Dixon Technologies (India) Limited

06th February, 2024

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

Dear Sir/Madam,

Sub: Transcript of the Q3 FY 24 Earnings Conference Call held on 31st January, 2024

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III thereto, please find enclosed herewith the transcript of the Q3 FY 24 Earnings Conference Call of the Company held on Wednesday, 31st January, 2024.

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

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

Thanking You,

For DIXON TECHNOLOGIES (INDIA) LIMITED

ASHISH KUMAR
Digitally signed by ASHISH KUMAR
Date: 2024.02.06 15:33:26 +05'30'

Ashish Kumar
Chief Legal Counsel & Group Company Secretary

"Dixon Technologies (India) Limited

Q3 FY24 Earnings Conference Call"

January 31, 2024

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

MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Dixon Technologies Q3 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 call, please signal an operator by pressing star, then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, ma'am.

Bhoomika Nair: Yes. Good evening, everyone, and welcome to the Q3 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. At this point, I'll hand over the call to Mr. Lall for his initial remarks, post which we'll open up the floor for Q&A. Thank you, and over to you, sir.

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

Saurabh Gupta: Good evening, everybody.

Atul Lall: Thank you very much for joining these earnings calls for the quarter ended December 2023. Coming to our overall performance for third quarter, consolidated revenues for the quarter ended December 31, '23, was INR4,821 crores against INR2,408 crores in the same period last year. That's a growth of 100%.

Consolidated EBITDA for the quarter was INR187 crores, against INR114 crores in the same period last year. That's a growth of 64%. Consolidated PAT for the quarter was INR97 crores, against INR52 crores in the same period last year and that's a growth of 87%. With a strong capital allocation discipline and effective working capital management, we were able to expand the return on capital employed and return on equity to 35.6% and 25.6%, respectively, as on 31st December '23.

And we feel very confident that the same would keep improving in the upcoming quarters and years on account of improved earnings, working capital efficiency, higher asset turns in both mobile and IT hardware segments. We continue to invest in our capacities and diversify into new 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 strengthen our position as a key player in industry.

Strong balance sheet, high liquidity, and adequate credit lines from banks 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 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. Starting with Mobile and EMS division. Revenues for the quarter were INR3,214 crores, which is a growth of 251% year-on-year and 14% quarter-on-quarter. Operating profit was INR104 crores, a growth of 215% year-on-year and 13% quarter-on-quarter, with an operating profit margin of 3.2%.

In the first nine months of this fiscal, we have already touched a significant milestone of manufacturing 11 million smart phones and 26 million feature phones. We have created an annual capacity of 30 million smart phones and 50 million feature phones across four plants in Noida. We're making more investments in this business in order to meet the increased order book in Motorola business, including a significant part that is going to be exported, and to meet the demand for some large new brands in pipeline.

Production should commence in the next couple of months for one of the largest global brands, which we have acquired. And for another customer, which is again one of the largest global brands, it should commence within the next four to six months. Agreements with both the customers are in the final stages of closure, and we expect very decent volumes from these two new customers.

Our ramp-up in Xiaomi's smart business in the range of around three to four lakhs a month and then ramping up significantly has already started in a new facility in Noida. We expect the volumes to further build up starting April '24. So these are very, very large orders and we would be undoubtedly the largest phone manufacturer in the country.

Consumer Electronics. Revenues for the quarter was INR929 crores. That is a value growth of almost 8% with an operating profit of INR32 crores and 3.4% of operating margin. We have rolled out India's first ODM-based Google TV solutions from Google in the quarter under review and we're getting an encouraging response with some of the brands already taking the solution.

We've also entered into partnership with Samsung for their Tizen operating system, which will be supplied in for us to offer to other domestic brands and is expected to be rolled out by Q4, that is the current quarter of this fiscal. We have started manufacturing Interactive Flat-Panel Display this quarter, and we have a good order book on this.

We expect the margin of this business to be much superior to LED TV. As a part of our backward integration exercises, we've already started injection moulding for televisions and also started manufacturing the LED bar for televisions.

Home Appliances. Revenue for the quarter was INR288 crores, which is again a significant growth over the quarter last year, with an operating profit of INR30 crores and operating margin of 10.4%. Our new state-of-art facility at Dehradun is now ready and the mass production will be starting in a week's time.

In line with our backward integration strategy, we have set up our own tool room and most and the majority of our tools are being manufactured in-house now. Manufacturing for both, for Bosch and Reliance in semi-automatic category; and Panasonic, Lloyd, and Reliance in fully automatic category will start in Q4 of financial year '24.

