

“Dixon Technologies India Limited Q3 FY-22 Earnings Conference Call”

January 28, 2022

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

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

Moderator: Ladies and gentlemen, welcome to the Q3 FY '22 results conference call of Dixon Technologies (India) Limited, hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touch tone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Naval Seth, Emkay Global Financial Services. Thank you, and over to you.

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

Atul B. Lall: Thank you very much, Naval. Good evening, ladies and gentlemen. This is Atul Lall, and with me is our CFO, Saurabh Gupta.

Saurabh Gupta: Good evening, everybody.

Atul B. Lall: Thank you very much, for joining this earnings calls for the quarter ended, December 2021. If I analyse the performance of Q3, I would say that the demand was good. However, there was impact due to high inflation and Omicron scare. Overall, the company's preparedness to counter supply challenges helped in delivering overall revenue growth during the quarter. Also we remain positive in the demand resilience for the upcoming quarters.

Margins have been under pressure for the industry and so is the case for our ODM business. It has been primarily due to the elevated commodity and freight cost, and it is taking some time to pass on this increase to our principles. Also, the lowering of margin is on account of change in sale mix, wherein the main growth has come in the prescriptive business of mobiles. We're confident that we should be able to pass this increase in cost of input to our principals, and we're confident that the margin should start improving from the current quarter and should go back to the normalized level by next fiscal.

Coming to our overall performance, the third quarter saw an overall resilient performance on revenue front, which was as per our targets. In fact, on nine month basis it grew to INR 7,800 crores from INR 4,300 crores, which is an increase of 79%, and in the current quarter it grew to INR 3,074 crores against to 2,183 crores for the same period last year, which is a growth of 41%.

Consolidated EBITDA for the quarter was INR 104 crores against INR 101 crores in the same period last year, a growth of 3%. Consolidated PAT for the quarter was INR 46 crores against INR 62 crores in the same period last year, decline of 25%.

Now, I'll share with you the performance and the strategy in each of the verticals going forward. Revenues for the growth under review for consumer electronics, was INR 1,410 crores against INR 1,364 crores in the same period last year, which was a growth of 3%. Operating profit witnessed a de-growth of 24% year-on-year. It was INR 30 crores in Q3 financial year '22, against INR 40 crores in the same period last fiscal.

We have an annual capacity of 5.5 million sets including backward integration in NCM and SMT line which is the largest capacity in India, catering to almost 35% of India's requirements. We have total area of almost half a million square feet in our integrated campus at Tirupathi, which is fully backward integrated. We're making investments in injection molding units in the campus, which will be operational by Q1 end of this fiscal.

A very significant progress in development is that we have a very huge order for LED TVs under companies ODM solutions from one of the largest global brands. The project has been launched and we're targeting to start commercial production in May of the forthcoming fiscal. As I have shared with you last time, we've also got orders for LED monitors from the largest global brands. The trials have been concluded and the commercial production is expected to start by April next fiscal. The expected volumes in year one is around .5 million and we expect the order book to significantly increase from year two. The margins in this business are expected to be in the same range as LED TV.

Coming to lighting, revenues for the quarter witnessed a growth of 23% that is INR 430 crores in Q3 against INR 349 crores in the same period last year. And we're almost back to the strong growth trajectory which we have been demonstrating. However, due to the commodity

price pressure and the cost element within the freight side, the operating profit witnessed a de-growth of 16% year-on-year, that is INR 28 crores in Q3 versus INR 33 crores in the same period last year. The margins in lighting business have contracted again because of the commodity price increase. We have undertaken raw value initiatives, and we feel that the margin report will start improving from Q4 and should go back to the normalized level within the next fiscal.

The availability and the cost of ICs along with rising freight rates has been a challenge in this business. But our team's agility in vendor selection, pre buying, inventory management protected us from the shortage issue. We are India's largest ODM player in lighting and have the largest capacity in various SKUs. In LED bulb, we have capacity of 300 million, which is almost 50% in the Indian requirement. We have already expanded the capacity in battens to 5 million per month, the total Indian requirement is 9 million, and in downlighters to 1.5 million per month, which is almost 50% of the Indian requirement.

Our R&D team is working on decorative lighting and some more cost-effective solutions for next generation lighting products. We are almost at the final stage of approvals, both technical and commercial from our global customers and the export should be starting in the forthcoming quarters. In this particular verticals, we have got approval under the PLI scheme of government of India for manufacturing LED lighting components through our wholly owned subsidiary Dixon Technologies Solutions Private Limited. This is in line with our backward integration strategy, and it will make us more competitive. We are committed to make an investment of INR 100 crores over a period of five years. This will help us in expanding our margins.

