Dixon

The brand behind brands

Dixon Technologies (India) Ltd.

2nd August, 2022

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

Dear Sir/Madam,

Sub: Transcript of the Q1 FY 23 Earnings Conference Call held on 27th July, 2022

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III thereto, please find enclosed herewith the transcript of the Q1 FY 23 Earnings Conference Call of the Company held on Wednesday, 27th July, 2022.

The said transcript has also been uploaded by the Company on its website and the same is available at https://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

DIXON TECHNOLOGIES (I) LTD. B-14,15, Phase-II NOIDA

Ashish Kumar
Group Company Secretary, Head – Legal & HR

"Dixon Technologies India Limited
Q1 FY 23 Earnings Conference Call"

July 27, 2022

MANAGEMENT:	**MR. ATUL LALL - VICE CHAIRMAN AND MANAGING DIRECTOR, DIXON TECHNOLOGIES INDIA LIMITED** **MR. SAURABH GUPTA - CHIEF FINANCIAL OFFICER, DIXON TECHNOLOGIES INDIA LIMITED**
MODERATOR:	**MR. NAVAL SETH - EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Dixon Technologies India Limited Q1 FY'23 Earnings Conference Call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

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

Atul Lall: Thanks very much, Naval. 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 earnings call for the quarter ended June 2022. Coming to our overall performance for the first quarter. Consolidated revenues for the quarter ended June 30, '22 was INR 2,856 crore against INR 1,867 crore in the same period last year, which is a growth of 53%.

Consolidated EBITDA for the quarter was INR 101 crore against INR 48 crore in the same period last year, a growth of 108%, owing to lower base year-on-year due to pandemic effect. We have also foreign exchange loss of INR 12 crore. Excluding that EBITDA would have been INR 113 crore at 3.9% EBITDA margin.

Consolidated PAT for the quarter was INR 45 crore against INR 18 crore in the same period last year, which is a growth 150%.

Now I'll share with you the performance and the strategy in each of the verticals going forward. In consumer electronics, we had revenues in the quarter of INR 932 crore with an EBITDA of INR 25 crore and a margin of 2.7%.

The revenues year-on-year look slightly lower, but the volumes year-on-year have grown slightly. This is primarily because of the unit value of the television coming down due to a significant price correction or open sell, which contributes more than 60% to the bill of material.

In LED televisions, we have the largest capacity in India. Now we are ready with the capacity of 6 million sets, which includes the backward integration in both LCM and SMT lines, and we service more than 35% of the India's requirement. Our JDM business with our anchor customer has already gone into execution mode, and we have a strong order book in Q2. For this particular anchor customer, we were also looking at exports to Southeast Asian markets.

We're in active discussions with a large brand, which is presently not in our customer portfolio for our ODM solutions. And also, we are in discussion with our existing customers that is Hisense million Toshiba on offline or ODM, JDM solutions. As we have been sharing in our earlier interactions, now we are in advanced stages of closing. The ODM sublicensing rights with Google, relating to Android and we'll be the first ones to do it. I'm fairly confident that this should happen shortly.

As our backward integration plan, we're also going to be starting indexation modeling for the mechanical television in this particular financial year. Discussions have also started for commercial display and interactive screen for educational use, which is a high growing market. Monitors, we have also got large orders from largest to the global brands for manufacturing LED monitors and the production commenced in April '22 for Dell. For Samsung, the discussions are on. We hope that we'll conclude this business in a quarter or so.

For Lighting, the revenues for the quarter was around INR 231 crore with an operating profit INR 17 crore with operating margin of 7.2%. The demand in this business is normalizing led by liquidation of inventory in the channel, and reduction input prices, which will result in improved revenues and profitability in the current quarter and the next quarter. We're India's largest ODM player in lighting and have the largest capacity in various SKUs.

In LED, bulb growth capacity of 300 million, which is 50% of the Indian requirement. We have already expanded the annual capacity in battens to 64 million, against total annual requirement of 110 million and downlighters we've expanded to 24 million out of total Indian requirement of around 45 million. We have also built significant capacity in LED bulb and smart lighting, and we'll be starting on some new product categories in this financial year.

We have received the first export order from UAE market, and we are both working on a large RFQ for our anchor customer, for U.S. market. We are also in advanced areas of acquiring a smart lighting company which is cutting-edge technology in Bluetooth mesh technology and in process of developing WiFi-based technology for smart LED lighting solutions.

We have also started investing under the PLI scheme for LED lighting components, which is primarily in the backward integration space and lighting.

Coming to Home Appliances, revenue for the quarter was INR 255 crore with an EBITDA of INR 21 crore and operating margin of 8.1%. The margins have improved both year-on-year and quarter-on-quarter led by passing on the impact of commodity cost to customers, improve operating leverage and cost optimization. In this vertical, we are also seeing softening of the commodity and input prices, which one feels that in a quarter or so would help improving the margins.

We have 160-odd models in semi automatic category, ranging from 6 kgs to 14 kgs with annual capacity of 2.4 million as our additional infrastructure footprint in Dehradun will be ready in couple of months.

