



“Dixon Technologies Limited Q4 FY2018
Post Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Q4 FY2018 post results conference call hosted by IDFC Securities. 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.

Bhoomika Nair: Good afternoon everyone. On behalf of IDFC Securities, I would like to welcome you to the Q4 FY2018 earnings call of Dixon Technologies. Today we have the management being represented by Mr. Atul Lall, Managing Director, and Mr. Saurabh Gupta, CFO. I will now hand over the call to Mr. Atul Lall for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

Atul Lall: Good afternoon everyone. Thanks very much Bhoomika for this investors call. With me is my colleague Saurabh Gupta, the CFO.

Just to share the salient numbers and details of the business. On the number side in Q4 on the revenue side, the growth has been muted or rather there is a small degrowth and we have had a revenue of around Rs. 600 Crores. On the EBITDA side, there has been a significant growth of 48%. The EBITDA achieved is Rs. 29 Crores. There is an improvement of approximately 160 bps in the EBITDA margins.

On the PBT side, there is a growth of 44% and on the PAT side, there is a growth of 39%. When we look at the annual fiscal numbers, there is a revenue growth of 14%. On the revenue growth side, I just wanted to share that it is not an apple-to-apple comparison in Dixon’s case because in 2016-2017 numbers, the revenues... and a large chunk of our revenues were generated from our excise free zone unit in Dehradun. The excise duty as a component was included in the revenue, whereas in the last fiscal 2017-2018 numbers from nine months the revenue does not include the GST portion, so it is not an apple-to-apple comparison. If we have an apple-to-apple comparison, the growth would have increased by another 10%.

In the EBITDA side, we have grown overall a 26%. It is around Rs. 116.86 Crores, the EBITDA margin overall there is a 40 bps expansion, in PBT side there is a growth of 33% we are at almost Rs. 88 Crores and on PAT side there is a growth of 28% Rs. 60.90 Crores.

If you want I can go business-by-business or we can start the question and answer session, please I think that will be better.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir my first question is on the lighting segment wherein revenue growth has been slightly slower than what the expectation was and that even on the margin side we have seen margins reducing on a quarter-on-quarter basis. So what has been the reason for the same and what should we see as sustainable margins in this segment?

Atul Lall: If you see the revenue growth is around 13% now. There has been a significant growth on the digital side on the LED lighting side please appreciate that the conventional lighting CFL is declining when we combine the two the growth is I think has been pretty good around 13% which is signed which is as per our budget plan. Now as far as the operating profit margin is concerned there is a significant expansion in the operating margin wherein it has expanded by almost 1.8% on corresponding quarter basis and on an annualized basis it expanded from 3.1% to 6.1%. So I feel that in going forward this business looks extremely robust, the order book is extremely healthy, we have added on to new businesses our relationship with our anchor customer is much more entrenched now. We have started the backward integration piece of mechanical in our Dehradun Plant on the lighting side, so these are positives. The headwind is on primarily two sides which is on the currency appreciation and increase in the commodity prices. So it is going to be a mix kind of bag as far as the profitability is concerned however as far as the order book is concerned, it looks very healthy.

Aditya Bhartia: Something like currency appreciation in commodity prices Sir are we able to completely pass on these costs to our customers and how frequent our negotiations to the customers when it comes to pricing?

Atul Lall: See with our anchor customer as I said we are able to pass on completely, but with other customers it happens from time-to-time and also what I has to be seen is that there is a competitive intensity and that has to be taken into consideration when you go in for that negotiation and also in the anchor customer side this is a lag of a month, the system is which we have explained earlier that it gets built into the costing of a subsequent month. So finally it is taken care of the currency on month-to-month basis keeps on appreciating that lag has an impact so that is the way it is.

Aditya Bhartia: I understood Sir. And Sir if you could explain us how exactly working capital is for different segments and in segments wherein we have higher ODM proportion something like washing machines or lighting, is working capital meaningfully different from OEM revenue segments and we also saw an increase in interest expense in this particular quarter. So how should we look at that going forward?

Atul Lall: If you look at our consumer electronics operations wherein a very large chunk of business is on the OEM basis only 6%, 6.5% of the business was on ODM basis, the return on capital employed is very high, the working capital deployment is smaller, but in the completely ODM business of let us say washing machine, it sucks in the larger working capital portion and same is the case in lighting. So both these business are sucking in larger working capital, but we are building in much more robust internal system of bringing in operational efficiency in the current asset side

and we are extremely confident that in the current fiscal of 2018-2019 in even lighting and washing machines the current, the working capital intensity would reduce significantly.

Aditya Bhartia: Anything Sir that you can share what would be our debtor days as well as inventory days in respect of lighting and washing machines, just for understanding?

Atul Lall: In lighting, the inventory day is around 46 to 47 days, which we plan to bring down, which we target to bring down by 9 to 10 days in the current fiscal. Similarly in washing machine because we were in a ramp up stage, the inventory had gone up to almost 46, 47 days again and my team is committed that this inventory in washing machines will come down to less than 30 days.

