



**“Dixon Technologies Limited
Q4 FY2019 Earnings Conference Call”**

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Limited Q4 FY2019 earnings conference call 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 Ms. Nair!

Bhoomika Nair: Good evening everyone. On behalf of IDFC Securities, I would like to welcome you to the Q4 FY2019 Earnings Call of Dixon Technologies. We have the management today being represented by Mr. Sunil Vachani, Chairman and Mr. Saurabh Gupta, CFO. I will now hand over the call to Mr. Sunil Vachani for his opening remarks post which we will open up the floor for Q&A. Over to you Sir!

Sunil Vachani: Hi, good evening everybody. I am sorry Atul could not make it for the conference, he is indisposed, and so you will have to tolerate me for the next hour or so. So thank you for taking out time for the call. I will first give you a snapshot of Q4 performance before we get into the Q&A.

The consolidated revenue for quarter ended March 31, 2019 was Rs.861 Crores as against Rs.599 Crores in the same period last year, a growth of 44%. Consolidated EBITDA for the quarter at March 31, 2019 was Rs.39.4 Crores with an EBITDA margin of 4.6% as against Rs.29.1 Crores with an EBITDA margin of 4.9% in the same period last year with a growth of 36%. There is also stock option expense that has been provided of almost Rs.2.64 Crores. Adjusting for that the EBITDA for the current quarter would have been at Rs.42 Crores with an EBITDA margin of 4.9%. Consolidated PAT for the quarter ended March 31, 2019 was Rs.16.5 Crores as against Rs.14.1 Crores in the same period with a growth of 17%.

Overall our focus across all businesses to achieve a scale migrate more and more to ODM focus on backward integration, new customer acquisition and deepening our relationship with our existing customers and I think we have been able to do this across all the verticals. So if you go segment by segment, we will start with a consumer electronics first. Revenues for the quarter under review was Rs.323 Crores against Rs.214 Crores in the same period last year higher by almost 51%. The revenues are higher, thanks to new customer acquisition and one of the customer is Xiaomi and as you know that in a very short period of time, they have acquired a market share of almost 35% in the smart TV segment in India. Operating profit was Rs.4.1 Crores as against Rs.2.9 Crores in the same period last year higher by almost 40%. We have also expanded our capacity from 2.4 million sets to 3.4 million annually, which we believe is a single largest capacity today for any company in India. With the increased capacity, this will take care of almost 25% of the total Indian market requirement.

We also deepened our manufacturing facility for LCM manual insertion and have expanded the capacity also from 2.4 million to 3.6 million annually. Further our SMT lines have also been installed and now we have a capacity for 1 million boards per annum and we are making further investments by September and we will take it to 3 million to match with the capacity of the final assembly.

One of the largest customers is almost now, which is earlier on EMS mode is now switching slowly to ODM mode and we hope that this would increase the percentage of ODM to the overall percentage in the TV segment. I am also happy to report that we are in discussions with some large brands who dominate the Indian market currently and we are optimistic and extremely bullish on that. Also happy to report that recently we got the eval license from Google and with this we aim to provide Android certified LED televisions to our key customers on ODM basis. I am sure you are aware that the market is shifting from conventional to smart and this will really add strength to our ODM capabilities in times to come.

Next I will go onto the home appliances, revenues for the quarter witnessed a growth of 14% year-on-year, and it was Rs.92 Crores in Q4 FY2018-19 as against Rs.81 Crores in the same period last year. Washing machines going forward we have a healthy order book and now we have a capacity of almost 1 lakh washing machines per month, which we believe is almost 30% of the Indian market in the semi-automatic category. I think we are likely to grow by almost 30% to 35% in FY2020 in terms of volume and now we have almost 140 models across the semiautomatic category, which we believe is the largest range. We have also finalized our solution for the top-loading fully automatic washing machine in the 6- and 7-kg category and we hope to commence production in Q4 of the current financial year. This project is likely to come up in Tirupati next to the same campus that we have for televisions as well as the lighting division.

Next I will come to the lighting segment. Revenues for the quarter have shown a stellar growth of 43% year-on-year, for the quarter Rs.305 Crores in Q4 FY2018-2019 as against Rs.213 Crores in the same period last year. Despite the fact, the conventional CFL business has completely come to stop in September 2018. If we adjust revenue the lighting CFL business the revenue growth would be higher at almost 65%. The margins in lighting business expanded from 6.3% in Q4 2017-18 to 7.1% in Q4 2018-2019 due to the operating leverage, addition of new customers, backward integration into mechanicals and more and more migration to ODM. We are very happy to report that the ODM percentage is almost 89% now and this has also been possible because of sale of higher voltage bulbs which have higher realizations and large portion of the business except for some indoor and outdoor drivers the business is going to be ODM now. New brands have been added and we continued to keep on adding new brands, new relationships, large brands like Panasonic, Anchor, Bajaj, Wipro, Syska, Polycab, C&S, Jaquar, Usha, so almost all the leading brands today are our customers and we supply to these brands on ODM basis.