In fully automatic category, we have capacity of 0.6 million, the 96 variants across 6.5 to 11 kgs with Bosch as an anchor customer. In addition to Bosch, we are also manufacturing for Lloyd and Croma and have started weighing monthly volume to 20,000 washing machines. Now we're introducing an economy series, which will be launched by end of Q2, and the volumes are expected to grow up significantly in the coming months. We're also in the final stages of getting a large contract with a large Japanese brand in FATL both for domestic and global markets. Now we are increasingly focusing and investing on making the segment to serve the industry with latest innovative technology.

In mobile phones and EMS divisions, the revenues for the quarter were INR 1,305 crore with an EBITDA of INR 33 crore and 2.5% margin. The Motorola business volumes has now ramped up and touching a monthly run rate of 400,000 per month, and we achieved a landmark of 1 million units in the quarter under review. We have a strong order book of around 1.5 million per quarter from Q2 onwards.

For Motorola, we're also getting into backward integration, and we're setting up an LDS line in other strategy for deepening of manufacturing. We've also started manufacturing Nokia's feature phone business in addition to smartphones, and discussions are underway for more business for smartphones for both domestic and global market.

In addition, we have started manufacturing for Itel and feature phone category. As shared in the last interaction, we are in advanced stages of discussions with 2 large brands, having a strong market share in Indian market. And we are hopeful of concluding with one or both of them in the next couple of months with production likely to commence from Q4 of this financial year. We started the construction activity in our new 5 acre integrated mobile facility on Express Way in Noida.

Security surveillance system, Dixon's 50% of revenue for the quarter, were INR 131 crore with an EBITDA of INR 5.2 crore, that's 4.0% operating margin. The order book in this segment looks very healthy, and we're going into further capacity expansion from 10 million per annum to 14 million per annum in next three months. For this, we are relocating our existing setup in Tirupati to Kopparthi electronic manufacturing cluster where we have taken 2 lakh square feet constructed facility.

In telecom and networking equipments, we have start to manufacture ONTs for Airtel and JV with Bharti Group's. The commercial production has already rolled out. And in the current month, we'll be doing almost 70,000.

The PLI scheme has also been extended by 1 year with addition of hybrid set-top boxes and other telecom products added in the scheme. We have also bagged a large order for HD zapper set-top boxes and in process of finding a new dedicated manufacturing facility in Noida. We are in active discussions with some for this work.

Laptops, tablets and IT hardware. In addition to manufacturing laptop pre-sale, we are also in final stages to close an agreement for manufacturing of tablets for one of the largest global banks, and this production is likely to commence by Q4 of this financial year. The government is expected to come up with a revised PLI scheme for IT hardware products with higher incentive modeling.

Our JV with Rexxam, a 40/60 JV with Rexxam to manufacture inverter controller board for air condition is now operational in new manufacturing facility in Noida. The revenue potential looks very positive with healthy EBITDA margins and a large export market service.

Our wearables and hearables are 50/50 JV has been formed with boat, Imagine Marketing, for manufacturing wearable and hearables, currently we have already reached a level of 0.5 million devices per month, and this being ramped up to 1.5 million devices in the next 2 months per month. And more SKUs like leg bands in addition to TWS and smart watches is being added here.

In refrigerators, we have started the construction on 28 acres of land in Greater Noida. Advances for machines have been given. We are creating a capacity of 1.2 million DC refrigerators in the categories of 190 to 235 liters. They are in the final stages of closing an agreement with a large brand with commitment of 0.6 million, which is 50% of our capacity, and trials are expected to happen by Q1 of next financial year and final production by Q4 of next financial year.

So I would like to stop now and Me and Saurabh are here to address any questions. Thank you so much.

Moderator: We'll move on to the next, the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: My first question is on the Lighting segment. We have seen margins recover a bit, but still they seem to be relatively low. Now that the commodity costs are also have inch out, what is the outlook in terms of the margin profile in this segment? And have you started seeing demand or volume offtake improving in this category? And how is the outlook here?

Atul Lall: You see, undoubtedly, the prices of inputs and components have started softening, and it's on a highly positive note. But one is carrying certain inventory, and I think the actual benefit of this particular softening will start reflecting from Q3 of this financial year. It will become better from Q2, but the actual benefit would start reflecting in Q3. Also, the demand has been slow in Q4 of last financial year and Q1 of this financial year. Now one can see an uptick, and the order book looks better. Now is it going to come back to normal? In the current quarter, I don't think so. But would it be back to normal from Q3, Q4? I think so. So that's the way it is.

Renu Baid: Got it. Right. And within this segment, while we have mention of export order coming in from the UAE market, are we also in advanced stages of certain large orders to come from the EU or European market as well. So any developments or progress on that side?

Atul Lall: Those discussions are already on, and we are fairly confident of concluding it in current quarter.

