Dixon Technologies (India) Limited

29th October, 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 Q2 FY 23 Earnings Conference Call held on 20th October, 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 Q2 FY 23 Earnings Conference Call of the Company held on Thursday, 20th October, 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

ASHISH KUMAR Digitally signed by ASHISH KUMAR Date: 2022.10.29 20:29:51 +05'30'

Ashish Kumar
Group Company Secretary, Head – Legal & HR

"Dixon Technologies India Limited Q2 FY2023 Earnings Conference Call"

October 20, 2022

ANALYST: **MR. PULKIT CHAWLA - EMKAY GLOBAL FINANCIAL SERVICES**

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

Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies India Limited Q2 FY2023 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 at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pulkit Chawla from Emkay Global Financial Services. Thank you, and over to you, Sir!

Pulkit Chawla: Thank you, Seema. Good evening everyone and welcome to the Dixon Technologies Q2 FY2023 earning call. 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. Without further delay, I shall now hand over the call to the management for his opening remarks. Over to you, gentlemen!

Atul Lall: Thank you very much, Pulkit. Good evening ladies and gentlemen, this is Atul Lall and we also have on the call today our CFO, Saurabh Gupta. Thank you very much for joining this earning call for the quarter ended September 2023.

Coming to our overall performance for the second quarter, consolidated revenues for the quarter ended September 30, 2022 was Rs.3867 Crores against Rs.2804 Crores in the same period last year, a growth of 38%. Consolidated EBITDA for the quarter was Rs.146 Crores against Rs.111 Crores in the same period last year a growth of 31%, consolidated PAT for the quarter was Rs.77 Crores against Rs.63 Crores in the same period last year, a growth of 23%.

Now I will share with you the performance and the strategy in each of the businesses going forward. Consumer electronics, revenues for the quarter was Rs.1501 Crores with an EBITDA of 43 Crores and an operating margin of 2.9%, we have seen a margin expansion of 50 bps mainly because of large ODM/JDM business. In this business there is a volume growth of 54%, however, the revenues look flat on account of the prices of open sale decreasing significantly in the international market. We have the largest capacity in India of six million sets including backward integration, LCM and SMT lines and catering to almost 35% to 38% of the Indian requirement. Our JDM business with our anchor customer has shaped very, very well and we are in active discussions with other existing customers who offer ODM/JDM solutions. A significant development in the last quarter was closing on the ODM setup right with Google relating to Android and Google TV which will open up a lot of opportunities for us since almost 65% of the Indian market is on this platform. We should be able to roll out the same by Q1 of the next fiscal. We are also investing in setting up an injection molding plant in this particular category in line with our strategy of deepening the manufacturing and backward integration, this should be operational in Q4 of the current fiscal year. Monitors we have got orders from Dell and the commercial production has already started we expect the volumes to be around 0.2 million in this particular category.

Coming to lighting, lighting revenues in this quarter was Rs.290 Crores with an operating profit of 24 Crores with an operating margin of 8.2%. In margins there is an expansion by 1% against the Q1 numbers which is in line with what we have been guiding. The demand in this business is normalizing led by liquidation of inventory in the channel and reduction in input prices which will result in improved revenues and profitability in coming quarters. We are the India's largest ODM player in lighting and have the largest capacities in various SKU, in LED bulb we have capacity of 400 million which is 45% of the Indian requirement. We already have expanded the annual capacity in battens to 50 million and further in downlighters to almost 18 million we are getting into new product categories like starting strips and rope lighting which will be launched by Q4 of the current fiscal, our first supply is again export to UAE is being executed in Q3 and we are working on some large RFQs for our anchor customer for U.S. market and we are confident of winning this business.

We are in the process of acquisition of a smart lighting company which is cutting edge Bluetooth mesh technology that is in the process of development of Wi-Fi based technology solutions for lighting products, this acquisition we will be closing in the current quarter. New products leveraging this cutting edge technology will be launched by Q1 of next fiscal. We are in the process of hiring a very senior person in this division as lighting R&D head to further churn out more ODM solutions in different lighting categories. We have also started work on investing under the PLI scheme for LED lighting components in line with the backward integration strategy, we are confident that this capacity of LED lighting components will be set up by Q4 of the current fiscal. The capital employed in this business has been significantly reduced by almost Rs.85 crores year-on-year on account of better current assets management.

Home appliances, the revenues for the quarter was Rs.363 Crores with an EBITDA of Rs.33 Crores which is 9% operating profit. The margins have improved year-on-year and quarter-on-quarter led by passing on the impact of commodity cost to the customers, improved operating leverage and cost optimization measures. We have 160 odd models in semi automatic category ranging from 6 kgs to 14 kgs with an annual capacity of 2.4 million and we achieved the highest ever production of almost 1.6 lakhs in the month of

September. In fully automatic category we have got a capacity of 1.6 billion with 96 variants across 6.5 to 11 kg with Bosch as our anchor customer. In addition to Bosch we are also manufacturing for Lloyd and Chroma and some other brands, we have already started touching the volume of almost 22 to 25 per month. We are also in final stages of getting a large contract with a large Japanese brand in FATL category for both domestic and global markets. We will be introducing more designs with new features in both semi automatic and fully automatic category. The order book in this business looks very healthy and we are looking to add more customers in this particular business.

