



“Dixon Technologies India Limited
Q3 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2019 earnings conference call of Dixon Technologies India Limited hosted by IDFC Securities Limited. 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 Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Madam!

Bhoomika Nair: Thanks Bharat. Good evening everyone and on behalf of IDFC Securities, I would like to welcome you to the Q3 FY2019 earnings call of Dixon Technologies. The management today is being represented by Mr. Atul Lall, Managing Director, and Mr. Saurabh Gupta, CFO. I will now hand over the call to Mr. Lall for his initial remarks post, which we will open up the floor for Q&A. Over to you Sir!

Atul Lall: Thank you very much Bhoomika. Good evening everyone. Thank you once again for taking our time for this call. I will first give you the snapshot of Q3 performance before we get into the question answer session.

The consolidated revenue for quarter ended December 31, 2018 was Rs.795 Crores against Rs.680 Crores in the same period last year, which is almost 17% growth. Consolidated EBITDA for the quarter was 39.6 Crores against 28.8 Crores in the same period last year, which is 37% growth in EBITDA. EBITDA margins have also expanded from 4.2% last year to 5% this year. The consolidated PAT for the quarter was 17.6 Crores against 15.2 Crores, which is a growth of 17%.

Now, as we have been sharing with you that our overall focus across all our businesses is to achieve a scale, migrate more and more to our own denials, focus on backward integration, customer acquisition and deepening of relationship with existing customers, so I think across all our verticals we have been able to do this. I will take you through every vertical one by one.

If you see our consumer electronics verticals the revenues in this segment have grown from 229 Crores to 288 Crores, this is a growth of almost 26%. The revenues were mainly high because we have been able to acquire Xiaomi as an account and Xiaomi has already got a market share of more than 10% and is the largest selling smart television in India at present.

Also the increase in the revenues was because of Diwali in the month of November. Operating margins in this vertical have expanded from 1.5% when Q3 2017-2018 to 2.1% in FY2018. Also our ODM share of this business has increased from 3% to 11%, higher realization is also due to change in sale mix and also backward integration of LCM, which has expanded our value addition. From February onwards, we have already expanded our capacity from 2.4 million to 3.4 million annually. The increased capacity will take care of almost 24% of the Indian market requirement and do the largest capacity any companies having in India.

Further our SMT lines have also been installed in phase I, we have a capacity now of almost a million PCB per annum. We are making further investments in the SMT lines, which will take it to almost 3 million SMT capacities. Now, when we look at the segment, we are the most vertically integrated unit, largest capacity. A fairly large team of R&D now both in China as well as India, even the large customers, which were earlier in the prescriptive mode, are being converted to the ODM mode namely Sanyo and Panasonic. New acquisition of customers like Lloyd and many others and also we are in discussions with some very, very large brands who dominate the Indian market we are extremely optimistic and bullish on this business. This is on the consumer electronic segment.

Going up to home appliances segment like washing machine, revenues for the quarter witnessed a strong growth of 29%, in Q3 2018-2019 we are at 92 Crores against 72 Crores in the same period last year. This is a volume growth of almost 12%. In this year I am very confident that we will have a growth of more than 30%. The operating margins, which was if you all recall was an area of concern because of dollar and commodity price increase in the last quarter, from last quarter it has increased from 8.1% to 10.8% mainly because of the rupee stability and commodity price also being stable in the last quarter. In washing machine again we have a very healthy order book. Our anchor customer Samsung from January 2019 has doubled the quantity and also from June 2019 we are adding another model in 6.5 kg category, so order book from Samsung alone is half a million a year. Morally we have the largest Indian capacity of 1 lakh washing machines per month, which is almost 30% of the Indian market and we control almost 65% to 70% of the outsourcing market in this category. It is all ODM business completely. We have 140 models across all the categories, which is the largest bouquet of the ODM model in this category. We have finalized solutions for top loading fully automatic in 6 kg and 7 kg both the steel tub and this is top loading fully automatic 6 kg and 7 kg. We are going to set up this capacity and this capacity will be operational around Diwali this year. So, with this we will be having a kind of a holistic thing as far as the washer solution is concerned.

