



“Dixon Technologies India Limited  
4QFY2020 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Dixon Technologies India Limited 4QFY2020 Earnings Conference Call hosted by Ambit Capital. 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 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. Dhruv Jain from Ambit Capital. Thank you and over to you Sir!

**Dhruv Jain:** Thank you. Welcome to the 4QFY2020 Earnings call of Dixon Technologies. From the management, we have with us Mr. Atul Lall, CEO and Mr. Saurabh Gupta, CFO. Over to you Sir for your opening comments!

**Atul B. Lall:** Thank you Dhruv. This is Atul Lall and we also have with us Saurabh Gupta, CFO. Good afternoon ladies and gentlemen, thanks for joining this call.

Before I touch upon our 4QFY2020 results, I would like to update you on how we have fared during the lockdown and the latest update on the post relaxation. So we resumed our operations in all our factories in all the nine factories between May 4, 2020 and May 18, 2020. This was in limited capacity utilization in May because we had to implement various safety training measures and other guidelines and new standard operating procedures so we had complete business continuity in all our factories and verticals within the permissible norms and regulations, new standard operating procedures have been prepared to ensure safe resumption of operations across all our factories this is in regard to social distancing, sanitization of premises, buses, temperature checks of all our personnel availability of the protective gear and the complete new infrastructure. We are slowly ramping up our capacity at all our factory without any compromises on the safety side. So as we speak our factories in Tirupati, Noida, Dehradun are completely operational.

During these extremely difficult times we mentioned before our key focus was on cash and to reduce our costs. So we have identified significant cost saving measures from April onwards which is to the tune of around Rs.8 Crores to Rs.10 Crores a month. A task force has been set up which is monitoring at a very granular level the implementation of this cost reduction. Our balance sheet is strong and we closed the year with a strong cash balance of more than Rs.100 Crores. We have adequate working capital lines to ensure that even if things worsen we are fully protected and continue to build our business and capability through extremely difficult and uncertain period.

Now coming to the financial and operational performance of last quarter, it needs to be contextualized around the unprecedented health and economic crisis triggered by COVID-19 starting from China with whom we have large relationship and then globally and in India. So when it started off in January, February we had supply side issues from China, they were concerned about the availability of material and as the first signs of pandemic emerged in India from second week of March, the India sales slowed down and it came to an absolute halt from

March 22, 2020, March 23, 2020. So we lost almost 10 days of sale in March. Currently where the lockdown situation has eased to some extent in select markets, we expect the effect to pandemic to last for a few months before the situation reverts to normal. However, with cost rationalization measures undertaken along with the resumption of operations at all factories and now we have reached a decent level of capacity utilization, we may break even financially or book a marginal loss at EBITDA level in Q1 2021, this is what I wanted to update the house.

If we analyze Q4 FY2020 performance, the company's revenue and profitability, it has been I think a fairly good performance, it was a very good performance till February and we were expecting it to be one of our best quarter, but we were hit in the last ten days of March and as per our estimates in this quarter we lost the revenue of almost Rs.165 Crores and an EBITDA of almost Rs.10 Crores across all segments. So this is what I wanted to update you on where we are, how we performed during the pandemic and what is the state at present, any questions pertaining to this are most welcome after my opening remarks.

Now the financial highlights for the year ended March 31, 2020 on consolidated basis. The consolidated revenues from March quarter was Rs.857 Crores which is almost flat as compared to the same period last year. If we have included this Rs.164 Crores of sales loss and the growth have been around 19%. The consolidated EBITDA for the quarter ended March 31, 2020 was Rs.55.9 Crores against Rs.39.4 Crores in the same period of last year. There is a growth of 42%, excluding this again EBITDA would have improved by another Rs.10 Crores. A significant thing is that EBITDA margins have improved from 4.62% to 6.5% which is a significant improvement. This is primarily because of the operating leverage kicking in various verticals, improved sales mix, new and expanded mobile business, value engineering of products, cost efficiencies and slightly benign commodity prices so it seemed margin expansion across all our verticals. Consolidated PBT for the quarter ended March 31, 2020 was Rs.37.3 Crores against Rs.24.4 Crores which is a growth of 53%, consolidated PAT was Rs.27.6 Crores against Rs.16.5 Crores which is a growth of 67%. This would have been higher by another Rs.7 Crores if we had been able to execute sales in last 10 days.

We have also demonstrated solid free cash flow generation post capex of around Rs.91 Crores in 2019-2020 with an account of strong profitability and working capital efficiency, which has resulted in a negative debt of Rs.13.5 Crores. There has been a decent reduction in the interest cost also after adjusting for Ind-As. In addition the strong return ratios maintained we have in ROE of 26.2% and return on capital employed of 33% at the end of Q4 financial year 2020. As we have been sharing with you the future also the focus and the three drivers that will be cash flow generation on expansion, working capital efficiency and disciplined capital allocation. So in the operating cycle side we have had a negative four days of cycles in our business. I have always been sharing the focus across all our business is to achieve a scale that kicks in operating leverage, migrate more and more to our own design solution, focus on backward integration which gets engages a payback within 18 to 24 months, more customer acquisition and deepening of relationship with existing customers to enhance the stickiness so across all our verticals, we as