Saurabh Gupta: Aditya to answer your question the focus is completely on working capital management across each of the verticals the ideas is to bring down this working capital both in inventory days and debtor days. So in the lighting business inventory days is almost 50, 51 days and the debtor days is comfortable at 30, 31 days, but in washing machine, the inventory days is slightly higher but now we have started monitoring on a daily basis and we have already seen it coming over the last one month or so. The focus will be completely on working capital in each of the businesses as you must have seen that the capital employed in the business has actually gone up.

Aditya Bhartia: And my last question is on mobile phones and reverse logistics businesses, how you seen the performance of these businesses going forward what are the steps that we are taking and you had earlier indicated about the new potential customer when... if there is any update on that?

Atul Lall: If you see mobile business because our customers had not performed very well, there has been a decline in revenues in the whole fiscal as well as the Q4. However when you see the profitability because we have had huge focus on our fixed expenses, the profitability has slightly improved and there is also a margin expansion. Now going forward which I had shared last time also in the investors call, we are following two strategies one to enhance our capacity utilization by getting into feature phone segment and also acquiring new customers. On that side when the capacity utilization is improving because we have acquired new customer in Tambo and also Gionee is showing better performance and they are back with us in business from April onwards.

Now the second thing which I had shared with you was as a part of the phased manufacturing program of Government of India we are going in for backward integration and the machines have been ordered and we are confident that by August, the PC we had planned would be operational which will significantly increase the value add. So I am very confident that in the current fiscal, the financial performance of mobile on the profitability side will have a significant jump.

Aditya Bhartia: Understood Sir. Thanks a lot.

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

Renu Baid: Sir first question is if you can help us understand the reason for lower as in profitability especially marginal loss coming into the reverse logistics segment this quarter and how are we

expecting broadly this business to scale up next year because this use to be one of our most profitable business so the steps that we have taken in this segment and how are things happening on the refurbishment side as well?

Atul Lall: So, Renu on the profitability decline side, one of the reasons has been that we have to take certain write-offs on the debtor side on account of certain customers and on account of certain stocks that is the reason the profitability has declined. So there is a change of management team in reverse logistics. We have a new business head now and also the main key business of set top box refurbishment is back on track and in this year, we already have an order book from our anchor customer of around 250 to 300k set top box refurbishment which takes back the business to its original level and we are targeting an EBITDA of almost Rs. 11 to Rs. 12 Crores back in this business in 2018-2019

Saurabh Gupta: Majorly Renu it has been on account of some write-offs that has been taken which you should consider as one-off. Going forward, it will not go back to the similar level that what we achieved in 2016-2017 but yes, in terms of margins we are likely to do a 12%, 13% margin in this business as well in this financial year.

Renu Baid: Right but will it be possible to quantify for us what would be the amount of the write-offs and was this pertaining to the set top box business itself part of some other segment?

Atul Lall: This is the primarily because of the set top box.

Saurabh Gupta: It is pertaining to the set top box businesses and the write-off amount was around Rs. 1.5 Crores to Rs. 1.6 Crores.

Atul Lall: Another stocks write-off around 70 to 80 lakhs so this was mainly on account of Reliance write-offs, Reliance Communications.

Renu Baid: Sir second in your consumer electronics you have mentioned that is started work for TCL now TCL apparently is also the company who has been in China working for Xiaomi on the television side. So a) if you can update to us on how the lighting ramp up is happening now with Tirupati scaling up and what kind of penetration can we expect for TCL going ahead in the next couple of years on this account and would this be only for the India sales or there is any export opportunity also attached to it?

Atul Lall: See first coming on the Tirupati Plant, so the ramp up has become is stabilized there. We have already created a capacity of around 1.9 million there. Our backward integration footprint of LCM has already been set up and it is operational for last 15 days. It is one of the largest capacities in India of LCM and we feel that the July or August the SMP line would also be operational. Now the reason I am saying and sharing with you these details is that this is what creates more value in this business. Second our Dehradun unit is going to get shutdown. So the twin cost structure that we are running is going to come down in a couple of months' time. The order book here look extremely, extremely healthy. We feel that this year we have done around a

million. We feel that in 2018-2019 we should close it around 1.4, 1.5 million. TCL is one of the top 10 brands globally and they are becoming aggressive in the India market and they have launched at extremely aggressive prices, their brand called iFFALCON on the online basis. We feel they should do well, because they are playing the price game. Apart from that we are in the process of signing up with some very, very large customers and shortly, we will share with our stakeholders. So this business looks extremely healthy, please be rest assured.

Saurabh Gupta:

And also Renu to add on it, we also think that margins should come back, because if you look at our numbers in this year, the ODM percentage has come down from 12% to 6% which we think will go back to lower double digits and secondly on account of the Greece order book as what we have achieved in the lighting business because once a business achieved a particular critical mass and scale, the whole economies of scale benefits starts to kick in. So we think on Q2 that will be achieved in the last LED TV business as well and you will see the margins also see an uptake.

Atul Lall:

...Shared and we have had the deliberations on it on various occasions earlier, that we need a mass for getting that operating leverage. Now already we were able to do it in washing machine earlier, we went through a transformation in the washing machine business because we are going through a ramp up phase, but if you look at the Q4 numbers because we are back to a decent number of (Audible) 17:49 60k and the current order book is extremely strong. We have been able to do it in washing machine. We have been able to do it in lighting as well and the same thing had happened in televisions starting Q2 2017-2018.