In lighting segment, we have grown 18% on revenue side. We have grown to 234 Crores in Q3 2018-2019 as compared to 199 Crores last year. One significant thing that I want to share here was that a large portion of our revenues last year was coming from CFL. Our CFL business has come to a complete end and in spite of that the growth was 18%. If I remove CFL to CFL portion from this revenue mix the growth in lighting is 43% in this quarter. Also the margins in the lighting business have expanded from 7% in Q3 2017-2018 to 8.1% in Q3. This again has happened and if you recall in the last quarter it was 6%, so this has come back to 8.1%, so this is again due to the operating leverage. So in LED bulbs today our present run rate in January I am closing at almost 16 million bulbs, which is more than 45% of the Indian requirement and we are supplying the bulbs practically to all the brands in India except three.

Further the backward integration also kicked in both in the form of mechanicals and warm components, also a significant thing in this particular vertical is that the ODM portion of business, which was 40% last year, has increased to 81% this year. Also we have more than 2000 models in LED bulbs alone. Earlier our SKU mix was only up to 12 watts now it was expanded up to 50 watts. So, the brands that we are servicing apart from Philips is Panasonic, Anchor,

Bajaj, Wipro, Orient, Ajanta, Syska, Polycab, Jaguar, Usha, and all these are in ODM basis and also a very large percentage of their sale is being sourced from Dixon today. We are further expanding our capacity to almost 20 million, almost 55% to 60% of the Indian requirement. In batters also we expanded our capacity from around 250 k to 600 k that is run rate now.

We will be further expanding the capacity to almost 2 million for the backward integration plan, which is again completely on the ODM basis, even Philips have been shifted to the ODM basis. Further many of our customers are taking us globally starting with Philips, so we started to export LED bulbs from India. We have also qualified IPI India audit and the supplies to IPI has started. We feel that now with this kind of volumes we are globally within top five as far as the numbers are concerned and we are globally competitive to strike the global market and we are in discussion with some very large chains of the store, so we feel that 2019-2020 is going to be the time first for expanding the capacity in the batters, deepening our relationship, backward integration and make an attempt for the global business.

On the mobile segment, our revenues were on the 151 Crores as compared to 158 Crores quarter last year, but as compared to Q2 the revenues have jumped from 64 Crores to 151 Crores that is a very significant increase, this is primarily because of higher capacity utilization because of Gionee coming in and also we have added new customers in Micromax, Mobiistar and Intex. However, if you recall in the last call I had mentioned that the backward integration plan of installing the SMT line is underway and it will become operational in this quarter, so that has become operational, the PCBA supplies have started and that is what is leading to a significant increase in the operating profit margin from 1.1% to 2.9%. We are having now capacity of almost 300k to 350k of a smartphone and 750k of future phones completely backward integrated. We are working with some larger guys and hopefully we should be able to secure some business in a short span of time.

As far as CCTV is concerned, we have been in the process of installing our capacity, so we generated revenue of 25 Crores our share of 50%, so overall revenue is 50 Crores in this business in this quarter and we made a marginal operating profit of 8 lakhs. We have already expanded our capacity from 1.5 lakh cameras a month to almost 8 lakh cameras a month. Installations are already taken place. The DVR capacity has been expanded from 30k per month to 1.5 lakhs a month, so, in January we are going to be producing almost 300k cameras and 85 to 90k DVR. The run rate for this quarter is going to be 5 lakhs and 125k DVR and the order book is extremely healthy, the customer of us, which is CP Plus, Dahua and Panasonic of a much larger order book. So, I feel that it is going to be become significantly profitable from this quarter onwards. As far as reverse logistics business is concerned, it has been more of a strategic kind now. We are not making much money there, but we have cut down our expenses significantly. The main focus there in reverse logistics is on panel repair and mobile repair, so in panel repair also we have added Panasonic and now Xiaomi as a customer, so this business will not be hugely profitable, but it is more to enhance the stickiness of the customers and give them end-to-end service, but we will be making marginal profits there. This is what I wanted to share with you and now most welcome to please ask the questions.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good evening Sir and congratulations for strong results this time, margins finally improving and coming back. Few questions from my end, first in washing machine side we have seen that margins improved sequentially and now from March we would see the re-pricing effects for Samsung also coming through when you mentioned our volume scale up in Samsung now as well as in June, so how should we read in terms of margins in the washing machine business going ahead and addition of a fully automatic machine line coming through, what kind of impact it will have in revenues and margins for FY2020 in your business?