a team have done well on all these accounts. We have seen that when we meet these objectives were able to generate significant operating leverage and becoming more competitive. So also I am very happy to share with you, there is something very prestigious for our company. Our foray into the space of medical electronics. We have signed a memorandum of understanding with Molbio. This is for manufacturing of RT-PCR S device this is for COVID-19. Now this is a disruptive test device RT-PCR for COVID-19 in which we can conduct the test within 55 minutes of taking of the swab. It has two stages, the first stage is collection of the swab, we remove the duplicates from it and in the second part on 25 minutes and swab shifted on the chip it gives the result of positivity or negativity. It is a highly sensitive equipment. It has been approved by ICMR this is a disruptive technology developed by our principal Molbio, we are very proud of getting associated with them. We have got a large order from them. We have to upgrade ourselves on our quality systems for medical grade so we are going to quality for ISO 13485 and we are also in a learning process of handling the medical grade components. So the team is gearing up for it. The trials are expected to start sometime in July that is next month and we should be able to start the commercial production in August. Significant thing also is that there is no capex being made for this particular project. This is going to be done in our Tirupathi plant in DVR plant whether the capacity utilization is at present low. So we are very excited about this project, this for the national cause and with this Dixon's entry into the space of medical electronics.

Now coming to specific verticals starting with consumer electronics, LED televisions our revenues in this quarter were Rs.393 Crores as against Rs.323 Crores in the same quarter last year that is the growth of 22%. Operating profits saw a growth of 138% in this quarter we generated an operating profit of Rs.9.8 Crores against Rs.4.1 Crores in the same period last year. We presently have a capacity of 3.6 million which is the largest capacity in India. I shared last time that we are increasing our capacity because of a very healthy order book so we are on way to expanding our capacity to 4.4 million which will happen within August of this year. So this increased capacity means that we will be able to service almost 30% of Indian requirement. As I have shared in my last call also that we are doubling our capacity of our PCBA lines, that is also on the course so we will be increasing from at present around 1.8 to 1.9 million that will also happen within the next quarter so with this Dixon will be most vertically integrated, largest capacity LED TV facility in India. We are investing hugely into R&D also both in the China as well as India. In the new customer acquisition on the TV front now we have signed with Toshiba, Nokia and Hisense. We expect to start the production of these brands in July next month. In the month of May we produce around 1.25 lakh sets which is around 35% utilization. This month we should be doing more than 200k sets which is almost 65% utilization.

Coming to lighting, in lighting we witnessed a small degrowth of almost 16% so that is Rs.255 Crores against Rs.305 Crores last year however, the operating profit grew as compared to last year by 18% so against Rs.21.6 Crores in the same period of last year we have in 25.4 Crores in Q4. The margins in the lighting business have expanded from 7.1% in Q4 2018-2019 to 10% in Q4 2019-2020 due to operating leverage, favorable commodity prices and migration more and

more to ODM, so in our last quarter ODM business of lighting increased to 94%. To be practically have all the brands in lighting with us, all the major brands we are the largest OEM in lighting vertical, we have a capacity of almost 20 million bulbs a month which is 45% of the Indian requirement. We have also developed smart LED bulb solution, backend LED emergency bulbs. Recent customer acquisition because we practically have almost all the brands is Reliance private label for which we will start supplying to them in August. As I shared with you in my mind in my last call that we are on from the path of capacity expansion for battens and downlighters so that has already been done in phase 1. The capacity of battens has been increased from 250K to 1.5 million a month and downlighters has already been increased from 150K to 600K a month. So we have seen that with this kind of volumes, customer relationship and a large product portfolio, capacities, ODM strength we have great operating leverage and cost competitiveness for the global markets. So we will start exporting in this fiscal for our anchor customers to large developed markets like US.

We also have significant traction from some large retail chains in Europe and US so we are working towards that. Post opening up now we are at 50% capacity utilization. With the order book increasing, we hope that we will be able to ramp up. This is a labor-intensive business so the labor availability is a bit of a challenge, but we are working on it. In washing machine home appliance segment there was a degrowth of 3%, it was Rs.92.5 Crores in 2018-2019 which reduced to Rs.90 Crores in Q4 2019-2020. Operating profit however increased to Rs.9.9 Crores, operating margin also expanded to 11% against 10.2% in the same period of last year. We have 140 old models and had large portfolio ranging from 6kg to 10 kg in the semi-automatic category with an annual capacity of 1.2 million which is approximately 27% to 28% of Indian requirement. As I shared with you in last call, we are on way of setting up the top-loading factory in Tirupathi campus of us, so that is one course in spite of the pandemic and we are trying our best and we are confident that by Q3 we should be able to have trials of top-loading. This is an annual capacity of almost 6 lakhs which is again almost 25% of the Indian requirement. This is completely ODM, all platform right from 6 kg to 9 kg in 30 variants. We have already closed the agreement with a large MNC brand for this particular business.

Next is mobile phone segment. Overall revenues for Q4 was Rs.60 Crores against Rs.67 Crores in the same period of last year. However, operating profits saw a very significant growth of 416%, it increased to Rs.8.5 Crores against Rs.1.6 Crores in the same period. This is primarily because of new account acquisition which has led to this increase. So we have now a capacity of 2 million feature phones for month for our anchor customer and the production, it has touched in February almost 110% of its capacity. The business has started post pandemic I mean lockdown lifting quite well. The order book is very healthy, however because of the manpower constraint we have been able to reach only, this month we should do around 70% of our capacity. As I shared with you that another mobile factory where the capacity utilization was slightly low and we have ventured into setup boxes for Jio. We have received large order from Jio for cable set top boxes to be supplied to Den and Hathway. So the commercial production for that has started. That is an order of almost half a million sets also for Jio set top boxes we have started producing