Renu Baid:

Sir second would it be possible for you to give a little more clarity with respect to what kind of growth can we expect in FY2019 if any guidance you would like to share both for the company overall and also with respect to segmental performance given that new additions have come through and our capacities have been stabilized. So what kind of growth and profitability expectations would you like to set for next year?

Atul Lall:

At a total level Renu, we think we can continue to grow by 20%, 22% odd in terms of our revenue. So this Rs. 2900 odd Crores that we have achieved this year can potentially go up to Rs. 3600 odd Crores for 2018-2019, but the growth in the profitability and our EBITDAs and the PAT should be higher. So as you have seen that we have expanded our margin by 40 bps this year. We think their margins will continue to expand by similar number next year and if you look at these three verticals, if I go by segment-by-segment if you look at all these three verticals consumer electronics we had already mentioned that we are going up from 1 million LED TVs takes to 1.4 million so that is 40% in terms of volume and slightly lower in terms of value so that business would have a 30%, 35% growth there. On the washing machine side again we have a strong order book healthy order book this year, we did 5.3 lakh units we are likely to close somewhere between 7 to 7.2 lakhs this year. So again there will be a growth of 35%, 40% in the washing machine business and the margin should be somewhere around 13%, 13.5% what we have achieved in Q4, if you look at the lighting business, lighting of course, the CFL business is coming down and that will be the only degrowth that we have in the lighting business, but otherwise we have added customers. We recently added Usha and Jaquar in the lighting business along with other customers that we added in the last year. So that business should grow by 18%

to 20% this year and to answer your question on the margin side on the lighting business we think we should be able to achieve a 7% kind of a...7% or slightly higher than 7% kind of a margin in lighting business what we have achieved in Q2 and Q3, Q4 was slightly slower at 6.3%. As far as mobile business is concerned, mobile business of course we are talking to some new players which will increase our revenues. We have added Tambo in the feature phone category but we need to get bigger players in the mobile business so on mobile business I do not see a much growth in revenues but yes the profitability on account of the PCBA backward integration that should increase with the present level margins of 1% can go up on account of the backward integration but there will be not a significant growth in revenues and if you look at the reverse logistics I think so the first objective for us is to go back to the similar levels in terms of revenue, so that revenue growth would be similar to current year numbers it will be a 10%, 12% kind of a growth but the margins would see an uptake in reverse logistics business.

Saurabh Gupta: So Renu now the security surveillance system business is in the process of stabilization, the production is getting in streamlined and we are also on the capacity expansion front. By July we should be able to raise our capacity from 100k cameras to almost 400k cameras per month and DVRs from 30k to almost 100k. So the financial performance of this particular vertical which is in JV with Aditya Infotech would also be significantly higher so on a consolidated basis, there will be a good kicker on there.

Atul Lall: Our 50% share of the security systems can be somewhere between Rs. 220 Crores to Rs. 230 Crores and you can generate an EBITDA of almost Rs. 5 to Rs. 6 Crores out of that business.

Renu Baid: Okay that would be our share of EBITDA?

Saurabh Gupta: Our share of EBITDA yes, so the consolidated would be two times of this.

Renu Baid: And Sir my last question on television you did mentioned now the phase is going - the segment is going through scale up phase. Recently there were also media articles of Sony talking of now starting the outsourcing model and becoming more of a local player here. So do we see any probability of discussions with them and likelihood of them converting in to a potential client?

Saurabh Gupta: Sony is an extremely prestigious customer we do not - we have some dialogue with them a couple of years back at present we are not in any discussion or negotiation stage with them, but definitely they are our target customers and we are working hard that if we can get some piece of that pie, but at present we are not in discussion with them, but please be rest assured we are in discussion with some very, very large customers and the disruptive customers who will be leading this industry and they are already... the order execution we are going start to shortly.

Renu Baid: All the best sir I will get back in the queue with more questions. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

- Nitin Arora:** Sir just wanted to understand how the end-market growth in FY2018 for television and washing machines had been panned out?
- Atul Lall:** See as far as television is concerned the growth I think would be in double digit and same is the case in washing machine. So it is not a very heavy growth but definitely it will be a double digit growth.
- Nitin Arora:** Now as we talked about TCL though it is not a big player in India but when we look at its prices online is almost like 20%, 25% discounted in a lot of the versions when we talk about 43 inch or to a 32 inch. What sort of realization you make as compared to the existing player like Panasonic how much discount you are making for him when I look at the comparison just wanted that?
- Saurabh Gupta:** You are mentioning TCL I was not able to get the question?
- Nitin Arora:** So sir I am saying the way we look at TCL prices online in television, is way lower specially on 32 inch and a 42 inch as compared to the other guys.
- Atul Lall:** In both these businesses, these businesses for us at EMS business and our value addition are of similar nature whether it is TCL or Panasonic. For us, there is no discounting to TCL in this business. In fact our value-adds are going to be better.
- Saurabh Gupta:** Nitin just to answer your question, the selling price is something what the customer is bothered about. We are only... this is basically at EMS business where we are... our value addition is a manufacturing charge so as whether it is case of Panasonic or TCL the value addition would be similar however the realization... the percentage realization would be higher if the selling price is lower.
- Nitin Arora:** So per unit price realization would be higher you are saying in TCL as compared to Panasonic which gives you scale?
- Saurabh Gupta:** No I am saying it is absolutely the same because the value addition is a manufacturing charge which is similar in both the cases whether the TV sells for 10000 whether the TV sells of 15000 so if it sells for 10000 then are percentage realization what we are making on a per TV set looks high.
- Nitin Arora:** And second thing in terms of washing machine can you share what is the capacity utilization right now?
- Saurabh Gupta:** Washing machine we have achieved a 70% utilization for the complete year but if you look at my last quarter, my capacity utilization would be almost at 80% odd.
- Atul Lall:** And as of now, we are further ramping up our capacity. So the capacity is going to be almost 90k a month and our order book is very healthy from the next month onwards we have an order book of almost 75k to 80k a month for the season till November, December.

