



# “Dixon Technologies India Limited Q1 FY-22 Earnings Conference Call”

**July 27, 2021**



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

**MODERATOR: MR. NAVAL SETH – EMKAY GLOBAL FINANCIAL SERVICES**

**Moderator:** Ladies and gentlemen good day and welcome to the Dixon Technologies India Limited Q1 FY22 Earnings Conference Call hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Naval Seth of Emkay Global. Thank you and over to you sir.

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

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

**Saurabh Gupta:** Good afternoon everyone.

**Atul Lall:** Thanks very much for joining this earning’s call for the quarter ended June 2021. While headline numbers during Q1 indicate the effect of second wave of COVID-19 pandemic. We believe that the business has demonstrated a resilience in facing these extremely challenging times and is reflective of this inherent strength and sound strategy. Our factories were operational in the quarter after ensuring that all safety measures and guidelines were adhered to. Health and safety of our employees continues to be of utmost importance to the company. We successfully conducted vaccination drive in our office and factories for our employees. We have also collectively assisted the infected members with COVID-19 related emergencies.

The demand over the LED TV was it resilient. The peak season for the washing machine segment is expected to be good as a monsoon kicks in. Lighting being a low-value product and we expect the utilization to go back to almost 85% to 90% levels by August. Across all the verticals we have an extremely healthy order book for the Q2 ahead of the festive season.

Now coming to the financial and operational performance of the quarter which needs to be contextualized around the second wave of pandemic which was undoubtedly horrific, and the growth slowed down from second week of April with further deceleration in May. And then the recovery has started from June and in July we are almost back to normal. These numbers are reflective of a very low base last fiscal.

The consolidated revenues for the quarter ended June 30<sup>th</sup>, 2021, was 1868 crores against 517 crores in the same period last year which is growth up 261%. Consolidated EBITDA for the quarter was 48.3 crores against 17.1 crores in the same period last year which is growth of 182%. Consolidated PAT for the quarter was Rs. 18.2 crores against 1.6 crores in the same period last year which is almost 1000% growth. Gross margins and EBITDA margin contraction year-on-

year was primarily driven by substantial change in the segment mix with higher increase in the share of business during the quarter for LED TV which is prescriptive with the lower margin.

Also, because there's the lower turnover there was an unfavorable operating leverage across the businesses and higher commodity prices impacting our ODM business. A rapid and large increase in commodity costs which has been escalating sharply since last year November and continued the trend in Q1 FY21 impacted the operating margin of the ODM business. However, we have been able to a large extent address the margin pressure, partly through combination of calibrated pricing action, inventory planning and value engineering. Margins will start normalizing in Q2 with the scale of business returning to normal. Our frugal cost structures and large scale also gives us a competitive edge in this challenging situation.

We strongly believe that we have a platform to sustain stronger revenue growth moving forward with strengthening the overall demand environment. The company has always maintained a conservative financial profile. There's an optimum capitalist structure and investment grade credit rating. We are well positioned with a robust balance sheet with a cash balance of 174 crores and net debt of 54 crores as on 30<sup>th</sup>, June '21. Our balance sheet is carrying an enough credit line from banks and enables us to whether any future uncertainty and invest in the long-term development of a business. It has enabled us to continue to invest in our organization and in people through this entire challenging period of COVID. The inventory levels have increased due to weak demand and advances paid for securing components and raw materials due to supply chain challenges across various businesses. Although this remains the key focus area of the company and it is expected to normalize in the coming quarters with the scale of business returning to normal levels and a good order book.

Capital allocation in our case will always be prudent and frugal with a huge focus on cash conversion cycles and working capital management. Working capital stood at zero in the June quarter also. Our basic approach to capital allocation policies emphasizes on return on invested capital and financial stability and has successfully delivered a strong ROC and ROE of 31.5% and 27.51% respectively at the end of Q1. We feel confident, the same will be sustained in the coming quarters and years.

Now I'll share with you the performance and the strategy initiative verticals going forward:

First consumer electronics:

From this quarter onwards consumer electronics segment will also comprise of the revenue generated from reverse logistics business in addition to our AC-PCB business. This vertical held its momentum and demand too resilient with the revenues for the quarter under review going more than 3.6 times to 1262 crores against 347 crores in the same period last year, led by both volume and pricing growth. In the current quarter the revenues of ACP-PCB and reverse logistics business was 39 crores and 1.7 crores respectively out of 1262 crores. Operating profits saw extremely good growth of 243% that it Rs. 30 crores against 8.7 crores in the same period last year. We presently have a capacity of 4.4 million sets including backward integration in LCM

and SMT line which is a largest capacity in India. We have started production of large screen sizes like 70-75 and 85 inches in the current quarter for anchor customers.