Renu Baid: Got it. Right. And second, sir, coming on the washers portfolio, how should we look at because as in last 6 months, the demand environment was expected to be relatively challenging for the white goods category? So what is the outlook in terms of the order book that we have from customers in this both for semi automatic as well as for FATL category? And what kind of growth numbers can be expected for this as a ramp-up in FATL picks up?

Atul Lall: So what you're saying is right. There has been a demand slowdown in the white goods category. But fortunately for us, our order book is extremely strong that is because of new customer acquisition and also the anchor relationships and the performance of our customers in the marketplace.

In the last financial year, we closed around 1.1 million of semi-automatic washing machines. In spite of the challenges in the market, we are fairly confident of closing at almost 1.5 million to 1.6 million in the current financial year. And our current run rate is almost 150,000 to 160,000 a month. So it looks good, and we have gone in for enhancing our capacity in Dehradun plant. Now we have a capacity of 200,000, 2.4 million a year.

The FATL is still in the starting stage, but we already started touching 20,000 a month. So that capacity is 600,000. In this financial year, we're targeting almost 275,000-odd in the next financial year, the kind of product portfolio we have and also the way the order book is looking, one is confident that one will be able to utilize the capacity up to 75%, 80%. So for us, the washing machine business is looking healthy.

Renu Baid: And margins in this category should now be comfortable in the double-digit range? Or how should we look at the pricing there?

Atul Lall: Margin in the last quarter because we were carrying inventory somewhere in the range of around 8%, we feel that it will inch up to around 9%.

Renu Baid: Okay. Got it. And lastly, if I can ask on the LED television segment, while there is an impact of the open sale price correction on the overall portfolio. How should we look at the addition of the ODM customers coming in this category to drive incremental volume growth for us ahead of the market growth? And can we expect margin improvement or margins to improve in this category from the 2% to 2.5% level?

Atul Lall: Because the market demand situation LED TV market continues to be challenging. So we feel that as far as the volume is concerned, there will be some growth, but not very buoyant growth in this particular vertical. But because we have migrated and a significant increase would take place in our ODM, JDM solution business, there would be a margin improvement. And we should be somewhere between 2.9% to 3%.

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

Aditya Bhartia: Sir, my first question was on the lighting vertical. I'm sorry, I was facing some audio issues. So I'm not sure if you drilled on to that in your opening comments. In the lighting vertical, we have seen a fairly sharp slowdown and challenging conditions in the last few quarters. When we look at some of the brand owners, while they also appear to be facing certain challenges but the kind of revenue declines or revenue slowdown the we are seeing, it is not that start with most of the brand owners. So I just want to understand what really is happening over there? And how should we see things going forward?

Atul Lall: So to be candid, when this kind of situation arises, a combination of both external and internal factors. So we had built up a large inventory, and the inventory prices started coming down a bit to suffer because of that and also the competitive intensity increased. So we face these challenges. And we have a significant internal organization changes in LED lighting vertical. We have a new CEO now who was heading earlier the Philips Lighting in India, he is leading the initiative now. We have brought in a new Vice President, Operations who was the Director of Operations in Philips manufacturing plant. So we have strengthened, we are building up a new R&D, and we are in the process of acquiring a smart technology LED lighting company. So a lot of work is happening, and you'll see a correction and improvement in the performance of this particular vertical from the current quarter itself.

Aditya Bhartia: Understood, sir. And sir, you spoke about competitive intensity in the sector increasing, if you could just spare a few minutes and speak about that.

Atul Lall: So we saw a significant price erosion from the competition side. So that had an impact on business. But we have embarked on a very intensive value engine size, and we have been successful in that. So we have been able to overcome this challenge which we are facing in the last 2 quarters. In the current quarter, we have already been able to correct it to a very large extent.

Aditya Bhartia: That's helpful, sir. And sir, when we think about the LED TV vertical, did I understand correctly that you're mentioning that while there will be some growth, it is not going to be very buoyant. You were speaking about Dixon and not for the industry, right?

Atul Lall: No, it's from the industry's perspective, and so is the case for Dixon. In Dixon case, at least there will be some growth because we have had new customer acquisitions. Please appreciate that both in Xiaomi and Samsung. And both of them, we have a very large relationship. They combine between themselves more than 45% to 48% of the market. So we have both of them. And then we have other significant brands. So in industry itself, the growth is not very buoyant.

Aditya Bhartia: Right. And for the IT hardware space, sir, given that the PLI scheme is likely to be revised, do you think that will be opening up many new opportunities? Or is it that customers' that were earlier thinking of opting for the PLI benefits as it is were going slow and all that the new PLI scheme will do is to induce some life into it. How large can that opportunity essentially be?

Atul Lall: So the new PLI scheme that we understand is being rolled out is undoubtedly extremely attractive, and I think it's going to be a game changer. But one has to keep the fingers crossed that what will be the final shape and contours when the revised scheme is rolled out. Irrespective of that, as I was sharing in my opening remarks, we are in final stages of conclusion of our tang-up with one of the largest global brands in the IT products range for manufacturing of their tablets and the motherboard of their notebooks. So that contract, we're confident we should be winning in a month or so. And yes, that's a significant opening and uptake for us.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: The first question is you had guided for overall revenues of INR 17,000 crore and an EBITDA between 4% and 4.5% company-wide. Do you believe it's still achievable?