Mobile Phone and EMS division, revenues for the quarter were Rs.1594 crores within EBITDA of 42 crores, 2.7% operating margin. For Motorola we did one million volume in Q2 and now we are also setting up a line for LD assembly in line with their strategy for backward integration and to deepen the manufacture. In addition we have manufacturing is part and feature phones for Nokia and feature phones for Itel. We are also hopeful of getting more business from Nokia in coming months for both the smart and feature phones for both domestic and global markets. As I had communicated to you in the last call we are almost close to closing a large order with a couple of brands in mobile vertical both for domestic and exports market I feel fairly confident that the production for these new brands is going to take off in Q4 of the current fiscal. We manufactured 3.3 million and 2.6 million of 2G and 4G phones respectively for Samsung and we have started the construction activity in our new integrated mobile facility in Noida. We have also embarked on an ODM journey in mobiles, we have recruited a very senior resource as our R&D head for mobiles and a new team and a lab will be built in Hyderabad for that. Security surveillance, Dixon's 50% share of revenue for the quarter was Rs.118 Crores with an EBITDA of 3.6 Crores at 3.1% operating margin the order book in this segment looks healthy and we are going into further capacity expansion from 10 million per annum to 14 million per annum and we are also relocating our existing footprint from Tirupathi to Kopparthi in Andhra. In this particular business also we will also start working on backward integration for mainly molding and power supplies telecom and networking product is a JV with Bharti Airtel, the telecom piece is also looking very promising because Airtel will also keep on shifting more from imports to domestic manufacturing. We have started commercial production for them for an O&D category we have also backed the large border from Airtel HD zapper set-top boxes and the mass production should start from Q2 of next fiscal. The PLI scheme has also been extended by one year along with addition of hybrid set-top box in other telecom products added to the same. We have taken up a new facility for this particular business and this facility should be operational by December of the current fiscal. We are in active discussion with some large global brands for existing and new product categories in this particular business. We are also building an R&D and we have recruited a senior resource as R&D head for telecom devices. Laptops, tablets and IT hardware products, in addition to manufacturing laptops for Acer we are also in the process of starting manufacturing tablets for Lenovo whose volume is going to be almost 300K per year. We are expecting that the government is going to roll out revised more attractive PLI scheme for IT hardware products with higher incentive outlay. Inverter controller board for air conditioners of 4060 JV with exam to manufacture inverter controller board for air condition is now operational in manufacturing facility in Noida, the revenue potential in this quite immense with this strong EBITDA margins both for domestic and export market. We are committing to make an investment of 51 Crores over five years in this in which Dixon share is going to be 20 odd Crores. Variables and hearables, on the variables side the Indian market is the third largest market globally and is one of the fastest growing in this we have our partnership and JV with Boat and we have already achieved a milestone of manufacturing 1,000,000 devices per month that is the number we touched in the last month. This is of TWS and very shortly we will also start manufacturing neck bands and smartwatches, a new facility in Noida is being set up for that we are hopeful and confident of in fact setting up this facility and making it operational by December this current year.

In line with our strategy in this particular category also will be setting up the SMT lines and at some point of time looking at backward integration in the polymer processing space. In addition we are about to start manufacturing of TWS smartwatches for Samsung also and a dedicated plant in sector 90 of Noida. Refrigerators we have started the construction on 20 acres of land in greater Noida where we are creating a capacity of 1.2 million DC under the categories of 19 to 35 liters with multiple features and they are in final stages of closing in agreement with large brand with commitments of almost 0.6 million which is 50% of our capacity. The trials of this particular area are expected to take place by Q2 of 2023-2024. Thanks very much and now, me and Saurabh look forward to your questions please. Thank you.

Moderator: Thank you very much we will now begin with the question and answer session. We take the first question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir my first question is on the lighting business wherein we have seen some challenges in the last couple of quarters just want knowing how are you seeing things over there should we be anticipating an improvement in that business what exactly have been the issues and some of the steps that we have taken to tackle that?

Atul Lall: So Aditya if you recall in our last interaction I had shared that there were certain internal challenges in execution and we have now new management team taking over businesses coming back to normal being reflected in the numbers, the margins have improved and come back to almost original level of 8% plus. Sales is improving we have added new customers, the customer product portfolio is being expanded, new resources for exports have been deployed. We have significantly improved the financials of this business as I shared with you in my opening remark that we have been able to reduce the working capital intensity by almost 85 Crores, exports to certain markets have taken off so I think it is going to take a quarter or more to come exactly back to normal and to a growth path but it is definitely on the correct path that is what I can share with conviction.