Our expansion plan of the capacity for 5.5 million will be executed by next month, adding new automated 65 inches integrated lines with LCM and FA and one more high-speed SMT line to meet customer demands. The increased capacity of 5.5 million will take care of 35% of Indian requirement. Further capacity of our SMT line has been increased to 2.7 million per annum from 1.8 million earlier. We have a total area more than 400,000 square feet in our integrated campus at Tirupati which is completely backwardly integrated with deep manufacturing infrastructure. We're also investing injection molding unit in the campus, so to be completely self-sufficient in this aspect also.

We are more vertically integrated, and we have the largest capacity in LED TV as compared to any of our peers in this particular vertical in our country. Monitors, we have got orders as I had shared with you last time from largest global clients for manufacturing of LED monitors and the production is likely to commend some Q3 of this fiscal. The lines are under installation, and this will be completed by August end. This will create a capacity of I million LED monitors and the production will be commencing by Q3. The expected volumes in year one between the range of 0.5 million, we expect the order book to increase significantly from year two onwards up to almost a million a year. The revenues and profitability numbers have been worked out, but we expect the margins to be in the similar range as LED TV.

#### Lighting:

Revenues for the quarter witnessed grew by 98% on a low base. The revenues were 153 crores in Q1 against 78 crores last year. Now we are back to strong growth trajectory which we have been demonstrating. We are having a very strong order book in this vertical in Q2.

Operating profit witnessed a growth of 19% at the 6.9 crores against 5.8 crores in the same period last year. The margins in the lighting business have contracted because of adverse operating leverage because of reduced volumes and the impact of the input costs as there is always a lag in passing on the price increase and some of that has been passed in Q1.

The margins will start normalizing from the current quarter with the scale of business returning to normal levels. Almost every brand in the lighting business is with us on an ODM business. Also, a large percentage of the sales are being sourced from Dixon today. We are India's largest ODM player in lighting and have the largest capacity in various SKUs.

In LED bulb we have a capacity of 300 million which is almost 50% of the Indian requirement. We have also developed solution for the smart LED bulbs, Battens, Downlighters and Emergency bulbs for various customers. We have expanded our capacity in Battens to 5 million against a total Indian requirement of 9 million per month.

In downlighters we have expanded our capacity from 600 K per month to 1.5 million per month. The total Indian requirement is around 3 million. We are in the process of developing outdoor lighting solutions, our first project will be launched by September '21 which also includes the street lights.

We have started the PLI of LED lighting components and have narrowed down on mechanicals, inductors and elements the light management system. The numbers on CAPEX and profitability are being worked out and we'll be filing our application before the deadline of 15<sup>th</sup>, September '21.

Coming to home appliances:

Revenues for the quarter saw growth of 193% year-on-year on a low base, it increased 271 crores from 24 crores last year. Operating profit increased to 4.4 crores from 0.4 crores last year. The operating margins were lower at 6.3% due to unfavorable operating leverage. Although we feel confident, the margins will normalize in Q2 since the order book is very-very healthy from the current quarter and we've also been able to pass on the increased commodity prices to our principal customers.

We presently have 160 odd models across semiautomatic category which is the largest portfolio right from 6 kgs to 14 kgs. We are further expanding our capacity in semiautomatic from 1.2 million to 1.5 million. This will be executed within the month of August this year. We have acquired a new property, is adjoining our current infrastructure setup which will help us in meeting the increased demand from our customers. The facility for top-loading fully automatic washing machine in Tirupati is now ready with the machine installed, the trials are completed, samples have been shared and the mass production will start from September '21. We have approximately 96 variants across 6 to 10 kg category which is a largest product portfolio available with any brand or manufacturer in the country with an annual capacity of 6 lakhs. We've already closed the agreement with a large MNC for this and some new contracts are also in work.

Mobile phones in the MES division, revenues for this division for the quarter under review was Rs. 306 crores against 53 crores of mobile revenues in the same period last year. In the current quarter the revenues of set-top box business and medical equipment business was 55 crores and 3.5 crores out of 306 crores.