hybrid set top box fiber connectivity in our Tirupathi plant. So on mobile so I would like to share with you further what our plans are. You would have read the governments focus on mobile manufacturing, local manufacturing for domestic and export and we have come out with something called as production gained incentive scheme which has been announced in that they have given a financial incentive a link to investment and turnover and the total kitty is almost Rs.41000 Crores and the incentive is in the range of 4% to 6%. Now in this there is one category for the foreign company and there is another category for domestic companies. For the foreign companies, the threshold for investment and incremental sale is much larger but that incentive is applicable only for mobile phones above \$200. Please appreciate that in India more than 75% of the market is for Smartphone of Rs.15000 and for that only domestic companies are entitled. They are in the process I mean they have shared that they are going to be identifying five domestic champions who would emerge as very, very major players for mobile manufacturing both for domestic market and exports. So we are going to be very aggressively bidding for this. Our application will be filed shortly and this is going to be significant growth for us so we are already receiving very, very big traction from large global brands for domestic market and exports so this is going to be a very significant domain for us for growth.

The next is security surveillance systems so there is 20% degrowth in our share of 50% revenue this is JV. However the operating profit witnessed a growth so the operating profit has increased from Rs.1.6 Crores to Rs.1.9 Crores in Q4 of this business. This business is under pressure because this is a discretionary item and the order book is under pressure. You see one of the trends we have at Dixon is tangibility of the assets. I have already been maintaining the SNB lines which we use for let us say mobile the same line can be used for TV or DVR or camera. So this particular capacity can be used for Jio hybrid set top boxes and the same capacity is going to be used for RT-PCR medical device. In reverse logistics there is a significant turnaround in the business. The revenues has grown by 84% and also this was a loss making business and we have been able to turn it around and we can generate an operating profit of 43 lakhs in this business. This is growing business because we have a large customer relationship in LED TV panel repair. So this is what I wanted to share and thanks for this and any questions you most welcome, me and Saurabh are there.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid:** Congratulations for a strong results despite challenging market environment. Sir as you have mentioned in some of your comments would it be helpful if you can share some more insights in terms of how do you expect the demand outlook for the end brands to pick up because somewhere you have mentioned across TVs and washing machines are back to 60%, 70%, 80% of utilization levels but do you perceive any risk to the initially budgeted volumes for the current year based on any likely slowdown in consumption patterns and accordingly what would be the kind of growth that one should anticipate or volume numbers that one should anticipate for the current year in these segments.

**Atul B. Lall:** Renu you see at present it is very difficult to share that how this full year is going to pan out. It is very difficult. I will share with you what is happening as of now and I will share with you some sense of what we feel how is going to be.

**Renu Baid:** In terms of how the ramp up in terms of volume can happen from where we are today?

**Atul B. Lall:** I will just share with you. So starting with televisions, our anchor customer is having a very large online play and we have large customer acquisition so we were very pleasantly surprised that in the month of May they were able to sell a very large quantity, whether it is pent up demand that was being filled in and then it is going to flatten, it is difficult to say. So in June it is going very, very strong, even the July numbers are looking very, very strong. We have to really wait and watch how it is going to pan out.

**Renu Baid:** Similar would be the case to washing machine where we are seeing some volumes slowing from Samsung?

**Atul B. Lall:** So in washing machines I can see the slowdown the May lifting was minimal, lifting normally we do around 70-80 thousand sets in this month June order book is around 44000 so we have to wait and watch how July, August, September is going to pan out so the kind of push that I am seeing in televisions, I am not seeing a similar thing in washing machine. When it comes to lighting, so we opened up the factories only between May 10, 2020 and May 18, 2020. The present order book I mean last month we did around 4 million, this month we are going to around 9 million to 10 million normally we do around 15 million so there is a traction and I feel the lighting should be slightly better because the product range that we have is a low value item, it is going to be slightly better but weather is going to be a huge boost I have no idea, one has to wait and watch how the brands fair. Mobile looks extremely, extremely strong because it is low end feature phone that we do for Samsung, it is both for export and domestic market, there is no slowdown. In other factories also the order book way is very good. We have acquired a new customer in LG, LG as a brand. So LG production starts in June only. So I see the mobile business doing well and also we have a large order book of set top boxes and set top boxes we have added a new customer in dish TV, so the order book is not an issue. In security surveillance systems the order book is very, very bad. How the numbers are going to pan out I think it is very difficult to ...

**Saurabh Gupta:** As Mr. Lall mentioned it is very difficult to give an outlook for this year but as of now things have started on a good mode better than what we had thought about it. So May, June as Mr. Lall mentioned in his opening remarks that even the first quarter we are looking like an EBITDA breakeven or a marginal loss kind of situation which according to us is a very good situation considering the entire April or till mid of May it was completely shutdown.

**Renu Baid:** So definitely a strong book on that side and two other small questions are A in terms of given that currency depreciation has been meaningful over the last six months and last quarter per se so what is the kind of impact that we are seeing and was there any forex impact in the fourth quarter



and second question after this would be in terms of the capex for FY2021, what would be also the outlook given that most all for your capacity expansion plans you mentioned have been on track?