Lighting. Revenue for the quarter was INR187 crores with an operating profit margin of 7%. Apart from subdued consumer demand and increased competitive intensity, reason for lower revenues year-on-year is mainly due to price erosion with the new DOB solutions, which is 35% to 40% lower as against the same period last year. We are on track to launch professional products by Q4 of the current financial year.

New product introductions, specifically on ceiling lights are also planned in the current quarter of the current fiscal. We're getting into backward integrations of mechanicals. We're seeing better cost optimization. We are targeting to start the production of these mechanicals in Q1 of the next financial year. We have got some repeat orders for exports from our customers in Middle East, and we are also pursuing in other developed markets in the coming quarters.

Next is the telecom and networking products. Revenue in this segment for the quarter under review was INR182 crores. A new facility in Noida, which got operational in December '22, is now stabilized and now ramping up for various telecom products successfully. Mass production is now going on for Telecom GPON-20, that's WiFi-5 and WiFi-6 routers, and Android set-top boxes, this is mainly for Airtel and the other largest mobile service operator.

This is in partnership with very large global ODMs. We've also won very, very large orders from Airtel for 5G fixed wireless devices, which is currently in the NPI and trial stage, and this is one of the largest global players -- global ODM solution provider in the FWA category. We have also got a large order from the largest Indian telco on set-top boxes and 5G CPE devices. These products are also going to be started in Q4 of the current fiscal. The order book in this business is very good.

Next is laptops and tablets. Dixon through its 100% subsidiary, Padget, is now a beneficiary under IT Hardware PLI 2.0, under the hybrid category, wherein we've committed an investment of INR250 crores during the tenure of this deal. We've already finalized business with Lenovo for manufacturing of notebooks and tablets. NPI phase for tablets is completed and mass production will start in the current quarter. Notebooks, we are expecting to start by August, September of next fiscal. ASUS business plans are also in discussion, which are going to increase significantly.

Wearables and Hearables. Revenues for this segment were INR101 crores with healthy operating margins. The festival sales in this particular category in Q3 was subdued, resulting in lower revenues. In this category also, we have deepened our level of manufacturing by setting up SMT for PCBA, that is going to be done in-house from the current quarter.

Security surveillance systems. Dixon's 50% share of revenues for the quarter was INR200 crores, which is very significant growth over last year. New facility in Kopparthi is now getting stabilized, resulting in normalization of operating margins at 2.6%. We've further expanded our SMT capability by adding two more SMT lines. We're going to add more product categories like 4G camera and routers in this particular business. We're also looking at the possibility of setting up an injection moulding shop.

Rexxam Dixon Electronics. It's a 40-60 joint venture with a Japanese company, Rexxam, to manufacture inverter controller boards for air conditioners for Daikin. This JV achieved a revenue of INR82 crores in Q3 with very healthy operating margins. There is a strong order book in this vertical. We've also achieved the capex thresholds for two years and revenue thresholds for current fiscal under PLI.

Refrigerators. We have created a capacity of 1.2 million direct cool refrigerators, which is almost 10% of India's requirement in the categories of 190 litters, 225 litters, with multiple features and different star ratings. Production in this particular factory has already commenced. The trials are on. We're expecting some BIS approvals and the commercial production will start in the next week to 10 days.

We have already signed up agreements with some large Indian brands and the trial runs for them are up on. We would further be introducing glass door models and have started developing two-door frost-free models in this category. In addition to this, the company is also seriously pursuing PCB assembly and box build in the high-value addition in the electronics sector. In this, the response has been good. We hope to conclude some good orders in a couple of quarters in this business.

So I would like to stop now, and me and Saurabh are there to respond to your questions. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankur Sharma from HDFC Life.

Ankur Sharma: I had a couple of questions. One to start up was on the Lighting side. And clearly, Lighting has been struggling for a while and that's pretty much an industry-wide phenomenon given the erosion in prices. But being one of the largest players, how do you really see this going forward? By when do you think prices bottom out? Because I understand volume will be there, but that's completely been taken away by the price erosion. So is it like another quarter away, couple of quarters? How would you see this?

Atul Lall: So Ankur, lately, I'm seeing that the price drop which was happening because of migration to the new technology of DOB has kind of bottomed out and stabilized. So I don't see this kind of erosion taking place in the coming quarters. However, the demand continues to be subdued on the consumer side. What our data points are showing that on the professional side and industrial side, the demand continues to be fairly robust.

And also the consumer end solutions with the products like LED bulb, which was a major contributor to our revenues, is subdued and kind of declining and the consumer demand is shifting more towards ceiling lights and downlighters. So that's what we are trying to do internally. We had set up an R&D almost a year back by taking in senior professionals from the industry.