Home appliances: Revenues from the quarter saw a growth of 56% that is 152 – INR 115 crores in Q3 -- from 115 crores in Q3 FY '21 to INR 180 crores in Q3 FY '22. Operating profit increased by 3% year-on-year from INR 11.7 crores in Q2 FY '21 to INR 12.1 crores in Q2 FY '22. The operating margins in this case also were lower due to the impact of commodity cost, which has been on an increasing trend resulting only in partial transition pricing to our principles. The margins in this segment would also see an expansion in Q4 and normalize the next fiscal. Presently, we have 160-odd models in semi-automatic category with largest portfolio ranging from 6 kgs to 14 kgs. We have now the largest capacity of semi-automatic washing machine, which is almost 2.4 million annually, and we have set up an additional industrial footprint in Dehradun. This will be ready in Q1 of

next fiscal, which is sufficient to meet the increased demand ahead of the festive season. We have also added some more customers in this category, and order book in this vertical looks very healthy for the coming quarters.

In the following -- fully automatic category our plant in Tirupathi is now operational. The commercial production for Bosch, our anchor customer has already started, and deliveries have started. They have capacity there of 0.6 million with almost 96 variants across 6 kgs to 10 kgs. We have tied up with some other customers and commercial deliveries to them would commence by next month.

Mobile phones and EMS divisions: Revenues for the quarter under review was INR 940 crores against INR 299 crores in the same period last year. This is a strong growth of 214%. In the current quarter, the revenue sub sector both business and medical equipment was INR 70 crores and INR 0.5 crores respectively. Operating profit was INR 28 crores in Q3 FY '22 against INR 14 crore in the same period last year, a growth of 102%. The Motorola mobile business has now ramped up and stabilized in monthly volumes touching at 215K and we have a strong order book for around 1.2 million in Q4 and 1.6 million to 1.7 million starting to Q1 next fiscal. Out of that the major portion will be for global markets particularly U.S. We've also finalized Nokia feature phone business and monthly volume of 0.5 million units in addition to smartphones that we are currently manufacturing and production is likely to commence from Q1 next fiscal. In addition, we have added one more customer ITEL in feature phone category. To meet this demand from new customers order book and also the new increased requirement for Motorola, we have taken a 2 lakh square feet facility in Noida.

In addition to 2G phones, our order books on Samsung smartphones have also significantly increased from 1 million to almost 1.5 million a month. We are the first domestic company and the only domestic company to achieve thresholds for revenues and investments prescribed under the PLI in Q3 and the necessary claims for incentives are being shortly filed.

Set top box: In this vertical, we've manufactured 6.5 lakh set top boxes for Jio, DISH TV, SITI cable, SUN TV and reported revenues of INR 70 crores with 2.3% operating margin, and order book in this vertical is stable.

Security surveillance, that is cameras and DVRs. Revenues for the quarter witnessed a strong growth of more than 3% [Phonetic] that is INR 113 crores in Q3 versus INR 55 crores in the same period last year. Operating profit witnessed a strong growth 143%. It increased from INR 1.9 crores last year to INR 4.7 crores in Q3 of FY '22. This order book in this segment is very robust and we're going into further capacity expansion from 10 million per annum to 14 million per annum by Q1 next fiscal. For this, we are relocating our existing set top box factory in Tirupathi to Kopparthi Electronic Manufacturing Cluster where we have taken 2 lakh square feet constructed facility.

Apart from this, I would like to update about the opportunities which we are pursuing. Refrigerators: We'll be initially creating a capacity of 0.6 million direct cool refrigerator, which will be further ramped up immediately up to 1 million. Please appreciate the Indian market for DC is approximately 10 million under various categories of 190 litres to 235 litres with multiple features and different star rating. The product designs have been made, technology partner agreements have been concluded and we've already acquired nonbank [Phonetic] of almost 20 acres in Ecotech-8 of Greater Noida, and the construction is going to be launched soon. We have started engaging with various potential customers. And for mass production we have taken a stretch target of Q4 of the current -- of the next fiscal.

Laptops, tablet, and IT hardware product: We've started manufacturing laptops for Acer from December 21, and volumes are expected to increase significantly from next fiscal. We are one of the beneficiaries of PLI for IT hardware products and are confident of achieving this ratio of revenues and also the CapEx in the current fiscal. Also, we are in discussions with some other leading brands and are confident that we'll be concluding some contracts

Telecom and network -- networking products: A 51-49 JV has been formed with VT in this quarter. The JV companies are beneficiary under PLI scheme for manufacturing of telecom and networking products like OMPs, modems, routers, set top boxes, etc. Presently this manufacturing we are going to start in one of the existing plants in Noida of Dixon, which is expected to start -- the trials in the current quarter and commercial production in the next quarter. Finally, this is going to be transferred to the Ludhiana plant once that plant is upgraded.

Inverter controller board for air conditioners: A 40-60 JV has been formed with Rexxam, Japan, who have already been our partners for last five years to manufacture inverter controller boards for air conditioners. Rexxam is a design and technology partner for Daikin and bring strength in the PCB designing. Rexxam wants to make India as a manufacturing hub for its customers for both domestic and export market. So that global opportunity is a big play in this business. The JV company is a beneficiary under PLI and will be making a total investment of INR 51 crores in which Dixon's share is INR 20.4 crores over a period of five years. Revenue potential is quite immense in the EBITDA margins and a strong return ratio in this business.