Atul Lall: So undoubtedly, the market situation is not as conducive, but we are working on it, and we are working on the new customer acquisitions and also revenue generation from our new verticals. So I'm not able to share what the numbers are going to be, in which range is going to be, but it's going to be a significant growth. So whether it's going to be INR 17,000 crore or not, yes, I can't comment on that as of now.

Bhavin Vithlani: Sure. Fair. The second question is more on the margin expansion guidance that you have given on the television segment, consumer electronics. If you could just help us understand, so currently, you're doing more of an assembly. And as you get into a slightly more higher value addition, like you mentioned you're doing PCB assembly, then in the next days, you are looking at some parts. So maybe if arithmetically, if you can just help us understand, if you do PCB, maybe what percentage of the end product it could be and what's the kind of margins that, that activity adds up? And then as you go into the next activity of more structural mechanics, what kind of margins that adds up. And eventually, what kind of margins that we could expect in this vertical?

Atul Lall: So Bhavin, when I was referring to margin expansion, responding to the question by Renu. There are 2 aspects to it. One is deepening of manufacturing and the second is migration to our ODM or JDM solutions. So that margin expansion was happening primarily due to migration of the business and a large part of business to ODM, JDM solutions, where in we are doing the sourcing and the IP is ours, the two leads are us. And that is leading to the expansion of margins, which I communicated.

Now looking at the question that you're raising that how much is going to add, but in PCB, that's the way it's a difficult question, it's a large metrics because the PCB of 32 inches, 65 inches, it differ, the values differ. So to give an answer that question in a similar way, it will be difficult. Saurabh can separately share with you that metrics. But here what I was referring to was primarily because of migration to the JDM ODM solutions in which we have large contract from our anchor customer, and we are hopeful of acquiring some new customers there.

Bhavin Vithlani: Sure. Fair enough. Maybe we can take that question offline. The second question is on the lighting part. Could you just elaborate on the acquisition opportunity that you highlighted. Obviously, there is a shift in the market that you are anticipating and you're gearing up yourself ahead of time. A bit more elaboration on that will be very useful.

Atul Lall: Sure, Bhavin. So as we're looking at, and we are in the final stages of acquiring this lighting technology company, which is operating in the domain of the smart lighting. The technology that they have has Bluetooth LED mesh technology. At present it is more focused on enterprise solution. And what they've committed and they have the bandwidth is also to develop the WiFi-based technology.

At present, the market in India for smart lighting is fairly small, but globally, particularly in the developed markets, it's a large share now. And finally, it's going to grow in India also immensely. So this acquisition is in this direction that in Dixon, we should get up and we should be ahead on the technology front. And yes, that's the rationale behind this initiative.

Bhavin Vithlani: Sir, just one follow-up on the same. Is this the technology that you are expecting scalable to other verticals like WiFi-enabled fans or air conditioner part?

Atul Lall: Yes, it can be.

Moderator: The next question is from the line of Amit Bhinde from Morgan Stanley. Please go ahead.

Unidentified Analyst: Girish here. I just wanted to understand your CapEx plan for this year. And also, if you could share if there's any bill discounting done at the quarter end? Any levels on that number?

Saurabh Gupta: Yes, Girish. So our CapEx plans for this year will be in the range of around INR 310 crore to INR 320-odd crore. and the bill discounting that has been done in the first quarter is somewhere around INR 220-odd crore.

Unidentified Analyst: Is it possible to get possible to get some volume numbers for the key verticals, please?

Saurabh Gupta: Which vertical do you want?

Unidentified Analyst: Mobile and home appliance in lighting to begin with.

Saurabh Gupta: So in washing machine, we did around 3.8 lakh, in this quarter, both semi-automatic and fully automatic. So fully automatic was around 30,000-odd and the balance was semi-automatic, so 3.5 was semi-automatic washing machines. And as far as the mobile phones are concerned, on smartphone side, we did around 10.8 lakh, so almost closer to 1.1 million. Feature phones, we did around 8.5 lakhs. And for Samsung smartphones, we did around 20 lakhs. And for feature phones, we did around 19-odd lakhs

Unidentified Analyst: Sir, **l**ast one on TV, how much is LED TV volumes in the quarter? And any outlook...

Saurabh Gupta: LED TV was around 7.4 lakhs.

Unidentified Analyst: Any outlook for this year because we were expecting, I think, close to 40% growth? Obviously, the market environment has changed. If you can help on what could be the volume outlook here?

Atul Lall: So we did 2.9 million last year. We are targeting somewhere around 3.5 million to 3.6 million.

Moderator: The next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: Just trying to understand, going back to the TV industry demand per se, as you said, that clearly there's been some slowdown there. So is it just the post-COVID, we started seeing people move out more often and that's the reason why growth in TV's have kind of slowed down. Is that the primary reason? Or do you think there's something else behind this?