Aditya Bhartia: Understood Sir and you refer to some exports to the Middle East region if you could just elaborate how large is the opportunity and are we seeing that ramping up over the next few quarters?

Atul Lall: So this is the first export order being executed of multiple home solution lighting products, the shipments are going to be made in the current month. I am very sure that we are going to have to repeat orders in this business. We are also pursuing as I shared with you some large RFQ for anchor customers for ceiling lights in the US market and we feel confident that we can meet their target prices so I think export business will definitely be the high point of lighting as a vertical but it is going to take some time, it will take couple of quarters or so to ramp up.

Aditya Bhartia: Understood Sir and my second question is on the TV business. So this movement towards JDM and ODM does the Google license make it even more lucrative and easier for us to follow JDM opportunity that is my first question and second question related question that you mentioned that you are looking to move some of the other customers to JDM contracts as well, are these existing customers who would get kind of upgraded towards JDM contracts or are we looking at new opportunities altogether?

Atul Lall: Responding to the first part of your question almost 65% of television market is on Android platform and that I think that is the question right you had the first one.

Aditya Bhartia: No I wanted to understand that with us having this Android license does it become easier to follow the JDM opportunity to offer an ODM kind of a solution on the TV side?

Atul Lall: So what I wanted to share was one what is the opportunity like so almost 65% of the Indian TV market based on Android Google and some of the large existing brands who are also existing customers are on Android Google platform and they have already started engaging with us for migrating from descriptive mode to a JDM/ODM mode. That is one big plus there were many brands tier 2 and tier 3 brands which were on descriptive which would like to migrate to Google Android platforms because the performance of the sets and also the cost competitiveness with an Indian partner like Dixon enhances so there is a large opportunity undoubtedly and we have already signed up with some brands like Acer for that, the existing brands with whom we are in discussion for migrating from descriptive to JDM/ODM I am not able to share the names but please be rest assured the dialogue is on and the response is positive.

Aditya Bhartia: Great Sir that is really encouraging to hear. Thank you so much and wish you a happy Diwali.

Moderator: Thank you very much. We will take the next question from the line of Sonali Salgaokar from Jefferies India. Please go ahead.

Sonali Salgaokar: Congratulations on a great set of numbers. So my first question is regarding the guidance for revenue and margins in FY2023, now from last quarter to this quarter we have added a lot of customers a lot of initiatives including the Google TV Android so would you like to probably give us the guidance again or do we maintain that?

Atul Lall: Sonali I think just hold it for some time, to be very candid we are in the process of concluding certain large contracts and you know very well that large piece of our business is the mobile opportunity which is in the process of concluding so just wait for some time for Saurabh and me to come back onto these numbers, it is at the final stage.

Saurabh Gupta: Sonali will have a better visibility in couple of month here so then we will be able to better guide the margins so as of now you should stick to our numbers which we had guided.

Sonali Salgaokar: Sorry Saurabh could you just for the benefit of all repeat the numbers of guidance as of last quarter?

Atul Lall: So we stick to our guidance of around 15,000 odd Crores and we maintain that guidance.

Sonali Salgaokar: Understood and the margin at about 4%?

Atul Lall: 3.8% to 4%.

Sonali Salgaokar: Okay got it so secondly how is the demand scenario shaping up I mean we concluded the initial Navratri's and we are just about to begin the Diwali what are your initial feelers of the festive demand or the demand for this quarter?

Atul Lall: Sonali we find it in certain categories the demand has been very good. We find that in televisions, the inventories of the share of the retail outlets also both online and offline. We find the demand of washing machine particularly with some large brands where our anchors customers to be very, very good. We find the demand for hearable and variables to be extremely good however I do not find in certain other categories to be demand as strong as these particular product categories that I am talking about so I feel that Diwali should be good for certain products, in fact very good for certain product and average for some other products, but we need to wait and watch for Diwali to get over because undoubtedly the month of November is going to be muted but I see the forecast that are coming to us for the month of December we start going back to normal and the next quarter looks definitely much, much better and good so it is that kind of response I would like to share it.

Sonali Salgaokar: Got it Sir very clear so thirdly on the price hikes have we taken all the price hikes required to fully pass on raw material cost escalation that we saw up till a quarter back of course the commodities are started softening from now but are we in a position to take further price hikes if required?

Atul Lall: So if you see in our main ODM businesses that are washing machine and lighting and also the new business in which we are step-by-step marketing to ODM/JDM that is of TV, the margin profile is improved. We have touched 9% in washing machines which is almost back to normal and lighting also we have touched 8%, you will see that there is a 50 bps expansion also in the LED television as a category which is primarily because of ODM business so margins have almost normalized that is what I would say.

Sonali Salgaokar: Got it Sir very clear so thank you that is it from my side and wishing both of you happy Diwali in advance.