Operating profit was 4.2 crores in Q1 FY22 against 2 crores in the same period last year. The margins have contracted in this business on account of adverse operating leverage and initial ramp up costs in our new factory from where we are executing Motorola and Nokia, the orderbook again looks very healthy, primarily focused on exports. The margins will normalize from Q2 onwards. Production commenced for our anchor customer Motorola in mid-March '21 in the new factory and export to Southeast Asia and North America has already started. Production for Nokia commenced in February '21 and we're in the process of adding a new line as our volumes will increase from Q3 onwards. The tie-up with Motorola to manufacture a

smartphone is for both global and domestic market and almost 65% to 70% of ceiling revenues in the PLI will come from this customer with a large portion coming from the export market. We have a strong order book from Motorola from Q2 onwards. We'll be the first Indian mobile manufacturing company to manufacture and export 5G mobile phones for US. We have started investing to increase the capacity to 15 million phones annually in the next couple of years for meeting the threshold as against 3 million as on today. We are confident of crossing the ceiling revenues in current fiscal from mobile PLI.

We're also in discussions with another customer in North America for manufacturing smartphone for their suppliers to the various carriers. Production started for Samsung 4G phones and now we have a very strong orderbook of almost 1million 4G phones per month in Q2. We have already taken a land bank of 5 acres in Noida and plan to make a big integrated mobile factory in this facility.

Set-top boxes:

We have manufactured almost 6 lakh set-top boxes for Jio, Dish TV, Siti Cable and others for Q1. We reported revenues of 55 crores with 2.9% operating margin. The order book in this vertical again looks very healthy with 0.5 million set-top boxes per month but however in this business also there are supply challenges due to the availability of semiconductors. Our latest customer acquisition in this vertical is Sun TV and we start manufacturing separate boxes for them from September onwards. Medical electronics, we have sold 145 units of the RT-PCR machine to Molbio. The revenues in this vertical was around 3.5 crores with an operating margin of 28% and a strong ROCE.

Security surveillance systems for this quarter, it witnessed a very strong growth of 462% that is 75 crores against 13 crores in the same period last year. The operating profit also increased from 2 lakhs to 2.6 crores in this quarter. That vertical has come back to the normalized utilization level. The order book in this vertical look strong and we will be further expanding our capacity in this vertical.

Apart from this I would like to update about the opportunities which the company is pursuing. Refrigerators as we have been guiding the company has kicked off the refrigerator project. We got the market study done, finalized the technology partner, product design is under progress, and we have started building a team and got the project and R&D Head. We will initially be creating a capacity of 0.6 million DC category which will be further ramped up to a million against the total requirement in India of 10 million under various product categories right from 170 Liters to 220 Liters.

We are in the process of acquiring 10 acres of land in Greater Noida for the manufacturing facility. We are confident of receiving the requisite approvals for the same shortly. We have started engaging with various potential customers and the mass production is most likely to commence from Q3 next fiscal. Laptops and IT hardware, we are now selected beneficiary under the IT hardware products PLI. Factories have been approved and qualified by one of the largest

brands for manufacturing of laptops and tablets. Over the next few weeks, we will work out the revenue potential for structure to arrive at the operating profitability for this particular vertical. We are also in active discussion with some of the global clients.

Telecom and networking products, Dixon has entered into a MOU with the Bharti Enterprises to form a joint venture through wholly subsidiary Dixon Electro Appliances Private Limited. The JV company has filed application with the Ministry of Communications to avail benefits under telecom and networking products PLI scheme for IOT devices Modems and routers, set-top boxes etc. for telecom industry and Airtel will be the anchor customer. We keenly look forward if we are going to be a beneficiary under this scheme. Post execution was mutually acceptable agreement by the parties in the next one month, the JV company will be 74% owned by Dixon and 26% owned by Bharti Enterprises. The operations will be managed by Dixon.

We have finalized an agreement for supplying modems and routers and to start supplying by Q3 of this fiscal. PLI scheme for AC components, PCB assembly for controllers we are working with our existing partner, who is one of the main suppliers to Daikin to form a JV to jointly apply under the PLI to manufacture PCB assembly with controllers before the deadline of 15 September '21. Presently our business with the existing partners is on 125 to 130 crores annually and it can become a big opportunity for us for our existing partner can shift its supply chain to India for servicing their global markets.

Wearables and hearables:

On the wearables the Indian market is third largest market globally and one of the fastest growing market. We have started manufacturing TWS for boAT and we're in the process of further deepening our relationship with boAT to a different strategic level. This is an opportunity for us to bag an emerging brand, not only for India but for global markets. India awaiting the PLI scheme also for this category to boost domestic manufacturing and it is a high-growth category and we definitely pursue the same aggressively.

That is what I wanted to share. Now me and Saurabh are there to respond to your questions please. Thanks.

**Moderator:** Thank you. Ladies and gentlemen, we'll begin with a question-and-answer session. We have the first question from the line of Ravi Swaminathan from Spark Capital.