Atul Lall: See when we have this discussions with the brand owners because they have a deeper understanding of this of the demand very well. So they give us a similar reason that post-pandemic, once the people and the consumer has started moving out, the spend breakup has shifted, that focus has shifted, and the purchase of the consumer durables and IT products booming.

Ankur Sharma: And sir, just as you also said that given open prices have come off, which has also kind of reflected in the revenue decline that we see, has that decline kind of bottomed out? Are you still seeing that kind of continue? And what would be your average realization from this point on the TV side? I'm sorry, I miss the number on volume for this quarter, if you also kind of give the numbers?

Atul Lall: TV side the prices, the main input import is open sell. It was almost 60% to 65% of the bond because of a huge decline in the market globally. The open sell prices have crashed. Just to share with you 32 inches open sell price, which used to hover at around $100-odd, has crashed to $27. Is it going to go down more? I don't think there is a scope. It has already cashed to the bottom most level. So I don't think there will be now a very significant erosion of the prices. Now our plan for this particular quarter, we feel that we should be somewhere around 1.1 million.

Ankur Sharma: Sorry, I was talking about Q1, sir. What was the number for Q1? I missed that number.

Saurabh Gupta: Q1 was INR 7.4 lakhs, and we are looking at somewhere around INR 1.1 million in quarter 2.

Ankur Sharma: Sure. And I think said about 3.5 million for the year. And sir, lastly, on the cell phone side, if you could just update us, our production plan for this year, how is the ramp-up on Motorola and Nokia is shaping up? And what kind of revenues you think you could do on the cell phone side. That’s my last question.

Atul Lall: So on the smartphone side, on the Motorola, we are targeting somewhere around 5 million to 5.5 million smartphones, which is a very significant increase from 2 million to 5.5 million. In the new customer acquisition Nokia, but Nokia is relatively a smaller brand. Now important is going to be the new customer acquisition, which we are hoping that we should conclude by Q3 of the current financial year and the production should happen by Q4 second or third month.

Ankur Sharma: Any sales number you can share with us? What's the kind of sales number looking at from this segment for the full year for '23?

Saurabh Gupta: Yes. So broadly, Ankur, we should look, so we're targeting 5.5 million of smartphones for Motorola, and other than Motorola we have brands like Nokia both in feature phone, smartphones, we have Itel on the feature phone side. So this business should give us a revenue of somewhere between INR 6,500 crore to INR 7,000-odd crore this year.

Moderator: The next question is from the line of Sujit Jain from ASK. Please go ahead.

Sujit Jain: Sir, what is the progress on over Android sharing their license for TV manufacturing in India? Because I believe that essentially opens up our opportunity in ODM and as well as in increase improved margins in the TV segment?

Atul Lall: Sujit, so that's an important element for us also. And now there is a significant movement in a very positive direction. We're very hopeful that we should be concluding that licensing very shortly.

Sujit Jain: Right. And the 9% margin possibility that you spoke about in the washing machine, could that be the peak margins and this is you're saying as we go along, not for the full year?

Atul Lall: No. It's not going to be for the full year. I feel that in the current quarter, the margin should expand from 8.1% to 9%, and then it would sustain at that level.

Moderator: The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Sir, can you share the number on PLI incentive booked for this particular quarter?

Saurabh Gupta: There is a small income of INR 1-odd crore, which has been booked in this quarter.

Naval Seth: And total H1 CY'22 number would be?

Saurabh Gupta: H1, January to June, it will be INR 10 crore.

Moderator: We'll move on to the next question. That is from the line of Amit Bhinde from Morgan Stanley. Please go ahead.

Unidentified Analyst: Girish again. Sir, mobile margins at 2.5%, is there any one-off there? Or is this more reflective of how the margins would look given the product mix that we had in the quarter for the full year?

Atul Lall: Amit, the margins in this particular vertical should be better in the coming quarters. The margins have come down because we have opened a new factory in Sector 63, and there are certain ramp-up costs which have been incurred. And this factory operations, we feel should stabilized by Q3 of the current financial year. And then you can see the improvement in the margin in this particular vertical.

Saurabh Gupta: And also Amit to add to it, as Mr. Lall mentioned, that we're looking at a volumes of 5.5 million to Motorola, and we have a dedicated plant for them. So initial in the first quarter, we have done 1 million. So as we progress along, we are looking at a quarterly run rate of 1.5 million, so that benefits of operating leverage would also come in. And also, as mentioned in his opening remarks, we're also looking at more backward integration from Motorola and setting up a line for LDA assembly line. So clearly, that would also add to our margins because that would be more backward integration.

Unidentified Analyst: Understood. Sir, on interest costs, last couple of quarters, we've been clocking at around INR 14-odd crore. How do you expect the balance 9 months, it will be slightly higher than this number? Or could it actually decline from here?

Saurabh Gupta: I think broadly, it will be in the similar range, INR 14 crore to INR 15 crore. So annual number should be somewhere between INR 60 crore to INR 64-odd crore.