I am also happy to report that we are expanding our capacity of LED bulb from a current level of 216 million, which is 18 million per month taken up to almost 20 million, which is 240 million per annum. We are also expanding our capacity in the high potential area of battens and taking it up from almost 5 million to almost 24 million pieces per annum. I am sure you are aware the total Indian requirement is almost about 60 million and almost all the customers who are there for LED bulb will be a potential customers for battens. Further some of our customers are also planning to take us global and we feel that this can be a huge potential area for us, as we know that with these volumes that we currently do or planning to do in the times to come we feel that we would be top 5 globally in terms of the production capacity. So 2019-20 will be the time for expanding our capacity in battens, deepening our relationship with customers, more backward integration and as I mentioned our attempt to look at the global business.

Next I will go onto the mobile phone segment. Revenues were lower by 13% year-on-year from Rs.77 Crores in Q4 FY2017-18 to Rs.67 Crores in Q3 FY2018-19. Operating profit margins have improved to 2.5% in the current year as compared to 1.1% in the same period last year and this mainly on account of PCBA backward integration for mobile phone, which has resulted in the increase in value add in the profitability. Our PCBA backward integration capacity for mobile phones is almost 350k of smart phones and almost 700k of feature phones per month. This is mainly because of overall improvement in capacity utilization and sale of some brands, which we were not doing earlier and PCBA backward integration of mobile phone, which started in the current quarter. Also happy to report that we are in advanced stage of discussion with a very big account in mobile phones and we are in the process of setting up our factory in Noida with almost 200,000 square feet in times to come.

Next I will go onto the CCTV and DVR segment, revenue for the segment Rs.69 Crores with operating profit of Rs.1.5 Crores and an operating margin of 2.3%. As we know this business is in a 50% JV with Aditya Infotech who are the leaders in this segment with iconic brands such as CP Plus, Dahua and also they are the brand licensees of Panasonic. In this segment too, we have expanded our capacity from 3 lakhs per month to almost 7 lakh per month is almost 8.4 million per annum it is for the cameras and in DVR we have gone from 15k a month to almost 1.5 lakhs a month from January. In Q4 we have clocked a monthly run rate of almost 3.3 lakh CCTVs and 90,000 DVR. The order book going forward also looks healthy and the customer is doing well in the market place and we expect the growth in profitability as well as capacity utilization to improve further.

I will come next to the reverse logistic segment. The revenues in this quarter were just Rs.2.5 Crores. We are in this business for, as you know, for strategic reason because one, it enhances our stickiness with the customers for televisions and mobile phones and also it helps us to provide end-to-end solutions, which we believe is our forte, as an EMS ODM player. Well in this segment we are in the process of reducing our fixed expenses both on the manpower and the

overheads, in the set-top box business and this is will start reflecting in the coming months. So the focus here really is on the LED TV panels and the mobile repair business and this facility that is currently there is Noida, which is spread over almost 150,000 square feet, we are starting a lighting factory there and moving out the reverse logistics division towards smaller area looking at the growth that we anticipate in the lighting division in times to come. So this is all that I have. Now we can start the question and answer session.

Moderator: Thank you very much. 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 Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Good evening Sir. Thanks for the detailed update on each of the segments that has been very useful. My first question is on consumer electronics business wherein margins have fallen and capital employed appears to have risen quite sharply, what has that been on account of and our terms for Xiaomi contract different from what we are having with our existing customers?

Sunil Vachani: Well, I think the margins have fallen only by a very small this thing from 1.4% to 1.3%, so Saurabh probably does wanted to...

Saurabh Gupta: So Aditya I think so one basically what happens that the market is also shifting to higher category, so 32 inches moving to 43, 43 is moving to 55, so what happens revenues it is also the margins looks lower because the selling prices of TV that we are giving to Xiaomi are mostly 43 inches where the selling prices are higher, earlier market was more focused on 32 inches, 24 inches and Xiaomi is mostly selling TVs 43 inches, which has got a higher selling price, so despite the revenues growing by – selling price is also – it is a major reason why the margins look lower, so what one should look that whether the absolute EBITDA is growing or not that is more important rather than the margins.

Sunil Vachani: Now so if I can add that as I mentioned earlier that the ODM segment was struggling because there is a shift to the smart TV segment and I think with our Android license and also the new smart solutions and also solutions based on certain things we feel that the ODM percentage will definitely increase in times to come, which will improve the margin also and to answer your question on the other part on the capital employed in the business, so you are absolute to add the capital employed in the business has increased significantly and one of the reasons is course this new customer, Xiaomi, which though it is on a prescriptive mode, but the funds of Dixon had been deployed in that business, which is kind of getting it recovered in the higher contribution that we are making from Xiaomi, so the way it has been presented is like we get higher contributions, which is reflected of course in the profitability and the way it comes – some of it comes in the interest cost as well. So as of now the funds of Dixon had deployed, which we are in the process of correcting it, but as of now the funds of Dixon are deployed.