So our professional solutions of streetlight and industrial lights are being rolled out, and we start generating revenues from the next quarter. And also, we have invested a lot for coming up with extremely good solutions with ceiling lights and downlighters. So that's also going to be rolled out shortly. And our new product category, which I had mentioned in my earlier earnings call, was on strips and ropes.

That has already been rolled out. So those are the steps one has taken from Dixon side. But how soon it's going to recover, to be very candid, one has to wait and watch. But as far as the unit value decline is concerned, I think it's bottomed out. And these are the steps taken by us to get the business back on track.

Ankur Sharma: And on export, how big would that be right now? I understand that is very small, right? But can this kind of offset some of this weakness on the B2C demand? Will that happen in next one or two quarters? Or it's still some time away?

Atul Lall: So we are definitely seeing this phenomenon called OOC, out of China, and we are working on this opportunity. We feel that we are almost close of certain significant breakthroughs in the developed markets. But let's wait and watch. But what kind of revenues it's going to offer? I'm not in a position to answer that question.

First is to get those breakthroughs, and we feel that we are almost close to it. Second is to establish our credentials and deliver as per the large customer's demand, and then the volume will come up. So I'm very sure we'll come back on track, but it'll take some time.

Ankur Sharma: Okay. Fair. Sir, second, on the cell phone side, and I think you spoke about some two large new customer additions, if I heard you right, where you're working upon. Anything more you can talk about, are these brands in India? Are these mostly brands outside India? Would you be making it for the Indian market? I don't know whatever that you can share at this point?

Atul Lall: So this is mainly for the Indian market. The first time that we mentioned in our opening remarks, wherein we are targeting the trials within February, March, and the commercial production to start in April. It's within the top three, four brands in India. And the other brand is a very, very large global brand. And that requires certain specialized lines. We are close to signing some documents, but that's going to take 4, 5 months to start commercial production.

Ankur Sharma: Right. Okay. And just if you could remind us, a ramp-up on Xiaomi, intel, Jio, how is that going? Any numbers you can share where you land up, say, this year and next year on some of the larger -- even Motorola I hear has increased exports out of India. So some of these larger clients, how is the ramp-up happening? I know the Xiaomi plant has also started. If you could help us there as well?

Atul Lall: So the ramp-up in Motorola volumes was very significant. And almost 28% to 30% of what we are going to manufacture is going to be for exports to U.S. market. For Xiaomi, the production has already started, and we are adding lines. We have won the RFQs to have new models. So that ramp-up is going to be significant.

Month-on-month, the ramp-up is happening. Jio, we are consistently producing for them the Bharat Jio phone, but that's more on the feature phone side. intel also we're producing the feature phone. We feel that in a month's time, a significant production of smart phones for them is going to start.

And then we are talking about adding two new brands. One brand that I mentioned is going to happen, hopefully, by April, and the next brand should happen by August.

Moderator: We take the next question from the line of Aditya Bhartia from Investec.

Aditya Bhartia: My first question is on the mobile phone side. We have obviously started a few new facilities like that of Xiaomi, and we are also constructing a fairly large [inaudible] almost 1 million square feet kind of a facility. So how are we thinking about structuring this business?

Would some part of the existing business be moving to a larger facility and we'll let go of some of these facilities? Or are we anticipating new business to be large enough to be filling in such a large capacity?

Atul Lall: So at present, apart from our Samsung footprint, we have three footprints. We have three factories in Noida. And within these three factories in Noida, we are creating a capacity of almost 30 million units, smart phone only I'm talking about. And parallelly, we are building this 860,000 square feet factory in Sector 151 in Noida.

This is going to take two, two and half years. And also, please appreciate that we are an active participant in IT PLI 2.0, and that is production of notebooks and also tablets. So that business is also going to ramp up. At present, it's going to be done in our Sector 68 factory.

And as the volumes ramp up, and let's see -- because if we're doing 30 million, 35 million, 40 million phones, it's a very large number. We'll have to take a call that how much of it is going to be shifted to the new -- our own owned footprint or we can secure some new business. Let's see, there is time for that. But at present, that's the way to structure.

Aditya Bhartia: Understood. That's helpful, sir. My second question is on performance this quarter for segments other than mobiles, which appears to be a little soft. Lighting, obviously, you mentioned some of the challenges. But even on the TV side, given that we had a slightly delayed Diwali, maybe one could have expected slightly stronger volumes.

So is it that the market is going through a fairly dark slowdown? Or is there something more to it? And also a related question, in categories like, let's say, wearables or IT products, which are just in the nascent stages, this quarter has been a bit weak. So what are you seeing on that front?