**Ravi Swaminathan:** My first question is with respect to the new segments that we are planning to get into laptops telecom, AC components, wearables etc. What kind of revenue we can expect over a 2-to-3-year period, even a broad sense that would be great? What kind of and if possible, the profitability of these segments also? You can delve upon this a bit more it'll be great.

**Atul Lall:** So, Ravi the numbers are being bugged out. However, I'll share with you the broad numbers. The telecon venture we expect to reach a revenue of almost 2000 crores in a couple of years. In the PLI for AC-PCB, we aspire to reach around 400 to 450 crores in a couple of years. In the

case of PLI for IT products, the revenue is going to be around 800 to 1000 crores and in refrigerator once the production is stabilized and we reach a level of 0.5 to 0.6 million, it is going to be around 500 or 600 crores. Now in the prescriptive business along with some PLI benefit, the operating margins are going to be in the range of 2.8% to 3.5%. In the ODM business we feel like refrigerator is going to be somewhere between 8% to 10%. The value PLI numbers you gentlemen know fairly well.

**Ravi Swaminathan:** And the wearable business, how much revenue over a 2-year period?

**Atul Lall:** Wearable business, already the revenues of both are in the range of around 1500 to 2000 crores and they're growing very-very fast. So, the manufacturer, supplier revenues is going to be almost 60% of that. We feel that in a year one itself when the partnership is going to be formalized, it is going to be somewhere in the range of around 700 to 800 crores.

**Ravi Swaminathan:** And what kind of capital investment, CAPEX alone that you would be required to do for all these new products?

**Atul Lall:** That number crunching is happening because we are still waiting the PLI rules and the agreements to be formalized. It will be slightly premature to share the CAPEX numbers. They are work still.

**Saurabh Gupta:** Ravi we will be in a better position to share the numbers on CAPEX in the next couple of months, maybe our next earnings call because are things are getting finalized on the approval that we have received and the approval that we will receive in the next couple of months.

**Ravi Swaminathan:** And with respect to the existing segments, especially the margins and lighting and home appliance category that's kind of taken a dip during the first quarter. But assuming the passing on of prices to end customer plus the mix improving, so what kind of EBITDA margins we can expect in the segment? Can they go back to the margins that we have seen the last year or the year before last, so, like at 9% and 10% of range?

**Atul Lall:** We are fairly confident that in the coming quarters, partially recovery would take place in Q2 itself and Q3 onwards the margins in lighting would be somewhere between 8% to 9% and in the case of washing machine this is going to be between 9% to 11%.

**Moderator:** We have the next question from the line of Bharat Shah from ASK Investment Managers.

**Bharat Shah:** Atul ji these are the early days for PLI scheme, but I just wanted to get your overall opinion because you have a ringside view of how the schemes are being formulated. So, wanted to understand how do you see the schemes in terms of approach, practicality, speed, efficiency, any other observations on any of these aspects to get an idea whether this is **(Inaudible) 25.39** faltering the manufacturing footprint or not?



**Atul Lall:** Mr. Shah undoubtedly, we see a very significant level of conviction and commitment from the government side in establishing the footprint in these PLI sectors. So, I think let's look at what's happening on the mobile side. Initially there were challenges and those challenges were more external than internal. But the government has been flexible, and they accepted the base here. They've extended by one year and large global brands have already started sourcing from within India. In Dixon's case itself we got approvals sometime only in the Q3 of last fiscal. We have been able to set up our factory within a very short time of 4 to 5 months and the production has been ramped up and Motorola is going to shift almost 8% to 10% of their global requirement to this factory. That is a first major achievement for the industry, for Dixon as well. My sense is there would be some challenges, but the government is committed to make it a success. Now the same rollout has happened for IT products although there the canvas is much smaller and there my sense is it's only wanted to be focused more on the domestic market to start with at least for domestic sales. That's where we are going to be participating. Also, what one is seeing is that once the large manufacturing or the final product takes place, the deepening of manufacturing through a more value addition creation and also creation of component ecosystem is in works. One has to keep fingers crossed that things go as per plan but I'm positive about it. The same as the case with the telecom PLI and same is the case with the AC and LED lighting PLI. So definitely one is convinced now that these goods being sold in India will be manufactured in India. The manufacturing depth will expand and also in some of the categories India will become a base for exports which will be our typical China Plus One situation. That's what my sense is. However next 2 years are going to be extremely important, both for the beneficiaries of the scheme and also the government which is what we are committing to the stakeholders it has delivered upon. So that's the situation.

**Bharat Shah:** And in terms of speed, flexibility, responsiveness, whether the schemes are formulated in a practical way keeping in mind industry, vertical dynamics any comments there?