Atul Lall: Renu, if I share with you numbers of October, November, December, margins on a monthly basis I share with you, which has improved from 8.7% to 9.1% and in the month of December we hit a operating margin of 12% because the stability in currency and the commodity prices has been moving like that and also the operational efficiency kicking in. I feel that now on a consistent basis we should be somewhere between 11% and 12%. Now going forward as far as the top loading is concerned that project is getting final, it is slightly early to share with you the numbers of that. We will share it with you in a short span of time, but at present time I am not ready with those numbers yet.

Renu Baid: Right, but we are expecting the line to get commissioned by Diwali you would have some targets or numbers on the kind of capex, which could be required?

Atul Lall: The capex in this particular top loading is going to be somewhere between 8 Crores to 10 Crores.

Renu Baid: Coming on to the overall strategy the way we have seen in the lighting products business, now the business has reasonably scaled up and as we are looking to expand our presence now into the batten segment more aggressively how should we read as the margins are recovering to 7% to 8% or should one read these margins as a more sustainable margins and further moving into international markets ideally should be margin accretive as well, so can one assume 20% to 30% growth rate sustaining in the lighting business?

Atul Lall: I feel the growth rate would be somewhere between 15% and 20%, I feel we will be able to sustain a margin between 7% and 8%. I also feel that the margins the first feedback that one is getting is going to be the export is going to be margin accretive.

Saurabh Gupta: It also gives us a natural hedge against the dollar as well.

Renu Baid: Correct and within all these things that we see all the ODM driven businesses are increasing also has been the working capital for us, interest costs also have moved up, so how do we look to draw that balance between working capital as well as borrowing cost, this quarter also you have seen the interest rate is moving ahead, so how would be the outlook on that side of the business?

Atul Lall: When you analyze the working capital deployment, the working capital has not increased significantly in lighting in spite of the growth. Today, the working capital in washing machine has not increased significantly. It has primarily happened Saurabh can share with you the numbers, has happened because of the LED TV segment. It used to be negative working capital, but in the case of Xiaomi because it was in a ramp up phase, in this quarter we are not able to meet the defined operating cycle, which is being corrected now. You will see inventory term cycle improving significantly from this quarter itself.

Renu Baid: So, one should expect that these interest cost and the short-term debt will also taper off?

Atul Lall: Will come down definitely.

Saurabh Gupta: It should be better in Q4, Renu and then subsequent quarter it should keep coming down, so we will convert the Xiaomi business, which we have already converted in Q4 into a positive operating cash cycle, which was ended up deploying the funds in Q3 because it was getting streamlined and there was a ramp up phase in Xiaomi account, which has now been connected, so you will see some impact of that happening in Q4 and subsequent quarters you will see further impact, so I said that six days of working capital to come down in the short-term, it should come down to 2 to 3 days and then gradually we will work towards keep it on the similar lines.

Renu Baid: Sure, and Sir, my last question, over the last two years the way we are seeing the lighting business completely ramping and our presence increasing here, in your view among the other segments, which is now nearing with that kind of threshold, market share gains as well as margin improvement, we have seen some bit of that in washing machine, but there were margin headwinds there, so among the other categories how should we read in terms of next 2 to 3 years, which could be the next lighting business for us?

Atul Lall: We feel that similar thing is going to happen in television in 2019-2020. We already have 38 models of ODM right from 24 up to 50000, we have multiple customers, to a large extent we have been able to execute our plan for backward integration. In the coming two to three quarters further backward integration is going to take place and again the same scale the depth in manufacturing ODM design, altitude of the ODM models, new customer acquisition, deepening of the existing relationships, all is going to happen in televisions also, so TV, washing machine and lighting almost going to be a similar strategy it is just that there are different stages of execution somewhere we have been able to achieve the complete thing, somewhere is in WIP and the other two is first I will come to security surveillance system, in security surveillance system the first phase is going to happen of taking because order book is extremely healthy. This month we are going to do 300k, next month we are doing 500k, order book is 0.9 million. The first phase is immediately in the next couple of quarters to reach that requirement, the second is the backward integration because again it requires a polymer handling skill, it is injection moulding the cameras that is going to be implemented. We are not looking at designing there at present. In mobile phones we have been successfully implemented the backward integration plan. As far as PCBA is concerned we are looking for an anchor customer, we are in the process of building our R&D team to start developing on media tech you have said \$100 smart phones and also some

future phones both for domestic market and export. That is going to take some more time or is going to take some more time, but strategy is going to be that, it is that, it is going to be executed.