Atul Lall: So let me share with you the numbers. See, as far as LED TV is concerned, we have grown 8% in value over the same quarter last year, but there is some decline in the volumes. As far as semi-automatic washing machine is concerned, we have grown by 35%. As far as smart phones and feature phones, you know the numbers have grown by -- in the case of smart phones, by almost 246%; in feature phones, by 1,300%.

As far as hearables and wearables is concerned, we have grown by 22%. As far as CCTV is concerned, year-on-year, we have grown by 89%. In DVR, we have grown by 81%. And our telecom devices, because it was a small base, I mean, it's a significant growth. So what I'm putting across here is, of course, the growth, the main growth trigger has been mobile. But all the other verticals we have grown, except for lighting.

And you know that the demand and the consumption side in India in this particular category has been rather subdued, but we have grown.

Aditya Bhartia: Sir, on wearable side and IT hardware side, I was actually looking both from a sequential basis versus quarter two, given that these businesses are on a ramp-up mode. Like wearables, we had seen a pretty decent growth in second quarter, also because I think we started consolidating 100% of revenues. But from there, we have seen a bit of a dip. So just wanted to understand that.

Atul Lall: Can't compare quarter-on-quarter. Please appreciate that in Q2, the build-up was for Diwali.

Aditya Bhartia: Okay. So there's fair bit of seasonality even in wearables and hearables?

Atul Lall: Yes, yes, absolutely.

Aditya Bhartia: Sure, sure. Understood.

Atul Lall: Generally, Aditya, basically, till Diwali, the sales are grown and then they generally maintain the channel, which takes time to liquidate. So that always happens in wearables and hearables category as well apart from TVs and washing machines. But in washing machines, we've still grown year-on-year, clearly because we have been able to take higher share of wallet and we've also been able to add more customers in this category.

Saurabh Gupta: So just to share with you the numbers in semi-automatic washing machines, I know that the overall demand has not been that buoyant, but we have grown from 3.1 lakhs to 4.2 lakhs.

Moderator: The next question is from the line of Deepak Krishnan from Kotak.

Deepak Krishnan: I just wanted to check on the Jio Bharat phone in the feature phone group and under that you indicated. Do you kind of see that volume sustaining beyond this year? Or do you kind of look at that as a onetime revenue addition for this particular year? What are your viewpoints over there?

Atul Lall: The Jio Bharat is going to ramp down in a couple of months.

Deepak Krishnan: Sure. And our additional other customers, especially the Xiaomi ramp-up and the intel ramp-up should more than help us offset any impact on that. That's how we are looking at...

Atul Lall: New customers.

Deepak Krishnan: Okay. Sure, sir. And maybe any viewpoint on how are you looking at mobile growth for the next couple of years? Any data point that you can share in terms of -- obviously, you indicated new customer addition, but either in volume or value terms, how you kind of see this business scaling up?

Atul Lall: So undoubtedly, it's going to be the largest contributor to our growth. See, we feel that the outsourcing opportunity in mobile out of 150-odd million mobile smart phones sold in India is almost 85 million to 90 million. And we feel that in a couple of years, we should at least be at 35%, 40% of that market. So it's going to be a very large revenue contributor.

Moderator: The next question is from the line of Renu Baid Puglia from IIFL Securities.

Renu Baid: So my first question is, how should we look at the mobile phone business from a profitability perspective? Earlier, you had mentioned that this business should be growing anywhere between 2.5% to 3% margin over medium term. So this quarter, we would have seen initial start-up costs for new factories for Xiaomi, ramp-up in Moto, plus there are capex underway for other factories as well.

So if we take the next 12 month's perspective, do you think margins in mobile could take a near-term knock or ramp up in new or the existing brands? And the investments in new brands should be able to take care of the margins by naturally offsetting each other?

Atul Lall: When we're looking at customer mix, the model mix, and we have done the -- and prepare the financial metrics internally, if you -- between the last quarter, we have generated an operating margin of 3.2%. I feel we should be in a similar range. There will not be any negative impact. If possible, there might be 10, 20 bps improvement.

Renu Baid: And in terms of the backward integration with respect to mobile phone components, how is that placed for the next 12, 15 months?

Atul Lall: So we are looking very seriously now at a vertical integration play in mobile and again in deep study with some of the largest players in this domain. We feel now is the time for Dixon because we will be having a large mass of mobile, a large share in this business, to vertically integrate. This is happening at present, at conceptualization and study state. Let's see how the opportunity is looking. But please be rest assured that we in Dixon are very deeply diving into this.

