roadmap is what I've just shared with you.

Renu Baid: Strategically, if we see now with a wide base of customers within the mobile PLI, our positioning within the consumer electronics is very strong and the business that we have been able to remodel over the years is generating sufficient free cash to not just invest in the current growth but also look at potential new opportunities. So strategically, are you looking at from a four to five-year perspective beyond the consumer electronics within the EMS segment, you think there would be other businesses or categories where you would like to explore and look at growth or Dixon would continue to be a consumer electronics focused B2C play within the EMS market?

Atul Lall: No, no, it's going to be our endeavor to look at the higher margin categories, to look at the possibility of participating in the component ecosystem opportunity. So definitely because I think we'll be generating enough cash to build those businesses. And in Dixon, we're definitely going to look at it and jump at that opportunity.

Moderator: The next question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead.

V Balasubramaniam: Now, we are embarking on this IT hardware PLI and we are trying to participate in that. Now, when we observe this, it seems a little different from other categories that we have participated in the past because in all other categories at some point in time the government did implement import duty. So, I believe that helped us compete with manufacturing happening in China or say Southeast Asia. Now, India as a country under the World Trade Organization cannot put import duties, how would the manufacturing costs in India compared with that in let's say China or Southeast Asia? Is the IT PLI whatever benefit between 4% to 6% or 7% is that enough to make up for that cost difference or do you think the government needs to give you more incentives to make this a success like say what has happened in mobile?

Atul Lall: So, we have done a lot of groundwork on this particular aspect. The point that you have raised is very, very pertinent. And we are confident of offering the manufacturing charges to our potential customers which are similar to the global charges. And that's the key. I think we have been able to reach that level of efficiency. And on that basis, we are confident that we should be able to get the contracts awarded to us. Anything coming through the PLI route, we feel is going to be additional leverage we're getting into this business. So, I reiterate that the manufacturing charges offered by us are comparable to the global charges.

V Balasubramaniam: What exactly --is it on staff cost, is it labor cost which are much lower here, like how are we able to complete?

Atul Lall: So, the efficiency of the lines, the infrastructure that we are trying to build is going to be as efficient as productive as the global aims is. Second, this is going to be add-on infrastructure on our mobile infrastructure. So, we'll be generating that operating leverage because it's will be on a margin on costing basis.

V Balasubramaniam: The revenues have been driven by three sub-categories. One is mobiles with almost 3,600 crores of revenues, hearables and wearables with around 575 crores and telecom at 275 crores. Is it possible to share what is the kind of indicative targets you have for the current year for these three subcategories?

Atul Lall: So, I don't want to share the numbers, but broadly, Saurabh can separately share with you, but specifically, we are in a position to share the numbers.

Moderator: The next question is from the line of Abhishek Ghosh from DSP. Please go ahead.

Abhishek Ghosh: So just a couple of questions. First is, your top line over the next two to three years is likely to grow at that 30% CAGR plus. In that how should we look at the overall contribution from mobile that should come in over the next three years? And also, the export fees, if you can just broadly help us understanding?

Saurabh Gupta: So clearly, mobile will be the largest trigger for our growth. So, if you look at this quarter also to mobile and EMS has contributed more than 50% of our revenues, and if you look at the opportunities and all the verticals put together and if you look at the opportunity, mobile is the largest opportunity that we are sitting on both as an industry, so addressable market and for us, we have significantly acquired all the major large brands that are in discussion with. So, my sense is over the next few years, this number potential of revenue contribution coming from mobile can all anywhere between 60% to 70% because that's where the largest growth is happening. I hope this answers your question. On your question on exports, last year we did 1,000 crores on a top line of around 12,200-odd crores. Hopefully, our export businesses, one, will be led by our anchor customer in mobiles which is Motorola and also Nokia which Mr. Lall just mentioned. Lighting just started to get some export orders and hopefully it should keep getting better year-on-year. We are in discussion with some large chains there. My sense is this year the export revenue can potentially look like somewhere around 2,000 to 2,500-odd crores. So, percentage contributions, suppose last year 1,000-odd crores on a revenue of 12,000 crores, percentage was brought to 8%, 9%. So, this year the percentage goes up and hopefully this percentage will continue to go up because the brand that we are acquiring are initially mostly for domestic markets but gradually once we executed well, some of the brands have a potential for global markets as well.