**Atul Lall:** That is a very transformational kind of a change with the present dispensation that there is a lot of interfacing happening between the industry and the government. They are looking at the industry's viewpoint. They're flexible. They genuinely want to create this footprint in India. Now there would always be some gaps but there is a very significant positivity around us, at least in the electronics sector.

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

**Aditya Bhartia:** My first question is on the consumer electronics business wherein capital employed appears to have turned negative this quarter. Just want to understand what are the changes that we have made and if there is something which is sustainable?

**Atul Lall:** It's basically the management of current assets. It's a significant improvement in the operating cycles which has led to this kind of an operational metrics for themselves, and we feel it's sustainable.

**Aditya Bhartia:** Because if I remember earlier there used to be this issue of us paying customs duty or some GST related charges and recouping that from our anchor customer with a bit of a lag. Have there been any major changes that you have made in those contract terms or is it something else?

**Saurabh Gupta:** Basically, Aditya it's because of our operational efficiency in managing that, that we have been able to turn this around. In a prescriptive business otherwise our creditor days are always higher than the debtor days and through our internal efficiencies, the points that you have raised, now that has been addressed. In fact, we have bettered those things in our favor.

**Aditya Bhartia:** For the mobile phone business you mentioned that we should be surpassing the ceiling limit for FY22. Just want to clarify, are we looking at the original limit of 4000 crores or the revised limit after the base year being moved forward by a year?

**Atul Lall:** As per the extended norms and the policy guidelines the ceiling is 2000 crores for the current fiscal but will be aiming to be close to the original ceiling of 4000 crores. That's what we are aspiring for, somewhere close to that.

**Aditya Bhartia:** Lastly are you facing any significant component shortages because I do understand that you have increased your inventory levels to tackle that, but do you expect any significant shortages till impacting any of the segments?

**Atul Lall:** Aditya, there are significant supply chain challenges in every vertical. Let's say in lighting vertical there is a huge shortage of the driver IC, but we have been able to accumulate adequate inventory for that and I think we are ahead of the industry there. The case of televisions, again there is a shortage but that because we are associated with large principles, we are able to cover it up. However lately there are challenges because of the typhoons in China and also the component suppliers from Vietnam because the factories are shut there due to COVID. In mobiles again there are challenges in display and semi-conductors but the kind of order book that we have and what I am seeing there are people who have been able to cover; we are in a good position. There are challenges but I think we have been able to cover it to a very large extent.

**Saurabh Gupta:** Aditya just to add to it so what we are done, we have also attributed inventory to take advantage of the increased order book. As the business is now returning back to normal and if you see that inventory levels have gone up. That is on account of certain advanced payments that we have made to accumulate those inventories which is more strategic in nature and that will put us in a very advantageous position. Gradually you will see that inventory levels also coming down, as and when they get converted to finished goods when they are sold out. So clearly, we have taken a strategic call to build on those some of the components in semi-conductors.

**Moderator:** We have the next question from the line of Renu Baid from IIFL.

**Renu Baid:** The first question is when you look at the broad portfolio on the lighting side; where are we today in terms of the approval for exports for which you were working and how do we see the

lighting exports portfolio ramping up? We had expected growth coming in from 2Q onwards so where are we on that?

**Atul Lall:** So Renu, we require certain safety approvals from the countries that we are targeting and those safety and reliability approvals I am expecting that we will receive them somewhere around mid of August or end of August and then that business can take off because the business is undoubtedly looking healthy in both LED lighting export front.

**Renu Baid:** In terms of customers, would it be starting with largely the US market or would be far more broad based in terms of the end **(Inaudible)** (35.19) that we are looking now?

**Atul Lall:** It's going to be a mix of US and Western Europe.

**Renu Baid:** Secondly when we look at the ODM portfolio in this quarter both lighting as well as washers; almost half on a sequential basis so the inventory built up which Saurabh also mentioned was largely on account of both these business segments and there is also some share of inventory stocking my customers in the EMS business? And should we expect the volume in these businesses both the ODM portfolio reverting back to normalcy in 2Q-3Q with strong order backlog?

