



“Dixon Technologies India Limited 1QFY21 Earnings Conference Call hosted by Ambit Capital”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Dixon Technologies India Limited 1QFY21 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participants' lines will be in 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Jain from Ambit Capital. Thank you and over to you, Sir.

Dhruv Jain: Thanks, on behalf of Ambit Capital we welcome you all to today's earnings call of Dixon Technologies. From the Management side, we have with us Mr. Atul B. Lall – Managing Director, and Mr. Saurabh Gupta – CFO of the company. Over to you Sir, for your opening remarks.

Atul B. Lall: Thanks, Dhruv, thanks very much. Good Evening everyone, thanks for attending this call. I hope that you and your families are safe and healthy, so I will just give you a brief on the Q1 performance in Dixon and where does the business stand as of now and then you are most welcome to raise your queries. So well the headline numbers during the Q1, it was quite badly impacted by the pandemic, but the numbers we believe show and it has demonstrated that it is a fairly strong resilience in facing these extremely challenging times. We were in a shutdown mode from March 22nd to May 3rd when in parts we started reopening our factories, so effectively some of the factories they operated for around 45 days and some of them operated for barely 30 to 35 days in the last quarter. We complied with all the Government advisories and paid full wages to our workmen during the lockdown period despite the nil production in April and large part of May. However, there has been huge focus on controlling with fixed cost, which has helped in delivering some profitability in this quarter. We continue to prioritize safety and well being of our people. The lines have been redesigned and they have been re-engineered to maintain adequate social distancing, so the months of April and May were very deeply impacted. In month of April, there was no zero revenue and May was also hugely under pressure, but in June we came back to almost 70% of our normalized revenue. I will share with you the status across all verticals. In LED televisions in the month of June, we did almost 200,000 televisions, and in the month of July, we have done almost 250,000 televisions, so the order book in this particular vertical is extremely strong and we have an order book which is more than our increased capacity, so you know that we had planned to increase the capacity from 3.6 to 4.4 million and now because of certain Government notifications and advisories, we are further expanding a capacity which will happen in the next six months from 4.4 to 5.5 million, which is almost 33%-34% of 14 million demand that India has.

This business was slightly under pressure, but now with large anchor customers, it has normalized. The other vertical of ours, lighting, we had some challenges in the first quarter because of redrawing of lines and certain supply chain constraints, but here also now the order book is extremely healthy and now we are back to almost 85-90% of our business, so normally we do around 15 to 16 million LED bulbs and 1 million batten, so in the month of July we

have delivered almost 13 million LED bulbs and almost a million battens. However, I will share with you the other verticals shortly. In the vertical of washing machine, we had a very bad quarter. In the month of June normally we do 80,000 machines a month; in the month of June, we did around 48,000, but now we are back to normal and we delivered 80,000 machines in the month of July. The order book in this quarter looks extremely healthy, we have an order book of almost 120,000 machines a month, so we are further expanding our capacity by installing a third line which will be operational in next seven days in the existing factory. Now, this is apart from what we are doing in our Tirupati campus. However, at the same time, we remain cautious because also the order book looks healthy, the production has normalized, but we are not very sure in terms of the localized lockdowns and that may cause some supply chain constraints. We are also keeping our fingers crossed under the order book that we have which looks extremely good in Q2, I hope it sustains beyond Q2 and there are no surprises for us.

Now, coming to the financial and operational performance of this quarter, so we had a consolidated revenue of 517 crores, we had a consolidated EBITDA for the quarter of 17.1 crores, the EBITDA margins declined to 3.3% owing to decline in the production-related under absorption of overheads. The PAT was 1.6 crores. We are well positioned with a robust balance sheet with a cash balance of 64 crores and have enough both in capital lines to ensure that even if things get worse, we are fully protected and continue to build our business and capability through the extremely tough period. We have liquidity and enough cushion in the balance sheet, if required to raise debt also get extremely conservative about it, but we have enough cushion to face the circumstances, so we have been sharing and I have been insisting that we have a strong conviction that consumer durable electronic items that will be sold in India are going to be Made in India and that is what the thesis on which the Dixon's business model is based. Brands owners and I can see and sense more traction will be also outsourcing and even not only the manufacturing was also designing as a part of the strategy and we feel that in Dixon we have now the scale and the skill set, the capability and marquee customers we will execute this well. Also, the Government policy framework is getting more and more reliant to its domestic manufacturers in this particular product vertical.