Aditya Bhartia: Okay, just to understand it properly while margins may not look to have fallen sharply on a year-on-year basis, but our Q4 FY2018 themselves were a bit lower, I think because we were incurring overhead expenses for two facilities in tandem, on top of that we had also increased our backward integration on account of which we anticipated that margins would be going up and in that context these margins look to be on the lower side. Even if we look at the absolute increase or the absolute number of EBITDA that has been reported that does not really show the kind of growth that contract as large as Xiaomi could have intuitively brought?

Saurabh Gupta: Right, so one of the other reasons Aditya is also as Sir Mr. Vachani mentioned at the start of the call that we have around Rs.2.6 Crores kind of a stock option exchange, which has been provided in this quarter because we allocated stock options last quarter and the way it gets to account for it immediately once it has been provided and there is also one-time expenses of almost Rs.70 lakhs, Rs.80 lakhs at a corporate level and the way we allocate our corporate overheads to each of the businesses as we allocate 30% each to consumer electronic lighting and home appliances business and 10% goes to the reverse logistics. So also there is a portion of kind of a stock option expense and one-time expense gets allocated to all these heads, which is kind of reflected in that, but as per our order book or as per the volumes that we have done in Q4, our volumes kind of increase year-on-year and the revenues, the margins also look lower because the selling prices. So my selling prices year-on-year, so what mix I had at last year Q4 the mix is kind of change. Last year Q4 I had more Panasonic as a major customer and the categories that we were selling was slightly lower 24, 32 is at lower selling prices. In this Q4 the major business for me is coming out of Xiaomi and we are selling mostly 43 inches kind of category, where the selling prices are higher, so that is also is kind of reflective in the lower margins, so you are absolutely right on margins, but one, we look at the business is whether the absolute EBITDA is growing or not.

Aditya Bhartia: Sure. That is helpful and going forward what should we be expecting in terms of margins and more importantly capital employed, do you think that we will be able to correct capital employed in our discussions, which Xiaomi or would it remain more capital intensive business?

Saurabh Gupta: At this point as I can only say that we are in discussions them to rectify this capital employed situation, but we also want to have the Xiaomi as a client because they are really doing well in the market space, so we want to make a fine balance between both of them, so whether we will be able to do it or not I think so it will take us couple of more months to come back to you on that.

Aditya Bhartia: Sure, understood. My second question is on the mobile phone business, wherein while margins have improved on account of PCB facility that we had started, but revenues again appear to have fallen to the levels that we used to have before the PCB facility became operation?

- Saurabh Gupta:** To see that in the PCB this thing for the PCB we were doing a job work, so there was no sale as such that has been booked because we are doing both kinds of business, both for the finished mobile phone as well as for the PCB when we started our SMP and as you know the SMP started only in late December, so when we do the business for the PCB there is no revenue really accounted this thing for the finished product or for the registered convergent charges.
- Aditya Bhartia:** I understood Sir and lastly on lighting how excited are you about the potential to start exporting and do you think the customs duty that US appears to have imposed on Chinese lighting that is something that can provide a Philip to export from India?
- Sunil Vachani** So I think if you look at the overall footprint of the lighting manufacturing globally China and India are emerging as the hubs for manufacturing these lighting products and as I mentioned that now with the kind of scale that we have achieved we believe that we are at the same level as let us say the top 5 manufacturers in China and also everyone, I think globally is looking at China Plus one strategy one because as we know China is getting expensive to manufacture as a location and also because of the trade wars and tension that are there, so we have seen a lot of interest, but I think it is still early days and I think we need to take it step by step.
- Saurabh Gupta:** So Aditya 2019-20 will be the year where we will be expanding our capacity in batten, so we already have all the customers on-board, the duties of battens have been levied to around 20% odd, so more and more manufacturing will be happen in India and that will be through the outsource route. We are expanding the capacity in battens to almost 2 million which is almost 40% of India's market, so 2019-2020 would be the year of, I think so expansion of capacity in battens, expansion of capacity in LED bulbs and of course played a global export business I think so we are getting significant enquiries on that, but I think so, 2019-20 would be more of a development year, but 2020-2021 can be a big year as far as exports of lighting from India are concerned.
- Aditya Bhartia:** Perfect, I understood and one last question on mobile phones. Just a clarification I am not sure if I heard you right, did you speak about setting up capacity aggregating to almost 200,000 square feet in Noida?
- Saurabh Gupta:** That is right, so I will tell you basically as you know, that recently we bought out our JV partner and the reason was that – I think our directions are different, they were more on the branding side and we really wanted to focus on the manufacturing of EMS and ODM. The facility that we have currently is not one of the largest this thing, it is a smaller facility and we felt that we really need to have a big capacity and state-of-the-art factory to really attract the big clients and I think we are on a very, very good this thing, because with new factory coming up hopefully we should be looking at a tie-up soon.