**Saurabh Gupta:**

So Renu with this lockdown happening and so definitely last few weeks of March there was a significant depreciation in rupee it went up to as low as 76 and of course not all of our foreign exchange liabilities hedged, almost between 50% to 60% of our import liabilities hedged so definitely there is a loss which we took the loss was somewhere Rs.4.5 Crores so that is reflected in this numbers. So our numbers would have been higher by that particular number and of course the impact of the lockdown for the last ten days which Mr. Lall has already mentioned which was Rs.10 Crores of EBITDA so that has already reflected in the results. Your second question on capex, capex intensity we do not see reducing this year because we think we are sitting on a big opportunity right now and we have good cash balance and so if I just break down the capex so our majority capex this year will go into the fully automatic top load version so almost Rs.45 Crores to Rs.50 Crores which is already committed and we have committed to start the production by Q3 of this financial year. We already have agreement signed up because it is a very big MNC so that is committed and that we continue. The second capex was on expansion of capacities in TV where we were expanding the capacity from 3.6 million to 4.4 million so that is also in progress because we have a big order book from Xiaomi and we are adding three new customers Toshiba, Hisense and Nokia so we need to do that we are committed to do that as well and then lighting we foresee that there will be labor issues so initially we are build automation kind of a plan and we are continuing to pursue it in fact we are accelerating that whole capex on automation so that dependency on labor reduces further and we are not impacted by that. The fourth bigger capex that can come will be on account to the PLI scheme for domestic company, there is a commitment of Rs.200 Crores capex over four years, the first year capex should be somewhere on Rs.50 odd Crores so that we will also be doing because that really opens big opportunities for us and that will be really very profitable for us so as far as capex intensity is concerned it will be high this year, the good part is we have enough cash balance, we have enough I would say we can always pick more debt to pursue our capex and we are not slowing down the capex this year so we will continue to have capex of around Rs.90 Crores to Rs.120 Crores odd.

**Renu Baid:**

Okay that is including PLI capex on.....

**Saurabh Gupta:**

That is including PLI capex.

**Renu Baid:**

I will get back in the queue with more questions. Thanks and all the best.

**Moderator:**

Thank you. The next one is from the line of Sumita Nair from IDFC. Please go ahead.

**Sumita Nair:**

Congratulations on a good set of numbers Sir in a challenging environment. I wanted to touch upon the margin profile that we saw in lighting, it was fairly strong despite quarter end revenue miss which happened because of the lockdown. Now as we move ahead and you know it takes



time to kind of ramp it back up so what drove this 10% margin is this one off and will it come back to the normalized rate of something like 7% or 8% and my second question was around this medical electronics that you spoke about how quickly can it scale up what is the potential of revenues, margin profile etc., if you can touch up on that. Lastly for mobiles as well by when do you think this benefit of the local manufacturing and production incentive will accrue only after four to five years or is it something that we can start seeing immediately?

**Atul B. Lall:**

Sumita responding to your first question on the margin profile of lighting so I would not say it is one off but I would like to give guidance of around 8% on lighting somewhere between 8% to 8.5% that is what one estimates. Coming to the second question on PLI, PLI scheme so we have to file for applications before July 31, 2020. We are confident that we should be one of the domestic champions identified by the government. We are sitting on a sweet spot what it says is that once you do a capex Rs.50 Crores and you reach a certain threshold turnover which is Rs.500 Crores, which we are very confident of then you start getting the incentive and the first year incentive is 6% of your revenue so if you are able to crack it then this will start getting reflected from Q2 next fiscal. Third is medical electronics so we have got the first order for thousand quadruples, so four swabs can be tested at one time and this is the just start on the business the first order book is about Rs.130 Crores but I see that it is going to be large, it is going to take some time but it is large because there is huge demand from state governments from central governments from private labs and at present they banned exports because there is a huge requirement for upgrading in the Indian testing infrastructure but then for exports also. So please appreciate that this is not only a testing device for COVID-19, for this particular virus, it is for 27 infectious diseases including tuberculosis so it is a very disruptive kind of technology and ICMR has stated in its reports and that the sensitivity is ahead of the conventional testing process of RT-PCR so it is difficult to give numbers but this is the first order book I am sharing with you.

**Sumita Nair:**

I have more questions Sir I will come back in the queue.

**Moderator:**

Thank you. We take the next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

**Nitin Arora:**

My first question when you look at your gross margins that has moved quite significantly on year-on-year basis and sequential if you can tell us what is the reason attributed to this improvement?

**Atul B. Lall:**

So you see it is a combination of factors of migrating more and more ODM, let us say in lighting which gives us an opportunity to value engineer model so that helps in bringing in operating leverage and margin expansion. Second is also the scale that is bringing in further operating leverage, this is both in lighting as well television. Third you see significant turnaround is in mobile business.. I think we have done a very fine job in setting up this facility within a record period of three to four months and the capacity utilization touched 100% so that is the reason the combination of these three this margin expansion has happened, please appreciate in spite of 10 days of no sale and a hit on the account of foreign exchange so these are the reasons.

**Nitin Arora:** Sir why I am asking this because you have a negative inventory sitting out in your P&L which is almost to a tune of very unexceptional high about Rs.68 Crores of negative inventory in quarter and an annual basis about Rs.53 Crores change in inventory which is straight away hitting your gross margin going into EBITDA in a big way, normally we do not see that much change in inventory that could have benefited you because of the 10 days shutdown, if you can throw some light there because it is clearly reflecting the EBITDA gross margin getting improved from there so if you can throw some light on that?

**Saurabh Gupta:** Nithin I did not get your question, can you repeat that.

**Nitin Arora:** Sir when you look at you P&L, the profit and loss account you almost have a change in inventory of finished goods of Rs.68 Crores against the cost of material of Rs.791 Crores which benefits you in terms of your gross margin, normally when you see even on an annualized basis, we generally do not run with Rs.40 Crores, Rs.50 Crores of positive change in inventory, it gets added back now when you look at your annualized result or your quarterly result it is a big number of negative which is impacting in a very big positive way to your gross profit and your EBITDA and that is primarily because I am assuming the 10 days shutdown would not have able to get this number so just need some thought of yours?