Abhishek Ghosh: Mr. Lall mentioned that you're also looking at newer clients for the mobile business. If you can help us understand two things, is it for the export market or the domestic? And if it's for the domestic market, since you already have a fairly dominant player, Xiaomi as your customer doesn't deter you from having some of the other market leader as a customer, any thoughts on that?

Atul Lall: So, we are discussing with a couple of large global brands. Initially, it's going to be for domestic market. But as Saurabh mentioned, we are hopeful that if we executed well, then the export opportunities will open up for us. Beyond this to share details at this stage will be premature.

Abhishek Ghosh: Since you spoke about also you look at newer opportunities in the EMS space, some of the space that we're looking at, there will be different from the way your business model is in terms of working capital, return on equity. So, any thoughts of diversifying into businesses which are capital-intensive in terms of working capital and return on capital is much lower than the ones that you enjoy, any thoughts in terms of diversification into those segments?

Atul Lall: So, see, Dixon is on a high growth path. On a blended basis, we are extremely focused on the return ratios on the strength of our balance sheet. But there are certain businesses in which the margin profile can be significantly higher and also, the competitive intensity may not be as intense. So, on a blended basis, we see that our return ratio pieces will never be compromised, but in some of these businesses, it might have an impact. So, we feel that now we have the capability and bandwidth to explore those kinds of businesses also. So, today at conceptualization exploration stage, but we are absolutely committed and serious about it to pursue this.

Moderator: The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead, ma'am.

Sonali Salgaonkar: My first question is again an extension of Abhishek's question. Could you quantify the CAPEX that we are expecting in FY24 and if there is any change in FY25 guidance?

Atul Lall: We have done a CAPEX of 331 crores till September and a lot of CAPEX, Sonali has already been front-ended. We feel that in this fiscal, we're going to close at approximately 500-odd crores. Next year, I think the CAPEX intensity is going to be lower. So that's what we feel. But the next year budgeting is still to be done and the IT PLI-2 award still has to happen and some of the new accounts in mobile are still in advanced stages of discussion. So, to give that number is difficult, but for '24 we feel that overall number is going to be within 500 crores.

Sonali Salgaonkar: My second question is regarding the incentives on PLIs. Sir, could you help us with an update as to how many incentives we have received so far and what's the quantum of that and how are we accounting the same?

Saurabh Gupta: Sonali, we are a beneficiary of five PLI, so mobile PLI, we've already received three disbursements from the government, I think we've got the cheques till December 2022 and our application for the period January to March has already been appraised. What we understand is that we should get the disbursement very soon in the next couple of weeks or maybe earlier. Then, immediately after the September now, we have just closed the September numbers, we will now file our claim under the mobile PLI for this financial year as well based on six months numbers and that should take maybe one and a half, two months to get those disbursement from the government. So, this is on mobile PLI. Now on the telecom PLI, again that appraisal for the period January to March because that's where we started the business in our JV on the telecom side, so that appraisal also has been done. The final meeting of the empowered committee is pending, which we understand should happen soon, and then we should get a disbursement. And also, our investment for the second year under the Telecom PLI which first year was 36 crores and 2nd year was also 36 crores, we have again done that CAPEX because on account of increased order book that we have from Airtel and Jio. So that also the claim we will file immediately after this balance sheet closure once we get the first disbursement. So, this is the status of telecom PLI. On the IT hardware, we are awaiting the approval under the revised IT hardware scheme. We understand that the approval should come in shortly and we have applied under the hybrid category with the 250 crores investment because we have some brands and we are in discussion with some large brands there. On the lighting components PLI and on the inverter controller board where we have a JV with Rexxam, again, the numbers for CAPEX and revenue thresholds have been achieved. But the PLI mentions that it can only be filed once the financial year ends. We have achieved the numbers in the first few months only what was the ceiling of those committed under the PLI and once the financial year end, we'll file the claim and then hopefully we should get the claim by next year and then it should be kind of on a regular So this is the status.