- Aditya Bhartia:** I understood Sir. Thank you so much.
- Moderator:** Thank you. We will move to the next question which is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** This is Tejas from Reliance Mutual Fund. Just one question to Mr. Vachani more from top down approach now BJP Government at the top with full majority and this government is propagating Make In India and obviously on the export side today, there was news that there is a panel setup, where they are looking to double the exports, I would want to know your views, larger opportunity for Dixon over three- to five-year perspective that how you see this company capitalizing on this opportunity, considering that you are one of the licensee between the industry and the government?
- Sunil Vachani:** So I think the need of the hour for the country is to generate jobs and any government have come in would have focused on employment generation and we are happy that the BJP Government has come and we believe that there will be a renewed focus on the Make In India program and towards this we would have the correct tariff structures which encourage local manufacturing and also we believe that there will be a huge thrust on exports especially our categories like lighting and mobile phone. As you know that the MEIS, which is the subsidy exports is a grant, which has been increased to almost 4% on mobile phones plus there is a drawback, so we feel that there would be a big potential for also export of mobile phones in times to come, so we definitely are very encouraged and then we feel that India will emerge as a hub for manufacturing of all the ICT products for the world, so what we foresee ourself in the next three, five years is manufacturing in India not only for the Indian market, but for the global markets.
- Tejas Sheth:** Okay just on the follow up of this, what are the steps, which you would expect from the government especially from Dixon perspective, which can really make us grow at a much higher rate and what we have grown today?
- Sunil Vachani:** So I think there are some cases of inverted duty structure, wherein the inputs are at attracting some duties, so we are going to be as an industrialization, we will be in talks with the government to reduce the duty on open cell from 5% to 0% because currently there is no player manufacturing the open cell right now in the country, so this is one of the areas that we would be engaging with the government to basically rationalize in the tariff structures in such a way that we encourage local manufacturing and we create a scale, which can adjust the global markets in times to come.
- Tejas Sheth:** Okay so it is predominantly for us the larger area of opportunity will be in televisions and mobile phone when it comes to government records?

Sunil Vachani: No, I think if you see, you know, we had discussed that sometime back, but if you look at across product categories still the penetration levels are very, very low across all the products that we manufacture. If you look at washing machine hardly 12% of the people on washing machine when we talk about that earlier mobile phone in India are going to be the largest market for smart phones. If you look at security cameras, there is huge growth anticipated and same goes with lighting and consumer electronics, so I think we are excited about across all our product category and we feel as I mentioned earlier that these products will be first made in India for the Indian market and then for the global market because each of the product categories, we feel that India can emerge as a leader as far as exports is concerned, I mean, today our labour cost is much lower than in China, our productivity difficult to believe, but our productivity is as good as China if not better. Our power tariff lower than China, we get uninterrupted power supply which we have been getting, so on all accounts we feel that India has all the potential of emerging as an export hubs in times to come.

Tejas Sheth: Okay just lastly one question, any large category we are looking to add in current financial year as a product...?

Sunil Vachani: I mentioned that, if you see our existing product categories, the new products that we need to get into. We have already talked about the fully automatic washing machine and I think we have got a good response, we talked to our existing customers, Saurabh has already talked about the batten possibility, which is huge, so I think first what we need to do is that is the product categories that we are in to make sure that it cover all the bases and cover all the products that are possible and then possibly look at the next segment something like a refrigerator.

Tejas Sheth: Okay fine Sir. Thank you very much.

Moderator: Thank you. We will move to the next question, which is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Thanks for the opportunity. Just coming back to this capital employed in the consumer electronic segment, so on a quarter-on-quarter if you see an increase it is almost about Rs.30 Crores, Rs.35 Crores kind of an increase and which is largely the incremental revenue that we have drawn from the segments, so in light of this how should we see? Everything in the form of receivables?

Saurabh Gupta: It is not a question of receivables that is the question of the way, the whole contract, so there is no problem of receivables it is just that we end up requiring money for funding the GST component in this business which is partly recouped under the better contribution that we recover from Xiaomi, but there is no problem with receivable. So as far as the payments are concerned, there is no problem with that. So as of now I cannot give you a long-term picture, but we are trying to rectify the situation, this business is important for us because they are the one who should be doing really well in the market place, they have 35% market share today and we have a big order

book for this financial year because they are shifting most of the quantities, so we are the manufacturing partner for them in India and there is a clear 10% arbitrage on importing versus make in India. So they are shifting most of the quantities to us, they have a big order book with them for FY2019-20, so we just need to make a fine balance between this capital employed and executing the order book. So as of now you can assume that this capital will be deployed but maybe another couple of months I can come back and update you on this better.