Wearables and hearables: On the wearable, Indian market is the third largest market globally and one of the fastest growing market. Currently we are manufacturing TWS and neckbands for boAt at our Noida manufacturing facility. We have recently entered into a 50-50 JV with Imagine Marketing for the flagship brand boAt, which will be mainly undertaking design and manufacturing of wireless audio devices. Significant portion of both requirements of these devices will be met through this JV. There is also an immense potential to further build on capabilities and add product categories as the partnership strengthens. They're also waiting for the PLI scheme rollout in this category.

Thanks very much I would like to stop now here, and me and Saurabh are there to address any questions. Thank you so much.

Questions & Answers

Moderator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have the first question from the line of Bharat Shah from ASK Investment Managers. Please go ahead. Mr. Bharat Shah, can you hear us?

Bharat Shah: Hello?

Moderator: Yes, Mr. Shah, we can hear you now.

Bharat Shah: Okay. So, Atul ji, I was saying -- I hope my question is not misunderstood. But what I wanted to really check off you is, we have many products, many areas, therefore, there is plenty of details and plenty of sub details to be discussed. But in a big picture level what I want to get clarity from you is, given the fact that size of opportunity is large, we have a good business model. But for a frugal manufacturing, government PLI schemes have been kind of heaven sent, tailor made for entities like you. And many areas are moving in the direction in which this business should be much more successful. Therefore, while we are seeing the top line growth, but we are seeing virtually new growth in the business profit. So, if you take the nine months of the current year compared to nine months of the last year, both the periods have spent some time in pandemic in some way or the other. But businesses expanded by 70%, 75%, but if you look at our pre-tax profit -- and pre-tax profit will be more meaningful way to look at it, because of all the cost of expansion of the turnover, depreciation interest, all that is part of that number. Pre-tax profit is virtually just cloning at a small single digit number. So, where do we see eventually because we can keep getting bigger, we can keep expanding into territories, into product category. We can keep getting larger with new customers, but whether really are profitability in the core strange in the business model, will it reflect eventually into the numbers?

Atul B. Lall: Shah, what you're saying, I really appreciate it. However, what I would like to share is that this year has been very, very different. It has been very different on account of the inflationary pressures, on the commodity side and on the freight side. Just to give you certain numbers, a 14 container which used to cost \$600, for some of the consignment one has paid even \$8,000. Polymers like polypropylene have shot up from INR 95 a kg to INR 137 a kg, copper from INR 670 to INR 860, aluminium from INR 150 to INR 250. Now, with these kinds of inflationary pressures, and particularly when there is a COVID scare and the demand is under pressure, even for the brand owners to pass on the price increase to the customer is a challenge. In our case, one that kind of pressure is there in our ODM business. To pass on that price increase to the customer, who are concerned, it takes time. So, let me assure you that, partially it has been done in Q4 and it will be reflected in the numbers. And I'm confident that to a very very large extent it's going to be passed on almost completely in the next quarter

in the forthcoming fiscal, which is going to significantly improve the margins and profitability.

The second is that we have embarked on a very high growth journey and new factories have been set up in two domains. One is, the mobile phones, and the second is the fully automatic top loading. Any new set up to stabilize, it takes some time and there is a ramp up cost to it. So that has an impact on profitability. The third also is, if you see the growth in revenue, it is primarily coming from prescriptive business which is mobiles and also revenue built over a nine-month period in televisions, in which the operating margins are relatively lower, which, over a period of time are going to stabilize. And in the case of televisions, I've already shared with the house that now we have got a large project on the ODM side with one of the largest global brands. This is going to improve the margins.

So, you will find that the profitability coming back not to the same level of margins because the sale mix has changed, but there will be a significant growth.

Bharat Shah:

So would it be why quarter-to-quarter shorter term challenges, some factors here, some factors there, those are matters of details, and in some sense important details things, important details in never features measurement of the performance. But if we take a more longer term point of view, ultimately, as we get bigger in this, as we get more specialized, we get economies of scale. And we are able to make those tiny improvements in the profitability because of the cost containment. Plus our ability as a reliable supplier, business model, financial building, all of these eventually has to translate into -- over meaningful period meaningfully in a superior financial performance as well. So later from the current year business, whatever that will be in '21-'22, in all probability in three years' time from now, that's later by fiscal '25, I would assume that business might be two and a half, three times as much. Will we have a profits would be at a rate higher than that or materially higher? And by profit, I don't mean operating profit only because the -- we'll still be investing, there still will be other costs that will be incurred at a pre-tax level share. Basically, proof of pudding will be whether our core profits will expand at a rate higher than the top line at some stage or not.

Atul B. Lall:

Of course, there would be a significant increase in the profit. As far as the absolute numbers are concerned, please be rest assured. As far as the margin as a percentage of revenue is concerned, because the same

mix is changing and it is more and more tweaking towards a prescriptive business, in the next two to three years margin profile will be lower than what it used to be. We're almost at 5%, it's going to be lower than that. But on the absolute side, there'll be a significant growth. Please be rest assured on that.

Bharat Shah: No, I was not talking about margin percentage, Atul ji. I was saying, if the business grows by x multiple, whether profit will go at x plus y or not, over a three-year journey, four-year journey that we are talking of.