Renu Baid: Sure. Thank you so much Sir. That is it from my side.

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

Aditya Bhartia: In the consumer electronics business, just wanted to understand, how is Xiaomi ramping up, what kind of volumes would we have done in the preceding quarter and how we are seeing it going up in this particular quarter?

Atul Lall: Till now we have done for Xiaomi is around 75000 sets it is a small number and in this quarter we are targeting almost 250k. The run rate is going to be somewhere between 100 and 225k a month.

Aditya Bhartia: And realizations would be similar to what we are having for the customers?

Saurabh Gupta: Realization Aditya it is better for Xiaomi as compared to Panasonic.

Aditya Bhartia: That is on account of larger TV sets?

Atul Lall: Backward integration and also smart solutions.

Aditya Bhartia: In this particular division we have seen fairly strong revenue growth in Q3, which should have ideally yielded us operating leverage gains and ODM proportion also went up, despite that margins have been only around 2% vis-à-vis 3% that we have delivered in the preceding quarter, so what has that been on account of and how should we look at margins going forward?

Atul Lall: If you actually see post Diwali sale has been very slow November, December, the sale has been flattish, from January it has started kicking in, the volume growth is there from January onwards and I feel the margin improvement would be there, will it be the margins would improve to around 2.8% to 3%.

Saurabh Gupta: Aditya, basically you already have a fixed cost structure, so when the sales dip, which has happened post Diwali, so we are carrying a fixed cost structure, so the margins if you look at the way you should compare it whether it is a seasonality in this business, so Q2 will always be better than Q3 and if you look at Q3 and compare it to Q3 of earlier years, I think so that is the way you should ideally look at it and the Q4 now since we have a big order book from Xiaomi, so Q4 you will see the margins coming back to around 2.7% to 2.8%.

Aditya Bhartia: Understood and this 2.8% to 2.9% would be despite the backward integration that we have done, so that is not likely to yield us high margins?

Atul Lall: Not in this quarter subsequently yes.

- Aditya Bhartia:** When we look forward what kind of margin should we be building in for let us say FY2020-2021 where do you think these margins can settle?
- Atul Lall:** My sense is I think with the increased order book and backward integration and further improvement in the ODM revenues, I think it should be between 3 and 3.3 kind of a percent, which you should see in the next fiscal.
- Saurabh Gupta:** Aditya entails another angle to these the large portion of sales is coming from Xiaomi. In Xiaomi case the product mix is very different, focus is more on 43 inches and 55 inches, which are high value sets, so there is an increase in the value addition, as a percentage of sale revenue the increase will not be corresponding. We are selling more of 43 inches, which has a higher selling price, so there will be absolute growth in EBITDA, which will be quite significant, but the margins can fluctuate depending on the sales mix.
- Aditya Bhartia:** In the mobile phone business, the sharp expansion that we have seen, is it largely on account of PCB assembly or is there anything else to that?
- Atul Lall:** It is a mix of increased capacity utilization, but more on account of the PCB assembly.
- Aditya Bhartia:** And lastly in the LED TV business, capital employed appears to have inched up quite sharply, is it on account of working capital issues that you described earlier or is there something more to that?
- Atul Lall:** That is because of **(inaudible) 28:05**
- Aditya Bhartia:** And the capacity expansion that we have done roughly what kind of capex that have entailed in the LED TV business?
- Atul Lall:** Total capex in LED TV business this year is around 15 Crores.
- Aditya Bhartia:** Perfect. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.
- Naval Seth:** Thanks a lot for the opportunity and congratulations on good set of numbers. Sir, my question is on washing machine segment, so is there a potential customer, which can get added over the next six to nine months over here and can further scale up the volumes and whether the cost resets with them would be substantially lower than what we have with say in case of Samsung?
- Atul Lall:** Can you come again.
- Naval Seth:** Sir, second part of my question was on cost resets, so like in case of Samsung we had longer period as compared to the other customers, so if we add new customer, are we targeting one

month, three months or what learning we have seen in case of Samsung and what are we implementing if at all we are targeting potential customer in semi-automatic?