Abhishek Ghosh: Sure, Sir also on the washing machine segment also if I see because what you rightly mentioned this one should not look at only revenue in the margins then one should probably look at the overall EBITDA growth so if I look at the washing machine segment is 14% kind of an EBITDA decline that is largely led by lower margins, although there is a revenue growth of 14%, so the new contracts that we have got in the new products that we have got, are they kind of not been EBITDA accretive because despite revenue growth, the overall EBITDA has kind of decline for us, how should we look at in this backdrop?

Saurabh Gupta: First of all if you look at the annual numbers and specifically to the quarter numbers, so if we look at the annual numbers, our annual numbers at EBITDA has grown from 31% to 37% which is the growth of 21% and even in this financial year, we are looking at a growth of almost 25%, 30% only on account of semi-automatic category and from next financial year, we will add the top loading version as well. As far as this quarter is concerned, so one is of course the increased business from Samsung, so Samsung of course has a slightly lower margin as compared to our other customers, but at the same time Samsung gives us volume and we have a big order book from them. Secondly as I mentioned at the start of the call there is a one-time corporate allocation expense of almost Rs.3.5 Crores which is basically stock option expense and there also one-time expenses which was not there a year ago or not there in Q3, so that gets allocated 30% of that expense gets allocated to washing machine and so that is also kind of reflected in this poor margin, so fundamentally I think so there is no problem with volumes, we continued to grow both in terms of volumes, but there is a slightly higher allocation of corporate expense in this.

Abhishek Ghosh: Just on the employee expense part of it's about Rs.2.6 Crores is related to the ESOP expenses which is accounted in this quarter, so to that extent it is higher in this current quarter?

Saurabh Gupta: That is right, 30% of that goes to the washing machine segment, so almost Rs.75 lakhs goes to the washing machine segment.

Abhishek Ghosh: If I look at the absolute employee expense adjusted for that Rs.2.6 Crores increase, it is about Rs.25 Crores odd which appears to be a sharp jump which used to be in run rate of about Rs.19 Crores odd to now about Rs.25 Crores odd adjusting for the ESOP expenses, so what is the reason for that?

- Saurabh Gupta:** The reason is that we are building a great T&D has a big order book, so we are really building the middle management team, the main thing today in Dixon is parent acquisition in creating a team to execute the order book that we have, so this is more of a development cost, so the revenues – the order book that we have and the revenue that would come in future even the profitability, so the percentage of revenues, the employee cost would not go up significantly, so absolute number is looking at higher number, but if you look at the percentage number, common size numbers, it will look okay.
- Abhishek Ghosh:** Okay Sir. Thank you so much for answering my questions and all the best.
- Moderator:** Thank you. We move to the next question which is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.
- Keyur Pandya:** Thank for the opportunity. Sir my question in working capital, if you see our working capital has overall increased and it is visible in terms of higher interest cost also, so how do you see this going forward for sometime similar run rate should be expected?
- Saurabh Gupta:** I think so as of now you should expect a similar run rate of around Rs.8.5 Crores odd for a quarterly kind of a run rate, but I would say that once the stock options period of exercising those stock option comes into play which will be like October, so we will get some cash coming into the system, also there are some more money which has been blocked under GST on your areabased exemption in Dehradun plant and some incentives on Tirupati and some bit of GST which has been dropped on account of the inverted duty structure that we have in lighting, so almost Rs.12 Crores to Rs.15 Crores has been blocked under GST. With the new government coming in at I am sure this process should be accelerated now, so you will get it, so yes we have got some refunds, but the process needs to be accelerated. So that Rs.14 Crores to Rs.15 Crores comes into play, stock option people will exercise the stock option and that money comes into the system, but as of now I think in the next couple of quarters we should have similar run rate of Rs.8.5 Crores quarterly kind of run rate.
- Keyur Pandya:** Okay, my second question is on LED panels business, so if you see sequentially revenue has increased by around Rs.50 Crores, so despite increased revenue our margins have gone down, so even sequentially that size of the TV panel that mix has changed so sharply that it affects our margin?
- Saurabh Gupta:** Yes, absolutely I think so as I mentioned it is also a function of selling prices, I will give you an example that almost if I break down this 50% growth in revenues into pricing and volume, so the pricing has actually increased almost our selling prices to our customer, it is actually increased by almost 20% to 30%, so that leads to a reduced margin, so I make contribution per TV set, so

whether the TV sets sells for Rs.10000 or whether itself for Rs.17000, the revenue would look higher and the margins would look lower.

Keyur Pandya: Okay, another question is just want to know in washing machine segment, so what would be the share of Samsung for full FY2019 and expect a share for FY2020?

Sunil Vachani: So Samsung this year is almost 35% of our revenue and in this quarter it was 50% of our revenue came from Samsung. FY2019-2020, the order book that we have almost 45%, 50% of revenues would come on account of Samsung business.

Keyur Pandya: Okay, so just followup question since our share of Samsung revenue is going up, should we speak a moderation in profitability for that segment?