The Government has announced the PLI, Production-Linked Incentive schemes for mobile phones, wherein they are going to be selecting five foreign companies and five domestic companies. There is a huge focus in creating five domestic giants, so we have filed two applications in Dixon. In all there are seven applications, five have to be selected out. We are fairly confident that we are a strong contender. We will be making the requisite investments and ramping up our capacities in the smart phone sector significantly. Capital allocation in our case, we have always been prudent and frugal. We have a hurdle rate of return on capital employed of 30% and return on equity of 25% and this is all going to be sustained and maintained in the coming quarters in the year. Now, I will share with you the performance and the strategy of each of the verticals going forward. In LED television segment, we had revenue of 347 crores and operating profit of 8.6 crores. We have already executed a capacity expansion which has become operational in next two weeks from 3.6 million to 4.4 million.

This is an extremely strong order book from our anchor customers and newly acquired customers like Samsung. You know that we have also acquired various new customers like Nokia, Toshiba, Haisen, and the private labels of Flipkart. The recent notification to curb the imports of LED TV and place them into the restricted category with further enhanced domestic manufacturing and not only in a domestic manufacturing, it will also enhance and accelerate the sourcing by brands of domestically designed solutions, so please be rest assured that we are gearing up, building our R&D infrastructure for offering smart TVs, and hopefully, for a very large brand we will be offering TVs in the smart category very shortly because our order book is again more than the expanded capacity. We have taken a call to further expand our capacity to 5.5 million by Q4 of this fiscal, which will be almost 40% of the Indian requirement.

The capacity expansion PCBA side is already on the way and will be done within August wherein we are installing one more SMT line, so this will be largest Indian capacity vertically-integrated and the next phase is going to be to offer more and more solutions.

On the lighting segment side, the business was under pressure, so we had revenues of 77 crores in this quarter with an operating profit of 5.8 crores, so you know that practically all the brands in the lighting business are the ODM business and also now very large part of their wallet share is with Dixon now. We have a capacity of almost 20 million bulbs a month which is 40% to 45% in the Indian requirement, and also our capacity expansion of LED battens and down lighters has already been executed. The recent brand acquisition is the Reliance private label. We feel now that the kind of operating leverage that we have with the enhanced volumes and the entire range of product portfolio globally competitive and we are among the top five-six companies who are into LED lighting. Now, we have taken a call to enter into outdoor lighting, so the design teams are working on the solutions for commercial lights, led street lights, and flood lights, and I am very confident that these solutions will be launched and offered to our customers by Q4 of this fiscal. In core appliances segment, the revenues for the quarter were 24 crores with a small operating profit of 40 lakhs. Now, we have gone back to 80% utilization levels delivering 80,000 machines in July and we have an extremely healthy order book. We have 140 models and is being further expanded by another 40, and our expansion and the new factory in Tirupati campus for fully automatic top loading is on schedule. We hope to conduct trials. We are confident of conducting trials in this factory by December this fiscal.

Coming to mobile phones, revenues for the quarter was 53 crores with an operating profit of 2 crores. We have capacity of 2.3 million feature phones, 2G phones for Samsung, both for domestic market and exports, so in the month of July we have delivered 2.5 million phones and the order book again is extremely healthy, so for our anchor customer now we also started manufacturing smart phones and this capacity for a smart phone would also be further increased to almost 700 K per month. In our other factory for mobile phones, we are mainly doing the 2G phones and the smart phones for Gionee and LG. The LG order book looks very healthy and the balance capacity, we are now servicing the set-top box business, which is emerging as a very major vertical for us. We are having an extremely healthy order book. We

have an order book of almost half a million set-top boxes a month. We have seen in couple of quarters this can be built up to almost 800 K to a million set-top box a month, which will generate revenue of almost 1000 crores in the next fiscal for us, so from next quarter I have advised Saurabh to treat it as a separate category this particular thing. We have under the PLI scheme submitted two applications. We hope and we are fairly confident that we will be an improved entity. I am pleased to share with the stakeholders that we have already concluded an agreement with a very large global brand under this scheme for executing not only the domestic business, but large global business and with another brand we are almost at the final stage of the conclusion. We strongly feel that we get the approvals, and this is going to be path breaking for Dixon. We are committed to make these investments and ramp up our capacity and once we do that, we will almost have 30% of the smart phone capacity for the Indian market.

