



“Dixon Technologies Limited
Q2 FY2019 Earnings Conference Call”

November 1, 2018



ANALYST: Ms. BHOO MIKA NAIR – IDFC SECURITIES LIMITED

ATUL LALL: MR. ATUL B LALL – MANAGING DIRECTOR – DIXON TECHNOLOGIES LIMITED
MR. SAURABH GUPTA – CHIEF FINANCIAL OFFICER – DIXON TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Q2 FY2019 earnings conference call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Madam.

Bhoomika Nair: Good afternoon everyone. On behalf of IDFC Securities, I would like to welcome you to the Q2 FY2019 earnings call of Dixon Technologies. The management is being represented by Mr. Atul Lall, Managing Director, and Mr. Saurabh Gupta, CFO. I will now hand over the call to Mr. Atul Lall for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

Atul Lall: Good afternoon everyone. Thank you very much for taking our time for this call. Before we go to the Q&A I wanted to share the snapshot of Q2 performance. Due to the consolidated revenues on September 30, 2018 was Rs.741 Crores against Rs.881 of the same period last year. The reason for this lower revenue on year-on-year basis is there has been a 23% decline in the revenue of the consumer electronics. This is primarily because of two reasons, one there is a shift in Diwali in this year and the LED television tends to peak around Diwali so there is a shift from October last year to November this year. However in spite of that there has been a volume growth in this quarter. Mobile business, which has been significantly lower by 55% on year-on-year basis that has tracked down the revenues further. Lighting business has been flat, there has been a growth of 1%, but this is primarily because of significant decline in CFL, which is practically come to a stop now. We take out the CFL business there has been year-on-year growth of 15% in this year on the lighting revenue. The consolidated EBITDA for the quarter was Rs.35 Crores as against Rs.37 Crores in the corresponding period last year, which is low about 6%. However the margins have seen an expansion from 4.2% to 4.7% this year. This is primarily because of the expansion of margins in the consumer electronics vertical from 2.4% in Q2 last year to 3.6%. This is again mainly higher migration of ODM. The ramp up in Tirupati plant almost maturing now and also backward integration in the LCM line. The consolidated PAT for this quarter is 16.4 Crores against 21 Crores in the same period last year. The profitability this year has been impacted primarily because of the depreciation of rupee and the volatility in the commodity prices. Now I have always ensuring that we are having a fairly risk free business models. Now the business model that we have is that we passed on any impact of the currency to the customer as per the contract, which is either monthly or bimonthly or three month basis. Usually there has been a parabolic kind of a change in the commodity prices and the currency, but unfortunately in the last three months it has only been increased, so that has been a drag on the profitability, which is impacted significantly. One it has stabilized lately and second we have come out with an internal mechanism and some contracts are being reinitiated, so I we feel that we have been able to take care of this issue to a very large extent in the coming quarters. In all the verticals today we have now built a very large capacity so the operating leverage advantage would start kicking in and in all the verticals there is a significant migration to ODM so that is another significant step forward as per our strategy.

Now take you through the performance and the strategy in each verticals going forward. In the consumer electronics division, we shared that the revenue this year is Rs.360 Crores against Rs.466 Crores last year, again there was a Diwali shifting. The operating profit margin has expanded to 3.6% that is Rs.13 Crores against Rs.11 Crores last year so it is expanded from 2.4% to 3.6%. The ODM percentage has increased from 5% to 10%, the backward integration of LCM and closure of the Dehradun LED TV unit by which we are having duplicate cost structure, has been already taken care. One very significant positive in this quarter has been the acquisition of account of Xiaomi by us now. Xiaomi is exceedingly well in the smart television segment, it is already reached a market share of more than 10%, it is a leading smart television brand, it is having already number one position, so we already started clocking a sale of 15000 to 20000 per month with them and the order book with them in the coming months is extremely, extremely healthy. We have created a capacity earlier of 2.4 millions at our Tirupati plant, which has been expanded to 3.4 million now that is 2.9 lakhs a month and this expansion will be over by December this year, so this increased capacity will give us a share of almost 24% of the Indian Market, which is the largest capacity any company, any unit has in India. Further we are now have deepened our manufacturing facility both with LCM manual insertions and SMP, so the depth of manufacturing today is the same if not more in any other multinational company or any other company in India or globally.