Moderator: The next question is from the line of Mr. Mayur Patel from 360 ONE AMC. Please go ahead, sir.

Mayur Patel: While the company is gaining excellent traction in mobile and some of the new initiatives, new segments, just want to understand for the first half, the EBITDA growth was impressive at around 35% year-on-year, but the operating cash flow declined, I think it's around 150 crores, so that's the kind of decline as compared to the first half of the last year. So, can you just give some color about is there any change in the working capital cycle and is it structural or temporary or how is it?

Saurabh Gupta: Clearly, one of course because of the season every year, Q2 historically also has a lot of working capital gets deployed because lot of money gets locked into debtors, which subsequently get realized once the season ends. So, one is that. Secondly, lot of our businesses were also in ramp up phase, for example, some of the new accounts that we have started in mobile business for Jio, like in telecom for Airtel, those initially because those businesses are in a ramp up stabilization phase so there's always initial kind of a working capital which gets deployed. But then over the months what we have seen and like the way it has worked out in other verticals also, over the period we always bring it down. So, we think that in the next few months, we will be able to bring down the working capital intensity by almost 300 crores… we'll get almost 300 crores back into the system, which should happen over a period of next three to four months, we have a plan to it and we are absolutely working towards it. So hopefully this position as of March 31st balance sheet should look a positive working capital that we should generate in the business and we should have a free cash flow positive by end of March 31st. So, we are absolutely working towards it. We had a positive free cash flow last year as well and definitely we feel confident that we'll have the same situation this year as well.

Atul Lall: So, we are absolutely committed to it and internally we're confident of achieving what Saurabh was sharing.

Mayur Patel: Is it fair to assume that structurally there is no change in working capital cycle?

Saurabh Gupta: Our focus, our commitment on the working capital doesn't change and you will see that in the March 31st financials.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: A question is on the mobile segment. So, as you mentioned about Xiaomi and timeline and Itel as well I think these clients are going to ramp up more towards the end of the financial year. The kind of jump that we have seen in Q2's revenue in the mobile, are there just a timing difference since they were not there in Q1 then we came up in Q2 or there is a change in order visibility from existing clients like Xiaomi, Itel and Motorola, just a clarity on existing client order books which led to this kind of growth?

Atul Lall: In Q2 and also in the coming quarters, the order book of our anchor customer is very healthy. And also, there has been a significant volume increase of Nokia. Itel feature code has already started and as Saurabh shared that we have already started executing the Jio order. The smartphones of Xiaomi still have to kick in, which will start from next month, but the ramp up is going to take some time. So, this is the sequence.

Keyur Pandya: Just one clarification. You mentioned first, Xiaomi and then Itel smartphones. Is it correct?

Atul Lall: They're almost parallel, hopefully.

Moderator: The next question is from the line of Mr. Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Now, you did give us the ramp up plan for Xiaomi. Do you have a similar ramp up plan ready for Itel also that you could share?

Atul Lall: So, we are working on it. We feel that sometime in Q4 the manufacturing will happen with us.

Rahul Gajare: My second question is continuing with the earlier question that on the laptop manufacturing, where you did indicate Dixon will be fairly competitive compared to those manufactured in China or elsewhere. Now, based on your discussion with the potential clients, what are the thoughts of assembling these laptops…is this going to be restricted only for Indian market or even export opportunity is being deliberated at this point in time?

Atul Lall: So, the discussions that we have had with our global customers is that we feel that we have almost matched the China manufacturing cost. So, that's a big positive for this. Responding specifically to a question for which market we keep to start is going to be the domestic market only. Because first in Dixon, we have to prove our credentials of executing this business to our principals. Only then there can be a possibility of giving it exports, but initially it's going to be confined to domestic Indian market.

Moderator: The next question is from the line of Swati Jhunjhunwala from BOB Capital. Please go ahead.

S Jhunjhunwala: Sir, just on the topline side, so currently given our H1 numbers, we are on track to do somewhere around 17,000 to 18,000 for FY24. Now, given that Xiaomi smartphones are coming up and Itel and all the others, the laptop PLI and everything is coming up, can we expect to see these numbers double in the next two years?