- Nitin Arora:** And Sir what would be our Capex planned up for next year?
- Atul Lall:** Capex would be somewhere around Rs. 65 odd Crores...
- Nitin Arora:** That is almost the profit of this year. That is what we are trying to put in next year right?
- Atul Lall:** The cash out though on the part of Capex we have got some credit terms from the machine suppliers is going to be around Rs. 45 Crores.
- Nitin Arora:** Got it thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.
- Ansuman Deb:** I just wanted to understand the profitability front of the various segments in this quarter. If I rightly remember then the consumer electrical, electronic business we thought would have recovered to around 2, 2.5 EBITDA margin and the home appliance is also around 14ish. So the little bit of dip that we have seen in terms of margin in consumer electrical, electronics and home appliances, if you could share some colour on that?
- Atul Lall:** The reason why the consumer electronic margins look lower is because of two, three factors first is we still are operating at two facilities one in Dehradun and one in Tirupati, the major part of production is happening at Tirupati but there are cost structures which are duplicated at both the places so which should be... so one of the facilities should be shutdown by July so that will lower our expenses from Q2. Secondly of course the ramp up at the Tirupati facility and thirdly what has happened in terms of margins is that our ODM percentage or our own design solution percentage when the TV business has come down from 12% to 6% and that has been mainly in on account that Panasonic absolute growth has been significantly higher, so our absolute ODM clients or ODM numbers have gone up but in percentage terms Panasonic growth has been higher as a result, the EMS business has gone up which slightly lower in terms of margin. So this three, four factors had been there why the margins are lower but from Q2 of this financial year as we have already initiated the backward integration of the LCM facility and we have a strong order book from Q2. So you will see this margins coming back to somewhere around 2.4%, 2.5%.
- Saurabh Gupta:** On the washing machine side, you would have seen that yes we are not back to the 14% we have achieved a number of 13.6% which I feel is a very healthy number and we feel that in the coming fiscal, we should be able to achieve a similar number of 13.5%.
- Ansuman Deb:** That is helpful so actually I was asking from the perspective that in Q3, we had a vision of little bit of higher margin in the CE segment so that is where I appreciate the reasons that you shared. Now another question is regarding the competitive intensity in the lighting business now we have almost all the clients in our four portfolio and lighting has been a strong performing segment for most of the operators in this segment. So do you think there is a veritable chance of increase in

competitive pressure as well as lower margins from the brands in this segment especially lighting.

Atul Lall: What you are saying is very right see we have been able to get the operating leverage in the lighting segment because we are today the largest in the LED bulb side; however so there is going to be a competitive intensity this is going to be a pressure but at the same time, the growth forward for Dixon is one going to be on the luminous side so what we have been able to achieve in the LED bulb side the similar thing has to be replicated in the tube lights and the baton and the downlighters side that is one. Second we also feel that now globally we are competitors in various LED bulb as schemes. So we are setting up an industrial footprint for lighting in Tirupati plant which is close to the port which is close to Chennai port which is 130 kilometers and we are already in discussions within very large global customers for LED bulbs. The growth is going to be driven from these two sides. Third on the margin side, one of course the operating leverage has to be further given a boost. Second the backward integration piece of mechanicals has already come into play where we are already at a level of around 1 million of our mechanical for 7 watt and 9 watt bulbs that the fuser side we have already expanded our capacity now to almost 6 billion which will become operative by June end so that is going to be a kicker for margin expansion. So these are the strategies we are following. So on the headwind side, one of course there is going to be a pressure, competitive intensity and second also is going to be the decline of CFL which we feel is going to come to an absolute zero from September, October onwards so this is a combination of our business scenario on lighting business.

Anshuman Deb: Thanks, that is most helpful. Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir just wanted some data can you give the volume numbers for your business segment lighting, consumer durable, washing machine for this quarter.

Atul Lall: Can I share that with you after this call, because we have the volume numbers for the entire year but...?

Dhaval Shah: I will take it offline from you that is fine. And Sir any progress on Samsung as a client for our TV business.

Atul Lall: No not yet we are still in discussion mode with them.

Dhaval Shah: And how is the ramp up happening for the washing machine, it is about three months now we started doing business with them?