Moderator: Thank you very much. We take the next question from the line of Dhruv Jain from Ambit Capital. Please go ahead Sir.

Dhruv Jain: Thanks for the opportunity and congratulations on the good set of numbers. My question is on the ODM opportunity in television how can we look at the margin here so as we have **24:30 audio cut** what is going to be the margin profile here?

Atul Lall: Dhruv margins in ODM/JDM business and television is going to move up in steps I feel that when we migrate in phase one, the margin expansion is going to be somewhere in the range of around 50 to 70 bps but then as I shared with you in my opening remarks that we are setting up the backward integration footprint of injection molding and possibly later the metal processing which will be operational in couple of quarters and once we are able to shift the toolings into India the margins should expand by another 50 to 70 bps so in two phases I think the margins can expand by 125 to 150 bps.

Dhruv Jain: Thanks and Sir I had one question on the home appliances, we have seen a fairly good growth on Y-o-Y as well as on a quarterly basis and we have had some decent contribution from the FATL piece, so if you could just quantify what has been the contribution of the FATL and how do you see this panning out in FY2023 the mix between FATL and semi automatics?

Atul Lall: The current fiscal growth we are targeting somewhere between 1.7 to 1.8 billion washing machine out of that 1.5 to 1.6 is going to be in the semi automatic category, 200K is going to be the category of FATL. If you recall in the last fiscal we had done 1.1 million so from 1.1 to 1.7 to 1.8 that is a significant growth. In the next year I feel the major growth is going to come from FATL. I am aspiring that this 200K number should reach around 450K-500K because now we have complete product portfolio and customer acquisition is being worked upon. In the semiautomatic category there is a category which is kind of normalizing we are working on some new customer acquisition but let us see in that category the growth is going to be muted from 1.5-1.6 going to be somewhere around 2 so total what we can aspire from 1.7-1.8 to reach around 2.2.

Dhruv Jain: Thanks and just a bookkeeping one if you can just give us the volumes across categories?

Saurabh Gupta: So Dhruv LED TV is the volume was 11.6 lakhs so that is a growth of 54% from Q2 of last financial year so as against 7.5 lakhs last year this is a growth of 54% but clearly the revenues have not grown mainly because the selling prices of the portfolio come down from R.18000 to Rs.11500 and the significant portion of that is on account of the display or the open cell which is corrected in the international market otherwise in volume numbers we have grown by 54%. Our bulb numbers are around 43 million, baton was around again 4 million, downlighters was 1.4 million and then we had some smaller categories semi automatic washing machine we sold around 4.6 lakhs, a fully automatic washing machine we are now clocking a run rate of almost 20 to 23,000 so it was around 64000-65000 in this quarter, smartphones outside Samsung was around 10,00,000 feature phones outside Samsung was 13,00,000, smartphones for Samsung was around 26,00,000, feature phone for Samsung was around 33,00,000, CCTV was around 14,00,000, DVR was 3,00,000 so this is broadly the quantities that we sold and for both the variables and hearables we did around 2.3 million.

Atul Lall: So in Boat we only ramped up our production to almost a million devices a month and in the case of telecom devices that is O&D in modems for Airtel we have touched the production level of 100**.**

Dhruv Jain: Thank you so much that is all from my side.

Moderator: Thank you very much Sir. We take the next question from the line of Sujit Jain from Ask Investment Managers Ltd. Please go ahead.

Sujit Jain: Thank you for the opportunity and congratulations on a good set of numbers Sir when you speak about this export opportunity, first of all congratulations a lot of hard work that has opened up for us but the categories that you speak about home solutions, strip light, rope lighting ceiling lights etc. these look like smaller in terms of opportunity so just wanted to see that and check on a medium term basis how large this opportunity could be?

Atul Lall: So Sujit please appreciate that Dixon's main focus till now has been on bulb as a category and also when we got into batons, both bulbs and batons in India are reaching some kind of flattening sales because particularly in bulbs because the governments program under ESL lot of coverage on the ground has been done and the market undoubtedly is shifting more and more towards ceiling lights that is downlighters and also there is a lot of potential on this strip light perspective so both I mean on the downlighter side, ceiling light side we are expanding our capacity to 30 million and this 30 million should give us an additional revenue of almost 300 Crores and the strip lighting wherein we are making an investment of almost 6 Crores for setting up a new line should give us a revenue of almost 50 odd Crores, this additional revenue of 350 Crores from these two categories should come in a couple of years.

Sujit Jain: This you are talking about a domestic opportunity 350 Crores?

Atul Lall: I am not looking at exports at all because export I am not able to put the number in the budget but if you are able to crack export then each RFQ is around 200 Crores.

Sujit Jain: That will be mainly traditional products or these two new lines is what I am trying to ask?

Atul Lall: Appreciate in ceiling lights in U.S. market and there is a tariff differential when you import from China the duty is 25% when the import is from India the duty now is 5% so there are 20% arbitrage.