Renu Baid: And just to recap, when we first entered the mobile segment, we had incubated a small team of R&D, which was based out of China, to work on potential ODM capabilities as well. So are -- is that team still working on that ODM plan? Or those plans to build those ODM capabilities in mobile phones over a three- to five-year period, is that plan still intact? Or there have been changes in the business strategy given the sharp volume ramp-up that we have seen in the recent quarters?

Atul Lall: So they're on the back burner now because the opportunity that has come into our lab are very, very huge. And the whole bandwidth of the team is going to be consumed in executing that. And also, a lot of work has to be done on industrial engineering, robotics, NPIs, automation, increasing the productivity levels, yield levels to the best in China.

And also, the opportunity one feels are going to be on the vertical integration side. And so that's the reason the ODM thing has been put on back burner at least for the time being.

Renu Baid: And lastly, you did mention briefly about plans to explore entry in PCB for industrial applications. Can you share some insights in terms of what applications are we exploring on the PCBA side? Would this be more domestic focused, foreign, broad EMS or it would be export-oriented portfolio for us?

Atul Lall: So what we are looking at because we feel that we have adequate capability on the EMS side for industrial electronics, we are getting the opportunities in a higher value-added business, mainly for global markets, mainly for global markets. We have built up a small team. We have dedicated some resources. Some RFQs are with us. In fact, with some customers, advanced stages of discussions are happening. So let's see how it pans out. But definitely, there will be a business revenue stream created in the EMS side, which is having a larger value addition.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential.

Keyur Pandya: First question, on the mobile side. I think since now, the Xiaomi plant is on stream earlier, you have mentioned about a 0.5 million kinds of run rate on a monthly basis and around 1 million for the intel smart phone. So what kind of timeline do you expect to reach this? Or have we revised upward, downward? Any update on this? That is first question.

Atul Lall: So we're working towards it. It's very difficult to have a timeline, but we are working towards it and we're confident these numbers will be achieved.

Keyur Pandya: Now it would be -- since, I mean -- I know it's still early stage since the plant coming on stream. So right now, what would be the level of production? Any run rate that, that you can share or any expected run rate for Q4?

Atul Lall: INR100,000 for Xiaomi.

Keyur Pandya: Understood. Secondly, on the laptop side, just more thoughts on existing opportunity from the existing customer and any timeline that you can share for the start of the production and the ramp of timelines.

Atul Lall: The new contracts for notebooks, laptops that we have signed with some of the large global brands, we are targeting to start production in August, September.

Keyur Pandya: And for me, just one follow-up. So, existing volumes are totally imported. So basically, what is the size of opportunity? And what kind of volumes can we import substitute for them, if you can share that?

Atul Lall: Please appreciate, the IT products market in India is almost $10 billion and it's largely being serviced through imports. So first, an EMS company like ours have to establish their credentials because laptop manufacturing, it requires a different skillset. It requires a different level of engineering expertise. Also, there is a nudge from the government for all the global brands to start manufacturing locally.

But all this has to align. First, the global brands have to be convinced about the capabilities in India. So it will be slightly difficult to give a timeline. But I think a very substantial production, once we have proven our credentials, is going to shift to India over next two to three years, yes.

Moderator: The next question is from the line of Abhishek from DSP Mutual Funds.

Abhishek: Just on the EMS part of the business, so once you probably get a clientele, and then will you start incurring capex? So one should assume a 12 to 15 month's kind of a lead time from the time you actually sign a contract with a customer? Or how does it work if you can help us with the timelines.

Atul Lall: So we have taken an internal strategic call to pursue this. We have built up a small team, which has started working towards it. We have some very significant RFQs. We have some because a lot of our SMT capacity is fungible, so we can always utilize our surplus capacity for it and create a footprint. How much time it's going to take? It's very difficult to say because it's a new business for us, but we are absolutely prepared to it.

Abhishek: Is that only from the perspective that once you get a firm contract from a client, you can use your existing capacity itself to produce is what the understanding is? So the lead time for putting up a factory, it should not be very high? Is that the right understanding?

Atul Lall: Not at all. You see the only -- the SMT lines are basically the same. But then, we're looking at industrial electronics. And when we're looking at value-added industrial electronics, we require a different kind of clean room capabilities. It can be six to eight months.

Abhishek: Got that. And sir, just in terms of Xiaomi also, your plant is largely ready. But in terms of product approvals and other things, are those in place? And how should one look at in terms of the ramp-up that you have kind of largely guided for in terms of further approvals and product approvals? How should one look at in terms of what are the things that you still need to cross in terms of to be able to get to that ramp-up?