On the security service side, the revenues for the quarter were 14 crores, we had a more order book and this business is under pressure because I think it is a discretionary item and this order book continues to be under pressure, however, we are going to be utilizing this capacity by medical electronics devices, so we are going to be starting manufacturing of Quadro RT-PCR analyzer machine for COVID-19, it is going to start with another two to three weeks and there are repeat orders for that, so that is going to be again an important vertical for us. On the reverse logistic side, the revenues are only 1.4 crores, and this is a small strategic business for us, and it is going to carry on in a small profitable way for us, so that is where we are. We feel that we are sitting on an inflection point. There are going to be challenges in short-term if there is another wave of the virus or the demand falters, but however, we feel that we are sitting on our strong wicket, and hopefully, we will do extremely well, so any questions most welcome.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have first question from the line of Niket Shah from Motilal Oswal AMC. Please go ahead.

Niket Shah: Thanks so much and Congratulation Sir for the PLI scheme application that you have done in advance, just had couple of questions, the first question was on the PLI scheme part of it is there a limit which the Government has set out, for example, if you do a 1000 crore turnover is that a limit or 2000 crore limit per year which keeps going up, so is there a laddering which we can expect there, that is the first question? The second question was on the panel side of the business, while you did allude that the demand and the order book continues to remain extremely strong, we do know that TCL has obviously come to India and they have also set up their plants in Tirupati, so do you think some of the customers with a view of derisking might also move to TLC over the medium-to-longer term, not in the near-term, so those are the two questions?

Atul B. Lall: Niket, responding to the first question on the PLI, there is a budgetary allocation of 41,000 crores as an incentive to the distributors between five foreign companies and five domestic companies, so what the policy guideline states is that let us say in Year-one you have to

achieve threshold turnover of 500 crores or your baseline turnover and then on the incremental basis, they are going to give let us say in the Year-one 6%, they have not stated but our understanding is that they are going to be putting some upward ceiling, so let us say your baseline turnover is 500 crores, there would be an upward ceiling of 2000 crores, so that means the maximum incentive that you can get is on achieving 2500 crores, an incentive of 6%, that is, 120 crores so something like that, so they would be an upward ceiling. Informally, we know that what those ceilings are, but officially they have not disclosed till now, I think they will be disclosing once they have their approvals. Responding to the second question, Yes, TCL is coming up with the campus in Tirupati, any campus coming up would always it is going to be competition, however, we feel that Dixon is sitting in a much better position primarily because of two reasons, one that the focus of TCL is more on its own branding and the brands which are with us usually do not shift to a factory which is promoting its own brand, and second, we strongly feel that we are much, much more frugal and we have the cost competitiveness, and third, we also feel that now with launching of our own solutions even on the smart side we have an edge, but then Yes competition is going to be there.

Niket Shah: Sir, third question that I wanted to understand you did mention that you have already signed an MoU with one large customer, you obviously are in discussion with second large customer, is it safe to assume that per customer you will use one PLI and for the second you will use the second PLI because as you rightly said there is an upward ceiling, so how should one really think about allocation, so is it per PLI you get one application or for a particular PLI application you can have multiple vendors under that PLI application, how would it work?

Atul B. Lall: Niket, there is no restriction as per the policy guidelines that how many customers you can have, you can have any number of customers. Government's requirement is that you commit a certain amount of CAPEX, that is, 50 crores per year for a domestic company with each approval and then you need to have an incremental turnover preferably from exports, however, they have not stated that, there is no restriction and we are going to be working with as many customers as possible, but that again depends upon what the ceilings says.

Moderator: Thank you. We have next question from the line of Ankur from HDFC Life Insurance. Please go ahead.

Ankur: Good Afternoon Mr. Lall and thanks for the opportunity, just again on the PLI scheme so while there are large numbers being targeted by the Government in terms of manufacture plants and assembly of cell phones in India, can you talk about how easy it would be for companies like Dixon and also others to kind of ramp up to such kind of numbers, how do we get that kind of manpower and also how long it will take us to setup these factories because, we are talking about 200 crores over the next four-five years, so just some sense there?

Atul B. Lall: Ankur, I strongly feel that in Dixon now we have acquired adequate bandwidth to execute these projects. If you see last year when we got this opportunity through a large anchor customer for ramping up the capacity of 2 million 2G phones once a month, we were able to

do it in 90 days and now within a very short span of time we are operating at 110%-115% of our capacity, so to reiterate we feel that we have that internal capability and skill set. We have our plans ready, lot of ground work by the team has been done and we feel that if the approvals are given, we will be able to utilize the PLI incentive scheme benefits within this fiscal itself, so that effectively means that we should be able to set up the plant and get it running within next four months and achieve also the threshold turnover and cross it in this small opening, small period of just seven months, we feel confident about it, but any deliverable is always a challenge and all the more a challenge on account of pandemic, but we are fairly confident that we will be able to deliver on this.