The second I wanted to go is the home appliances segment. In home appliances, there has been a strong revenue growth of almost 7% to 9%. We did Rs.104 Crores in Q2 FY2018-FY2019 against Rs.58 Crores in the same period last year. In Q2 we have sold almost 2.1 lakh machine in 2018-2019 against 1.3 lakhs in the same period last year. However the operating margins have contracted almost 360 basis points. This is again primarily because of the depreciating INR in commodity products. This again has been very special kind of a situation where it has been continuously increasing, so lately I am seeing the stability there and we have worked out on internal mechanism and some renegotiations of our contracts to take care of it with our customer. In washing machine segment, again we have a very, very healthy order book, our anchor customer Samsung from January 2019 is doubling the volume and then from June 2019 is going to be again another addition with another model, which will take the volumes to almost half a million a year. Another large account that we have added is Lloyd's, so we feel very confident and we feel it is going to be a large number for us. We are likely to grow by 30%-35% as far as volume is concerned this year, we are confident about it.

As far as the lighting segment is concerned, the revenues have grown by 1% this year, Rs.190 Crores against Rs.188 Crores last year and the conventional CFL business has come to a stop. Adjusting the revenue of lighting CFL business revenue growth would have been 15%; however, the operating margins contracted by 110 basis points from 6.9% to 5.8%. This is again mainly on account of volatility in the commodity prices and depreciation of rupee, which had a bearing of on the raw materials. Also there was some ramp up cost because we have really added some new customers towards the end of September. However on the yearly basis if we see that the first half our operating margin of 6.7%, in the current fiscal against 5.5% in the corresponding period last year. In lighting segment undoubtedly we are the largest today in the country. We have a capacity of 15 million per month against the Indian requirement of around 30-33 million, so that is more

than 40% of the Indian requirement. In the month of October, the month that ended yesterday we have clocked a sale of 13.5 million bulbs, which is the highest. We have practically all the brands today with us. The new brands that we have added apart from Phillips, Panasonic, Bajaj, Wipro is Orient, Ajanta, Syska, Polycab, CNA, Jaguar, Usha, all these are brands, and all of them are migrated to ODM solution. Further in this particular vertical we are getting significant tractions from the global players for exports, so I think some of our large anchor customers I am going to take them to the global market. Further we are also confident that in the next fiscal we will have a couple of large accounts for exports in LED bulbs and what we have been able to do in LED bulbs we are consolidating our position to do the same thing and follow the same strategy for batters, so we are ramping up a capacity and we are now engaging new customers, almost all the customers that we have in LED bulbs, we have a window there for batten and we are very, very confident that these customers are going to be with us in the next couple of quarters, so the run rate of batters, which was at around 300,000 we are very confident that we are going to take it up to almost 1.5 millions in the next couple of quarters. The whole position in lighting as a vertical looks very, very strong.

We have already implemented our backward integration plan of mechanicals and inductors, further backward integration in mechanicals is going to happen, which should have a positive impact on a margin. Mobile phone has been a drag, there has been a decline of almost 55% year-on-year because of low capacity utilization and our customer has not been fairly well in the market price. The operating margins in this quarter at 0.9% against 1.7% a year ago; however, the margins were flat at 1% year-on-year basis if we consider the whole first half. As I had shared in the last call also we are in advanced stages of discussions for some new accounts in the mobile and we expect what is the capacity utilization, but significantly improved from the current quarter. We have also implemented our backward integration plan for PCBA. The lines have already been installed and commercial production for PCBA is going to start in the current month of November, which will definitely help us in two ways, both revenues and margins. The next is security surveillance system, which is a new vertical, so there the commercial production is already started, expansion from a capacity of Rs.1.5 lakhs to 5 lakhs per month of digital camera and 300000 per month, 1.5 lakhs per month of DVR has already taken place, our JV partner is Aditya InfoTech who host the trademark CP Plus and he is also the brand license of Panasonic exceedingly well, in fact we are further increasing a capacity and that will happen by December when the capacity is going to be 9 lakhs per month of cameras and 150000 of DVR, which is going to be largest Indian capacity.