Atul Lall: There is a prescribed SOP for product approval. It takes around a couple of months for the product to get approved after the trials have taken place. So the first couple of models have already been approved, and the execution is taking place there. And other product mix pipeline is very clearly established. So I think starting March, April, month-on-month, we see there should be an increase and ramp-up will happen.

Abhishek: Okay. Got that. And sir, just one last thing in terms of the competitive intensity. Both in television and lighting, how are you seeing that? Is there increase in competitive intensity? Or is it just the end demand, which is kind of weak? Any thoughts on these two segments?

Atul Lall: So on the television side, yes, the competitive intensity is there, but I think we are still in largely a secure position. And we are working with some of our customers who are getting a larger share of their wallet. The response is positive. So my sense is that in the next fiscal, we should see a volume growth also.

And also, we got into the new category of IFPD, which is a high-value product. And I think our order book there should be decent, so the competitive intensity definitely is there. But to share more deeply into this, I don't see the competitive intensity from domestic EMS players. I see largely from the global player.

As far as lighting industry is concerned, the competitive intensity is very, very high, particularly on the consumer side. On the professional side, the product portfolio that we are launching now, the competitive intensity is significantly lower. So that's the way it stands.

Moderator: The next question is from the line of Girish from Morgan Stanley.

Girish: I have three questions. So on mobile, if you can help us on volumes for FY25 basis, what do you understand? You mentioned the two customers. So the base business of Motorola and intel, the volumes that you expect in FY25? And how should we think about the two customers in terms of volumes? How much they would be?

Atul Lall: Well, it's slightly premature to give the volumes. But I feel that all the opportunities which we are pursuing, we are almost close to finalizing them. We should be somewhere around INR25 million.

Girish: Okay. And just in terms of IT hardware, do we have a customer win for both tablets as well as laptop? Or what's the kind of run rate that, on revenue and volumes, we should expect for IT hardware for FY25?

Atul Lall: So again, I'm not in a position to share that number because, yes, tablets, the commercial production is going to start in a couple of months. The trials have already happened. For notebooks, it's going to start August-September. It's a complex line. So for me to share the numbers on these for '24, '25 is slightly difficult.

Girish: Okay. And then in terms of capex, what will be our total capex that we end this year? And next year, what are we pencilling?

Atul Lall: So the capex that we've incurred till now is around INR440 crores. So I think it should be close at around INR400-odd crores.

Girish: And next year, how much should we think through on FY25?

Saurabh Gupta: Girish, I already visited the numbers for next year. Probably, it should be a similar level of INR400 crores plus kind of a number, but we haven't budgeted. So the next couple of months, we will have a better idea on the budget spending.

Atul Lall: Because these opportunities are still in the pipeline. But one feels that the number that Saurabh has mentioned, it should be in a similar range.

Moderator: The next question is from the line of Pulkit from Goldman Sachs.

Pulkit: So this announcement that came in the morning of a reduction in import duty, do you think this is going to delay the indigenization of components for us, which in a way works for us that more assemblies could happen in India? So the whole backward integration plans basically gets further postponed? How are you thinking about it from a medium-term perspective for the company?

Atul Lall: This is the area or the domain that we are evaluating for mobile backward integration is primarily in modules and displays. So I still have to study the notification, but my sense is that on display, there were two sets of tariffs. One was 10%, another one was 15%. And now this 10%, that's what I understand, but one has to study the notification deeply. So my strong conviction is that there is a strong case for setting up an indigenous infrastructure for display at 10% arbitrage also.

Saurabh Gupta: Pulkit, when you have a large scale, then even a 10% arbitrage at the scale we are talking about, the capacity that we are putting in would lead to a lot of arbitrages.

Pulkit: Understood, sir. Yes, I understand it's a little premature right now. One follow-up question on the capex number. The number that you are sharing for next year also approximately which you gave, I'm assuming it doesn't include any estimation of any backward integration capex because those would be numbers running into a few thousand crores. Is that right?

Atul Lall: If that happens, it's from a different order.

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

Natasha Jain: My first question is on the IT hardware PLI. So last time that we spoke, I believe you clarified that, that PLI can be passed on from the main beneficiary to an EMS player along with the capex-sharing model. Now have we received any such job work from other brands apart from Lenovo and Asus?

Atul Lall: Natasha, our approval under IT PLI 2.0 is on the domestic hybrid category, wherein we have committed a capex of INR250 crores, and we are committed to make that capex. Two large global brands, we have already acquired as our customers. We are in discussions with some other very large global brands. So let's see how it pans out, but that's the status as of now.

Natasha Jain: But I'm assuming that these large brands that you're talking about have been awarding the PLI, right? They are going to pass on that business too?