Atul Lall: See Samsung will be one of the toughest customer for stabilizing the product mix and the quality standard that you are expecting that is in the top most level, now the plant has stabilized and the new customer acquisition one feels confident would be much smoother that is what one feel because the plant has stabilized now to a large extent.

Naval Seth: Can we expect any larger customer in next six to nine months in semi-automatic category?

Atul Lall: Yes, we are in discussion with some large brands.

Naval Seth: And in fully automatic are we looking for initial order book first and then launching during Diwali or how we are going about it on the fully automatic?

Atul Lall: We have identified the models on the basis of the market requirement and we are also in discussion with some very large brands, attraction from large brands in the outsourcing and the ODM side of top loading, so the product designing and the product has been conceptualized on that basis.

Naval Seth: And in case of PCB can you throw some colour on the customers what are there on board and as you stated that you were looking for anchor customer there, but who are the customers over here in PCB right now?

Atul Lall: In PCB, we have Panasonic, we have Gionee, we have Micromax, we have Mobiistar, and now we have added Intex.

Naval Seth: Thanks a lot and all the best Sir.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Dalmia Securities. Please go ahead.

Vijay Karpe: Thank you for giving me this opportunity. Just wanted to understand what was the debt at the end of the quarter?

Atul Lall: Repeat it again?

Vijay Karpe: What was the debt at the end of the quarter?

Atul Lall: Net debt is around 100 odd Crores.

Vijay Karpe: Then just wanted to understand if I take 5.5 Crores as the run rate for the quarter, the full year finance cost will come to some 22 Crores so if I assume that 100 Crores is the big debt, our finance cost comes around 20 to 25?

- Atul Lall:** There is also a bill discounting, which includes bank charges.
- Saurabh Gupta:** Bill discounting and there is also FC charges, so we open a lot of letter of credits for importing our raw material, so those are also there, so it will not be feasible to go one to one comparison based on the net debt number.
- Vijay Karpe:** And then my second question is there is a new plant coming in from the Chinese television maker TCL will be putting up a 6 million capacity plant in Andhra Pradesh, so where is the competition hit up in the television segment?
- Atul Lall:** Yes, competition will come in, but in our case our main advantage is if the customer really respect that Dixon is not into its own brand, TCL I presume the first objective would be to promote its own brand TCL and Falcon in India.
- Vijay Karpe:** So, how do you expect the competition to shape up, one year down the line?
- Atul Lall:** I think if you have the complete ODM solution, you are backward integrated, you have the scale, you have operating leverage because the scale you are deeply backward integrated and any competition is welcome.
- Vijay Karpe:** So, (inaudible) 35:14 in the consumer electronic segment then?
- Atul Lall:** I do not think so because we have benchmarked ourselves against some global players and we feel that we are much more comparative as on date.
- Saurabh Gupta:** With the scale all this operating leverage benefits kicks in, so with the deeper manufacturing of backward integration, scale and size, I think we will of course have a better cost structure.
- Vijay Karpe:** So, this is a 6 million capacity coming up from TCL right?
- Atul Lall:** I do not think it is 6 million.
- Vijay Karpe:** 6 million I am saying?
- Atul Lall:** Possible, I am not aware of that number.
- Vijay Karpe:** What is the total TV market 35 million?
- Atul Lall:** Total market size is around 14 to 15 million in India.
- Vijay Karpe:** That is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