Now this business from the current month of November will turn profitable with the capacity utilization in the starting place, the SMT lines have been installed and it is going to be operative, it is already become operative now. In the reverse logistics segment, it has been lower by 59% year-on-year, this is primarily because of lower capacity utilization, it is going to challenge in the set top box business, although we are able to turn on the corner and we have delivered positive EBITDA of Rs.12 Lakhs. Here the main focus is more on the LED TV repair business, it required new accounts in fact the latest account that we have acquired in panel repair business was Xiaomi also, so main focus would be there and this would also be in line with our strategy of providing end-to-end service for our customers. That is what I wanted to share with you on every

vertical in the company's performance in the last quarter. Any questions, please they are most welcome.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentleman we will wait for a moment while the question queue assembles. We have our first question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir my first question is on margins in the ODM businesses, which got significantly impacted in Q2 on account of rupee depreciation and high commodity cost and now from what I understand contract negotiation take place at average pricing of the period and not on period end pricing, does that means that margins in the next couple of quarters could also remain lower than usual?

Saurabh Gupta: I think you are absolutely right to a certain extent that of course in the ODM business it gets passed on with the lag, so I can give you an example without naming the customer, that is suppose if the contract of the customer is structured on a six monthly basis and the average of that six month dollar turns out to be say Rs.68, Rs.69 and so with your next negotiation once you are able to pass at Rs.69 by that time the dollar is already moved up to Rs.70-73, so you can partially pass on. As Mr. Lall had mentioned earlier if the dollar stabilizes from here then I think so we will rebook some of the margins going forward or if the dollar continues to move at a similar rate what it has been in the last six months then I think so we will have a situation, which you are saying.

Atul Lall: However to add to that, we are working on some internal mechanism for sourcing in different currency, which is going to dilute this impact, we have worked out on some internal mechanisms for hedging and buyers credit. There might be some impact, but what has happened in Q2 because of the currency depreciation I feel in the subsequent quarter. If at all that impact is there it will be much more diluted.

Aditya Bhartia: Sure. I understood, but given that let us say you would have been able to pass on currency only at 68 or 69 vis-à-vis what it is day to day 30-33, could it still mean that something like washing machine's margins would be maybe high single digit, low double digits over the next few quarters until the next negotiation cycle comes into play?

Atul Lall: What do you say in the washing business you are right.

Aditya Bhartia: Understood. The second question is on Xiaomi LED TV revenues, what would have been the contribution from Xiaomi in Q2 and how do you see this ramping up over the next few quarters?

Atul Lall: It has been very insignificant there is hardly anything we have just started. Present run rate is around 10000 to 15000 sets per month in October to December. Let me assure you the order book and forecast much, much larger, I do not want to share that number, but it is much, much larger.

Aditya Bhartia: For the remaining sets Xiaomi is importing currently?

- Atul Lall:** They are doing CBU import.
- Saurabh Gupta:** Aditya we are the only manufacturing partner for them so either they are importing or getting it manufactured from us, which gradually as we have a strong order book in couple of months down the line, I think so the more and more imports will keep coming down and more and more will get transferred to us.
- Aditya Bhartia:** And the related question you mentioned about increasing capacity on the LED TV side to 3.4 million, now it is substantially higher in comparison to it, I think we did around a million units last year. So what kind of visibility are we seeing on the LED TV side, I thought that even the capacity that we were already having would have the price for at least next year, year-and-a-half.
- Atul Lall:** I shared with you that Xiaomi is a very large forecast. The way they have been able to ramp up the business is amazing, be it their requirement need this capacity. Second we already have various new customers, practically all the branch today whether it is Flipkart, various retail chains, ECL, ECL sub-brand, Falcon, EPL, Skyworth, another brand Metz, Lloyd, new brand TPV has acquired the China Company Philips, many more in the pipeline are there with us. Second as I shared with you in my opening remarks, LED television is the segment it tends to peak around Diwali. Whatever is the normal requirement, requirement around Diwali is around 50-60% higher, we have to gear up for that, in any case it is not a very high capex or a high fixed cost business, I think it would be extremely prudent to have this capacity, which has already been done and we are absolutely geared up in servicing the customer requirement.
- Aditya Bhartia:** Understood and lastly sir one of your customers Crompton spoke about setting up its own manufacturing facility to control cost on LED lighting side, do you see the risk of some other larger guys also opting for their own manufacturing?
- Atul Lall:** I do not think so. I have named practically all the brands, the top 10-15 brands in India, all they are with us. In our order book as far as lighting is concerned is overflowing. I do not see the trend, there are some brands, Crompton is one that I have also heard, second is Havells they do it inhouse. Other than that I am not seeing any brands moving at inhouse production.
- Aditya Bhartia:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from ICICI Prudential Life Insurance. Please go ahead.
- Rahul Agarwal:** My first question is on the washing machine, so incrementally Samsung is adding a lot to the growth in terms of volumes, but is it that Samsung actually is turning out to be a low margin for us or if the margin mix is pretty similar for Samsung?
- Atul Lall:** Samsung is comparatively slightly lower margin business; however, we are doing significant value in this range and we feel that in another quarter or so to a large extent we should be able to

improve the margin in that business also and the new models that have been finalized with Samsung, the margins are going to be much better as good as other businesses.