**Saurabh Gupta:** Yes definitely there was inventory which was lying with us on LG and there is also raw materials which we had imported which could not be converted to finish goods that is the reason why it is reflecting as a negative... What exactly is your question?

**Nitin Arora:** I will take it offline. My second question to this medical device which we talked about, it is micro PCR which is a step down to RT-PCR in India and it is step-down technology right now, so I just want to understand because we already have in India about 500 devices of our micro PCR and the way testing is going up obviously we require double of that so just wanted to understand once I mean the reagent is more important than the device the way we look at this business but in your assumption India itself once this COVID goes down and the testing goes down are there any other opportunity, where do you see that coming from this micro PCR?

**Atul B. Lall:** So as I shared with you Nitin that one can test almost 27 infectious diseases on that. Initially the device was developed for tuberculosis so this is disruptive in the sense that it is going to be available at all points of care that is the scalability so one is of course for COVID, second is for almost 27 other infectious diseases.

**Nitin Arora:** Right Sir I will come back in the queue for more questions. I will take that question offline no problem, thank you.

**Moderator:** Thank you. We take the next question from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

**Keyur Pandya:** The question is on Sir as you mentioned it now we have turned net cash company, where cash is more than debt as of March so is it right to assume that for this year say for Q1 we might need some working capital debt so barring that there would not be much need of working capital debt for FY2021 and I mean how do you see interest cost and debt figure moving looking at this Q1 disruption and then subsequent quarter of the year?

**Saurabh Gupta:** So basically I will tell you the position currently so as against negative net debt of Rs.13-odd Crores because we had of course mismatch in cash flows and we also need to cover our fixed costs for April and May as well and the business has just started to basically come back to normal utilization levels and that also not across all the segments so the debt levels have increased, debt levels since March 31, 2020 till date so presently the net debt level is around Rs.50 odd Crores but we have enough working capital lines this year I would see net debt levels going marginally for the next couple of months and then once the Q2 kicks in ahead of the festive season then I think it should keep coming down but as of now between March 31, 2020 and today it has increased.

**Keyur Pandya:** Okay and so going ahead will we need working capital debt once things normalize? I mean looking at our cash generation I was just talking, will the need for working capital debt going ahead or it will be only project debt?

**Saurabh Gupta:** See ultimately working capital debt is the function of how much earnings I am able to generate and it is very difficult to give you an exact number of what is EBITDA outlook would be so ultimately it will be a function of earnings and the cash flow generation in the business which will kind of determine that what will be the working capital that is required in the business.

**Atul B. Lall:** However this overall functioning is going to be absolutely the same where there will always be a very significant focus on the current assets. So on entering debtors and matching creditors would always we absolutely focused, the capital allocation for the capex investments is going to be again with the same norm of payback that is 18 to 24 months so if the situation does not come back to normal then possibly the limit is going to be drawn, otherwise I will not allow them.

**Keyur Pandya:** Right, perfect. Sir second question on washing machine you mentioned that the right now the order book is low and pickup is slow so one is the negative impact of operating leverage and on the other side and the contract that we have with Samsung of revising the prices so whatever the contract we have so in this context currency would impact us so margin would have dual impact of currency as well as the negative operating leverage and just if you can clarify the new customers which we have added for semi-automatic washing machine are the terms similar on the repricing?

**Atul B. Lall:** Yes as you know that in Samsung case it is a six monthly revision of price, current depreciation we hit negative which was an impact however the other commodity prices were benign and that is the reason there was a small margin expansion from 10.1% odd to 11% even in washing machine case in spite of the volumes I think that in this quarter of course the margins are going to

be significantly impacted but if the quantity recovers because other commodity prices copper, aluminum is benign I feel that we should be able to sustain once we attain the volume of Rs.70000, Rs.80000 a month of 10% to 11% that is what my take is. The new customer acquisition that we had in washing machine the segment was Voltas, the commercial production for Voltas and also the Reliance. Reliance has acquired certain brands for the private labels that is Kelvinator and BPL so we have already started commercial delivery for these. As far as the arrangements with them are concerned, in Voltas case it is a monthly price revision and also in the case of Reliance.

**Keyur Pandya:** Okay Sir perfect. Thank you very much and all the best.

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

**Aditya Bhartia:** Hi Sir. My first question is on margins were in fourth quarter we had revenues getting impacted on account of COVID and therefore negative operating leverage going through but despite that we have seen fairly strong margins across all segments whether it is consumer electronics, lighting, home appliances, mobile phones so what does that mean on account of if there is any one off over there and how should we thinking about segmental level margins once things normalize?

**Saurabh Gupta:** So Aditya one of the reason for margin expansion has of course been the lighting business where we delivered a 10% kind of operating profit margins and that has happened on account of even further migration to our own design solution so last quarter it was 90% we have even gone now to 94% of revenues coming from our own design solutions, second lot of value engineering work is being done and scale of course is delivering that operating leverage benefits so lighting is definitely a category where economies of scale and operating leverage benefits are kicking in. Secondly if you look at the other reason if you look at our mobile margins it has jumped to 14% so mobile there are two verticals one is of course our subsidiary company Paget Electronics where we do mobile phones for other customers apart from Samsung which is Gionee, Panasonic, Karbon and other customers which continues to be on a basis where we book the entire revenues and we book the entire cost and the margins were in that vertical, that company were in the range of 2.5% to 2.7% so they are absolutely in the same levels of 2.5%, 2.7% levels in this quarter, but what has changed since last quarter or since last year is our ramp up and stabilization of the Samsung feature phone business so we started in November, November was of course a small loss, December we started to break even and in the last quarter it has completely ramped up and stabilize and we are doing almost a monthly quantity of two million so are doing the entire range of feature phones for Samsung.