Atul Lall: We are doing it with them since October last year, September, October last year so now the relationship is really stabilized and mature we had consistently delivering to them around 14k to

15k per month now, the 2018-2019 order book is very healthy so almost 200k and even the 2019-2020 numbers that they have shared with us are extremely aggressive.

Saurabh Gupta: Now since it is well stabilized and whatever challenges we had faced in the earlier few months and now kind of will taken care of.

Dhaval Shah: Very good. Sir there is one understanding I wanted so when you say they have given you a target so then it is a take-or-pay contract or how does it happen so if they do not pick up the...?

Saurabh Gupta: They get with us the budgeted volumes for the next two years.

Dhaval Shah: It is their budgeted volumes okay. So then what is your experience, how much could be the deviation from this on the downside?

Atul Lall: See at least as of now this is the greatness of this relationship with a large customer like Samsung I am not finding any deviation whatever they have committed to us in their forecast, they lift those stocks.

Dhaval Shah: And Sir how about our CCTV business how is that... any new client addition or CP Plus is the only one for us?

Atul Lall: In security surveillance systems CP Plus is going to be our only client and I am pleased to appreciate that they are the largest player in this industry. In fact we are not able to meet the requirement as of now and that is the reason I had shared just a few minutes back that we are ramping up our capacity from 100k to 400k of cameras and all that will be consumed by CP Plus itself so CP Plus has primarily three brands CP Plus and there is a very large Chinese brand Dahua and CP Plus they are also the brand licensees of Panasonic, so all three would be done by us and in the DVR side, we are expanding our capacity from 30k to 100k. So first let us meet complete requirement of this particular customer ourselves.

Dhaval Shah: Fine Sir. And Sir I will take those numbers offline volume numbers. Thank you.

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

Renu Baid: Hi Sir one more question here. Sir if you can share with us what was the mix of the top five clients for the last financial year and what was the share of the contribution in our revenues?

Atul Lall: Renu I would be comfortable sharing the revenue profile of those customers but the contribution would be difficult to share. That is something very confidential to the company.

Renu Baid: Yes absolutely that should be manageable. So overall with the top five customers for us and overall cumulatively how does that number look like in terms of client concentration.

Atul Lall: I will share that with you. I would not be able to share our numbers with you just now. Saurabh will share...

- Renu Baid:** Absolutely no problem I will get back and touch with you offline. Not a problem. Alright thanks.
- Moderator:** Thank you. The next question is from the line of Monali Jain from Dolat Capital. Please go ahead.
- Monali Jain:** Sir I just wanted to understand what kind of revenues that comes in this molding and other electronics that you published in the result update so like if you can bifurcate this other electronics and molding.
- Atul Lall:** The way if you look at our segment numbers is in the investor update that is more better way to look at the numbers. The SEBI format is slightly different so other electronic would include your consumer electronics security systems and other things. So I have reported a complete breakup of segment wise numbers with the investor presentation you should look at that so the molding would form part of home appliances only.
- Monali Jain:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Aakash Manghani from BOI AXA. Please go ahead.
- Aakash Manghani:** Sir I have a question on the consumer electronic business to start with, now you mentioned that the production has been lubricated at two facilities Tirupati and Dehradun and so because of that there has been sort of a margin fall in FY2018 versus FY2017. So I would like understand specifically because of this dual production what sort of margin fall would you attribute to that and because of this moving away from Q2 FY2019 onwards how much margin benefit would you be having?
- Atul Lall:** No, see because we were in a transition face and shifting our production of consumer electronic products from Dehradun to Tirupati dual cost structures are carrying on and as far as their share that the Dehradun facility will stop the production by the month of July. As a result of that, that additional expense that we are incurring in Dehradun will come to an end and we feel that we are going to go back to the original levels of around 2.4%, 2.5% of margins in television business from Q2 onwards. There might be a slightly better margin even more than 2.5% on account of our backward integration of our LCM line that is the scenario expected.
- Aakash Manghani:** So this 100 bps fall in margins is purely because of the dual cost structure is that the way to put it?
- Atul Lall:** Primarily because of that.
- Aakash Manghani:** And so the lower share of ODM revenue is this year versus last year when that does not contribute a lot to the margin fall?
- Atul Lall:** That has also contributed Aakash but major portion would be basically on account of the duplication of cost structure, so once from July onwards we have a strong order book, the

backward integration piece would also be completely started by then. I think so the margins have the potential to go even upwards of 2.5% from July onwards.

Aakash Manghani: Also can you explain this backward integration what is it exactly that you are doing and how does it benefit on the margins front. Can you put some numbers and all that and what is the capex that we are incurring towards setting up this facility.

Atul Lall: If you look at television manufacturing it comprises of three or four levels of manufacturing one is the PCBA which requires a surface mount on the manual insertion process which we were doing in Dehradun but when we migrated to Tirupati and that was a stock, so the surface mount capacity in Tirupati will become operational from July end. So the margin that comes from the surface mount portion there is going to be restored. The second is the panel bit the opens in that large assembly which is a significant portion of television manufacturing so we have set up one of the largest capacities in India for LCM assembly which has already become operational and the capacity is being ramped up so that again gives the kicker to the margin. The third is the final manufacturing of the product, so at present what was happening in Tirupati only was the final manufacturing of the product. That is the reason also the margins has come under pressure because the complete steps of manufacturing were not taking place at Tirupati which is getting restore and why it is going to get further added because now everything is going to be a the whole panel assembly of televisions that we do would be done in the Tirupati Factory. And the fourth level of manufacturing is the molding part, so molding part at present, we are not going to do it, but others we are now do it in-house. So this level of manufacturing is the deepest level of manufacturing which any large multinational or any other Indian company is doing it is one of the largest case in India. That is the scenario of television business.