Moderator: The next question is from the line of Aditya Kondawar from Complete Circle Capital. Please go ahead.

Aditya Kondawar: I just had one question on the wearable division. I believe we manufacture this product for boAt. So just wanted to know on the volumes ramp-up and how are we going to ramp up this specific division?

Saurabh Gupta: It is already getting ramped up. So from 0.5 million we're looking now at a volume of 1.5 million a month. We are also adding more SKUs. So initially, we started only with TWS, which is the largest selling SKU for them. Now gradually, we are adding netbanks, which is another large selling SKU for them. And over the next maybe another quarter or so, we will add Bluetooth speakers and smart watches. Smart watches again are a very high-growth market. So clearly, there's a big arbitrage between domestic manufacturing and import. So clearly, they are shifting more and more of imports to this JV that we have, and clearly, as a brand they are doing very well in the marketplace. So clearly, our numbers with them will keep on increasing.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, if you exclude the high cost inventory at the beginning of the quarter and the ForEx loss that you mentioned. Sir, adjusting for both these one-offs, what would be the normalized EBITDA margin that we would have in this quarter?

Atul Lall: So there was an expense because of the foreign exchange of almost INR 12 crore. So we would have been at INR 113 crore, that’s would have been our margin.

Saurabh Gupta: 3.9%.

Atul Lall: 3.9%.

Saurabh Gupta: It's very difficult to quantify the inventory loss. But clearly, we have had this inventory loss because we are in the falling commodity kind of scenario, but FX that's quantifiable. It's very difficult to quantify that loss on account of inventory.

Aniruddha Joshi: Okay. So we can assume that the company should be in the margin guidance of around 4% for the year, will that be the safe assumption?

Saurabh Gupta: Yes, we maintain that guidance of 4%.

Moderator: The next question is from the line of Omkar Garude from Shree Investments. Please go ahead.

Unidentified Analyst: Yes. This particularly, you haven't shared figures of your net debt gross at cash equivalents, so can you please share that?

Saurabh Gupta: How much is that cash and cash equivalents?

Atul Lall: Net debt.

Saurabh Gupta: So net debt was around INR 130-odd crore.

Unidentified Analyst: And cash equivalents?

Saurabh Gupta: Cash was around INR 360-odd crore.

Unidentified Analyst: INR 360-odd crore. So what would be the gross debt to equity?

Saurabh Gupta: Gross debt would be around INR 290-odd crore.

Unidentified Analyst: INR 290-odd crore. Are you guys comfortable with this kind of level?

Saurabh Gupta: Yes. If you look at our net debt to equity, it is still 0.1%. So we are comfortable with this level. And clearly, we see that this year, the cash flows, so CapEx intensity, first of all, has come down, as in compared to last year. So then we see definitely the profitability will be better. So we will be generating some free cash flow this year, and the debt repayments would also happen. So yes, we are confident that debt levels wouldn't increase from this levels, but it will only come down for here.

Unidentified Analyst: Other question. You mentioned that there will be a revised policy for IT hardware. So apart from that, any other plans to get into any other category apart from that, which you have already mentioned?

Atul Lall: We already have a lot on our plate, please appreciate that one, we have to ramp up our mobiles in lighting. We have ventured into smart lighting solutions, and we have to integrate the new acquisition. We've rolled out the refrigerator project, which is a large project. It's completely on the ODM basis. In FATL, fully automatic top loading, we have to roll out more and more new model range. Then we have got into the telecom devices, wherein the production of ONT has already started. We also bagged a large order for HD zapper set-top boxes. We are venturing into Android set-top boxes, and we have set up the R&D team on real tech chipset for rolling out the homegrown ONTs.

Then we have to ramp up the boAt production and set up a new factory. And then telecom devices also we've to set up a new factory. And recently, we have started the new factory for rigs Rexxam, that is inverter controller and electronics for air conditioners. So there's lot on fate. However, we are always open to the new potential verticals in electronics manufacturing because the opportunity remains. But as of now, these are all the new projects which have already being rolled out and stabilized.

Unidentified Analyst: I guess the verticals you mentioned, which are going to come up and with the existing verticals doing pretty well for you. So are you confident of say, around 25%, 30% kind of revenue growth for the next 4, 5 years? Or what's your internal target, sir, just wanted to know that?. And will the margins increase?

Atul Lall: We should grow at 25%, 30% annually.

Unidentified Analyst: And what kind of margins do you think that the new sets of verticals are also coming up and they will also start contributing?

Atul Lall: Margins will be in a similar range of 4% to 4.3%, 4.4%, something like that.

Unidentified Analyst: You are trying to maintain at least 4% margin, right, EBITDA margin?

Atul Lall: That's right.

Moderator: The next question is from the line of Rakesh from HDFC Mutual Fund. Please go ahead.

Unidentified Analyst: Just one simple question. Can you explain the source of this INR 12 crore of ForEx loss. I mean what business activity needs to that loss. My understanding was if you have this captive business, I believe it should not be having any losses because by definition, that should be passed through. I just wanted to understand which activity is leading to this INR 12 core of ForEx losses?