Saurabh Gupta: We are doing a lot of value engineering on the cost side some of them has already happened and has been as effectively got implemented from April, so that would lead to higher margins slightly better improvement in margins on account of Samsung business, also we are coming out with a new model, which will be operation in June so that model for Samsung would have slightly better margins.

Sunil Vachani: And I think we can look at overall increase in the quantities and the value because as I mentioned that we are increasing the capacity for almost Rs.1.1 lakh in the peak period.

Keyur Pandya: Okay, perfect and Sir last question on the capex front, what was the number for FY2019 and for FY2020 looking at the expansion plan that you mentioned FY2020 guidance for capex?

Saurabh Gupta: FY2019, the capex was around Rs.68 Crores odd and FY2020 I think so it should be similar around Rs.60 Crores to Rs.65 Crores the capex excluding the top load washing machine, this is I am talking only on the existing business of lighting TV expansion of capacities backward integration in our existing business on an as needed basis and then there is a separate capex of around say around Rs.30 Crores odd on the top load fully automatic machine.

Keyur Pandya: And that entire capex would be FY2020 or it will be...?

Saurabh Gupta: It will be split so partly the capex will be done in FY2020 and partly it will go to FY2021 as well.

Keyur Pandya: Thank you Sir and all the best.

Moderator: Thank you. We will move to the next question which is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good evening Sir. The first question would be to understand as we are seeing Xiaomi scaling up significantly, so has this impacted the market shares of some of our other customers or have we

seen essentially the effect of cannibalization of sales from some of the smaller brands to Xiaomi and has that also be one of the reasons impacting the margins in the segment?

Sunil Vachani: Well I think if you see the overall market for LED television that has not grown and I think that is in line with the other consumer facing industries, but we feel that now with the new government in place and the liquidity measure that would come in, we feel that the sales of consumer durables including LED television will definitely improve, because the overall sentiment is going to improve. I think what Xiaomi has done has taken a major market share of this Smart TV segment, we know that they are not there in the conventional TV segments, so yes they have taken a major share of the existing customers in the smart segment.

Saurabh Gupta: You are absolutely right, Xiaomi actually giving a run to all the top branded player including Panasonic but they are slightly better because Panasonic still sales most of the conventional TV, the 60% of the sales are still conventional and non smart TVs and Xiaomi has 35% share in smart TV, but having said that our volumes through Panasonic has marginally come down, hopefully that should...

Sunil Vachani: As I mentioned to you that we are switching to ODM more and more with the existing customers, so that should improve the margin in times to come.

Renu Baid: So probably Panasonic also we will see a higher share of ODM revenues coming through...?

Saurabh Gupta: Yes.

Sunil Vachani: Both in the conventional as well as in the smart in times to come.

Renu Baid: Overall can you help us with who are the top five clients for us for FY2019 and roughly the contribution of these five accounts across business?

Saurabh Gupta: I can give you the names of the customers of course but I cannot give you any specific contribution by numbers of client.

Renu Baid: No, individual contribution, just the name of top five clients and cumulative contribution to revenues as percentage?

Sunil Vachani: I think we will make out this thing and probably share with you definitely.

Saurabh Gupta: We do not have such analysis right in front of me, but I can share that with you separately, but top five would definitely be Xiaomi in TV and overall there will be – on the top five Samsung, Philips would be among the top five and then followed by Panasonic would be again top five because they across the vertical.

- Renu Baid:** Okay and on the working capital especially debt front you mentioned it was still take few months to try and re-work the working capital especially in the television segment, so how should we read in terms of the expected debt levels given that capex will continue to be close to Rs.70 Crores, Rs.75 Crores cumulative capex, so how should we reach in terms of reducing leverage as well as working capital for FY2020-21?
- Sunil Vachani:** As far as home appliance and the lighting is concerned, there has been huge focus on managing your inventory and debtors and we have been able to reduce our days as far as lighting and home appliances segment is concerned, of course TV we ended up deploying, so those they actually moved up, so as of now till the time, this whole mechanism on the capital allocation, capital deployed in TV business works out, we think this would be the normal right now and you should assume a similar kind of debt levels, but we are expecting that entire capex for next year will be funded completely out of the internal accruals and we should generate some bit of freak – so it is a function of now generating money from the working capital, but as far as capex is concerned, it will be completely funded out of the internal accruals.
- Renu Baid:** Sure and can you help us with the expected guidance for FY2020?
- Saurabh Gupta:** I can give you a broad indication.
- Renu Baid:** Yes just broad indicative numbers.
- Saurabh Gupta:** If you look at this numbers, we have grown at 20% and this is despite the fact that we really had a bad H1. If you look at Q2 numbers, we had a really bad because we had impacted both back currency and commodity and our washing machine margins also got impacted, lighting margin also got impacted. If you look at the last two quarters, now we are started delivering a run rate of almost Rs.39 Crores kind of an EBITDA. I think so considering the order book that we have for next financial year both in washing machine, lighting as well as consumer electronic segment. I think we should grow by somewhere around 25% to 30% kind of a growth. One thing which you should also factor in now we are 100% owner of Padget Electronics, the mobile business as well. So earlier we were accounting only for 50% of revenues and profitability, so that revenues and profitability now goes up to 100%, so I think so it should be somewhere around 25%, 30% kind of a growth on the profitability side.
- Renu Baid:** Okay, sure and topline growth would be similar factor?
- Saurabh Gupta:** Topline growth would be also similar because again mobile will now account for almost 100% of the revenues.
- Renu Baid:** Alright. Thank you so much and all the best.