Sujit Jain: Right and in terms of the margins in and lighting division is the issues in terms of high cost inventory etc., is finally completely behind and so therefore now we see sustainable margins in lighting division?

Atul Lall: So I shared in my response to Aditya's question we humbly accept that there were certain execution issues at our end and those have been addressed and those have been corrected we have got a solid management team now running this business and we feel that there can be some temporary shocks here and there because there are so many moving parts and business but to a very large extent this business is on a stable mode.

Saurabh Gupta: So Sujit we feel confident this margins going forward should be sustainable.

Sujit Jain: Right we have done a margin of in lighting product at times a little higher than this on a full year basis also including let us say FY2021 8.8% margin so do we get back to those kind of margins?

Atul Lall: So getting into specific numbers might be a slight challenge but we have already touched 8% so the teams are working, a lot of value engineering consolidating the industrial footprint, automation, productivity improvement, backward integration give us some more time I am very sure that the margins are going to climb up once we start accruing the PLI benefits for which the investment of 20 Crores is being made in the current fiscal, once that factory becomes operational the margin expansion will take place.

Sujit Jain: Right and in TV this Google Android license opening up opportunity has opened up an opportunity for us in terms of ODM solutions but our main client he has his own OS so therefore to that extend the rest of the business has been opportunity is it the correct understanding?

Atul Lall: Yes you are correct.

Saurabh Gupta: Sujit that is the right understand.

Sujit Jain: Sure Sir. Thank you all the best.

Saurabh Gupta: We mentioned 60%-65% is the addressable market for us so which also if you look at in terms of volumes we are talking about a 14 million market and 60%-65% would be 9 million, 8.5% million so that becomes an additional market for us that will be a combination of some of our existing brands and also some of the potential customers which are not with us today.

Sujit Jain: Sure thank you.

Moderator: Thank you very much. We take the next question from the line of Sandip Sabharwal from Ask Investments. Please go ahead.

Sandip Sabharwal: Sir I have two questions the first question how does the pricing works with your large OEM so because the raw material prices are volatile, so is it quarterly or annual pricing how does that vary?

Atul Lall: In almost 80% of the business which is the prescriptive part of the business they are the understanding is that Dixon will not take any currency or commodity risk so that is immediately passed on and we were not impacted with any kind of a commodity or the input price increases so it is only in the 20% of the business which is predominantly the lighting, washing machine business and now some portion of the TV business here the commodity or the currency risk are passed on with the lag now different understanding with different customers some customers it is one month some customers it is 3 months but so that is broadly the way we work with those customers.

Sandip Sabharwal: For this quarter what would be the kind of PLI benefits you received or accounted for?

Atul Lall: So in the first six months of this financial year we have booked an income of almost 4-1/2 Crores on account of the mobile PLI because as you know we have already we are the first company under the mobile PLI which has already received the first cheque from the government pertaining to last year and now the whole system is very much stabilized and clearly we see that the way it will work going forward is that whatever in whichever period you are able to achieve those revenue and capex thresholds you apply and within a couple of months we will now get the PLI from the government so that system is absolutely stable so we feel confident and so we have accounted for around 4-1/2 crores in the first six months of this financial year.

Sandip Sabharwal: So that is what you have accounted for, Sir you account for when you receive or you see on accounting for that?

Atul Lall: So the way it works is we have accounted for our share of income and the way as far as the balance sheet is concerned there will be a receivable from the government only that receivable gets knocked off when the cash comes into the system and on the liability side they will be payable whatever our understanding whether various customers is there will be a payable on the liability side so as and when the cash keeps coming in both receivable and payable gets adjusted with that cash amount.

Sandip Sabharwal: So in the first six months only 4-1/2 Crores has been accounted for right across product category?

Atul Lall: Last year we had booked the income of 9 Crores out of which some portion has already come in as cash to us and this year we are the first six months we are booked for 4-1/2 Crores.

Sandip Sabharwal: Thank you.

Moderator: Thank you Sir. We take the next question from the line of Onkar Ghugardare from Shree Investments. Please go ahead Sir.

Onkar Ghugardare: My question was regarding the recent launch of 5G so how would it exactly benefit Dixon as you would be the first one to manufacture?

Atul Lall: If you are talking about the 5G rollout?

Onkar Ghugardare: Yes?

Atul Lall: So 5G rollout there are two potential opportunities for Dixon, one of course is on the mobile devices so Dixon is one of the first few companies which has started manufacturing 5G and our infrastructure is all geared up this is both for the domestic market and export market that is one. Second on the telecom devices front we are already registered under the telecom PLI scheme for the networking products both for 4G and 5G, it is at a very basic level but we are definitely exploring the EMS opportunities and dialogue with certain potential partners has started for doing these 4G-5G networking product in a new factory but it is at a very basic level but undoubtedly we have started dialogues with the potential partners.