**Atul Lall:** Renu, in our EMS business the inventory buildup does not have an impact on our balance sheet. It's almost operating cycle neutral except for certain inventory buildup in Motorola and some working capital intensity increasing in Motorola because of the initial ramp up phase. The main inventory increase has been on the raw material side in both lighting and washing machine primarily because of order book dwindling on 15<sup>th</sup> of April and May was even worse. Just to share with you some data points; on an average we do approximately 2 crores bulbs a month and in this quarter the volume has fallen to 54 lakhs a month. In the case of washing machines, we were doing almost 90 K to 1 lakh washing machines a month and, in this quarter, it decreased to 54 K per month. So that is what has happened to demand after the lockdowns. Now the order book is extremely healthy. In lighting itself in July and from August onwards we are back to almost 85%-90% of our capacity utilization. In the case of washing machine, it's much ahead. Normally we do around 100 K-110 K. In the month of July, we should close it around 125 K. In the month of August and September, the order book is almost 150 K. So, the order book is very healthy, and I think in this quarter itself the situations will come back to normal.

**Renu Baid:** Lastly when we look at the LED TV portfolio, while the EMS business has been doing fairly strongly. We were also working on a Smart TV portfolio on the ODM side. Where are we in terms of the design approvals and getting the customers on board and how do we expect the ODM portfolio within the LED television segment?

**Atul Lall:** Renu on the TV-ODM side, our solutions are ready, android based solutions and the customer acceptability is there, at least from the Tier II side. However, we are having an issue with Google on the IP side where we still not been able to get there go ahead on the TADA license. We are pursuing with them but that has still not materialized. So, I cannot give you any visibility there.

On the analog side the demand is dwindled so it's mainly Smart and that's also on the android platform. The solutions are ready, and the solutions are acceptable. We are still waiting for the TADA license from Google. That's what the status is.

**Moderator:**

We have the next question from the line of Sonali Salgaonkar from Jefferies.

**Sonali Salgaonkar:**

My first question is regarding the IT hardware PLI. So, we understand these are initial days for you as well but if you could share the broader contours of the PLI and the ceiling revenues per year as well? That will be quite helpful. Also, ancillary question to this to another participant's question, you mentioned some revenue from the upcoming opportunities across each of the segments. Just to clarify this is the per annum revenue we are targeting over the next couple of years, right?

**Saurabh Gupta:**

That's right. Sonali on IT hardware the basic contours are that we need to make an investment under the PLI for 20 crores odd over a period of 4 years and the incentive outlay over a period of 4 years is around 110 crores for domestic companies. So here also they created a separate track for domestic companies like similar to the way it was done for mobiles where the government wants to create domestic champions as well. The numbers that I mentioned to you are for domestic companies and they clearly bifurcated and said that any laptop costing less than Rs. 30,000 at a factory level. So, these are factory level prices and a tablet costing less than Rs. 15000 so that will be a separate, then the separate track for domestic companies that's where Dixon comes in. So, we are of course, we just recently got the approval. As Mr. Lall mentioned in his opening remarks that we have signed an MOU and our factories have already been audited and qualified with one of the largest brands. I will be not in a position to take the name because till the time the agreements are closed but yes, we are working with that partner, customer to finalize their numbers on revenues, cost structures and the profitability. And we are also in discussion with other brands as well. If you look at the ceiling revenues that have been refined under the PLI so basically the ceiling revenues over the next 4 years is around 4900 crores odd and the way it happened, the way its year wise it is 300-600-1600 and 2000 crores odd. So broadly yes, the first-year numbers is 300 crores. We would definitely make an attempt to achieve the ceiling revenues in each of the years. But there are lot of things, lot of these things will be materialized over the next few months. We will have a better visibility once we finalize the numbers with the brand that we are talking to. Here also if you look at the government's objective is to create a component ecosystem. So, there is separate track for domestic companies. We need to do a committed CAPEX of 20 crores. The incentive outlay for a domestic company is 110 crores odd. There are also certain laid down guidelines for value addition which is linked to getting that incentive. And we will definitely make an effort to achieve the ceiling revenues which is basically 4900 crores over a period of 4 years and starting with 300 crores at the first year.

**Sonali Salgaonkar:**

My second question is what kind of normalized margin should we look on a consolidated level from the coming quarters now once the business assumes scale? So, are we expecting 3.5% to 4%?

**Saurabh Gupta:** Sonali it will be in the similar range of 3.5% to 3.75% is what I think would be the margin because our growth going forward will be happening more in the prescriptive business. A significant portion of our revenues will be coming from mobile, then it will be laptops, variables, that it will telecom. These are all a prescriptive business where the margins are generally in the range of 2.5% to 3% odd.

**Sonali Salgaonkar:** My last question is how is the demand scenario looking at right now? You did mention that July we were back to normal but how are we expecting it to pan out? Especially also in the context of the festive season?