- Moderator:** Thank you. We will move to the next question which is from the line of Prithviraj from Unifi Capital. Please go ahead.
- Prithviraj:** On the television side, what are the volumes that we are currently doing to Xiaomi and how do we see this ramping up over this one year?
- Saurabh Gupta:** I cannot give you any customer-specific numbers broadly I can tell you that this year we did 1.13 million from kind of a quantity on the consumer electronic LED TV side and next year considering the order book that we have, we should grow by almost 35% odd in that business, so we also may be should be somewhere around 14 lakhs to 15 lakhs kind of a number for FY2019, 2020 and out of which major part of that business would be Xiaomi, so almost 65%, 70% would be Xiaomi business.
- Prithviraj:** Thanks, that is very helpful and on the lightning side, now that we are expanding both LEDs and batters, so we will see the lighting revenue growing by 15% to 20% for the next couple of years?
- Saurabh Gupta:** Even if you look at this year despite the CFL business completely going away, we have still done growth of 19% odd and the CFL business came to an end at around end of September we just at first H1 as far as CFL business was concerned, so if you exclude that we grew by almost 38% is in lighting business like-to-like comparison after removing CFL business, so we are confident that with expansion of the classical LED business and the expansion in batten business and of course the export play we should be continued to grow at around 25% to 30%.
- Prithviraj:** Okay, thank you Sir.
- Moderator:** Thank you. We move to the next question which is from the line of Rohan Advant from MultiAct. Please go ahead.
- Rohan Advant:** Thanks for the opportunity. Sir my question is on the interest cost of Rs.25 Crores that we have incurred this year if I look at our gross debt it is roughly Rs.140 Crores, so is there any non-fund base limit that we have on which we are incurring bank charges that are included in the finance cost?
- Saurabh Gupta:** So there are two things to it. Of course they are LC charges, because we need to open a lot of LCs on our imports, there is a component of that and also what we do we end up discounting our receivables which becomes off balance sheet item and there is a lot of receivables which had been discounted, so one needs to add back and then look at the interest cost.
- Rohan Advant:** On a pure fund base limit, what would be the interest rate that we would be paying if you can share that?

- Saurabh Gupta:** So our average intensity is around 9.5%.
- Rohan Advant:** Thanks for taking my question.
- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Sir, you talked about the consumer electronics margin, if you look at it on a Q-o-Q basis there has been a revenue growth and even if I look on that absolute EBITDA, there is actually decline on a quarter-on-quarter basis I do understand that there would have been about a crore of allocation towards this ESOP and the other fixed charges, but still there is a decline, on an absolute basis if you can explain why there has been a dip versus Q2, Q3?
- Saurabh Gupta:** What was the Q3 number Bhoomika if you can...?
- Bhoomika Nair:** It was about Rs.6 Crores which has gone down to Rs.4 Crores.
- Saurabh Gupta:** One of the reasons is like we accounts for the AC PCB business also in this consumer electronic business, which we do for Rexon and they supply to Daikin, so that business under Q4 is kind of seen us go down because there was some strike in Daikin factory, so that is partly attributable to that of course that business also contributes 30 lakhs to 40 lakhs kind of an EBITDA so this quarter was very slow as far as Q3 or as far as same period last year is concerned and up to the Diwali it is always the biggest quarter for us because of Diwali, October to December is always a biggest quarter, because of Diwali, this time Diwali was always after November and then it kind of normalizes after that and third I would say this higher allocation of corporate expense and fourth as a percentage it is looking lower because we have higher sales mix of Xiaomi in Q4, so we started the business in July, we have started with 10000 quantities and move to almost 20000 and by end of December we are somewhere around 30000, 40000, but this Q4 we have increased the quantity of Xiaomi really increased in March month we had done almost 75000 quantity for them, so again the selling price is major event why the absolute revenues have grown, but the margins look lower.
- Bhoomika Nair:** Okay and if you can also comment across all the segments on how the end demand is moving, so while we are seeing growth from ramp up of existing customers or new customers, how is the end demand growing across all the categories?
- Saurabh Gupta:** This year I think Mr. Vachani can tell better, but this year has been slower post Diwali, all the industries have seen a significant slowdown, we were better off because we have been able to add customers like in TV we added Xiaomi and in washing machine our order book from Samsung has increased year-on-year, but I will request Mr. Vachani to answer this question.