Ankur: Sir, second question on the margins you expect to make here, obviously one is of course the incentive which you get 6% for the first year so on and so forth and then on the value-added by you or any of the EMS player, so how should we look at that, I mean you currently make margins in that 2% to 4% range, so is that a minimum and then plus how much you decide to share with the brand, is that how we should look at it in terms of the kind of margins you make out of these PLI scheme base?

Atul B. Lall: Ankur, it will be difficult for me to share the granular level details, this is confidential and what I can just share is that margins are going to be better than what we do presently in our mobile business.

Ankur: Just one last to Saurabh, I was just looking at the increased expenses in the P&L, while we had debt of close to about 86 odd crores end of March, on quarterly interest cost when I look at Q1 is at around 6 crores, so is there something else sitting here, even last year was around 35 odd crores, so I am just wondering why the high interest expense?

Saurabh Gupta: We also do, this 86 crores of debt does not include the discounting of receivables that is done, so that is not included in the debt number of March 31st which you had just mentioned, so that is the number as a result the interest cost is slightly higher, so that interest of discounting would also be over and above this number.

Ankur: Would you have the split between the interest and the discounting charges for the full year may be FY '20 or for Q1 either way, just trying to understand how much that is?

Saurabh Gupta: This quarter our interest on discounting was around 2 odd crores so out of this 5.5 crores kind of interest number, 2 crores was the interest on discounting.

Moderator: Thank you. We have next question from the line of Aditya Bhartia from Investec India. Please go ahead.

Aditya Bhartia: Good Evening Sir, my first question is on margins in lighting and TV businesses which have remained fairly steady despite the drop in revenues, just want to understand how is that being made possible, what kind of cost reductions have been taken, is it that fixed cost in the

business itself have gone down and should we assume that sustainable margins can be slightly better than what we have seen in the past?

Atul B. Lall: Aditya you are right, you will see a slight improvement in the margins in the coming quarters.

Aditya Bhartia: What exactly is that on account of, Sir, what kind of cost reduction have we done if you could just kind of elaborate on that?

Atul B. Lall: First taking you through the LED televisions, it is primarily because of the deepening of manufacturing. For the new large customers, one, we are doing PCB mounts for which the capacity is being doubled. The second is there is a shift more and more to the larger screen sizes, so the numbers for large screen sizes like 50-55 inches are significantly increasing wherein the margins are better, so this is the primary reason for margin expansion. On the lighting side, it is a combination of value engineering, the design route; second, operating leverage kicking in because of a large share on business; and third, huge focus on productivity enhancement on which the team is putting everything under the lens. In any case, the fixed cost in the lighting business will always be hugely under control, so you have seen the traction in the lighting business that the margins have been expanding primarily because of these three-four reasons. We will see a small expansion in the lighting margins in the coming quarters.

Aditya Bhartia: Sir, in the past you have indicated that we will be going for increased automation on the lighting business, so if you could just share some details about what could be the timelines of these automation, is current social distancing restrictions having an impact on lighting performance and what kind of margin bump up would we see on account of that?

Atul B. Lall: Seven automated lines have already arrived, and they are under installation at Noida plant. There are some challenges because the technical experts because of the travel restrictions have not been able to travel to our factories, so our engineers are installing these lines themselves and they are basically PHC-based lines, so through virtual interaction they are installing it. There would be some challenges, but I feel that by September these lines would be installed. On the LED bulbs side, it improves the production cost or the margins by almost 1.5% to 2%.

Moderator: Thank you. We have next question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good Evening Sir, my first question would be to understand a bit more on the categories like washing machines where we have seen volumes struggling now for almost quite recent quarters, so is there again a reflection of overall weakness in the consumption side of the business and this trend has been continuing since last year post Diwali, so almost three to four quarters now, does that worry you that given the pandemic impact it is the reason might not be as exciting and which can also have an implication on the growth prospects for some of the revenues for your brands in this category?

Atul B. Lall: Renu, you are absolutely right, that the washing machine numbers were under pressure post last Diwali and the pandemic did the final bad job of hurting the business, however, in the

month of July we have done 80,000 machines and as I am sharing with you we have an order book now of almost 115,000 to 120,000 machines a month, so it is very definitive uptick in this particular segment and all the more I am seeing the competition is much more under pressure, so lot of business from large anchor customers is shifting to Dixon. On a very short notice, I had to put up my third line to expand this capacity which is in 100 K to almost 120 K, so I do not see a challenge and I feel that is going to be on growth path until and unless because of the pandemic and virus this demand absolutely collapses, that is something...