**Atul Lall:** Sonali, in the current quarter the order book in the forecast looks extremely healthy. As I shared with you in the lighting segment, we are back to almost 85%, the LED bulbs is back to 160 lakhs-170 lakhs. In the case batons this month we are going to do a highest ever of almost 25 lakh batons, downlighters we are going to do 5 lakhs. Same is the case in washing machine. This month we are going to close it 125 K. The order book is 140-150 K which is going to be the highest ever for us. In television again in this month we will be at 200 K. The next one is going to be around 275. In September we feel we are going to be somewhere close to around 400 K. The demand looks very good. Even in mobiles not for domestic but also for exports. We are going to be significantly ramp it up and touching almost 400 K, there is 300 crores of revenue from Motorola for exports to US so looks good. However, one has to, as far as the domestic market is concerned, one has to keep the fingers crossed because we are still not out of the COVID impact and whether third wave is going to be there or not there what impact it's going to be there; one has to wait and watch. I am slightly sanguine about it; I am cautious about it. But as of now the forecast looks very healthy.

**Moderator:** We have the next question from the line of Bhoomika from DAM Capital.

**Bhoomika:** Most of the questions have been answered, just one or two things. I was just asking on TV, more from a medium-term perspective; 2 to 3 years where we have actually already grown quite aggressively and added a lot of customers. While we understand there will be some value growth on higher screens but in terms of volumes if you can give some outlook on how quickly or how the growth could look like?

**Atul Lall:** Bhoomika customer acquisition is an ongoing exercise and also getting a larger share of customers wallet is a continuous effort. We feel that this capacity that we are creating of 5 million-5.5 million, in next 2 years we will be somewhere near to 4-4.5 million. That's what our internal estimation says and further in the same infrastructure the LED monitors, lines have been so that will be on a very minimal CAPEX that further enhances the operating leverage. Then the next step is the deepening of the manufacturing. So, the SMT and the PCBA capacity has been increased by almost three times in the last 2 years. Then the next step is to deepen the manufacturing of the plastics and mechanicals and then metals. We are very confident and that for some of our anchor customers, the unit cover, the back cover and the front bezel is going to happen in Dixon's factory. That's the strategy, to scale and deepening of manufacturing and if at all we are getting the Google license then migrating to ODM.

- Bhoomika:** In terms of the fully automatic washing machine, we are having an anchor customer but if you could just comment on additional customers engagement and how quickly do we see these capacity being ramped up or volumes being ramped up to the capacity of 0.6 million?
- Atul Lall:** Our suppliers to the anchor customer is going to start from October-November and to the other customers is going to start from September before the festive period. That's what we are targeting. Now what we have to starting is with the Platform 1 that is from 6 kgs to 7.5 kgs and the tooling for the Platform 2 that is from 8 kgs to 10 kgs would be arriving by December or January. I feel that the capacity utilization up to 85%-90% of the installed capacity upon 6 million would happen and now on the monthly run rate basis the second half of next fiscal.
- Moderator:** We have the next question from the line of Bharat Shah from ASK Investment Managers.
- Bharat Shah:** Atul, the second wave obviously has come as a bit of a rude interruption to our plans but is originally we were conceiving that when do you think we are touching that 5-digit growth on our number now and hopefully a double of debt thereafter. It what particular state do we think now we are hitting that?
- Atul Lall:** Mr. Shah the final goal and the journey is the same which we have been sharing with our partners, they are the stakeholders. We are confident that in this fiscal itself the revenue growth would be significant. We should be somewhere around 11,500 to 12,000 crores in this fiscal itself in spite of the first quarter getting impacted. We feel that as compared to the original number of last fiscals of 6400 crores, we should be 3X of that in 2 years' time.
- Bharat Shah:** 2 years after the current year?
- Atul Lall:** That's right.
- Bharat Shah:** By fiscal '24 is what you are saying?
- Atul Lall:** Yes, 23-24.
- Bharat Shah:** So, which is the year when we should be hitting closer to \$3 billion turnover and hopefully given the kind of a change in the product mix, our profitability as well as capital efficiency both should improve from where they are today.
- Atul Lall:** That's what we are aspiring for Mr. Shah. So, the trajectory and the strategy, there is absolutely no change it. This quarter was a blip because of the pandemic.
- Bharat Shah:** And capital efficiency also which has always been a hallmark of Dixon. Superior capital efficiency, low or no working capital and very frugal manufacturing, strong emphasis on cost containment. So, all that has resulted into very salutary performance on capital efficiency. Are we saying that with these growth and significant scaling, the return on capital employed per se should hit fresh benchmarks or it will be in a similar range though already at a superior level?