Onkar Ghugardare: How big this opportunity can be as per the management?

Atul Lall: The factory qualification and this is going to be a complex process so put a number to this potential I think it is too early at present but we recognize this opportunity it is a large potential opportunity and the teams under our new CEO for this business, Surender who was earlier with Tejas the work has already started.

Onkar Ghugardare: So there might be a better clarity in the next six months?

Atul Lall: I feel that possibly something in this area we should be able to conclude initial stages but should be able to conclude by Q4 of the current fiscal that is March quarter.

Onkar Ghugardare: Okay alright in terms of the free cash generation you have done pretty well this quarter and because of that ROE and ROC has expanded well so how do you see the trend for this ROE and ROC for the full year as well and for the rest of the year as well for the next upcoming two years?

Atul Lall: Yes so we feel so if you remember last year it was a bad year for us as far as the working capital was concerned because clearly you had the shortage of components, supply chain issues last year on account of COVID and we ended up deploying money in the working capital so now clearly those headwinds are behind us and then we are putting internally we are putting a lot of effort to reduce our working capital intensity in lighting so as you see the numbers 85 Crores are working capital come down and that has been significantly on account of the inventory reduction which has happened, clearly we need to do a lot of work on some of the working capital intensity that has been deployed in mobiles which we are working on and we feel confident that should also come down so my sense is the ROC should only be on an upward trajectory side you should see better numbers as far as March 31, 2023 financials are concerned because clearly we have that earnings visibility with us and clearly we see that working capital intensity should come down because there is huge amount of focus internally on managing that and as you see that if more customer additions and the significant part of the growth area is in mobiles, which predominantly will be a prescriptive business in the working capital intensity as per the nature of the business would be small and if that business contributes 40%-45% of the revenues and even the other vertical side telecom and with the revised IT hardware scheme all these businesses are businesses with low capital intensity high asset turns so we see that the ROC profile of the company should keep going up, very difficult to give you a number but yeah if what we are aspiring for in the next couple of years if we continue on our plans and achieve our plans, I think so it should be a 40% plus ROC business for us.

Onkar Ghugardare: Overall business as Dixon as a company you are saying?

Atul Lall: Dixon as a company right?

Onkar Ghugardare: ROC was around 40% and as far cash and cash equivalent is concerned you have around 200 Crore and what would be the Capex for this year or any planned capex for the next year?

Atul Lall: Yes so the first six months we have done a capex of around 185 Crores and what we had budgeted for this year is somewhere around 320 to 330 Crores so broadly we will add at that number only and one needs to finalize the plans for next year but my sense is broadly in the similar lines for next year as well.

Onkar Ghugardare: Okay alright thanks a lot.

Moderator: Thank you Sir. We take the next question from the line of Gopal from SBI Life Insurance. Please go ahead Sir.

Gopal: Thanks for the opportunity so the question is in the last quarter our revenue guidance were at 17,000 Crores and we were pretty confident on 4% margins, are we revising our guidance down to 15,000 and even revising the margins down whereas if you have seen a decline in the commodity prices ideally it should have helped in terms of improving margins so can you just help us which are the segment would have kind of disappointed in terms of scale up?

Saurabh Gupta: So Gopal we had of course we had corrected the guidance last quarter only so yes you are absolutely right we started this financial year somewhere around April and all we were at 17,000 Crores but within a couple of months we had brought it down to 15,000 Crores and clearly today also you are absolutely right that of course commodity prices have come down and that you we have seen that that is reflected in EBITDA margins for lighting and washing machine business but at the same time the currency has also depreciated Indian rupee has also depreciated which is again kind of had some kind of an impact on our ODM business where I mentioned that currency also gets passed on with a lag, now what has changed in our numbers clearly we see that the mobile market was slow and the numbers that we will end up doing for our anchor customer there for the domestic market and it is not only true for our anchor customer overall the mobile market was slow especially in the first quarter so clearly one of the reasons for bringing down the guidance was low sales of our anchor customer mobiles and also we realized that the prices of open cell which is also very dynamic globally they had corrected significantly and one is not an expert when one started the price is corrected further during the year so the volume growth and TV has been very good and clearly we have a plan for ODM, we have a plan for backward integration but clearly the price open set is corrected which would lead to lower revenues or may not lead to a revenue growth despite the volume growth this year so these are two fundamental reasons and third I would say some of the businesses that we thought would start up in the first or second quarter has taken slightly more time to for us to ramp up and stabilize from the new businesses so I think the combination of everything put together I think so we reduced our guidance to 15,000 Crores but that number is also dynamic as mentioned by Mr. Lall if we get two customers in place and the production for mobile start in Q4 the numbers can be potentially slightly higher but we do not want to commit on those numbers second the margin I think so we still feel that it should be somewhere in the range of 3.8% to 4% on a conservative basis side I think so we are keeping a margin of 3.7-3.8% because a lot of moving parts right now in the business.