Aakash Manghani: And this backward integration the incremental margin that you get and incremental profits that you can make how does it strike up on the ROC, as the incremental ROC is the written over here or where you told, how does it and how shall what we are going to do.?

Atul Lall: This capex incurred is not very large., The capex incur till now on this plant is around Rs. 5 Crores. We feel that we are going to be adding another Rs. 7 to Rs. 8 Crores and the Capex is not very large what is of extreme focus is the execution capabilities and talent acquisition. Now ROCs if you see in this business had been extremely healthy so the ROCs would continue to remain extremely healthy in this business because still a large portion of this business would continue to be EMS which does not suck in any working capital.

Aakash Manghani: And let us assume that you go back to the FY2017 operating margins in consumer electronics I mean this backward integration by itself would add on 30, 40, 50 bps again I mean what range should not assume?

Atul Lall: That is right around 50 to 60 bps.

Saurabh Gupta: We basically Aakash we expect a payback in this LCM thing of somewhere around 16 to 17 months.

- Aakash Manghani:** The other question I have is on the lighting business while you answered to one of the earlier questions on the guidance that you gave for FY2019 you talked about the margin being in the band of 7 to 7.5. Now what gives that confidence because FY2017-2018 was lower at 6.1 and sequentially it has fallen and you are guiding for a lower revenue growth as compared to what you achieved in FY2018, so where would this 100 bps margin comes through from?
- Atul Lall:** See if you see the lighting you compare it with 2016-2017 and 2015-2016 also, there has been a significant improvement it has gone up from 3.1% to almost 6.1% and that thing does not happened so just do not look at it on a sequential basis between Q3 and Q4 we feel that the operating leverage because we are acquiring new customers would keep on getting enhanced. We have invested in low-cost automation which is going to bring down on our manufacturing cost. Third, the backward integration in lighting through the mechanical manufacturing in-house route is also kicking in, the production has already started. So the combination of these three factors we are fairly confident that this kind of EBITDA level, we will be able to attend.
- Saurabh Gupta:** If you look at our Q2 and Q2 numbers we have achieved a 7% kind of a margin this quarter would slightly a miss on the margin front so as against 7% we had got 6.3% but we are very confident on account of this backward integration in mechanical parts and other factors which just have been mentioned. We think 7% is very much achievable for 2018-2019.
- Atul Lall:** And so Q4 is relatively a slower quarter for lighting.
- Aakash Manghani:** Good. So should one look at annual numbers here or because the volatility in margins from one quarter to the other seems to be quite high I mean?
- Atul Lall:** I feel you should look at our annual numbers.
- Saurabh Gupta:** There would always be a seasonality towards certain extent like prior to Diwali and prior to those Big Billion Days wherein the consumer electronics tend to show a better number so there is a sense of seasonality in some of our verticals so the best way to look at it annually.
- Atul Lall:** Even in lighting I think it is better to look at annually.
- Aakash Manghani:** And now the washing machine you guided for volume is being up by 30%, 35% ish for FY2019 now these are contracted volumes with existing clients or you are anticipating to onboard almost new clients during FY2019 and hoping for the volume to go up by that much or how does that pan out?
- Atul Lall:** As Saurabh shared that we are targeting a number of almost 720k, 730k from last year's numbers of 530k and this order book is already there the order book is extremely healthy from existing clients itself. We are in the process of acquiring some significant brands in our portfolio. We are very confident of achieving this number in this budget.
- Aakash Manghani:** And on the mobile phone side of the business even in the commentary this quarter and the last quarter you mentioned that in the process of talking with big clients and boarding big clients so it

is not fructified probably so far it has been seven, eight months since we are hearing this commentary so how long does it take to onboard these clients and is it something out of the ordinary now that people are not outsourcing vis-à-vis putting up their facilities or just it takes one, one and a half year to get a new client onboard or how does this function?

Atul Lall: See if you look at mobile business although the revenues have declined significantly but the profitability has not breached one because of the control on fixed expenses and going forward we are confident of enhancing our profitability with even the existing client base due to our backward integration piece so there is...we are confident about that. Now as far as the new and a large customer acquisition is concerned, let us understand the contours of mobile business see today the market is largely dominated by four, five major players. Namely Samsung which is in-house manufacturing. Xiaomi which is the largest Smartphone player in the Indian market which is doing it with Foxconn and then we have two Chinese players Vivo and Oppo which has in-house manufacturing. So that is the challenge that a very large customers has still not come onboard. So we took a call that one we were get in the feature phone market so we had tied up with Tambo which is a large aggressive brand in the Indian market by enhancing our capacity utilization and second is the backward integration piece so that is the strategy we are following so the revenue growth may not be very significant that sort of it shared but on the profitability side there will be a significant jump in mobile in the current fiscal.