Atul Lall: We have 2 revenue streams. One is the EMS, OEM revenue stream, which is on a prescriptive basis. In that revenue stream, we don't take any currency risk. It's an automatic pass-through. But a significant portion of our business now is our own-design solutions. And then those own-design solutions, it's our inventory. It's our sourcing, and we get the credit from our vendors. And when you get the credit because one doesn't hedge it, this time the depreciation of rupee was very sharp, almost 6% in a very short period of time, which has led to this hit because there's a lag in passing on this increase to the customers.

Unidentified Analyst: Sir, any ballpark exposure in terms of the either receivables you can talk about, payable which would be in foreign currency, and that would carry this risk? Anyway to sort of think about this particular phenomena?

Atul Lall: Almost 85% of our foreign exposure is hedged. 15%, we keep it open, which is confined to our ODM business.

Moderator: The next question is from the line of Akhilesh Bhandari from ICICI Prudential AMC. Please go ahead.

Akhilesh Bhandari: My question pertains to the Motorola Mobile manufacturing. So you had mentioned in Q4 con call that the order book for Q1 in the Motorola business was around 1.5 million, but the volume in this quarter has been around 1.08 million. So just wanted to understand the reason for the shortfall, was there a change in schedule from the brand side? Or was there some issue with respect to you ramping up that volume in this quarter?

Atul Lall: So in April month, we had challenges because of lockdown in Shanghai and in China on supply chain side and the production got impacted. That was one of the reasons. And second one was also some slowdown in the mobile market in India. So the lifting slowed down a bit. It was a combination of these 2 factors. Our internal ramp-up, we have been able to do it fairly well.

Akhilesh Bhandari: Okay. And with respect to the backward integration, which you're planning, can you give any data or any comment you can do on what would be the potential value, intrinsic value add increase from this?

Atul Lall: So this is mainly in the display assemblies. And we feel that we should be able to add to the margins for the models in which we're going to do the LD SMT by around 0.5% to 0.6%.

Akhilesh Bhandari: And you will be doing this for all the models which you are currently doing? Or is it only the part?

Atul Lall: It's going to start with some model and then it's going to increase. It's a very specialized process. Yes.

Akhilesh Bhandari: And what would specifically be the CapEx requirement for this part?

Atul Lall: CapEx for this is not very significant. It's going to be somewhere in the range of INR 5 crore to INR 6 crore.

Moderator: The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Sir, you have given a guidance of 1.5 million per month unit for Motorola in the mobile segment. Do we have such a guidance from the Samsung also?

Atul Lall: Yes. We have guidance from Samsung. In Samsung's case, we see that we should be doing almost 2 million to 2.5 million smartphones every quarter. And the present volume of 2G is around 1 million a month. But 2G is going to come in to an end by December this financial year. We are in discussions with Samsung of adding some new SKUs. Hopefully, we should be able to conclude that business in the next couple of months.

Hitesh Taunk: Okay. And sir, my next question is for just sake for clarification. You mentioned about the INR 310 crore or INR 320-odd crore CapEx for the year FY'23. Does it include our acquisition in the Lighting segment, sir, or the acquisition will be beyond that?

Atul Lall: It's within that.

Moderator: The next question is from the line of Sujit Jain from ASK. Please go ahead.

Sujit Jain: Sir, we are a company which has done a great job in terms of reducing the client concentration. At the time of IPO, we were 95% two client. And after that, become like below 15% for 1 client. And obviously, we would want to grow business in mobile. But with mobile business, we go back to at least on the top line, significant client concentration and which could pose the risk for the business. How do you think about it and propose to bring it down? And for that, we'll have to work out on granularity, bringing granularity in the mobile business sector.

Atul Lall: Sujit, you know our business well, you are very correctly stating that 5 years back, EV was completely dependent on 1 client. Lighting is completely dependent on 1 client. So customer acquisition is an ongoing process. And it's an extremely critical process. So we are working towards that, and please be rest assured, I'm very sure that we'll have some significant breakthroughs. So we already have in Samsung and Motorola large relationships. As I shared in my opening remarks, we are working with two large accounts, we are hopeful and confident that we're going to have those breakthroughs. So customer acquisition is the way forward to derisk any business and same is the case with mobile business.

Moderator: The next question is from the line of Amit Bhinde from Morgan Stanley. Please go ahead.

Unidentified Analyst: Girish here. Just a follow-up on PLI schemes. Now the government doesn't understand this, but the component prices have been influenced by commodity costs. When they have designed this scheme, they have some revenue and investment targets. Now what we see is you are obviously exposed to 5 such schemes. So correct me if I'm wrong, I mean, if 5 is the right number?

And then, within that, if I had to just think through, if component prices have come down? Is the government open to relooking the revenue target threshold because, frankly, I mean, it's a EMS business, right? So have you started discussing some of these ideas because we don't know when the deflation scenario will stop? Or I mean, how are you thinking about it? Because you'll have to make it up through higher volumes? Are you worried about some volumes in some of the smaller schemes like IT hardware or it could be telecom because I don't know the real impact of how the deflation will play out?