Saurabh Gupta: So Natasha, your understanding is right. So all these can be a branded company. And they can avail the whole PLI structure if they can work with an EMS company. And EMS company can get an award contract from them and then get the conversion charges.

So PLI can be with the brand owners, who have worked with the beneficiaries. And for an EMS player like us, they can be a play on the conversion charges and the volumes and the revenues.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: I have a question on the lighting segment. So you mentioned the competitive intensity remains high. Is it from other contract manufacturers or in-sourcing where the brand is also putting a dent on the overall manufacturing ecosystem? And second, on those lines, the decline that we are seeing, is it also because of market share loss? Or we are largely in line with the industry?

Atul Lall: So the competitive intensity that I referred to was largely from the other contract manufacturers. And I also feel that there will be some loss of market share for us in the consumer side to the other contract manufacturers.

Indrajit Agarwal: So do we think the worst is over on this? Or going ahead, there could be some more loss of market share in the next few quarters?

Atul Lall: Well, I feel confident now when I look at the numbers and the strategy of my team that we will be able to hold our ground. One feels so. And in fact, in some of the SKUs like battens, we're going to be increasing our market share significantly and also in downlighters.

Moderator: The next question is from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: Sir, one question on Motorola export opportunity. May I ask how much is Motorola's non-India volumes currently on an annualized basis? And how much of that is currently serviced by Dixon?

Atul Lall: So 100% of Motorola, whether for domestic or for global markets, is done by Dixon. The present volume is almost 22% of what we manufacture is going to be exported. I feel in coming quarters, this volume is going to well approach -- it will increase to almost 30%.

Shrinidhi Karlekar: You mean 22% of Motorola's global volume, Dixon is doing? That can go up to 30%?

Atul Lall: 22% of what we are producing. And as far as the total volume is concerned, this year, we should be doing almost 15% of what Motorola does globally, which I see that in the coming year, should increase to 18% to 20%, that of what Motorola does globally will be done by Dixon.

Shrinidhi Karlekar: Right. So I just wanted to remember that number actually. Like how much is Motorola's volume in terms of million units? And how much is India and how much is non-India?

Atul Lall: I'm glad to check those numbers, but I think the Motorola global volumes are almost 40 million to 45 million.

Shrinidhi Karlekar: And sir, where do we compete here? Like which factories? And how much -- like what are the drivers which decide the allocations here?

Atul Lall: Motorola has three footprints. One is their factory in Wuhan. Second is their factory in Manaus in Brazil. And the third factory is Dixon.

Shrinidhi Karlekar: Right. And so the question is more so around what really drives allocation between the factories? Is it RFQ-based and the pricing gets like bid out and then you get the opportunity? So, just some colour on that aspect would be really helpful.

Atul Lall: Yes. So it's purely on the commercials and also the capability and capacity on deliverables because particularly, when we're looking at the global -- so whatever is being sold in India it's a no-brainer it's going to be manufactured in Dixon. But when we're looking at global markets, the expectations and specification in quality and delivery are also of a different order.

A very huge element of flexibility required. So keeping all those contours in front of them, they take a call. But I can see that India's share and Dixon's share for the global market significantly increasing.

Shrinidhi Karlekar: Okay. And last one, if I may. May I know how much is the PLI incentive that was booked during the quarter?

Saurabh Gupta: Yes. So partially, yes, so mobile, the incentive was almost INR17-odd crores, INR16.5 crores in this quarter.

Moderator: The next question is from Bharat Shah from ASK Investment Managers.

Bharat Shah: Over the last two years, if you see, it has been a bit of a bittersweet kind of alternating situation. More bitter in the earlier part and relatively more sweet in the now more recent past. Well, we all learn the perils of forecasting in investing. We're learning through all the time of the perils of forecasting and how basically all of us can go wrong. But -- and you still have a right to judge and forecast the future.

So with all that has flown under the bridge over the period of time, especially last two years or so, how strongly now we feel about the future? Because we too have gone through our own learning curve and experiences and some of the unanticipated issues that may have cropped up. So with all that behind, we having learned more business, having received some positive tailwinds in the recent past, how do we view the future now?

Both, in terms of our competitive strength, the growth, the opportunity and, of course, the margins and profitability?

Atul Lall: So Bharat Ji, like always, you have asked a very deep question. So since the time when we were listed in 2017, we have grown 10x in our revenue and also capex and our profitability. And if you recall, the total equity that we have raised at the time of IPO was only INR60 crores. And practically, there is no debt in the company.