Rahul Agarwal: So when we say January 2019 we are doubling our volumes from Samsung, even in June 2019 there will be an uptake, so the margin profile should not be very much different from current margin capacity?

Atul Lall: I feel that in this particular fiscal, the margin improvement will not be very significant, but from Q1 next fiscal there will be a margin improvement and the new model introduction would be at a better pricing.

Rahul Agarwal: Sir my second question is on the capex, what is our capex plans now for FY2019 and how much have we spent in?

Atul Lall: Our capex has been in the range of almost Rs.38 odd Crores in the first half of this financial year and I think so as I mentioned, our capex has been mostly front ended this year, so I think H2 the rate of capex will come down, so at an annual level I think so our capex should be somewhere around between 50-55 odd Crores.

Rahul Agarwal: For FY2020?

Atul Lall: FY20 it should be in the similar range of 55-60 Crores.

Rahul Agarwal: Sir my last question is on this net debt figure?

Atul Lall: So from March when we were net debt free we have now turned to a net debt number after the fund raise.

Rahul Agarwal: So exactly how should we look at this number from here on, has it peaked or you are expecting some more increase in this?

Atul Lall: This is an aberration let me just share with you. This number will keep on coming down, you see this number coming down in this quarter and further coming down in the next quarter, this has primarily happened because of front ending of certain capex and migration to ODM was all vertical; however, when we acquire decent scale in our ODM we are able to negotiate significantly better terms and also we should be able to improve on the debtors, so you will see this situation significantly improving in this quarter and the next quarter.

Rahul Agarwal: Thanks a lot and all the best.

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

Nitin Arora: With respect to Xiaomi, which you are saying that they will do some 15000 to 20000 units and the order booking would be much higher going forward, whom you think he will start eating

market share from, is it going to be the guys, four guys who is holding 70% of the market, the Samsung, LG, Sony or is it the guy who has a 10% share in the market like a Panasonic, which is your client, just want your take on that?

Atul Lall: Nitin he will eat the market share of all the top four players including Panasonic as well, the Samsung, LG, Sony and Panasonic would get affected.

Nitin Arora: So how is Panasonic doing as of now for you in the TV and how much you expect he softens out, if this, so at the end of the day we even outcry the Xiaomi goes up and Panasonic goes down, so can you give a more clarity on that?

Atul Lall: Panasonic with Xiaomi will definitely be under pressure, but as far as our volumes of Panasonic are concerned there would be a small impact, but not very significant impact, but Xiaomi head on will be much, much larger in any minor impact that would happen on Panasonic because as you very correctly mentioned one feels the impact of Xiaomi just like it has happened in mobile phone is more on the top brand and second is they are only launching the smart solutions, they are not into the conventional solutions and Panasonic 75%-80% is conventional solution.

Nitin Arora: We were seeing that on the ground that is the lower end, which is 20%-30% of the market getting more impacted by Xiaomi entry so rather we will see in the coming as you guiding us. Can you provide us a volume numbers of lighting, consumer electronics, washing machines, mobiles and camera CCTV for this quarter?

Atul Lall: I can share that number with you separately or you just want the numbers right now because it will take a long time.

Nitin Arora: If possible we just want to see how much EBITDA per unit you are making across your category, so that is fine if I can take it offline that benefits for everyone.

Atul Lall: In slide 11 the volume numbers are already there, is there anything specific that you are looking.

Nitin Arora: Sure, I will take it from there. Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead. Abhishek Ghosh your line has been unmuted, please go ahead. As there is no response, I move ahead. The next question is from the line of Jaganadham T from Centrum Booking. Please go ahead.

Jaganadham T: One query can you throw a bit more insights on mobile phones business seen such a sharp drop in terms of revenue as well as there is squeeze in terms of the operating profit margin and what can be the trigger for changing of this trend, are you seeing any possibility of this thing to get revived?

Atul Lall: Can you just repeat the question, I am not able to?

Jaganadham T: Regarding mobile phones, there is a clear drop in terms of revenue as well as operating profit margin, is there any trigger that we can foresee where probably this trend can change and things can improve?