Atul Lall: When we are extremely buoyant and optimistic about this business, but to give a specific guidance would be difficult. But yes, we are extremely optimistic, committed and excited about this opportunity.

S Jhunjhunwala: If there is any kind of guidance that you can give us over the next two years, three years?

Atul Lall: No, we are not giving any guidance anymore. But we're confident that our growth is going to be extremely aggressive.

Saurabh Gupta: Broadly, the comments or the opening speech that we had given, you can relate that we have a strong order book across most of the verticals. So, whether it's telecom, whether it's IT hardware potentially and then hearables, wearables, that's also the largest piece mobile. So clearly, we'll have a very strong growth, we're sitting on a large opportunity, but to share that in numbers, we would like to refrain from that.

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

Natasha Jain: Broadly, my questions have been answered. I just have one question on the home appliance segment. So, sir, our channel checks suggest that there has been a broader slowdown in the washing machine segment. So, basis ODM player, can you tell us how the demand or the order book looks like for this particular segment? Secondly, has there been a premiumization that's been happening or has the orders for fully automatic front load taking the front seat, just broader color on that segment will help sir?

Atul Lall: So, in the first six months, our volumes have grown 14% in the semi-automatic category. How the demand is going to pan out? We are waiting again for Diwali, that how the final consumer end sale takes place. Only then we'll have more clarity on our order book and the business plan. We've internally budgeted a number of 1.7 million in semi-automatic against last year's number of 1.4 million. As far as the premiumization is concerned, in semi-automatic one is seeing that the market and the consumer preference has shifted to the higher end models. Yes, that is happening. As far as the fully automatic is concerned, we have just started this business. There has been a 4% growth in the volumes. We are in the process of acquiring more customers and we'll see a positive traction in the coming six months. So that's the way it looks. But how the next two quarters are going to pan out? Let's wait how the Diwali happens.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Both on mobile and EMS, can you tell me last year which is FY23, how many mobile phones did you do for each of your larger customers for Motorola, for Nokia -?

Saurabh Gupta: We like to give you the overall numbers, not customer wise.

Pulkit Patni: So last year, what is the total mobile numbers you did, split between feature and smartphone, sir?

Saurabh Gupta: Pulkit if it's fine, can I share you after this call? I wouldn't be having it handy right now. What I can give you is the H1 numbers or Q2 numbers in case you are interested. For the full year numbers, maybe I can give you after this call.

Pulkit Patni: If you can just give me the H1 numbers between feature and smartphones for this year so far whatever you have done?

Saurabh Gupta: So, for smartphones for H1, excluding Samsung, so Samsung, I'll tell you separately, we did 2.5 million smartphones and almost 12 million feature phones. And for Samsung, we did almost 4.2 million smartphones.

Pulkit Patni: My second question is, can you talk about what is the total capacity today that you have after setting up factory for Xiaomi and all, both again for smartphone and feature phones?

Atul Lall: So, if you leave aside a Samsung plant, our smartphone capacity in the three plants is going to be almost 2.5 million of the smartphones and almost 5.5 to 6 million of feature phones.

Pulkit Patni: This is monthly capacity, right?

Atul Lall: Right.

Moderator: The next question is from the line of Ashish Shah from JM Financial. Please go ahead.

Ashish Shah: Can you talk a bit about the refrigerator capacity that we are setting up, by when do we expect that to be up and running and what is the kind of volume, revenue, margin expectations that one should start building in from that business?

Atul Lall: So, the capacity that has been set up is for 1.2 million units per year. This is basically for DC refrigerator, 190 to 235 liters. At present, the factory has been set up and the trials are going to be on in next week to 10 days. In the first lot of 2,000 refrigerators, we plan to run the production sometime in second week of November. It requires BEE and BIS approvals and also the customer approvals take time. So, we plan to start the commercial production. We're targeting December, but that looks to be slightly difficult, but definitely the next quarter. As far as it's concerned it's going to be almost similar to our other ODM businesses.

Ashish Shah: In terms of the volume, how the ramp up you would expect, I mean, in terms of whatever kind of inside you may have from the production schedule or any guidance from the customer side, what's the kind of ramp one should expect from this capacity?