Sunil Vachani: As I mentioned sales across consumer durables whether it is televisions or home appliances have been suffering, we do not see the growth levels that there should be because as I mentioned that till the penetration levels are very low, so there is huge upset that should be there, so the only reason that we could think of is because of the market sentiment and as I mentioned that we feel therein months to come the market sentiment will surely improve with the new government in and I am sure the measures that they would be taking to, but I think one area, which has definitely shown a growth is the lighting because what is happening is that one the market is also growing and second the aggregation model of the Government of India still continues as far as the deposits is concerned. So that is one segment which is seen a growth and we also see the growth in the security segment the CCTV, DVR that market has also grown, but otherwise if you look at TV market and the home appliances market and the mobile market they were subdued.

Bhoomika Nair: Okay, on the security systems, how do we see that scaling up for FY20 numbers?

Sunil Vachani: As Saurabh mentioned that we are already touching levels of 350K to 400K and we foresee I think this to continue and I think as I mentioned that the segment is still underpenetrated, so we definitely see huge potential in this business in times to come and I think what we are also planning and we are talking to our customer, talking to our main JV partner, is also the backward integration possibilities because as you know right now we continued to import the key parts, although the PCB is now in CKD, but at least the plastic parts, lens and other things there is a huge scope for backward integration in this project, which we are in talks with the JV partner now.

Saurabh Gupta: Bhoomika, the order book is not a problem, we have a big order book and next year you should see a significant improvement in profitability as the capacity utilization improves, so if you see this quarter also we have gone down into significant profits, this profit would only get better because the capacity expansion happen only in December and we are now clocking a decent run rate and that would even improve, we have made a good plan for next financial year, so this business should generate good profitability and without any working capital we are getting deployed, so this business in terms of ROC and paybacks would be even higher, so this business as a potential we generate 45%, 50% ROCs.

Bhoomika Nair: Okay and on the debt numbers you said in the second half, there would be some money which will come and which will help reduce the debt numbers, but is it likely that for the next two quarters debt will continue to rise given our capex and scale across various volumes, various segment?

Saurabh Gupta: No I think the debt levels should not raise plus, minus Rs.4 Crores, Rs.5 Crores because we also have a big order book and we also have profitability coming in, so I do not expect the debt levels to increase significantly. As I mentioned the capex would also be slightly back ended this year, not front ended so that would be funded out of the internal accruals and we have a huge focus on

managing our stocks as well as debtors, so I do not see the debt levels going up, but there is possibility that it may not come down immediately as well.

Bhoomika Nair: Okay.

Moderator: Thank you. The next question is from the line of Nikhil Gada from Asian Market Securities. Please go ahead.

Nikhil Gada: Thanks for the opportunity. Sir my first question is that given that we are expecting the share of Samsung and home appliances to increase further, can you give any sort of margin guidance for FY2020, how would the margins be from the current levels in FY2019 that you say?

Saurabh Gupta: Margin profile should be somewhere 10.5% to 11%, if you look at 10.5%, 11% kind of margins, overall the profitability should grow by 25%, 30% in absolute EBITDA.

Nikhil Gada: Okay, thanks Sir and regarding mobile phones, if you see in Q3 we did revenues of around Rs.151 Crores which has now once again gone back to Rs.67 Crores, so is there any reason why we are seeing such volatility specifically?

Saurabh Gupta: Customers that we have in mobile unlike consumer electronic, lighting or home appliances will be a big customers, mobile, we do not have a very big customer today and customer that we have I am not doing very well in the market place, they have competition from some of the Chinese companies, so that is a major problem, but just to share as Mr. Vachani said at start of the call we are in advance discussions with very big player where the deeper market share in India and I think so things should come back on track in a very short span of time.

Nikhil Gada: I know it will be a little difficult, but if you can just give some ballpark estimate as to what how do we look at the revenue in mobile phone from here onwards on a quarterly basis, is there any specific run rate which we can look at?

Sunil Vachani: It is difficult to say.

Saurabh Gupta: This year it is excluding this new customer that I am talking about because that still work in progress and do not want to talk about the customer, but excluding that I think we should be doing somewhere around Rs.550 Crores to Rs.600 Crores kind of a sale and the margin profile should be around 2.5% to 2.7% kind of a margin, so we should do somewhere around Rs.16 Crores to Rs.18 Crores EBITDA on this business excluding the new account.

Nikhil Gada: Thank you Sir. That is helpful.



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Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: I would like to thank the management for taking time out and addressing all the queries. Wishing you all the very best for FY2020 and I would like to thank all the participants as well for being on the call. Thank you very much.

Sunil Vachani: Thank you so much and hope we were able to answer most of the questions.

Saurabh Gupta: Thank you very much. If you have any followup questions you can contact me. Thank you.

Moderator: Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.