Atul B. Lall: So you're basically talking about the percentage y.

Bharat Shah: No. Supposing on INR 100 turnover, we need, let's say INR 10 today, is the profit before tax, just a number I'm saying. Aiming three to four years' time on your business becomes instead of INR 100, INR 300, INR 350, then legitimately profit should be instead of INR 10 being INR 30, INR 35, probably should be more like INR 40, INR 45, INR 50. Is that something likely in evidence? Or that is not what business model will accommodate?

Atul B. Lall: No, no, no. It's not going to be like that. The profitability growth will not be in the same linear way as the revenue growth. But the return ratios are going to be significantly higher. When you look at the overall financial perspective, the return ratios are going to significantly increase because the tilt in the next three years is going to be more and more towards the prescriptive business.

Saurabh Gupta: Bharat ji, Saurabh this side. So, the two things which will significantly change, and I'm sure I'll -- I don't know whether that answer your question or not, two things which will change for the company in the next two, three years. One is, the asset turn will keep increasing because more and more we go into the prescriptive business the asset turns are higher. Second thing, which we feel confident about, is the ROC profile will keep getting better.

Bharat Shah: Sorry, what will keep getting better?

Saurabh Gupta: ROC, return on capital incurred will keep getting better.

Bharat Shah: Okay. And what kind of return are we talking about? \

Moderator: Mr. Shah, sorry to interrupt you but we would request you to come back in the queue for any follow up questions.

Bharat Shah: Sir, this is not a follow-up. This is the first question, I'm waiting reply, it should be detailed or not.

Saurabh Gupta: Yeah. Sure, Bharat ji, I'll tell you. So, we feel confident internally, that over the next three years, the 30% ROC that we have been delivering, I think so, it should be somewhere in the range of 40-odd percent, if not more.

Bharat Shah: So, essentially, what we are seeing is that top line may grow at a -- the mix of the business could be short but top line may grow faster. Some of those businesses will be in lower margins, but our capital efficiency and other financial parameters will show greater superiority?

Saurabh Gupta: That's right, sir. That's right, sir.

Atul B. Lall: You've got it absolutely right.

Bharat Shah: Okay. Thank you, Atul ji.

Atul B. Lall: Thank you, sir.

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

Ankur Sharma: Yeah. Hi, sir, good evening. Thanks for your time. Few questions, one, on the consumer electronics/ TV segment. So I believe the sales growth during the quarter was about 4% odd, which is a sharp slowdown, right, what we've seen over say, the last four, five quarters? So one, if you could help us, the volume versus value growth, or the pricing growth, I'm sorry, in this segment. And is it that last year we saw this surge and TV sales driven by COVID, that's kind of slowed down. So is that the reason why we're seeing this slowdown in turn in our sales as well?

Saurabh Gupta: Yeah. Ankur, your point is absolutely right. We saw volume reduction in this quarter as compared to same period last year. So just to share some volume numbers, so, we -- in quarter three of last year, we did volumes of around nine lakhs and this quarter we did volumes of around 8.3 lakhs. So, there was a almost 8% kind of a drop in volumes, which is -- but there has been a pricing growth. So overall yes, there has been a marginal growth of 3-odd percent.

Ankur Sharma: And fair to assume even the industry would have seen a similar or maybe more kind of a volume decline?

Saurabh Gupta: Yeah, I think so. Even industry -- post the festive seasons October was good for the industry. But if you look at November and December, I think so it would have been -- that phenomenon would stand true for the entire industry, the volumes would have been lower for all the brands as well.

Atul B. Lall: Also, Ankur, last time if you recall, Diwali was later. The festive period got extended into Q3 mode. This time Diwali was earlier, so that also has an impact. And always in the case of televisions, post Diwali, post festive period, there is a decline.

Ankur Sharma: Okay. And how are things looking up? So, obviously comments on TV, but what we're seeing from deals and data, what we talked to a lot of brand OEMs as well, is that -- obviously November, December was negative volume growth but even things haven't really picked up so much in January either. So would love to hear -- obviously for TVs, but also other categories, washing machines, lighting, what kind of demand are you seeing or hearing from your OEMs?

Atul B. Lall: On the television side, demand, I would say is normal. We are having a run rate in this quarter of around 2.3 lakhs a month. So, it should be somewhere around somewhere around 700, 750-odd K, which is normal. And in the case of other products like washing machines, the demand for us is extremely good. We are at a run rate of around 115, 225 K a month and that's what the order book looks like. That would be a significant growth from last fiscal Q4. And even beyond that, the demand in the order book looks good.

In the case of lightning, it's normal. We are somewhere around 160K, 1.6 crores of bulbs every month, and almost 3.5 million of battens every month. So it's kind of normal, not ready growth. It's kind of normal.

In the case of mobiles, our anchor customer is doing exceedingly well because we are servicing not only in a domestic market, but also global market. And particularly the global markets order book is extremely, extremely good.

In the case of CCTV, the order book continues to be healthy, particularly for our customer because he's dominating the market. So, it's a mix kind of bag across various verticals.