Aakash Manghani: Last question I have is this Rs. 65 Crores capex that you guided for could you bifurcate it into the segments in which segment will be attracting how much capex will be useful?

Atul Lall: The Capex in washing machine is going to be to the tune of around Rs. 25 to Rs. 30 Crores, in lighting it is going to be around Rs. 20 Crores...

Saurabh Gupta: And the LED TV that as you mentioned the backward integration would be somewhere around Rs. 7, Rs. 8 Crores and then another Rs. 3, R, 4 Crores is along with that so Rs. 12 to Rs. 13 Crores is the TV segment so there will be hardly any capex in the reverse logistics business and mobile business of course with the PCA backward integration there is a capex of around Rs. 10 Crores odd or 50% share.

Aakash Manghani: Okay fine. Thanks a lot.

Moderator: Thank you. The next question is from the line of Hrishikesh Bhagat from LIC Mutual Fund. Please go ahead.

Hrishikesh Bhagat: Good afternoon Sir. I just need your volume numbers annually. I guess you did not share quarterly I think you had annual numbers?

Saurabh Gupta: Yes Sure. In the TV segment our annual volume numbers are one million sets, in lighting it is almost Rs.17 Crores odd all the LED bulbs and other products put together, home appliances as I mentioned we did 5.3 lakh washing machine, mobile phones were somewhere around 27 lakhs odd and reverse logistics of course is service business, so we did around 6.7 lakh to 7 lakh CPX.

- Hrishikesh Bhagat:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Nikhil Gada from Asian Market Securities. Please go ahead.
- Nikhil Gada:** Thank you for the opportunity. First question is on the lighting front. So is this dip in margins purely because of this currency headwinds or commodity price increase or was it also because of there was any other higher share of ESL business or something like that?
- Atul Lall:** It is a combination of all these. What you are saying is right. One, the overall market is slightly slower in Q4. Second, there is some pressure because of commodity and currency and also ESL business, so it is a combination of all these three factors?
- Nikhil Gada:** Would it be possible to share the ESL share for this quarter, if it is possible?
- Atul Lall:** I would not have this number often.
- Saurabh Gupta:** I will share that number with you separately, I will give you ballpark number.
- Nikhil Gada:** Yes, Sure Sir. Coming to fixtures business, so can you give any number right now I think how much is that of current mix and how do we see this going forward and two, I have another question on that front is how are we progressing on the commercial lighting part as well as street lighting business which we are planning to get into?
- Atul Lall:** At present our numbers for tubelights are in the range of around 500K per month, in the case of baton, it is approximately 100K per month and downlighters is also around 80 to 100K per month which is going to be in a very significant push in this fiscal and we are attempting to replicate what we have been able to do on the LED bulb side in these SKUs. On the commercial lighting front, our solution for 2x2 is ready and the sample evaluation with various customers is on. In street lights, our SKUs are ready but we are not giving it a very significant push. At present the focus is going to be mainly on indoor lighting, bulbs, downlighters, batons, tubelights and on the commercial lighting side on 2x2s.
- Nikhil Gada:** Okay Sir, is there any internal calculation in terms of how much I am assuming this would be much higher margins compared to our LED bulb business, so any number or any colour you can give on how much you expect the margins to be from this sort of mix of fixtures?
- Atul Lall:** Any business to build up, it takes certain time and the solutions are ready. The solutions are in evaluation stage with various customers. We have not put in a very large contribution of these particular SKUs to our business in our 2017-2018 budget, but it is basically a preparation for the subsequent years, so the growth both in the revenues and the profitability that we are showing it is primarily from the bulb side, the backward integration of bulb side and some normal growth on these SKU side. The main kicker is going to I think come in from Q4 of this fiscal and next fiscal itself.

Nikhil Gada: Okay Sir. Coming to the consumer electronic business, so can you give capacity number in terms of LED panels how much we are manufacturing in-house and is it like this is going to be only used for internal consumption or we are also going to plan it to just sell the LED panels as a different source of revenue?

Atul Lall: So the capacity that has been created for LED TVs and panels is around 1.9 to 2 million and everything would be for capital.

Nikhil Gada: Okay. Sir this is more of a detailed question because what we saw in FY2017 was that the share of smaller players had actually significantly increased in FY2017 and it is may be because of someone like Videocon losing market share, so are we reverting back to normalcy in terms of the larger players once again gaining market share and that is the reason we are seeing some decline in our ODM share and is this going to be something which is going to continue or we see that the smaller players once again coming back into the market?

Saurabh Gupta: So Nikhil almost 70% of our revenues also come from top customer in TV business and the top customer has gained a significant market share, so as I mentioned earlier also though in absolute numbers our ODM numbers have gone up as we added, customers on the ODM side which is Flipkart and some other customers that we have added on the ODM side, but the gain in Panasonic's account has been quite significant this year because they have gained a significant market share from maybe Videocon losing a lot of market share in this financial year, so as a result the absolute percentage of OEM in the overall business has increased, but still your major customer contributes a sizable chunk of the revenues.

Nikhil Gada: Okay.