Renu Baid: Sure, two more questions, second would be on the PLI scheme just a clarification, when we talk of incremental phase, Government has not specified whether these are incremental sales coming to the overall market or the brand, so for an applicant in the domestic manufacturing side where today almost more than two-third of the 70% to 80% of volumes are manufactured and assembled in India only, so does this imply that the incremental revenue numbers also include the potential re-allocation of production unit from the existing manufacturing units to the newly allocated PLI partner who came here?

Atul B. Lall: What your understanding is right, however, in Dixon's case the agreements that we are concluding most of it is going to be additive there because a large part of it is going to be global.

Renu Baid: Okay, so it would not involve much of the allocation in your case with your OEM partners with whom you have signed?

Atul B. Lall: I am saying that there will be reallocation but a large part of it would be additive because it is from the global markets.

Renu Baid: Sir, for Saurabh, I have couple of questions, what is the broad debt that we have on the books today, gross debt and the net debt at the end of the quarter and overall, on an average during the quarter?

Saurabh Gupta: Renu, the latest net debt is around 55 odd crores, so cash we mentioned in the call that the cash balance is around 64 crores, so the gross debt is somewhere around 125 odd crores.

Renu Baid: Broadly the working capital during the year let us say if we knock-off the impact of discounting of receivables etc., what would have been the average working capital of short-term debt that you would have used during the quarter?

Saurabh Gupta: One thing which I forgot to mention, within that 5.5 crores of interest there is also an interest obligation on the lease the Ind-AS accounting AS-19, so that number is also 1.8 crores, so if you exclude 1.8 crores and the 2 crores of discounting, we are just talking about a number of only 3 odd crores, 2.5 odd crores so that is basically the interest on the working capital facilities, so our average utilization would have been somewhere between 60-70 odd crores.

- Moderator:** Thank you. We have next question from the line of Tejas Sheth from Nippon India AMC. Please go ahead.
- Tejas Sheth:** Hi Atulji, Hi Saurabh, Sir, what could be the criteria for the selection under the PLI scheme and what would be the Government's top criteria and I just wanted to understand how can we land with both the application getting passed out?
- Atul B. Lall:** There is no absolute clarity that what all would be the criteria, they have asked for a lot of information on the export potential, on the employment generation, on value addition. However, our understanding from informal sources is that this is primarily going to be the revenues of mobile manufacturing generated in the year '19-20.
- Tejas Sheth:** Sir, the PLI scheme will kind of have a cap when you do with the benefits you will be getting from the Government, so would the contracts which you are signing with the brand companies would also have volume beyond PLI incentives which they can claim just to get benefited from economies of scale?
- Atul B. Lall:** Yes, it is going to be like that.
- Tejas Sheth:** Okay, so even which the volume could be much larger than what you can claim under PLI scheme?
- Saurabh Gupta:** Yes, Tejas the numbers would be higher than the prospective ceiling of those revenues in each of the years which is of course the Government has not notified, but whatever was based on our informal sources or earlier mentioned, the numbers would be significantly higher than that?
- Atul B. Lall:** I shared in the opening remarks that the capacities we will be generating creating in mobile would be almost 30% to 35% of the Indian requirement. Now, this is much more within the ceiling.
- Tejas Sheth:** Sir, last just on what is the chances of PLI coming in the other electronics and white goods be it TV, washing machine, ref., and ACs, how you see that panning out?
- Atul B. Lall:** That is a very difficult question to answer, but you know that PLI has already been announced for the medical devices and what our understanding is that they are working on various other products, they are looking at set-top boxes, they are looking at lighting, so these are some of the product categories in which Dixon.
- Moderator:** Thank you. We have next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