Ankur Sharma: Okay. Fair. And just one more question, if you could quantify the CapEx numbers, '22, '23, '24 also with areas of spending and the gross

debt on the books. And do you see that going out of the country over the same period. Thanks.

Saurabh Gupta: Yeah. So, Ankur, our CapEx -- in the nine months we've done a CapEx of around INR 280-odd crores. And in last quarter, we should add another INR 80 crores to INR 90 crores. So, we should close this year somewhere around INR 370 crores, INR 380-odd crores of CapEx. The significant portion of CapEx has gone into mobile business where we've really expanded a capacity for our customers, then followed by consumer electronic business where we have again expanded the capacity to 5.5 million TVs. And then some land parcels that we have bought for our expansion and diversification.

Net debt number as on 31 December is somewhere around INR 100-odd crores. And I expect a similar number INR 100 crores INR 125 crores kind of a net debt as on 31 March as well.

Atul B. Lall: The next year, CapEx should be in the range of around INR 225 crores to INR 250 crores. And we're looking at '22, '23. A lot of CapEx has been front ended for our expansion plan in the current year.

Ankur Sharma: Caught up. Okay. All right, so great. Very helpful, thank you so much.

Saurabh Gupta: Thank you.

Moderator: Thank you. We have the next question from the line of Bhoomika from DAM Capital. Please go ahead.

Bhoomika: Yeah. Good evening, sir. So just -- on TVs, would it be fair to say that we're hitting the peaks as what we've seen in the current quarter given that, we're already fairly large player, and having all the key customers with us. And within this, as the ODM customer that we've added, is it an existing customer? So would it be more of a shift from AMS to ODM, which would thereby not -- particularly may not drive volumes, but will actually drive margin expansion? Is that the way to look at it from a TV perspective?

Atul B. Lall: Bhoomika, the ODM business is for an existing brand but it's getting the largest share of his wallet. So, it's going to increase the volumes.

Bhoomika: Sir, what will be our wallet share with that customer today and what can it possibly expand to?

Atul B. Lall: So currently, we do for this customer around 450K to 500K.

Bhoomika: Okay.

Atul B. Lall: If we're able to execute the two products, one is an ultra high-definition TV, and the other is one -- it is lower-sized televisions, it could add almost 700K to 800K more.

Bhoomika: Fair point, sir. So the second point was in terms of mobiles. Clearly there has been a decent ramp up in terms of the overall revenue but if you could just talk about the volumes that we did in the current quarter from the mobile segment. And what is the expected ramp up that you're seeing as we move ahead into the fourth quarter or in terms of 1Q '23?

Saurabh Gupta: Yeah. So, Bhoomika, Saurabh this side. Smartphone volumes that we did in this quarter was around 9-odd lakhs, 2G phones volume was around 11 lakhs. And then we have an anchor customer, which of course is not part of that whole PLI scheme, so there the smartphone volume was around 23 lakhs and 2G phones volume was around 29 lakhs. And as we mentioned in the opening remarks, Bhoomika, that clearly Motorola business has now ramped up and stabilized, and we already started clocking a run rate of 2,50,000 a month, which should further increase to 3 lakhs -- somewhere around 3,50,000 in coming months. And then, we have a further -- the order book should further increase by Q1 of next financial year.

Atul B. Lall: So we feel under the PLI scheme, we should be touching, in target, almost 7 million in smartphones in the next fiscal. And as far as the feature phones is concerned, we should be somewhere around 11 million to 12 million.

Bhoomika: Got it, sir. Sir, just one if I may squeeze in, in terms of the fully automatic washing machine that you've said has started off, if you can just give a sense of how quickly we can see the volume ramp up while we have a capacity of 0.6 million. But in terms of FY '23, given our conversation with our anchor customer, plus the new customers that we're looking at, what can be the potential volumes that we can look at in FY '22?

Atul B. Lall: The current run rate, Bhoomika, is around 10K a month. I feel that in the next fiscal we should be somewhere around 300K.

Bhoomika: Sorry, sir, how much?

Atul B. Lall: 300K.

Bhoomika: Got it, sir. I'll come back in the question queue. I have more questions. Thank you so much and all the best.

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

Renu Baid: Yeah. Good evening, sir. So my first question is, on the LED TV side, can you throw some inputs in terms of how have the open sell prices moved? And are there any signs of softness in the prices? And if so, what kind of implications are we expecting on the ASPs and the margins thereafter?

Atul B. Lall: So, Bhoomika, the open sell prices -- oh, sorry, hi, Renu.

Renu Baid: Yeah, hi, sir.

Atul B. Lall: On the open sell prices, the prices have definitely softened. For the 32-inches, it has come down to almost \$42 to \$43. But at this level, it is stabilized. I am not seeing at least immediately any further softening of the price. Now in our case it's a pass through. So, it doesn't make a difference. But the unit price has definitely come down significantly.

Renu Baid: Right. But technically, optically, since we get a conversion rate, our margins as percentage may actually start improving as we go in the next couple of quarters with similar kind of open sell prices.

Atul B. Lall: That's right. That's right.