Atul Lall: Dixon side case what we can foresee and the way order book is that we are going to have at least three customers which are going to be contributing a lot and they are going to be large customers some of them extremely disruptive customers who are in our customer portfolio and also we will have a set of relatively smaller customers. So if you see the profile of the customers and the customer portfolio across all the three major verticals of ours namely washing machine, lighting, and television have a similar nature there would be around three, four large customers and five to six smaller customers that is the way it is going to be...

Nikhil Gada: Just on mobile phone business, Sir you mentioned that you are expecting some business to come back from Gionee, so have they committed any sort of orders with us or is it just purely based on some ongoing dialogue with them?

Atul Lall: Gionee business has already started, we have started supplying to them from April onwards.

Nikhil Gada: Okay, any sort of number if you can give on that?

Atul Lall: Volumes were not very large right, but it has restarted.

- Nikhil Gada:** Sir on the PCB expansion so how much would be the capacity of this PCB that we will be able to create and would it be like purely completely for internal consumption or once again we will be looking at selling it in the market as well?
- Atul Lall:** The capacity with PCB is going to be around 300 to 350K for smartphone depending upon the PCBA configuration, alternatively around 750K of feature phone, so that is it. We would prefer the complete captive consumption that all the PCBA we manufacture should be consumed by the phones that we manufacture. However let us see how it evolves, because I am not going to leave any capacity unutilized in this particular case. If we are not able to do it then this manufacturing capacity would be offered for only PCBs also let us see how it pans out.
- Nikhil Gada:** Lastly on that what is the payback that we are expecting from this Rs.10 Crores that you are putting in the PCB?
- Atul Lall:** I think it is going to be 17 to 18 months.
- Nikhil Gada:** Thank you so much for your time.
- Moderator:** Thank you. Th Aditya Kumare next question is from the line of Aditya Kumar an Individual Investor. Please go ahead.
- Aditya Kumar:** Good afternoon Sir. I have a couple of questions. One was what kind of traction are you seeing from the business with Flipkart, now that Walmart has also come in we might be aggressively planning to grow it and the second question is that on the investor presentation I see that a large amount of cash and cash equivalence have been added to this year. So with the Dehradun facility closing up, so would that strengthen the balance sheet and then become a net debt free company?
- Atul Lall:** I will answer your second question first. The cash and cash equivalent is majorly on account of IPO proceed that we have done. We have done Rs. 60 Crores primary proceeds in the company out of which Rs. 36 Crores that have already been utilized, Rs. 24 Crores out of the Rs. 55 Crores which still left, Rs. 11 Crores cash is setting in a subsidiary in the mobile business which will be utilized in this PCBA backward integration. So effectively the cash has a deployment over the next six, seven months and this cash balance would come down as and when we deploy this cash. On the second point, does it answer your question or...?
- Aditya Kumar:** Yes that is okay, but I wanted to ask you that once the Dehradun facility also closes down, so will that manufacture unit will be owned by Dixon or will you be selling it off and putting the proceed towards the balance sheet and Tirupati facility how it will happen once the Dehradun facility closes up or is it a leased facility?
- Saurabh Gupta:** The way it was structured is that in the same facility we had lighting business and the TV business. That facility will now be used for the complete lighting business.
- Aditya Kumar:** Okay and regarding Flipkart?

- Atul Lall:** In the Flipkart side, we have deep relationship for the private label in television segment and also there are other private label presence, so we are executing business for both of them in television business. We see a large focus on their side in promoting this private label. Business has been slightly slow for them, but I am very sure that in the coming quarters as the business is going to get significant traction and I also feel that once Walmart coming in because they are going to expand their product portfolio, it is going to be hugely positive that is what I feel, nothing has come from there side from Walmart as of now, but...
- Aditya Kumar:** Are there any plans to launch any Dixon in-house brands because that would be good for margins and revenues, any Dixon in-house brands that we can launch in washing machines or is there any plans for that in the coming quarter?
- Atul Lall:** I have maintained right through and shared with all the stakeholders, the Dixon is there to service our customers, we will not be interfacing directly with the consumer, we will not been creating any competitive element for our customers at all, so we are very clear on that there will be no in-house Dixon brands.
- Aditya Kumar:** Okay and one more question Sir thank you for all the answers, one more question regarding the mobile phones as Mr. Saurabh mentioned earlier that you will be looking to get biggest lines because the clients that are right now although they are good client, but the market share is not that good as you clearly mentioned the contours of the industry the market share lies with some big players, so how are the plans to do the revenues over the next four to eight quarters?
- Atul Lall:** I appreciate the chance to see her your observation and please be rest assured that we are in discussion with some large customers, hopefully we should be able to have some large customers in place shortly, but to share those details at this stage I think it is slightly premature, we are ourselves conscious of it. At the same time even without having a very large customer in our mobile portfolio, please be rest assured that there will be a significant profitability growth in this vertical in the current fiscal.
- Aditya Kumar:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions from the participants I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities for closing comments.
- Bhoomika Nair:** I would like to thank everyone for being on the call and particularly the management for giving us an opportunity to host the call and answering all the questions. Thank you very much and wish you all the very best.
- Atul Lall:** Thank you so much everyone. Thanks for being on the call. Thanks a lot.
- Saurabh Gupta:** Thank you very much.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of IDFC Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.