- Nitin Arora:** Sir, my question is with respect to capital expenditure, given the PLI scheme and other CAPEX which you are putting in or wanted to put in refrigerator, can you throw some light how much would be our CAPEX in the next two to three years including this PLI scheme?
- Atul B. Lall:** If you see our normal run rate of CAPEX is around 80 to 90 crores, the PLI depending upon the number of applications has to get approved, this applications require a CAPEX of 50 crores a year, so that is what the range is going to be, I feel that if we get one approval is going to be in the range of 130-140 crores, if we get two then it is going to be higher.
- Nitin Arora:** So for example even if you get one does that entail including the ref. line I think that it is also what we discussed you have a plan for that and plus your normal CAPEX of what you are doing of increasing TV capacity as well and washing machine, do you think that given that CAPEX is in the next two-three years it will be in the range of 300-350 crores better to raise fund or you think that sufficient cash flows will be there to meet the requirement if it is in the range of 300-350 crores plus?
- Atul B. Lall:** As per our business plans, we can see that they are generating adequate cash. We can raise debt also, so no final decision has yet been taken on any fundraise.
- Saurabh Gupta:** Nitin, one of the moving part is of course that we will get one PLI or two PLI application so that would determine and that will help us firming our CAPEX plans and we think there is enough cushion in the balance sheet today, so the debt-to-equity ratio is that ratios are still very low, so we can always raise some more debt and the balance can be funded on the internal accruals as well, so we are discussing it, deliberating it internally but Yes we have not firming up on the CAPEX, so once we have a full clarity on the CAPEX plans, then we will finalize any fund raising plans if any.
- Moderator:** Thank you. We have next question from the line of Nitin Bhasin from Ambit Capital. Please go ahead.
- Nitin Bhasin:** Mr. Lall you mentioned about the PLI, one of the first question around the PLI and the mobile manufacturing smart phone is that when we look at people like Foxconn and Flex across the world and we see their margins are very low at about 1.5% to 2.5% margins whereas in India already the smart phones are making really good numbers and you also mentioned that the numbers could be even higher, do you think when these global brands now work at such large scale with you, would you be able to build on these margins or the bargaining power will possibly force us to be around here only, can you just give me better sense on the margin structure how should one look at for the global experience otherwise?
- Atul B. Lall:** What we have internally designed the business model, I feel that under the PLI our margin profile is going to be better not hugely better but fairly better. We strongly feel that we are much more frugal and cost conscious than the large globally MNCs and that is the way we are going to run it.

- Nitin Bhasin:** Sir, why I was asking that is because globally these guys do 6.5% gross margin and they land up paying me 1.5%, but you are saying that the cost structure in India is much favorable and possibly because of which you can make high, great Sir. Sir, one thing about working capital as you worked for possibly a global brand to export because though the CAPEX requirement is not materially high, how should one think about working capital in the smart phone business?
- Atul B. Lall:** In Dixon's case you know that we are extremely conscious on the operating cycle and the cash deployment. This is going to be working capital neutral, however, in the initial ramp up phase, there might be some backing on capital employed, otherwise it is going to be on a neutral side, if there are no funds deployed by the Dixon on the working capital, finally when the business stabilizes which may take a quarter or couple of quarters.
- Saurabh Gupta:** Nitin, that would be the understanding with the customers that we are talking about that there will be no working capital deployed once the business stabilizes, so initially yes for couple of days or maybe for a month there can be some working capital deployment, but otherwise that broad understanding will be captured and that will be completely met, there will be no working capital in the business in the mobile PLI business.
- Nitin Bhasin:** Okay, so basically working capital in that business could be lesser and possibly margins could be higher, which means that the stated guidance of ROCE even materially equal to what it is today and materially much better than what Foxconn or Flex globally reports, that is the right way to look at it and summarize it?
- Atul B. Lall:** We strongly feel that if we are able to get these PLI approvals, the kind of increments that we are closing on, there will be significant flip to the return ratios.
- Saurabh Gupta:** ROCEs would be significantly higher in this mobile PLI business, the paybacks will be significantly higher and as a result the company level since mobile PLI will start contributing significant portion of our revenues and mobile as a category would start contributing significant portion of our revenues, so the overall ROCEs at the company level we expect to see a significant growth there.
- Nitin Bhasin:** Saurabh, that will be FY20 right, the first good year of revenue?
- Saurabh Gupta:** Yes, FY20, so this year it will be mostly three months of operations and there also you may end up deploying some bit of working capital, Yes, but from next year onwards we would see a significant growth in ROCEs coming mainly from this mobile category.
- Nitin Bhasin:** Sir, the last one very small one, when you think of this two PLI licenses that you applied, let us say you get both of them also or for that matter let us say you get one in either of the scenarios, how much of your smart phones one should think of could be exports?