Atul Lall: So also as Saurabh just explained let me explained the TV business. In the last quarter the volume has grown from 7.3 lakhs to almost 11.5 lakhs that is 54% growth but the value growth has only been 3% now there are certain these are moving parts in business which are beyond our control so that is the reason in any case as Saurabh is sharing we had corrected our guidance to this number of 15,000 Crores in the first quarter itself in the opening of the second quarter and the margin is dollar appreciation margin impact is because of the product mix combination of various factors.

Gopal: Okay sure Sir and so earlier in the call also we said we will give more color in the coming months about revenue guidance and all so there is it like upside on the revenue or there can be further downside to 15,000 Crores?

Atul Lall: So just wait for two to three weeks we are in the process of concluding certain contract, we are very optimistic for including but they can always be a slip between the cup and the lip so wait.

Gopal: Sure Sir and the second question is in the margins for home appliances business so we used to make 11.5% to 12% margins obviously it has been improving for last couple of quarters but when should one expect a double digit margin for this segment because even earlier we were giving some indication of margin improvement because of FATL coming and mix improving so if you can just give you?

Atul Lall: The production has already started as we shared in our remarks that we have already reached 20 to 23 K per month kind of level but still the capacity is being utilized only at 40%-45%. It is going to take some time to reach a capacity utilization of 70%-80% which might take three to four quarters more because new customer acquisition is a long drawn process there are technical approvals, technical audit some new tooling so I think further expansion some minor expansion in operating margins and washing machine might take place in a quarter or two but to go back to a double digit number would take three to four quarters.

Gopal: Sir how should one look at mobile division margins should it be in the similar range of 2.7 to 3 or there is a scope for further improvement?

Atul Lall: No as of now they are going to be in similar range.

Gopal: Sure Sir thanks a lot.

Moderator: Thank you Sir. We take the next question from the line of Bharat Shah from Ask Investment Manager Limited. Please go ahead Sir.

Bharat Shah: Two questions one given the way there has been lot of moving parts and operating challenge in the environment and given the kind of business that we manage with long supply chains and differing products, multiple centers at which we need to do our manufacturing, our results earlier so far have not probably fully reflected our potential and I suppose you too would agree with that. Can we say now finally in terms of the size of opportunity, the way our operating teams have been set up the benefit of PLI, the contracts that we have with the clients and despite world still remaining very difficult and volatile world that we know overall can we share this quarter is kind of a departure into the kind of Dixon that we wanted to be and the strength at which it is supposed to perform. In other words would you say that we are kind of out of the kind of little slump that we were stuck in for variety of reasons, some internal many external but probably despite some of those factors remaining is the current quarter period of now departure into far more robust looking Dixon?

Atul Lall: So Bharat Ji undoubtedly last few quarters you very correctly stated that largely due to the external factors somewhat to the internal factors were challenging however I think internally the team has done well executing some large projects, expanding our capacities, expanding our design capabilities, rolling out new factories, becoming an ODM player in televisions getting into the verticals of telecom devices and doing it well, getting into the vertical of hearables and variables and ramping up well, new talent acquisition, migrating to JDM/ODM in the business of televisions so I think these are very significant positives correcting the stress that we have had in the washing machine margins, good roll out of FATL as a vertical similarly lighting in which we had a lot of challenges is on a correction path so I think those have been very significant positives now have we covered the complete ground I would say that we have covered 70%-75% ground. There are certain large opportunities for which one has to close some more large contracts, particularly in the space of mobile which one is fairly confident of cracking. So once we have that then undoubtedly we are a next level of stability which I am confident that we will be able to fructify. On a medium to long-term basis, undoubtedly the opportunities among us the kind of opportunities that are there in front of us and also we feel that we have the bandwidth and we are in good point for that kind of so that I am very candidly sharing my viewpoint and thoughts on this.

Bharat Shah: Sure appreciate Atul Ji. The second question Saurabh mentioned that in couple of years time we should be touching return on capital employed of 40% if not higher structurally over the years in many interactions I have consistently heard that 40% or higher is something which is within the infrastructure of the business and we run the business model of course due to very difficult volatile period of last couple of years things have been different we understand that, these attainment of 40% now in couple of years is a reasonable degree of certainty or it is still subject to kind of imponderables?

Atul Lall: Bharat Ji see lot of capex has been front ended for example mobile, FATL, refrigerator, telecom devices, backward integration piece of lighting a lot of capex has already been made and in the current fiscal also almost Rs.33 Crores-Rs.40 odd Crores of capex is going to be made out of which 185 Crores has been made and in spite of this capex, particularly in the current fiscal, the borrowing both gross and net level has come down and ROC has improved by almost 250 bps. We feel that now we have to shed those assets and as Saurabh shared in his response that these are all high asset turn businesses by nature and the DNA of what Dixon is all about we are extremely focused on our working capital intensity, on our operating cycle and current assets. So one feels confident that in the existing canvas of business, our aim of touching a 40% ROI is very much achievable, possible and we are committed. However I am not talking about the moving parts or challenges that any business environment can have that is something separate. This particular industry of our electronics manufacturing is on a high growth margin so if a large opportunity comes and it requires another round of capex then we will not shy away from it then again the ROC can be impacted for triggering the next round of growth however with the same canvas in which we are playing the game at present, we are fairly confident.