**Atul B. Lall:** Also Aditya the revenue paying boot in the case of this new anchor customer business of phones is not including the material cost, it is only the job working cost, if we see as a percentage the operating profit is significantly higher, one of the important reasons for this is that and coming back to your question that how do you feel it is going to sustain so I think mobile is going to be

healthy, it is going to be similar range. I feel LED televisions is go to sustain, is going to even possibly expand. I feel that washing machine would be possibly in this quarter under pressure, next quarter would come back to same 10%, 11%. Lighting will not be sustainable at 10% I think so it is going to be somewhere around 8% something like that. So these are the main reasons I say both lighting and mobile is a category will improve our margins in this quarter.

**Aditya Bhartia:** More specifically I was interested with the TV verticals where in we had a fairly significant negative operating leverage because we have planned for much higher quantity but despite that managed to deliver 2.5% margins so is it partly on account of PCB for AC which has contributed or is it just the benefit of backward integration that we are now realizing?

**Atul B. Lall:** So it is a combination of both one the order book is extremely good and the second is that the backward integration of PCB is with one of our customers, one of our large customer and global customer they have just started where the valuations are better and with the expansion of capacity of PCBs and higher utilization this is keep on improving so that is what I shared with you I feel the margin in television business are going to be good.

**Aditya Bhartia:** Understood Sir and Sir my second question is on labor availability and cost do you think that social distancing norms may make it slightly more difficult to operate in an industry like us and do you see employee costs and incentives going up in the post COVID world and the possibility of margins consequently getting impacted?

**Atul B. Lall:** So it varies vertical to vertical. In televisions non availability of labor in the Tirupati plant is not much of a challenge however the costs have increased because of social distancing on the line, the production is impacted slightly for which we are making significant efforts in automation, that is going to take some time to recover. In the interim period there is going to be an impact and similar impact is going to be there in lighting in fact even more in that the automation exercise will take a longer time and that is the reason I have said that I feel the margin of 10% will not be sustainable, there is going to be a cost to that. In mobiles at present the lines were structuralized that social distancing was always kind of maintained in that level however the labor availability as of now is a big challenge in Noida this is going to take some time to recover, so it is a mixture of things.

**Aditya Bhartia:** Sir if labor cost itself goes up once things normalize then in segments like mobile phones or even lighting despite automation happening can margins materially get impacted like lighting you mentioned but even in mobile phones do you see that possibility?

**Atul B. Lall:** I do not see that much happening in mobile I did not see that.

**Aditya Bhartia:** Understood Sir. Perfect that is helpful Sir. Thanks.

**Moderator:** Thank you. We take the next question from the line of Guhan Subramaniam from Stage One. Please go ahead.

**Guhan Subramaniam:** Hi Sir, thanks for taking my question. The first question was on the consumer electronics side you already expanded capacity to like 4.8 from like around 1.8 in the last couple of years and you already have probably 25-30% of the market in India so just wondering what is the potential you are seeing here to scale in terms of say next three to five years, what percentage of the TV market do you think you can eventually be making?

**Atul B. Lall:** Customer acquisition is a continuous exercise and today we have a very large set of customers who are very, very dominant players in the domestic Indian market and one has seen the trend then more and more brands even when they are having their in house factories or global factories are looking at outsourcing and now outsourcing not only from manufacturing, they are moving at outsourcing even on our design so what number they are going to do three, four five years down the line it is slightly difficult to say but the growth potential of this vertical is I think is extremely positive and more and more migrations to own solution yes that is going to be the course so just like today our ODMs percentage in television there is a miscue but if you see in lighting the ODM percentage used to be sub 20% three years back is more than 90% now so that is what is going to happen and our vision and let us hope where we reach that one has to wait and watch and see that we emerge as a complete solution provider, completely backward integrated, large product portfolio, multiple customers in television also.

**Guhan Subramaniam:** Right the only reason I was asking was because TV as a category is pretty over penetrated right in India, so if you are still seeing sort of potential basically you are saying that there is a still lot of room for like more customer acquisition etc., the second question I have is actually on a mobile phone side like could you tell me what are the new customers you have actually acquired in last few months and based on the PLI incentive and everything what is the scalability potential here over the next two or three years?

**Atul B. Lall:** In our existing two factories one of course you know of Samsung, so we are doing complete quantity of Samsung feature phones both for domestic market and exports more than 2 million a month and largest in India. Now we are about to start smart phone also, on the other portfolio we have acquired LG as a customer, LG smart phone as we start and then the customer that we acquired is InFocus which is an in-house brand of Foxconn. So we start manufacturing for them also. We are talking to some very, very large global customers and at present I am not in a position to share more details but we feel very strongly and very positively on mobile as a vertical particularly after the announcement of the PLI schemes let us wait and watch how its pan out but we are definitely going to be focused on this particular vertical a lot.

**Guhan Subramaniam:** Sir you said LG and in-house brand of Foxconn and which is the third one?

**Saurabh Gupta:** So basically the future customers will be in the PLI scheme which as Mr. Lall mentioned we are aggressively working on. There is a lot of traction in that because the incentive is quite significant so we are talking to some of the global brands who have very strong market share both India and globally.