Atul Lall: You see year one is going to be slightly slow because the approvals in refrigerators, particularly for large global brands to whom we are talking it takes some time. And I think we are going to miss the season for refrigerators, because the season starts picking up from January to March… we're going to be in it, but not absolutely ramped up. So, to give exact numbers for the next fiscal, I think we're still in the preparatory stage, will take some time at least.

Moderator: The next question is from Kuanchu from Birla Mutual Fund. Please go ahead.

Kuanchu: My first question on the home appliance side. You mentioned we've done 14% volume growth in semi-automatic and mix is also premiumizing. Has the industry in some sort of price erosion because in the first half revenues have been more or less flat.

Saurabh Gupta: So there has been some kind of a price erosion because of the fall in commodity prices and also the fall in the freight rates.

Kuanchu: We pass that on to our customers?

Saurabh Gupta: Yes, the prices are adjusted. There has been a margin expansion in this business.

Kuanchu: The second question is on the mobile phone and EMS side. So, now that business accounts for over 50% of overall revenue and that number would rise as Xiaomi and Itel scales up. But value addition in this segment is significantly lower than other segments that we're doing. So, are there any plans to scale up value addition in this segment as well?

Saurabh Gupta: So, in a stage one, the full objective is customer acquisition, executing that business well, ramp up the volumes and generate an operating leverage because it's going to be a very large scale. Please appreciate that we're talking about a capacity of almost 80, 85 million which is more than 30, 35% of the total incentive requirement. That in itself when Dixon is going to consume a lot of bandwidth. Once we are able to stabilize our operations, then the focus is going to be that how we can add more value. But as of now, the whole focus is to gear up the whole organization to execute this large business opportunity.

Moderator: The next question is from the line of Shrinidhi from HSBC. Please go ahead.

Shrinidhi: Just one clarification on the Itel business. The Itel brand, which is owned by Techno, it seems that like they operate three brands in India. Just wondering, Dixon has got contract to assemble only the Itel brand or the other two which includes?

Atul Lall: It's going to be for all the plants.

Shrinidhi: Saurabh, you elaborated on PLI incentive scheme. Just wanted to confirm is it correct that there is no incentive that has been booked in this quarter as well as first half of this financial year?

Saurabh Gupta: No, no, no, incentive has been booked. So that part got missed. So clearly the way we do is that we create a receivable from the government based on accrual basis and we create a pay bill to the customers on the liability side, which has to be paid which whatever we agreed on a sharing mechanism with them. And the difference between both of them is gets booked in the P&L. So, the first six months of this financial year is 17 crores of PLI incentive which is our share across those four PLIs because IT hardware is not kicked in, has been booked.

Shrinidhi: May I ask how much is it in Q2?

Saurabh Gupta: 17 is H1 and Q2 is around 11.8.

Moderator: The next question is from the line of Onkar Gugarde from Sri Investments. Please go ahead.

Onkar Gugarde: My question was regarding the business of refrigerator and other things is margin accretive for you as compared to other businesses. So, any specific plan to enter into businesses which are high margin category or any specific plan for this business to grow further?

Atul Lall: So, refrigerator business is just about to pick up. It's going to be a large opportunity for us to build up that business. As I shared in my earlier response to the question, it's going to be margin-accretive business. Once we are able to stabilize this business, definitely, we're going to look at the opportunity in this particular segment to get into side-by-side possibly also. There's going to be the next expansion. Apart from this, any other category where we are very continuously evaluating the opportunity in which the margins are definitely to be value accretive.

Onkar Gugarde: Just a follow up on that, in the AGM, chairman mentioned that you would be looking to enter into categories like automotive, defense in the long-term. So, what's the plan on that front?

Atul Lall: We are evaluating both. And both in automotive and defense electronics some discussions at initial stages have already started with our potential partners.

Onkar Gugarde: So, this is at a very basic nascent stage you mean to say?

Atul Lall: That's right.

Onkar Gugarde: You had mentioned that with this IT 2.0 PLI you would be investing 250 crores and the potential revenue would be 48,000 crores in the next six years cumulatively. So, just wanted to know this is even if you get the approval for PLI 2.0 or by chance if you don't get the approval, this 48,000 crores target is still on in next six years given the visibility you have with the ACER and the new brands?