- Bhavin Vithlani:** Good evening gentlemen. Could you speak about Samsung contract where we had fixed term and there was a lag impact in terms of passing on the food cost inflation?
- Atul Lall:** That is on a six monthly basis, the next announcement will happen on March 1, 2019. The problem happens when there is a continuous increase in the commodity price or the currency fluctuation. In case it is stable then it gets readjusted, then it is not an issue, so if you see since the last quarter there has been stability, always hovering around 71, 71.50, crude around 60, then it is not an issue.
- Bhavin Vithlani:** Actually, the question was to be more specific if we were to see a renegotiation now, which is an average of the six months prior input prices in currency, would there be still a lag or bulk of the cost inflation will be covered and consequently we see a better margin profile?
- Atul Lall:** It will be better.
- Saurabh Gupta:** It will be in fact better to us, it will suit to us.
- Bhavin Vithlani:** Is it possible to quantify that contract been negotiated in terms of the cost inflation, what could be the negative impact, which will be recouped, which is there in the current quarter, so what we could look at and what is the continuing margins of the business?
- Saurabh Gupta:** I can do that Math and I can come to you separately on this.
- Bhavin Vithlani:** No problem, and the second question is could you speak about the automatic machines, has the prototype been prepared and ready and ship to the client and the to and fro negotiations have started, so a bit more colour on what stage of it, that will be more helpful?
- Atul Lall:** We are going ahead with 6 kg and 7 kg television, one of the model is the plastic tub and another model is steel tub. The profile is almost final. We are in discussions and we have shown the prototype to some of our customers at that stage.
- Bhavin Vithlani:** What I understood is the client has come to you that these are my designs, could you please prepare or prototype and showed to me?
- Atul Lall:** It is something of that kind, what you are saying is right.
- Bhavin Vithlani:** Last question is on the television, could you speak about the ramp up, how do you see that way forward for fiscal 2020 and beyond any new customers that you could give some flavour that will be helpful?
- Atul Lall:** This year we will close it around 1.2 million TV against 1 million of last year. We have a very robust order book for 2019-2020. I feel that we are going to have a growth of more than 30% to 35% in this vertical. We are in discussion to some very large customers, at present it is not possible to share the details. We feel that sometime during this 2019-2020, we will have some more significant customer acquisition. The new customers that we have already added is Lloyd

last quarter and also BPL and also Koryo and some other smaller brands. We also added Philips brand to our customer portfolio. These customers are already in.

- Saurabh Gupta:** We are confident that we will be able to deliver 30% to 35% growth next year.
- Bhavin Vithlani:** So, the 30% to 35% growth is from the customers you already signed off, any new customer will be icing on the cake?
- Saurabh Gupta:** It is the status as on date, we have a visibility of 30% to 35% as on date.
- Bhavin Vithlani:** How should we look at the EBITDA margins for the televisions?
- Atul Lall:** As we had shared with you that the kind of volume and the scale that we are talking about in backward integration and ODM mix, it should be somewhere between 3% to 3.2% to 3.3%.
- Bhavin Vithlani:** That helps. Thank you so much for taking the questions.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Thanks for the opportunity Sir. Would it be possible to share the individual volume sales for different products for the quarter?
- Atul Lall:** Abhishek do you want me to share right now or I can share that with you separately after this call?
- Abhishek Ghosh:** Anything that you are comfortable with, I am good with anything.
- Atul Lall:** In televisions, we have already shared that we are going to do around 1.2 million.
- Saurabh Gupta:** In this quarter our consumer electronics, which includes the AC, PCB quantity as well, the volume numbers were 4.5 lakhs, 3.9 lakhs in the same period last year. On the home appliances segment, we sold around 1.8 lakh washing machines as against 1.6 lakh washing machines in Q3 last year and lighting would of course have multiple SKUs, but lighting if you wanting a number I think for lighting the overall numbers were 4.32 Crores as against 4 Crores last year, this would include your stellar growth in the LED bulb segment and degrowth in the CFL segment.
- Abhishek Ghosh:** Fair enough and Sir, just one more thing, in terms of the ODM share in the consumer electronics, which is more about 11% now, what would be your target for FY2020, would you look to increase that kind of number or how are you looking at that in terms of ODM?
- Atul Lall:** You see in 2019-2020, we are expecting extremely robust growth overall, so absolute number growth in ODM will be very significant. To compare ODM-to-ODM between 2018-2019 and 2019-2020 it is going to be almost 40% to 45%. The percentage of overall business is going to dip because the large growth that is taking place in the TV business is still on the EMS side.