Renu Baid: Got it. Sir, secondly, on the mobile -- coming back on the mobile PLI side, at the onset, when we started the year, we were targeting something like INR 3,000 crores of total max revenue ceilings, but obviously, there were various electronic parts and chip shortages issues which were there. So for the current fiscal year, as in nine months we've have already done INR 1,600 crores plus of revenues in the mobile phone segment. So what are the expected numbers in terms of the PLI targets that we are expecting for this fiscal? And for next fiscal, would you be broadly on track to do INR 4,000 crores kind of incremental revenues?

Atul B. Lall: So, our sense, Bhoomika -- Renu is that in the current quarter, or finally in this fiscal, we should be somewhere around INR 2,500 crores.

Renu Baid: Got it. It would be incremental revenue or total revenue?

Atul B. Lall: Sorry?

Renu Baid: INR 2,500 crores will be approximately total revenues under the mobile division or under PLI?

Atul B. Lall: Under PLI, I'm talking about.

Renu Baid: Got it.

Atul B. Lall: And in the next fiscal, we are very, very confident that we are going to be much, much ahead of the upward ceiling of INR 4,000 crores. That kind of order book is there.

Renu Baid: Got it. And lastly, if you can help us understand on the FATL side on the equitable portfolio, where are we in terms of getting a new -- as in, apart from the anchor customer are the other customers also on board? Or the other brands with whom we were discussing will probably take some longer in this space? And margins in FATL, after the initial stabilization cost etc. from next fiscal should be close to double-digit level same as semi-automatic washers or should actually be slightly better than semi-automatic portfolio?

Atul B. Lall: So, Bhoomika, we have already finalised with three more customers. Renu, we have already finalised with three more customers. The commercial production and delivery is going to start for a couple of them in the next month. And we are in discussion with three more customers. As far as the margin is concerned, one feels that it's going to be in a similar range, Renu, twin-tub for -- as of now.

Renu Baid: Got it. That should be good, sir. Thanks much and all the best.

Atul B. Lall: Renu, thank you.

Saurabh Gupta: Thank you, Renu.

Moderator: Thank you. Participants are requested to restrict your questions to one question only. Participants who wish to ask a question can also press star and one to join the queue. We have the next question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Thanks for taking my question. These other expenditures that we've seen jumping, can you explain why exactly that is happening? Is it freight cost which is a major expenditure which has jumped to there? Or is there something more specific?

Saurabh Gupta: No. So, Girish, freight cost is part of our cost of material consumed totally which is reflected in the gross margins. If you look at other expenses, as a percentage of revenue, it's pretty much in control, whether you look at quarter three, and compare it with same period last

year, or even if you look at nine months, it is around 3% of our operating revenues.

Girish Achhipalia: Okay. And the receivable days that have come down, I would imagine that you would have done some receivable factoring, that's why there is a corresponding increase in interest costs sequentially, or on basis? Is that a fair assumption?

Saurabh Gupta: Yeah, yeah. Absolutely. We do some factoring of that. And also, interest costs also reflect the NDS 116 adjustment as well, which is both reflected in depreciation as well as interest cost, on our leased properties.

Girish Achhipalia: What would be the total quantum of factories that is outstanding done as we've seen in the quarter, from this series?

Saurabh Gupta: We -- our amount of factoring was somewhere around INR 200-odd crores.

Girish Achhipalia: Okay. Thank you.

Moderator: Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, thank you for taking my questions. So my first question is on the structure of the contracts that you have with these OEMs? Is there any sort of volume discount that you give, which is over a period of say, three to four years? So basically, what I'm trying to understand, if you were to model your margins, would it be sort of similar margins across here, obviously, with the advantage of operating leverage wherever we can get? Or these margins could be sort of front loaded or back ended or something like that. So if you could just talk about -- anything you can talk about in terms of how the contracts are structured in terms of margins that we'll earn with these OEMs. That would be question number one.

Atul B. Lall: Pulkit, there is no such element in the contract, that we are going to be giving any volume discount over a period of three, four years. There is nothing of that kind. It -- in the EMS, the conversion cost is well defined, in the ODM piece, the price negotiation is there in built -- that was all built in. Looking at the period, in some contract it's three months, in some contracts it's six months on the fluctuation of currency and commodity prices. So that's the way it works. So there is no front ending or anything of that kind.

Pulkit Patni: Sure, sir. That's clear. Sir, my second question is on our margins in terms of commodity prices. So while I understand an ODM business, there is a lag, which obviously should reverse as we get into the next few quarters. But on the OEM side, since our brand is very sophisticated in terms of knowing how freight costs are and where commodity prices are, what is the kind of lag that should take for margins to sort of catch up? From next quarter onwards should we assume that, that all the margins that we've lost should actually be recovered or how should it work?

Atul B. Lall: So, in OEM business, even in the last quarter, it's a pass through. There is no lag in that. Whether it is a freight cost or currency fluctuation impact, or the commodity price increase, it's a pass through. What can happen as a percentage is, that if the commodity price increase has happened, the unit price of the product goes up, but the conversion cost is not as a percentage of the unit price. It's an absolute figure. So, that can get impacted, as a percentage. But on the absolute side, it remains the same and all the cost either increase or decrease on account of any costing element in the value chain is a pass through.