Saurabh Gupta: This is linked to PLI. But we feel confident that we should be a PLI beneficiary. Of course, the approval is waited here.

Onkar Gugarde: In one of the media interactions you had mentioned that you have been awarded with the client and you will be producing in four or five months. But you are mentioning right now that you haven't been awarded yet for the laptop I'm seeing?

Atul Lall: It's almost at the final stages and we are confident that the contract that has been awarded to us is going to mature.

Onkar Gugarde: So, we would be expecting the disclosure from your end very shortly, right?

Atul Lall: That's right.

Moderator: The next question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead.

V Balasubramaniam: Just a follow-up question. I just noticed that your AC PCB business, which was almost 140 crores last year has come down this year to something like 40 crores. So why is there a decline in your AC PCB business?

Saurabh Gupta: No, no, no, no. So basically, it has not come down to 40 crores. So last year we transferred this business to the joint venture with Rexxam towards the end of Q2 last year. So that's why we had these revenues of 140-odd crores. But since the JV is around 60:40, so in the financials, we only book our share of minority profit and we don't account the revenues. The 40 crores revenue is a small revenue which is based on some intercompany thing. But apart from that, the revenue is not reflecting in the financials. Our share of minority which is reflecting in the share of profit as a line item is reflected in the financials.

V Balasubramaniam: No, I was asking you because in your presentation it is mentioned that if you exclude the AC PCB business, your underlying consumer electronics business is growing at a certain pace. So, you can actually back calculate and it looks like AC PCB is getting accounted. Maybe I'm confused. Anyway –

Saurabh Gupta: No. There is some confusion. So basically, the numbers that we have reported for last year is 1500-odd crores, out of which we are saying that there was an AC PCB revenue because by that time we had some numbers coming in Dixon only and by that time that JV was not created… last year I'm talking about. So, if you exclude the AC PCB revenues, that makes the consumer electronics revenue, which is LED TVs has around 1,422-odd crores. And if I see the growth in numbers this time which is 1,440 crores, there is a small growth of 1% is what we have reflected. And similarly, the operating profit which is reflecting at 14%, if I exclude the impact of AC PCB, the operating profit growth. Year-on-year is 19%.

Moderator: Thank you very much. The last question for the day is from the line of Nikhil Agrawal from VT Capital. Please go ahead sir.

Nikhil Agrawal: Just wanted to know your set top box revenue for the quarter.

Saurabh Gupta: So, set top box broadly we sold around 6 lakhs set top box and the average selling price is around Rs.900, 1,000-odd, so it should be 54, 55-odd crores.

Nikhil Agrawal: This is included in the mobile and EMS segment?

Saurabh Gupta: This is included in the mobile and EMS segment.

Nikhil Agrawal: So, your TV volume year-on-year if you could just help me with that?

Saurabh Gupta: The TV volumes in H1, we have done a volume of 17.9 lakh as against 18.4 lakh in six months last year.

Nikhil Agrawal: What would be the open sell prices year-on-year?

Saurabh Gupta: Open sell prices have gone up. In fact, if you look at our revenue growth in consumer electronics, it is almost flat. And if you look at my volume, degrowth has happened in this particular quarter because the festive season also spilled to Q3. So, my volume degrowth is -7% and there is a +7 increase in value in the selling prices mainly on account of the open sell. So that's the reason we are having a flat revenue growth.

Nikhil Agrawal: Just a clarification, you said 17.9 volumes for H1FY24.

Saurabh Gupta: Yes. But if I talk about specifically it is 10.8 lakh as against 11.6 lakhs in Q2 last year.

Moderator: As there are no further questions, I would like to hand the conference over to Ms. Bhoomika Nair for the closing comments. Over to you ma'am.

Bhoomika Nair: Yes, Sir. I would like to thank the management for giving us an opportunity to host the call and all the participants on the call as well. Thank you very much, sir.

Atul Lall: Thank you, Bhoomika. Thank you so much.

Saurabh Gupta: Thank you, everybody.

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