- Atul B. Lall:** The contract is being negotiated, it depends whether we get one or two, but we feel that if we get one then almost 50% to 60% would be exported, then overall percentage will be slightly lower.
- Nitin Bhasin:** Sir, because in the domestic markets you have to look at the under \$200 phone, but in the export market would the brands choose you for a under \$200 phone or it could be anything?
- Atul B. Lall:** It is going to be a mix, it is going to be sub \$200 phone, it is going to be very high-end phones as well.
- Moderator:** Thank you. We have next question from the line of Vihang Subramanian from Samsung Asset Management. Please go ahead.
- Vihang Subramanian:** Thanks for taking my question, Sir, as you mentioned you would be creating almost 30% of India's smart phone capacity which is a pretty significant number almost like 6 to 8 billion USD, so just wanted to know how should one think about when will all this crystallize over what time horizon because this even entails like a significant investment of almost I think 3000-4000 crores right from your end, so just wanted your thoughts on this?
- Atul B. Lall:** The investment numbers that you are mentioning those are not the investments required. As per our internal plans, the investments are going to be 200 crores spread over four years and this kind of significant revenues will be generated by year four or so.
- Vihang Subramanian:** Okay, but how much in your opinion Sir, would be like 10% of India's smart phone capacity if you said that 30%, so 30% would entail almost a turnover of like 60,000-70,000 crores right, so for that you would obviously require more CAPEX than 200 crores, right?
- Atul B. Lall:** The Indian present market is around 150,000 crores and when we are talking about these 150,000 crores is the customer sale price and particularly when you are talking about at sub \$200 phone that number is significantly smaller. When I am talking about that kind of capacity, it is volume wise not value.
- Moderator:** Thank you. We have next question from the line of Naval Seth from Emkay Global. Please go ahead.
- Naval Seth:** Thank you Sir, two questions first is on working capital why there is a kind of deterioration on working capital, so if you can share your insights and has that improved in month of July or we are still at the same levels of quarter ended number?
- Atul B. Lall:** Naval, the working capital impact primarily happened because of our television vertical not in any other vertical, that is because both Samsung and Xiaomi consignments had got delayed, the custom clearances got delayed and also the deliveries got delayed, but please be rest assured that it is already in the improving syndrome and by the end of September by the end of Q2 it will be back to where it was.

- Saurabh Gupta:** Naval, it is just an aberration this quarter and this is mainly because of the delay in shipments that Mr. Lall mentioned which led to delay in production and delay in booking the sales, so this is just an aberration, a lot of that has already corrected in the month of July and you will see going back to the similar range of levels of working capital which we had reported in the last two years, so it will go back to those minus 3, 2+3 kind of a working capital range.
- Naval Seth:** Second question is on STB business although you have stated quite bullish outlook over there, can you share some insights on customer whether it is for domestic or export markets, how things are in terms of the order book would be coming in?
- Saurabh Gupta:** Naval, this is primarily for domestic market, it is on prescriptive basis, it is primarily EMS segment, this is mainly from Jio, this is from Dish TV, this is from Siti Cable, and this is from some cable operators of the Eastern side of India.
- Naval Seth:** Sir, given the financial challenges what a Siti Cable or Dish TV is facing, can we see some risk arising incrementally the way we have seen in case of Reliance Digital set-top box business sometime back, are we protected there this time around?
- Atul B. Lall:** Please be rest assured there is no fund deployment by Dixon in this business.
- Saurabh Gupta:** We are well protected, Naval, in that sense.
- Moderator:** Thank you. We have next question from the line of Shreyas Bhukhanwala from Canara Robeco. Please go ahead.
- Shreyas Bhukhanwala:** Thanks for the opportunity Sir, on the STB thing again you said probably we are looking at almost 1000 crores of revenue next year, what kind of profitability can be expected from this segment?
- Atul B. Lall:** It is a similar EMS kind of margin between 2.7% to 3.2%.
- Shreyas Bhukhanwala:** Sir, secondly on the lighting side, so you mentioned that almost seven automated lines we are installing, so post this installation how much of our volumes probably would get bettered from that automation side?
- Saurabh Gupta:** This is going to be almost one-third of the volume.
- Moderator:** Thank you. We have next question from the line of Deepak Mehta from MetLife Insurance. Please go ahead.
- Deepak Mehta:** Good Evening Sir, thank you for taking my question, Sir, I was comparing the financial statement from last quarter, I was seeing that our cost of goods means that raw material has gone down, ideally it was supposed to goes up, can you throw some light?