Pulkit Patni: Understood sir. So basically, this is value of the product going up and since our conversion margin remains same, that's why these margins look a lot lower.

Saurabh Gupta: Just to give you some numbers also, Pulkit. Basically, the way you should look at on consumer electronics. So more and more we are moving -- and the industry is also -- and the market is also moving to a higher category TVs. TBD has become a new normal now. So our average selling price for the portfolio was around INR 14,800 in Q2, Q3 last year. It has now increased to INR 16,200. So clearly, it's also a function of at the value the margins optically would look lower. So in this business, one has to look at whether the growth -- absolute growth in EBITDA and the ROC profile. That's more important in this business.

Pulkit Patni: Fair point. That is the reason I...

Moderator: Mr. Patni, this is the operator, here. Would request you to come up with your follow-up question back in the queue, sir. We have other participants also in queue.

Pulkit Patni: Sure, not a problem.

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

Aditya Bhartia: Hi, good evening, sir. My first question is on LED TVs, wherein you mentioned that you have got a reasonably sized contract on the ODM side. Just want to understand how exactly the margin profile of ODM business could be in this particular segment. And also, you've been speaking about increasing backward integration in the form of injection molding. Want to understand how exactly the value addition increases and what kind of an impact it could have on margin.

Atul B. Lall: Hi, Aditya. So, on the ODM side, there should be an impact or expansion the margin of somewhere between 0.7% to 1%. On the injection molding side, the number crunching still has to be done. Yeah, but there'll be an impact of approximately -- around 0.2% to 0.3% in the value additions.

Aditya Bhartia: Sorry, and ODM how much had you mentioned, sir?

Saurabh Gupta: Around 0.7% to 1%, I would say.

Aditya Bhartia: Sure. Understood, understood. And my second question is on the mobile phone side, wherein it appears that the ramp up for Motorola business, while it's been at a fairly brisk pace, but it has somewhat been still slower than what our initial expectations were. Has there been any impact of supply side shortages? Or is it all about teething issues which should get normalized over the next few quarters?

Atul B. Lall: So, undoubtedly, the supply chain issues were there, and they were there till Q3. Situation is getting slightly better now. So, it's combination of both, the supply chain issues and also the ramp up normalization, which to a large extent has been achieved on both the elements. Our current rate -- run rate is around 250K which from this month is going to be 300K. And the next quarter, that is the first Q1 of next fiscal, we start doing around 1.6 million to 1.7 million a quarter.

Aditya Bhartia: Understood, sir. Thank you so much.

Atul B. Lall: Thanks, Aditya.

Moderator: Thank you. We have the next question from the line of Rahul Jha from Bay Capital. Please go ahead.

- Rahul Jha:** I see a lot of improvement on the working capital side especially on the debtor days. So, what has really happened between the two quarters? Hello?
- Saurabh Gupta:** Yeah. Sure. Debtor days -- of course, so, one, we -- as I mentioned there is a factoring element involved in this, so which was also clearly reflecting in the debtor days. But broadly if you look at cash conversion cycle, it has been in the similar range of zero to one day for the last three, four quarters.
- Atul B. Lall:** Also, in the new businesses of mobile, that's Motorola, the collection days, the payment terms from the anchor customer are significantly better which is getting reflected here.
- Rahul Jha:** Okay. Okay, thank you. Thank you.
- Moderator:** Thank you. We have the next question from the line of Sonali Salgaonkar from Jeffries, India. Please go ahead.
- Sonali Salgaonkar:** Sir, thank you for your opportunity. So, my first question is regarding the white goods PLI. Both in AC components and LED components, broadly what is the kind of revenues and margins that we are expecting? And from when can they start accruing to our dimensions?
- Atul B. Lall:** Thanks, Sonali. In the case of PLI for white goods, that is the AC control board, the JV with Rexxam has been formed. I feel that it's going to be operational by Q2 of next fiscal. And the revenue...
- Saurabh Gupta:** Yeah, so, basically, Sonali, revenues, initially it will be -- so for -- in the next couple of years, we think that JV should start generating INR 300 crores of revenues. And it's a 60-40 JV. So, Rexxam has a 60% shareholding and we have a 40% shareholding. And the margin profile should be significantly better, it should be in the range of 7% to 8%. And since it will be a prescriptive business with hardly any working capital employments, the ROC profile will also be good.
- Sonali Salgaonkar:** Understand. For the LED TV? Sorry, LED component. Sorry, yeah.
- Atul B. Lall:** So, in LED lighting, the investment over a period of five years is INR 100 crores. And the revenue generation, it should be somewhere in the range of around INR 130 crores to INR 140 crores, and the PLI incentive is 6% in the first year. So, the EBITDA level is going to be somewhere around 9% to 10% of that.

Sonali Salgaonkar: Got it. Sir, my second question is regarding the margins. You mentioned that we should expect the margins to normalize in the next fiscal. What are the normalized levels that we are aiming for?