- Guhan Subramaniam:** This is only smart phone or even feature phones?
- Saurabh Gupta:** This will be smart phones.
- Guhan Subramaniam:** In Samsung are you already making smart phones for them or only featured phones?
- Atul B. Lall:** We are making feature phones but in next three weeks' time we will start smart phones also.
- Guhan Subramaniam:** Okay that is it from my side Sir. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** Thank you for the opportunity and congratulations for good performance despite challenging time, Sir I have two questions one is, if you can help me with your market share in individual verticals and maybe especially in lighting if you can help with the sub verticals and where do you see potential you mentioned batten and downlighters. So that is my first question?
- Atul B. Lall:** So you wanted me to share the market share in lighting business specifically?
- Bhavin Vithlani:** No across the verticals what is the change in the market share during the financial year 2020 versus financial year 2019?
- Atul B. Lall:** For lighting we have a market share of almost 30% as far as LED bulb is concerned, in battens we have a market share of around 12% to 13% and downlighter is 7-8%, so if you see in bulbs we will continue to maintain between 30% to 35% and there will be a significant increase in the market share both for batten and downlighters. In televisions we have done almost 2.1 billion televisions last year against the total Indian requirement of 14 millions so we are somewhere around 15% share. In washing machines we have done around 850k of semiautomatic washing machines and the Indian market is around 3.3, 3.4 million so we are at around 27%, 28%. On mobile phones and the smart phone side we are very small but on the feature phone side the Indian market is around 8 to 9 million a month and we are at a level of 2 million a month. So that is almost 25% so that is where we are.
- Bhavin Vithlani:** In the washing machine your market share is as a percentage of the total washing machine market or the percentage of semiautomatic?
- Atul B. Lall:** Only semiautomatic the total Indian market is around 6.5 to 7 million out of that we have done 850k so on an overall basis we are coming around 12% and only for semiautomatic we are 26%, 27%.
- Bhavin Vithlani:** Understood. My second question is more like you mentioned that labor availability is challenging and it is for some time now that we will have to adhere on social distancing and in your business



you need to continuously cut cost and this year you have seen that productivity will get few back trends so if you can just highlight how soon can you ramp up on the auto machine plant and how much can it offset in terms of your productivity loss?

**Atul B. Lall:** So on the lighting side I think it is going to take almost eight to nine months to completely utilize it through the automation process, there is a capex plan made for automating half part which will improve the productivity from 32 per man hour at present to almost 55 but that will take some time, some machinery for that is already in transit and should be installed in the next quarter but the balance we need to order. In the washing machine side I do not see a significant impact because it is not very, very manpower intensive. In television side, there is an impact but I think the team is working on small, small automation and I think by mid some time of Q2 they should be able to utilize the additional cost impact. In mobile I do not see a significant impact so the area of concern for me is lighting which is going to take some time to utilize.

**Bhavin Vithlani:** Okay thank you so much. These are my questions.

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

**Dhruv Jain:** Hi Sir I just wanted to know at the margins with respect to the mobile phones of the Samsung feature phone business are they sustainable and question related to that would be that as you enter the smart phone market I mean it is going to be a similar job work of structure when you do not take on the P&L and just do job work for them?

**Atul B. Lall:** No so as far as the smart phone for our anchor customer is concerned the methodology of business is going to be the same as feature phone but when I am talking about the scale up of this business there it is not going to be in this format, there we are going to book the material question in the revenues and margin profile would be significantly lower there as a percentage of sale, are you am getting my answer Dhruv?

**Dhruv Jain:** All right. That is it for my side.

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

**Shrinidhi Karlekar:** Thanks for the opportunity. Sir I just wanted to understand this PLI scheme operationally slightly better so the way one should see it is because we have what we said as a domestic champion that is why you are still in a better position to attract customers or you already have a client who can come directly to you and that is why you want to apply to first I just want to understand that and Sir on the PLI scheme there are two criteria, one is on investment side and another is on incremental revenue side I am just wondering is that the incremental revenues that you see that can happen if we get shortlisted for the PLI will it be more from our export market or you see

opportunity for the domestic customers which you believe on that so I just wanted to understand operationally that part?

**Atul B. Lall:** First the discussion we are on with our existing customers and some large global customers. Second this is both for domestic markets but large export also, third the criteria for getting the incentive scheme requires two thresholds one when you make a capex of Rs.50 Crores and second in year one you attain a threshold level of Rs.500 Crores or incremental sales over the base period of last year then you become eligible for incentive. So we have analyzed this internally and we feel that for Dixon to achieve those criteria should not be a challenge. Now the traction is that again as I shared with you in my opening remarks 70% of the Indian market is sub \$200 and that can be done only with a domestic company so obviously it opens up a large opportunity and domestic companies there are very few who are eligible to meet this criteria.

**Moderator:** Thank you very much. The next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

**Ansuman Deb:** Yes thanks for the opportunity Sir and congratulations for a good set of numbers. My question was regarding the mobile segment so when you say that next Q2 fiscal we should be eligible for this 6% incentive that implies that we will be able to do this capex of Rs.50 Crores and additional top line of Rs.500 Crores by Q2 of next fiscal so if you can just let me know the revenue outlook of mobile segment in FY2021 and 2022 that would be great?

**Atul B. Lall:** Well I think it is slightly early for me to tell you about the revenue numbers because it is still in early stage but on the basis of discussions that have had we see and in response to the question to Bhoomika that how this PLI scheme incentive will be executed given by the government. As per our plans we feel that we should be able to get the facility running within this system. Second we also feel that we should be able to achieve the threshold revenues which are required for the eligible criteria so we are confident of start getting that incentive now how the revenues are going to pan out for 2021-2022 for mobile is slightly early for me to share those numbers.