So from that kind of capital allocation, this kind of growth has happened. The balance sheet of the company is extremely strong with a return on capital employed of 35% plus. Without sounding pompous, this would be one of the best in our industry. We have always tried our best to identify the large opportunity pools in front of us.

Sometimes, to get business in those opportunity pools takes time. And then the board has been kind. Our stakeholders are our good well-wishers. And then we have been able to acquire large business and the largest of opportunities in this pool that is in mobile because all the other opportunities combined is half the size of the opportunity pool in mobile.

And we see that we're going to be almost 40%, 45% of the outsourcing opportunity in mobiles. So that is a big thing for us. And also, we try to hold on to our pole position because I think in the other verticals, we are almost 3x, 4x, except lighting, of what our competition is. We try to run a very lean organization.

We try to run a very tight balance sheet. We're extremely cautious in our capital allocation. Sometimes, they may not have gone up to be right. And sometimes, we have not delivered as per what the markets were expecting on account of various factors like pandemic or global slowdown, which were beyond our controls.

We feel that we are on a strong footing. I think we're very fortunate, and that's our biggest strength that we have a very, very solid team, an extremely committed team. So we feel that the growth journey with a strong balance sheet will carry on. We have the capability and bandwidth to execute this.

So hopefully, we're going to come up to your expectations, sir. That's what I feel, and I'm saying that from an element of confidence. But this is life. This is business. At times, the things don't work out as per what we described. But from Dixon's perspective, let me show you one thing, that we'll always be transparent and candid.

And what we foresee, that's what we share. So that's how I would like to respond to your question, Bharat.

Bharat Shah: No, no. There has been no doubt about the quality of growth and the transparency and candidness with which all these issues have been dealt with, not just in good times but in difficult times as well. So, on that, 11 marks out of 10. There is no question about it. The quality of the growth has been sound. It has been disciplined.

And it has remained focused on -- in the longer end of the strategic agenda. But what other -- and I understand that the mobile phone is a huge opportunity. And you do have good reasons to believe that you'll have lion's share of outsourcing in mobile phones. So that should give you -- that should put you in a good state to grow at a meaningful pace.

But given all of that, given the fact that manufacturing ecosystem is getting more mature, having acquired scale, with different experiences with the customers and others have been going through. And as I mentioned, some challenges have been going through. Do we now believe something -- typically, sometimes, we'll do well? Something may not do well.

And that is the way business would be always, as you correctly pointed out. But do we feel approximately, we should be able to quadruple our business in, say, four to five years' time, which is roughly like 35% to 40% kind of a growth rate? Depending upon whether five years or four years, we quadruple, is that a realistic possibility? Or do you think that's too high?

Atul Lall: Well, don't hold me on to it, but I definitely feel that it's a realistic possibility. I'm not giving any forecast or any numbers. But I think internally, we are excited about this opportunity. And we feel that, that is a reality. Now in which direction it goes, what challenges, what timelines, we'll all work hard to overcome them. But definitely, the opportunity and the growth rate that we are mentioning is in front of us.

Bharat Shah: That's good to know. All the very best wishes. And just one last thing. I suppose with the margins held in tech are slightly better, rather than any adversity on that margin front, right?

Atul Lall: For margins, Bharat, because large growth is coming from EMS prescriptive business, wherein margins globally and in India are in the similar range, are going to be in this range only.

Moderator: The next question is from the line of Vinod from BOB Capital.

Vinod: Atul, I think my question is similar to what Bharat asked just now, probably a bit more direct. I think one of the key hallmarks of Dixon's business model has been the high asset turns and -- which has actually led to high ROCs. Now when you're talking of vertical integration in mobile business, do you see any of these parameters getting impacted going forward?

Atul Lall: So I think it will be a good blend. In fact, the asset turns -- because the capacity utilization of our prescriptive EMS business is going to increase, asset turns are going to improve. ROCs are going to further improve. Now vertical integration when we were talking about, one, the balance sheet can add to and execute it, can afford it.

And second, it further helps us in enhancing the stickiness with the customer. And also, it helps us in sustaining and expanding our margin. So please be rest assured with capital allocation, the way it's going to be done. It's going to be very prudent. We are not going absolutely outlandish on that. And it will be a correct mix.

Moderator: Thank you. We'll take that as the last question. I would now like to hand the conference back to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Yes. Thank you, everyone, for attending the call and particularly the management for giving us the opportunity to host the call. Wishing you all the very best. So sir, any closing remarks from your end?

Atul Lall: Thank you, Bhoomika. Thanks for the call, and thanks for all of participants. Really grateful to you for sparing your time and giving your very, very valuable inputs. Thank you so much.

Saurabh Gupta: Thank you so much. Thank you very much.

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