Atul Lall: As I shared with you in the opening remarks, we have already implemented our backward integration plan. The SMP line for PCBA on which the Government of India has imposed the duty, have been installed and this capacity in the industry is very limited, very many brands, I am not in a position to share the name of the brand as of now. They have already placed orders on us. This is significantly going to improve the margin. The second is that Gionee, which was not doing well earlier has been taken up as a brand agency by our partner J&R and this is being relaunched, there is an uptake there. Third, we are in the process of negotiation with a large brand in India, again I am not able to share it is slightly premature and I am very, very confident that business is going to come to us in this quarter. One is very confident that the mobile business from the current quarter would significantly turnaround.

Jaganadham T: The dip that we are witnessing is it because of one particular customer or is it across the customers there is a slowdown in mobile phones?

Atul Lall: Our main anchor customers had not done well in the Panasonic and Xiaomi, so the uptake is going to happen primarily again because of two reasons, one the backward integration being implemented and fructifying in this current quarter. Second is addition of new customers were already large players in this market, both these things I am going to add both to revenues as well as margins.

Jaganadham T: One last question is considering now home appliances growing aggressively and mobile phone there is a dip, maybe in the next two to three years do you foresee that home appliances will be the major driving force and how do you see in terms of this product mix eventually that is in the next two to three years?

Atul Lall: We feel that across all these segments the penetration level in India is small. Second the government policies and the cost in China really ballooning, all this consumption often times would be serviced through India manufacturing. More and more brands are focusing on branding and distribution and the manufacturing in the lining part has been outsourced. I feel across all these verticals there is significant tailwind and in some of the verticals, which I shared with you like lighting there is a huge potential for getting into the global market.

Moderator: Thank you. The next question is from the line of Abhisehk Ghosh from DSP Mutual Fund. Please go ahead.

Abhisehk Ghosh: Sorry to hop upon the net debt things again, if you see from March 2018 levels our net debt has increased by almost about Rs.68 odd Crores while we have also generated fair amount of cash profits closer to about Rs.40 Crores odd, so given that working capital is stable and we have done capex of only about Rs.40 Crores odd, why should this net debt figure go up, what I am missing?

- Atul Lall:** This is primarily because of increase in the ODM business, now washing machine the increase in the revenue is almost 80%, this is all ODM, which requires working capital. Similarly if you see the consumer electronic business, LED television business the share of ODM has increased from 5% to 10% in this quarter and also this is around the peak period, it is primarily because of these two reasons. Second of course there has to be much more focus on the management of the current assets that is both stocks and debtors, so it is a combination of three things and let me assure you this is an aberration it will get corrected in the current quarter and then in the next quarter.
- Abhisehk Ghosh:** Is it a fair assumption to make that about Rs.40 Crores, Rs.50 Crores of working capital would have gone into from March levels?
- Saurabh Gupta:** Yes that is right.
- Abhisehk Ghosh:** Thank you so much and all the best.
- Saurabh Gupta:** Generally goes up in the festive season, so that is also one of the reasons.
- Abhisehk Ghosh:** Fair enough, but this time I thought Diwali you mentioned has got pushed back.
- Saurabh Gupta:** The components start coming in.
- Atul Lall:** Your investment into the business goes because you need to be ready for the Diwali season.
- Abhisehk Ghosh:** So you have not build it as of now, but you have already procured the same, so it is still in?
- Atul Lall:** We build in the inventories and listed into the stocks.
- Abhisehk Ghosh:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Akash Jain from Ajcon Global. Please go ahead.
- Akash Jain:** Sir I wanted a colour on this brand Marquee, which is launched by Flipkart, so how are the volumes taking up in that brand?
- Atul Lall:** Marquee is a private label of Flipkart. At present the volumes are not very huge, but I can see a lot of focus from their side on this particular private label, so I think over a period of time they will attain a decent volume. At present what they are sourcing from it is around 7000, 8000 sets a month. We have also launched washing machine.
- Akash Jain:** With Xiaomi coming up in picture is there any exclusivity clause?
- Atul Lall:** For Marquee?
- Akash Jain:** Yes for us to manufacture other company products?