Bharat Shah: Sure and basically our size and scale will improve and therefore operating leverage will kick in that in turn should improve our margins plus the kind of mix of the business with their own design or the pure manufacturing also further should improve our margins and therefore will the principal source of improvement in return on capital employed will be the margins laid by operating leverage or in addition margins which is generally improved due to the less hostile raw material in other situation plus improvement in the working capital efficiency so will all the levers are expected to work in this assumption or what is the principle assumption we are making is a source of improvement in return on capital employed.

Atul Lall: So there will be a combination of everything, you are absolutely put it right so on the numerator side or on the earnings side yes it will be a combination of operating leverage kicking in also absolute ODM revenues going up so the margin increase happening on account of the ODM migration to our own design solution because there is strategy to migrate more and more to our own design solutions in every category, third we are committed to do more and more backward integration in each of the verticals so that should lead to margin expansion. On the denominator side yes the verticals that we have added so just to give you an example mobile we have already done a capex of 200 Crores so a lot of capex has been front loaded and there is a significant focus on managing the working capital so on the denominator side will be combination of better working capital management and also since the significant portion of capex has already been done on the opportunities that exist today.

Bharat Shah: Sure thank you Atul ji. Thank you so much.

Moderator: Thank you very much Sir. We take the next question from the line of Ameya Gawande from Metaverse Equity Fund. Please go ahead.

Ameya Gawande: Sir my question is what demand trajectory in different verticals you are expecting in next financial year and do you feel it will be hampered due to global uncertainty?

Atul Lall: So what we feel is there is definitely a positive outlook in the vertical of television because of the Google opportunity. I have already shared in response to the earlier question on home appliance that it is going to be a normal growth of around 10% to 12% and this is going to come mainly from the FATL as a category. In mobiles we are working on new customer acquisition which I have just shared that we are fairly confident of concluding soon so that will be growth, existing businesses of CCTV is again going to see normal because we are expanding our capacity there. Lighting let us just wait and watch because at present largely our businesses in the domestic side which is having a normal growth in that we are adding new product portfolios in ceiling lights, in strip lighting which is going to give us growth in that business. New verticals undoubtedly are going to be high growth area for us because the base is small namely the hearables and variables, telecom devices and we feel that by Q3 of next financial year, we are also going to have the commercial production started for refrigerator project so it is difficult to put in number form but this is the contours of growth one foresees.

Ameya Gawande: Okay Sir thank you and best of luck for the future endeavors and happy Diwali.

Moderator: Thank you Sir. We take the next follow-up question from the line of Gopal from SBI Life Insurance. Please go ahead Sir.

Gopal: Hi Sir thanks again so if you can just give some color on this Xiaomi related issues on the FEMA side and all does it have any impact on Dixon television business and second is on the competition side, we have seen a lot of companies investing into television manufacturing in India so does that have any risk to our customers?

Atul Lall: Xiaomi side there are large customers 95% to 98% of their requirement is done by Dixon. With the developments happening on their regulatory front undoubtedly we were also concerned. I have personally had deep dialogue with the India leadership team and also

Beijing leadership team and they have repeatedly assured me that there is no impact on their India business, the budget forecasting and the business that we have done till now there has been no impact there has been no impact on their payment or lifting of stocks in fact they are revising upwards their forecast for coming quarters so that is the insight I have. However, it is a large disruptive development for any one so I do not have an insight but this is the status of our current business. Responding to your next question of competitive intensity, undoubtedly the competitive intensity is increasing and Dixon has to and is gearing up for meeting that competition so one is the capacity which generates an operating leverage for us. Second is the deepening of manufacturing and backward integration so we will be and we already are the most backwardly integrated plant, third is owning the design so in this year itself almost 25% to 30% of our manufacturing in television is going to be Dixon designs this answer to the stickiness with our customers. Fourth is owning Google Android license this gives us much larger leverage because no other ODM player in India has that license. Next is that as on date we are much ahead of our competition where at least 2.5 to 3 times the number two player and I think almost six times the number three player so we have that advantage, but of course we are in a good position but that should not settle and we have to keep on working to keep on satisfying and adding value to our customers so that we enhance the stickiness, that is it.

Gopal: Sure Sir. Thanks a lot.

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

Atul Lall: Thank you very much for participating in this call and wish you all a very very happy Diwali. Thanks once again.

Saurabh Gupta: Thank you very much. Happy Diwali to everyone.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.