- Atul Lall:** No, my sense is that it should further improve because at present we are going through a phase wherein we are ramping up various verticals and any ramp up has initial challenges. Finally, when we stabilize, I feel the returns ratios would improve.
- Bharat Shah:** When we are touching say about 20,000 crores turnover by '23-24, will it be fair to say our return on capital employed probably should be crossing 50%?
- Atul Lall:** It's difficult to put in a number to that but from our present level of 30% it will significantly improve because to define the trajectory and how it's going to pan out and put it in number terms is slightly difficult at this stage, but the path is going to be the same and there will be improvement in the return ratios.
- Moderator:** We have the next question from the line of from Aniruddha Joshi from ICICI Securities.
- Aniruddha Joshi:** I just missed the number regarding the EBITDA margin that you indicated in the new products as well as at the consolidated level. So roughly where do you see the EBITDA margin numbers?
- Saurabh Gupta:** Yes, so in a prescriptive business which is basically your telecom, laptops, variables and all the EBITDA margins will be in the nature of 2.5% to 3% odd and depending on how much deepening of manufacturing we keep doing the margin should improve from there. Overall company level, I think so since our growth on a prescriptive business will be more and as a percentage of overall revenues the prescriptive businesses will contribute more in the future years so my sense is the margins in a good year can be 3.75% to 4% in a year which has got impacted like the way this year. I think should be in the range of 3.5% to 3.75%.
- Moderator:** We have the next question from the line of Onkar Ghongade from Shree Consultancy.
- Onkar Ghongade:** My question was regarding, negative operating leverage is kicking in. You had the advantage of PLI schemes that's why you have significant revenue upside this year. What would have been the case if this was not there? I mean significantly the revenue would have gone down and again effectively the profit would have been much lower than this. What comment you have to offer on that?
- Saurabh Gupta:** No, if you look at the Quarter 1 numbers are significant revenues are coming from LED TV business where there is no PLI. So almost 68% of the revenues are coming from LED consumer electronic business so there is no PLI, so I actually didn't get your question properly.
- Onkar Ghongade:** Your negative operating leverage kicking in. It's almost the PAT is at a percent margin so?
- Saurabh Gupta:** Yes, because it is ultimately function of your fixed costs, the demand got impacted and it impacted our lighting and washing machine business which is basically sold offline but the basically sold in the markets and the markets were of course lockdown because of the second wave and there is always a fixed cost that you have created in the business. That's why the margins have come down. But Yes, with the order book now coming back to normal in July and



you have a strong order book overall in Q2 and it will keep getting better. So, the margins will come back. We should go back to our normal margins that we have guided 3.5% to 3.7%.

**Atul Lall:** Please appreciate what Saurabh is sharing, irrespective of PLI. Lighting, television, washing machines, set top boxes, medical electronics, security surveillance systems, has nothing to do with PLI and here also on a significant growth path except for the blip of the last Quarter 3.

**Onkar Ghongade:** The guidance which was shared for the next 2-3 years say '23-24, what kind of EBITDA or PAT margin would you expect?

**Atul Lall:** We feel that on a blended basis, it should be somewhere in the range of 3.75% to 4%-4.5%. That's what we biggest, on the ODM side we are going to have lighting, washing machines, refrigerator and we are also going to have hopefully a small portion of LED television coming from ODM. And then we are also going to be investing in the backward integration piece particularly in PLI, LED lighting. I feel on a blended basis it should be around 4%-4.5%.

**Onkar Ghongade:** 4.5% of EBITDA margin you are expecting?

**Saurabh Gupta:** That's right.

**Onkar Ghongade:** The last question is on equity raise you have guided for or taken an approval. What's the status on that? And are you comfortable with your net debt levels?

**Saurabh Gupta:** If you look at the net debt levels, we are just talking about 54 crores in a 1000 crores balance sheets, so we are absolutely comfortable. There's enough cushion in the balance sheet. The balance sheet is strong, and we can easily fund our growth going forward from control debt and from our internal accruals. We expect certain money to also come in from the stock options that we have issued to our employees. Through a combination of all these three, I think so we should be able to fund our growth but yes there are more opportunities were coming. That's why because it's more of enabling provision that we have taken from the boAT, and we will of course get it approved by the shareholders in our upcoming AGM. But Yes, we feel confident that it can be funded from an internal accrual and some form of control debt because the debt-to-equity ratios are still very low.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints, that was the last question. We will now close the question queue. I would like to hand the conference back to the management for closing comments. Please go-ahead sir.

**Atul Lall:** Thank you so much for being with us and all the best and please be safe. Special thanks to Naval for conducting this conference. Thanks very much again.

**Saurabh Gupta:** Yes, thank you very much. Thank you Naval.



**Moderator:**

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