- Saurabh Gupta:** Then the absolute numbers will grow, but as a percentage of revenue it will come down because Xiaomi, which has got the biggest order book for next year it is on the prescriptive mode is on the EMS side.
- Abhishek Ghosh:** Fair, and Sir, just one more thing you mentioned that since the pricing of Xiaomi is far higher than that of the earlier customer, so while the value addition part is higher as a percentage of revenue it looks lower in terms of the margin, the incremental customers that we are kind of speaking to in that also are we looking at the higher end of the television or is it at the lower end just to get a perspective in terms of what kind of value add that you can look at?
- Atul Lall:** In the other customers, we are looking at more of ODM kind of business and in that it will be more of the lower end of 24, 32, 43.
- Abhishek Ghosh:** And Sir, just one more thing, how are you seeing since you supplied, you know you said post Diwali the TV demand was kind of little sluggish for the January to March quarter, how are you seeing the preparedness of OEMs, if you could just help us in terms of washing machine, TV segment, how are you looking at that because is there a slow down because growth for you can come in because of incremental client addition, but for a specific client who already has a decent market share what are the fillers that you are getting in terms of the consumer durable demand?
- Atul Lall:** Consumer durable demand during the current quarter has flattened.
- Abhishek Ghosh:** For the third quarter you are saying?
- Atul Lall:** Overall demand is flattish.
- Abhishek Ghosh:** So, growth is obviously coming to you because of higher customer addition, but overall market you are seeing is still a flattish kind of growth, is it what you are sensing?
- Atul Lall:** Yes.
- Abhishek Ghosh:** Sir, just one last question, if you could just help me with the capex number for FY2019-FY2020?
- Atul Lall:** FY2019-2020?
- Abhishek Ghosh:** Both for FY2019, what capex we are going to incur and for FY2020 also what is the capex roughly?
- Atul Lall:** FY2018-2019 would be somewhere around 75 Crores and FY2019-2020 would also be around 65 to 70 Crores.
- Abhishek Ghosh:** Thank you so much for answering my questions and all the best.
- Moderator:** Thank you. The next question is from the line of Nikhil Gada from Asian Markets Securities. Please go ahead.

Nikhil Gada: Thanks for the opportunity. Sir, my first question is regarding the mobile business, so we have seen a sharp improvement in the margins, just wanted to understand whether this kind of a margin run rate whether is it sustainable or is it just purely because some one-off, which has been there?

Atul Lall: It is definitely sustainable because the margin expansion is primarily happening because of the backward integration piece in PCB assembly; however, the main thing in this business is to get an anchor customer, which in our verticals we have been able to have while we are in the process.

Nikhil Gada: Sir, is it that because we have also read that the GST on the components is around 18% for PCB manufacturing whereas the overall import of PCB is around 12%, so is it somewhere impacting our realizations purely through the backward integration and if it is reversed can we actually see a further improvement in the margins because of that?

Atul Lall: That is not a margin improvement or a margin accretive thing, it is a working capital thing, so till now in our mobile business we do not have excess GST, but we will also encounter the same similar situation, which was there in today's article, so we will have to go through a refined mechanism there.

Nikhil Gada: Sir, coming to the lighting business, we have seen a very strong improvement in ODM share, so is it that are we doing any targeted number in terms of are we trying to shift our entire lighting business to more and more ODM business and our more and more clients willing go to the ODM share, which is something, which has been visible in the current year?

Atul Lall: That is the direction, today our LED bulb business is completely ODM, today our batten business is completely ODM, tube light business is not ODM and our driver business for the street light is not ODM. As we keep on increasing the revenues, which are primarily being driven by the indoor lighting the percentage of ODM overall lighting business will keep on increasing.

Nikhil Gada: Sir, if you can just make us understand what would really make the client shift to our ODM is it like we need to provide more solutions in all these products, which you have mentioned, which are more in the EMS category or is it more of the volume game in that particular thing?

Atul Lall: When we have the complete basket of products as I shared with you, earlier we were only having 15, 35, 79, 12, we also have 14, 18, 20, 23, 30, 40, 50 and in that the various profiles and various thermal profile so we have more than 2000 models now, so we have complete booking and I think our design teams have done a fantastic job. They have been churning our more cost effective solutions and what in-house teams and various brands have been doing, so the combination of various things is picking them migrate to more and more towards solution.