**Ansuman Deb:** Right thank you Sir. That will be all.

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

**Naval Seth:** Thanks a lot for the opportunity and congratulations Sir on good set of numbers. I have three questions, first is on margins you have elaborated in detail on margins how it will fare out across the segment but in your initial remarks you stated cost savings of Rs.8 to Rs.10 Crores per month so how will that reflect in your margin if across the segments margin as expected to remain stable in FY2021?

**Atul B. Lall:** So Naval responding to that question this cost reduction is pertaining to the period of lockdown this is not going to be on an absolute basis month on month, this was the cost elimination when

the production was not there and also huge focus on costs for significant reduction in expenses as the production is getting ramped up so first thing was to convert most of the fixed cost into a variable cost reduction structure. The second is an absolute reduction in fixed cost so this is going to be a fugal year for us undoubtedly but finally how this number is going to pan out is going to be linked to how the business come in to us this year.

**Naval Seth:** Okay Sir second question is on free cash flow if I remember in the last earnings call you have stated STF was close to around 92 odd Crores and if I look at your year end STF again statement is 92-odd Crores so can you throw some insights over here, what has happened on the cash flow in 4Q?

**Saurabh Gupta:** Yes one of the reasons why it has remained same between Q3 and Q4 is our capex intensity has increased so last Q4 capex is slightly higher than our average quarterly run rate of capex and that is mainly on account of the fully automatic top load capex so there are lot of advances and payments have been done on account of that as I mentioned we need to start the production by Q3 of this financial year so if you look at the capex number and if you just compare the capex number of nine months I think there has been a significant growth in the last quarter and that is the reason despite having good results on the working capital generation, also being there both in nine months as well as 12 months the free cash flow is same.

**Naval Seth:** Understood and last question is on TV where you have added three new customers so can you share what would be their order books initially I mean in terms of number of units?

**Atul B. Lall:** So between the three customers that I mentioned it is going to be almost 60 to 70k month.

**Naval Seth:** Understood. Thank you and all the best Sir.

**Moderator:** Thank you. We take the next question from the line of Bhalchandra Shinde from Max Life Insurance. Please go ahead.

**Bhalchandra Shinde:** Good evening Sir. Sir as we stated that relatively labor constraint is there for us by when we expect things to normalize and actually from the production side we will not have constraint of labors and we can reach to the particular capacity utilization levels?

**Atul B. Lall:** Our Tirupati plants are almost normalized. We do not see a challenge there. Our mobile plants are on the way to getting normalized I feel by July end it should be normalized. Our washing machine plant is not a challenge right now, but lighting we have three plants in Noida and one plant in Dehradun so there because the labor intensity is high and also there is a new norm of social distancing there is an impact there so one has to wait and watch how soon we can address that issue.

**Bhalchandra Shinde:** Okay and why I was asking this is like I read an article where it has been stated that to cater pent-up demand and because of all these constraints most of the brands are preferring right now to

import as much to cater to demand so will we lose that pent-up demand related of volumes or what is your take on that?

**Atul B. Lall:** So in our case I do not see that happening much I do not see anybody importing, the lighting products, I do not see anybody importing washing machines, I do not see that is happening. There might be some tactical imports for some large brands for mobile but not for us, they are not our customers so in our case I do not see that as a challenge.

**Bhalchandra Shinde:** And the customers which we have added for smart phones especially will it be for high-end or relatively low and mid-end smart phones.

**Atul B. Lall:** So this is for mid to high end smart phones. This is a complete category.

**Bhalchandra Shinde:** Okay mid to high end complete category. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

**Pritesh Chhedda:** Sir I just have one question on the mobile phones side the 2 million units per month that we produce once the LG and Foxconn and Samsung smart phone ramp up happens, what kind of volumes do you foresee in these three, four clients put together and does this need the PLI related expansion or it can happen without PLI expansion at your existing facilities whatever number you can share?

**Atul B. Lall:** So this is without the PLI linkage.

**Pritesh Chhedda:** Okay and what volumes can it scale up from two million per month to?

**Atul B. Lall:** So two million is for feature phones, the additional volume of the smart phone that I am looking at is between 0.3 to 0.4 million more.

**Pritesh Chhedda:** So this is Samsung smart phone right and then you have the LG business?

**Atul B. Lall:** It is a combination of everything or all put together.

**Pritesh Chhedda:** So all put together 2 million will go to 2.3.

**Atul B. Lall:** Something like that.

**Pritesh Chhedda:** 2.3, 2.5 whatever and this includes your Samsung smart phone plus LG business plus whatever you get from Foxconn?

**Atul B. Lall:** That is right.

**Pritesh Chedda:** Okay and for that the two facilities that you have is sufficient enough?

**Atul B. Lall:** That is right.

**Pritesh Chedda:** Okay. Thank you very much Sir.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today I would now like to hand the conference back to the management for their closing comments.

**Atul B. Lall:** Thanks very much for organizing this call and in Dixon we are committed to what we have been sharing with all the stakeholders these are difficult times but we feel deeply that as a company and a sector we are sitting on an inflection point however the thesis of us remains the same we are electronic manufacturer, we will keep on getting into new verticals, touching the same core, we will keep on building scale, we will keep on acquiring customer and wherever we acquire the bandwidth we will keep on migrating to our own design solutions, that is our thesis and we feel that we have a strong thesis and that is what we are going to pursue. Thank you so much everyone.

**Saurabh Gupta:** So thank everyone if any of the questions are unanswered I am always available you can call me and I can answer your questions. Thank you.

**Moderator:** Thank you very much. On behalf of Ambit Capital that concludes this conference. Thank you all for joining and you may now disconnect your lines.