Atul Lall: So Girish, please appreciate there are 2 parts to it. One part is that what is a threshold for getting the PLI benefit. So I feel the thresholds across all the schemes in which Dixon is beneficiary, we're not impacted. We're confident of achieving this threshold, and crossing those threshold.

Over and above that, yes, there would be an impact. How much is very difficult to quantify it because these are all macro numbers and how the deflation is going to play out, how the each is going to get affected. But at the same time, there's an upside because of the currency. So when I used to see the net balancing that what's happening. To be very candid, I don't think that industry is in a position to take up this kind of issue with the government or government will in a positive way respond to it. I don't think so. So we'll have to manage as it is and these are normal balance of the business. So there is some upside because of exchange. There's some downside because of deflation. So yes, that's the way it is. So I don't see it's going to have a very significant impact.

Unidentified Analyst: No, fair. I mean it might not impact you, but the reason I asked was you are obviously a larger player, but there are so many smaller players who get more impacted will be in PLI beneficiaries.

Anyways, the second question was just around progressively looking in the next 3, 4 years. Does it make sense for you to think through the semiconductor PLI? And what part of that PLI would excite you? What stage are we at? I mean if you could share some high-level thought process? And the final question was on PLI-related CapEx. Of that number of INR 320 crore, how much is towards the PLI schemes, please?

Atul Lall: So on the semiconductor policy, have we taken any active decision to participate in it? No. But is a team deeply studying it and engaging with some potential semiconductor partners globally? Yes we are. But no final conclusive decision to pursue that has been taken, but we are actively studying it in certain verticals in which semiconductor is an important buy for us. So that's on semiconductor policy side.

As far as the PLI is concerned, we have already crossed the complete threshold for mobile. What we have committed to invest is INR 36 crore in our PLI for telecom, in which INR 18 crore come from our side and balance from Bharti Group. On the IT hardware is a small player of now, it's only INR 4 crore there. In the case of lighting, yes, we're committed to invest INR 20 crore in this fiscal. It's INR 20 crore each for the next 5 years. And in the case of AC, the total CapEx committed is INR 50 crore in which our share is INR 16 crore. So it's INR 4 crore per year. So that's the way it is.

Moderator: The next question is from the line of Gopal Nawandhar from SBI Life Insurance. Please go ahead.

Gopal Nawandhar: Sir, actually I joined a little late. I'm not sure whether you have discussed about payments of PLI incentives from the government, what is the status? And what is the amount? And how you are accounting this PLI incentives in our books of account?

Saurabh Gupta: So PLI status is that as far as the project management agency is concerned, which is IFCI, they have already appraised and audited our mobile PLI. And presently, that is getting appraised at the Ministry of Electronics, which is the Administrative Ministry in our case. And once they do the evaluation, then ultimately the next they will goes to the empowered committee, which will have secretaries of Finance Ministry of Electronics and Commerce Secretary. And then the PLI gets disbursed to the applicants who have achieved the thresholds. So that is the whole process. So clearly, we are in active discussions with the authorities, and we clearly see that it should come to us in the next 1 to 2 months. I can't give you an exact deadline, can't give you exact number. But clearly, both on mobile PLI as well as the IT hardware, we have crossed and achieve those thresholds for revenues and CapEx.

Now to answer your question, how much has been the PLI which has been accounted for? So as I mentioned, in the first 6 months of this calendar year, we have accounted for INR 10 crore of PLI relating to our mobile business. And the way we have accounted for, and soon, of course, we are releasing the annual report very soon. So the way it will be done, that there will be a receivable on the asset side of the amount receivable from the government, and there is an amount on the liability side, which we'll say has incentive payable to the customers. So difference is what we have booked in the first 6 months. So basically the annual report will be till March, so the difference is what we will be booking till Mach. So that's how the accounting will take place.

Gopal Nawandhar: And this INR 10 crore, which you've mentioned is our share in that benefit?

Saurabh Gupta: Our share.

Gopal Nawandhar: Which we are not, say for example, whatever benefit we are keeping ex of what we are sharing serving with the customers.

Saurabh Gupta: There will be a receivable and the payable in the balance sheet and the difference between the receivable and the payables will be our share of income, which has been booked in Q4.

Gopal Nawandhar: And secondly, sir, what is the revenue contribution of Samsung feature phone on full year basis and margins for that?

Saurabh Gupta: Yes. So as I mentioned, we are looking for INR 6,500 crore to INR 7,000 crore of revenues out of which Samsung feature phone margin profile, so this is on a consignment basis. So we are doing 1 million of feature phones for them every month.

Atul Lall: So operating profit contribution in the whole year because of Samsung feature phone business is around INR 12 crore, INR 14 crore.

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

Saurabh Gupta: Thank you very much for attending this call. And if anybody of you have any specific questions, I am always reachable. So please do call and then I'll be happy to answer those questions. Thank you.

Atul Lall: Thanks very much, Naval, and thank everyone for attending the call. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.