Nikhil Gada: So, we can see the sort of sustained improvement in margins over the coming quarters as well is the right way to work out it right?

- Atul Lall:** We have already touched the margin of 8%, I think we will be able to sustain that.
- Nikhil Gada:** Alright Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kunal Seth from B&K Securities. Please go ahead.
- Kunal Seth:** Good evening Sir and thank you for the opportunity. Sir, my question is pertaining to the mobile phone segment, while Q3 has done well this year has been challenging, can you share your view on medium term perspective on the mobile phone segment, do we see the segment as scalable as some of the other segments given the end market is very large or that is not possible because two larger customers are not very open to outsourcing?
- Atul Lall:** We feel extremely optimistic about mobile as a segment. First of all the opportunity is much larger than any other segment that we are in. Second what has happened in other segment China becoming more expensive, in India still the market of \$100 phone, there is a huge opportunity of migrating to ODM and even the very large brands today again they started looking at outsourcing. Fourth the backward integration opportunity in mobiles is very, very large and it is going to happen in India because mobile is the only segment in electronics, which has very defined phase manufacturing program. The Government of India has absolutely committed to it, it is a matter of some patience and we are going to keep pursuing it with huge tenacity, we have been able to turn around all the margin side financially. I am very sure that it will be a large scalable business.
- Kunal Seth:** Are we in dialogues with any large customers or couple of customers, which will help us scale up the segment?
- Atul Lall:** Yes, we are.
- Kunal Seth:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir, just wanted to reconfirm the volume numbers for TV, washing machine, LED bulbs, mobiles and CC TV, so if you can give the numbers it will be really helpful for this quarter and corresponding quarter previous year?
- Atul Lall:** Consumer electronics, I had mentioned the volume numbers were 4.5 lakhs this quarter as against 3.9 lakhs same period last year. On the home appliances segment I had mentioned 1.8 lakhs versus 1.6 lakhs and on the lighting segment I had mentioned 4.32 Crores that is 432 lakhs as against 402 lakhs.
- Ravi Swaminathan:** And mobiles how much?

- Atul Lall:** Mobiles would include the PCBA thing as well including all put together smartphone, future phones and PCBA we did a quantity of 10.7 lakhs as against 7.7 lakhs same period last year.
- Ravi Swaminathan:** And CC TV?
- Atul Lall:** CC TV we did around 5.1 lakhs, which includes 4.4 lakh of CC TV and 0.8 lakhs of DVR.
- Ravi Swaminathan:** And the corresponding quarter previous year, how much?
- Atul Lall:** Corresponding quarter we have not started that business, this business was only started in this financial year, so towards the end of last financial year.
- Ravi Swaminathan:** Got it and what will be the kind of growth that you expect for the washing machine that is the home appliance business next year and what will be the blended overall company level growth that you expect for FY2020, it will be really great if you can share?
- Atul Lall:** If you look at the washing machine segment last year we did 5.3 lakhs washing machine and this year we will close it somewhere around 7.4 to 7.5 lakhs washing machine, which is a growth of almost 35% odd. We have already installed the capacity. We have a capacity of 1 lakh washing machines per month, which is 1.2 million annually and we think we are confident and we will see a similar growth of 25% to 30% on the semi-automatic side and addition to that we are also coming up to the fully automatic solution by Diwali, which should also add to the growth, so the order we have a healthy order book from one of our biggest anchor customer Samsung, so this is specific in the washing machine side. At the company level I think so we can continue to grow at 15% to 20% in terms of revenues and growth in EBITDA and the PAT should be higher than the growth in revenues because the factor that we have already mentioned, which is more backward integration, more migration to ODM and of course with scale and price our operating leverage benefit kicks in.
- Ravi Swaminathan:** Got it Sir. Thanks.
- Moderator:** Thank you. As there are no further questions, I would like to hand the conference over to Ms. Bhoomika Nair from IDFC Securities for closing comments.
- Bhoomika Nair:** I would like to thank everybody for being on the call and especially to the management for giving us an opportunity to host the call and answering all the queries. Thank you very much Sir and wish you all the very best.
- Atul Lall:** Thank you very much. Thanks a lot.
- Moderator:** Thank you. On behalf of IDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.