Saurabh Gupta: Yeah. So, basically, Sonali, normalize we mean the normalized margin which we were delivering pre-COVID level before this whole commodity prices started to escalate or elevate. So, my sense is, yes. So lighting, if we were – if we had had delivered in the past around 8%, 8.5% margins, and in this quarter, we have done 6.5% margins, so ideally, the normalization means going back to those 8% kind of margins. Washing machine again, we have done 6.7% margins and normalized margins would be again, somewhere between 8% to 9% kind of margins. And at a group level -- at a company level, what margins -- we believe the margins are around 3.5% that we delivered, I think so gradually it can move towards 4% to 4.2% kind of levels.

Sonali Salgaonkar: Got it. And lastly, what is the...

Moderator: Miss. Salgaonkar, sorry to interrupt but we would request you to kindly take your follow up questions in the queue, again. We would need to proceed with the next question.

Sonali Salgaonkar: Sure, thank you.

Moderator: Thank you. We have the next question from the line of Mr. Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good evening, sir. Thanks for opportunity. I have two questions. My first question is, is it possible for you to give the volume growth for each of the segment?

Saurabh Gupta: Yeah, sure. LED TV, I mentioned there was a 8% de-growth. From 9 lakh LED TVs, this quarter was 8.3 lakhs. In LED bulb category, again it was flat year-on-year at around 5.7 crores. Battens, downlighters which are other indoor lighting products, so, batten was around 78 lakhs which had a growth of almost 73% year-on-year. Downlighters was 23 lakhs, 69% growth year-on-year. And then, home appliances were 3.1 lakhs which is a 27% growth year-on-year. And a combination of -- if I look at these smartphones, smartphones all put together we did around 32 lakhs from 3 lakhs last year. So there is a significant growth. And on feature phone side, there is a small de-growth. From 61 lakhs, we did around 39 lakhs or something. So there was a de-growth in the 2G phones. Again on CCTV and DVR, there was a good growth of

almost 90-odd percent. So CCTV was around 17.5 lakhs, DDR was 3.8 lakhs and set top box quantity was around 6.5 lakhs.

Rajesh Kothari: Okay. Thanks for that. My second question is, you mentioned that in many of your segments, the pricing has gone up and therefore optically EBITDA margin looks down but one should look at EBITDA, therefore, in absolute terms. But you're absolute EBITDA, even if I look at second quarter, even third quarter it is down. So -- and in same time you mentioned that you can pass it on the entire price hike to the customer, whether it's a freight cost, whether it's a raw material cost. So, there was some confusion because in opening remark you said that you are in the process of pass through and then you mentioned that you have already -- you can pass on entire freight and entire material -- raw material and one should look at the volume rather than value. So, I'm actually getting confused. So, how we should look at it?

Atul B. Lall: Saurabh?

Saurabh Gupta: So, basically, there are two business models. So, one, so, that question was specifically for the consumer electronic business.

Rajesh Kothari: Okay.

Saurabh Gupta: The consumer electronic business, mobile business, set top box business, security service business is a prescriptive business, where there is a complete pass through to the customer, there is no currency or commodity impact to us.

Rajesh Kothari: Correct.

Saurabh Gupta: When we said in our opening remarks on the margin pressure thing, because of the commodity prices, and also because of the logistics cost, we were clearly mentioning on our ODM business

Rajesh Kothari: Understood.

Saurabh Gupta: The lighting and washing machine business where there is a significant pressure, and where we have not been able to pass on the entire cost increase to our principles, which we can gradually pass on in Q4, but there'll be further passing on in Q4 and we expect the margins to start normalizing by next fiscal.

Rajesh Kothari: Okay. And if the raw materials price comes down, do you think you will get then some benefit as well? Because this time you are probably manage your customer compared to the...

Saurabh Gupta: In business when prices come down, commodity prices soften, yes, we will definitely get benefit. Like the ways it has happened in the past. So generally it evens out over a year -- over a period of one year but yeah, this time the commodity cycle has been slightly on an increasing trend. So, this time it has slightly been delayed, I would say.

Rajesh Kothari: And if it keeps increasing, let's assume that commodity remains tight environment, the inflation remains tight, say, for another two, three quarters then what will happen? Then do you see further pressure on margins on ODM side?

Saurabh Gupta: As I mentioned, in our ODM business, it's clearly the pass on to our customers with a lag. Now, lag can be one month and three months. Now, if you are in a continuous increasing scenario from here onwards also, yeah, then the pressure on margins would be there because the entire pass on will not happen.

Atul B. Lall: So there is a lag in passing on. It can take even six months to pass on.

Rajesh Kothari: I see.

Atul B. Lall: In case there is an increase in trend continuously, there will be a pressure.

Rajesh Kothari: Oh, I see. Great, sir. Thank you, sir. I'll come back in queue.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Atul B. Lall: So, thanks very much for being with us an exchanging thought. We are committed to whatever we have shared with all the stakeholders, and that's our journey. Thanks very much once again.

Saurabh Gupta: Thank you very much. Thank you.

Moderator: Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.