- Saurabh Gupta:** You should look at both the cost and material consumed and the change in inventory of finished goods and the work in progress and then come at a COGS percentage kind of ratio, so that has not materially changed from the last quarter, so it is somewhere around 88 odd percent.
- Deepak Mehta:** So, it is on the same line?
- Saurabh Gupta:** It is on the same line.
- Deepak Mehta:** What about the labor cost, are you seeing any pay cuts or salary cuts or compensation cuts, what is the current in Noida, Sir?
- Atul B. Lall:** The wage structure remains the same it was pre-COVID.
- Deepak Mehta:** My last question is that from Reliance Jio what we know that you get the contract manufacturing from mobile phone and set-top box, apart from this is there any possibility comes into 5G we may get the contract manufacturing for some of the 5G equipments or anything IoT related things, is there any talks or possibility in future?
- Atul B. Lall:** Presently for Jio what we are doing is set-top box, we have not yet done any, there is no contract as of now on this smart phone side so what we are doing is various kinds of set-top boxes, we are doing hybrid set-top box, we are doing cable set-top box. We are now co-designing for them another kind of set-top box, at present it is this, however, Jio win is going to be a strategic customer for us and we hope that we are going to keep getting more and more opportunities.
- Moderator:** Thank you. We have next question from the line of Bhoomika Nair from IDFC. Please go ahead.
- Bhoomika Nair:** Good Evening Sir, if you could just talk about the newer opportunities in terms of what we are looking at in terms of the washing machines and fully automatic and also export for lighting, that was question number one?
- Atul B. Lall:** Bhoomika our fully automatic top loading factory, is coming up in despite the pandemic the factory construction, the equipment preparation, tooling, the organization buildup is on schedule. We feel that the factory and the equipment will be ready with the Q3 and we are taking an extremely aggressive target of doing our trials by December in this year, all this is OEM business. We are there right from 6 kgs to 10 kgs platforms, we are launching almost 40 to 45 models and anchor customer has already been tied up with. We are in discussions with some large Tier 1 customers, Tier 2 and Tier 3, we do not see any challenge at all in acquiring this, so that is on that. On the lighting side, our first consignments of LED bulb exports for our anchor customers have already been shift to US and to Indonesia. We are in discussions with some very large retail chains, but what I can see is that these things take time, they first want to

see a performance post scaling it up, but we are extremely bullish that we will have significant breakthroughs in the coming quarters on lighting exposure spend.

Bhoomika Nair: Okay, it is just an extension on lighting, so once you was fairly weak because of the lockdown when you spoke about you know July kind of scaling up quite well to 80%-90% level and as we move through the rest of the year, do you think that the lighting is a significant contributor to our base business, do we think that we will be able to make up in the balance seven or eight months or do you think that now that will be a challenge given the odds of 1Q?

Atul B. Lall: So, lighting in the month of July we delivered almost 12.8 million bulbs, 12.8 is almost 80%-85% of our normal. Hopefully, by September we should be back to normal. The order book is healthy, but I feel that to cover up for the loss of first four months will be difficult, that is what my sense is.

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

Keyur Pandya: Thank you for the opportunity, Hello Gentlemen, Sir first question is among the top three category, TV lighting and washing machine, you clarified the lighting, so TV and washing machine at this kind of monthly volumes, are we already doing better than the same month last year?

Atul B. Lall: Yes, we are higher than same month last year.

Saurabh Gupta: In July we would be higher than say similar volume.

Keyur Pandya: Sir, second question is on the PLI scheme, so mobile realization, the kind of applications which Indian players are doing so below \$200 phones, so what could be a right number for per unit realization for us, 5000 to 6000 would be a good number or your thoughts on that?

Atul B. Lall: Yes, it is going to be somewhere around Rs. 5000 to 6000 average.

Keyur Pandya: Okay, and just last question on the working capital/interest cost front, so this quarter as the interest expense would be an aberration or you think this is a sustainable number or with increased activity this can again go back to say Rs. 8-9 crores per quarter kind of run rate except the new CAPEX related project finance debt?

Saurabh Gupta: If you exclude the CAPEX on the term loan side which we may take for funding our CAPEX for the future months, then this would be the going run rate.

Keyur Pandya: The current run rate?

Saurabh Gupta: Yes, this would be the current run rate which we have shown in Quarter-1 would be those run rate for the future quarters as well.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand the conference over to the Management for closing comments. Over to you, Sir.

Atul B. Lall: Thanks very much for attending the call, we really appreciate it. We have shared the insights of our existing business status and the future opportunities lying ahead of us. We feel extremely energized and we strongly feel this industry and so is the case with Dixon, we are sitting on an inflection point, we have to really deliver on this, opportunities are large. Thank you so much everyone.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Ambit Capital, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.