- Atul Lall:** No, there is nothing of that kind.
- Akash Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.
- Nishit Jalan:** Sir just wanted to check what colour are you getting from your key customers in consumer electronics and home appliances segment in terms of how the festive is ramping up and how your order book is kind of shaping up?
- Saurabh Gupta:** I will share with you segment by segment. In consumer electronics overall the kind of growth that was expected in Diwali has been muted, but in our case we have a healthy order book because of new customer acquisitions and various names that I shared, so it was Xiaomi of course and beyond Xiaomi various new names. In washing machine also I find the demand has been not as per expectation around Diwali that has been slightly muted that is the case. In lighting I am seeing a very, very robust demand and even for November the month after Diwali I am seeing an extremely healthy order book, so that is the situation.
- Nishit Jalan:** Sir just a followup when you say muted Diwali in consumer electronics you mean is there any growth, low single digit growth or there decline?
- Saurabh Gupta:** I do not think there will be a decline, I think it will be a low single digit growth.
- Nishit Jalan:** That is it from my side.
- Atul Lall:** Thank you. The next question is from the line of Pankaj Chauhilya from Elara Capital. Please go ahead.
- Pankaj Chauhilya:** Thank you for providing me the opportunity. I have few questions on the consumer electronics business, how much was the Diwali sales booked in Q2 take from the Navaratri to Diwali sales?
- Saurabh Gupta:** Sorry can you please repeat the question?
- Pankaj Chauhilya:** How much would have been the Diwali sale booked in Q2 from the Navaratri it started at October 10, 2018, so probably like how much would have been booked in Q2?
- Atul Lall:** Last year the whole sale of Diwali would have been booked in Q2, shipping to the various retail outlets. There is a 10 to 15 day time between our dispatches and what reaches the market, so last year everything was booked in Q2, but this year a large portion would be booked in October for Diwali.
- Pankaj Chauhilya:** And within the consumer electronics segment can you share me the TV volume?

- Atul Lall:** TV volume out of the 6.7 lakh quantity that we have shown in the presentation TV volume is around 4.2 lakhs to 4.3 lakhs.
- Pankaj Chauhilya:** Last year corresponding quarter?
- Atul Lall:** Last year it was a similar number.
- Saurabh Gupta:** It was 4.5.
- Pankaj Chauhilya:** Is this margin in the TV business sustainable at 3.6% or do you think that it can improve?
- Atul Lall:** Q3 I think for the margins, which should be sustainable in the TV business should be somewhere around 3% odd higher than 3%, 3.6% also factors into account slightly impact of better sales lately, so I would say as far as amounting is concerned it is a factor of 3% kind of a number.
- Pankaj Chauhilya:** One final question for the TV business like how much would have been out of the total TV assembled would be the LCM assembly as well?
- Atul Lall:** So we are presently assembling almost 60% to 65% of our TVs as LCM, but the idea should take it up to 100%, so we will keep inching up towards 100% gradually.
- Atul Lall:** In Q2 numbers the share of LCM we are on 40%, we just started the LCM assembly sometime in July it taken sometime and now almost 70% to 80% of manufacturing will happen along with LCM, so by November end our surface mount lines are going to get installed. Motherboard assembly would also start from December that is what the plan was, so LCM has been stabilized in almost 80%, 90% of televisions along with LCM will be done. From December a large junk of motherboard would also be done inhouse.
- Pankaj Chauhilya:** One final question like how is the import subsidiary is playing out in TV business and lighting business because of the increase in import duty?
- Atul Lall:** Now television all the brands the duty is 20%, there is a significant advantage of manufacturing in India in this competitive category producing in India, so fully a ramp up issue, Xiaomi also will completely shift to India manufacturing. As far as LED lighting is concerned, particularly the indoor lighting all bulbs are practically manufactured in India. Batons will be imported, but the duty hike has happened.
- Moderator:** This is the operator. We have lost the line from the management, please hold while we reconnect. We have the line from management connected. Mr. Pankaj Chauhilya you may proceed with your question.
- Pankaj Chauhilya:** Sir on the import substitution for the lighting and TV business?
- Atul Lall:** Yes, on the indoor lighting the space in which we operate practically everything has been manufactured in India and that is a reason for a significant push in our volume as well.

- Pankaj Chauhilya:** And batons?
- Atul Lall:** Batons again, which were being imported, but the duty has been increased from 10% to 20%, which is leading to the brands looking at domestic India manufacturers and most of it through outsourcing route.
- Moderator:** Thank you. We have the next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.
- Rahul Ranade:** Just a couple of questions, so the first one the ODM percentage in lighting seems to have gone up quite significantly over say even the June quarter, just wanted your comments on that?
- Atul Lall:** So now everything all the LED bulbs that we are supplying to all the brands including Philips is our design, it is our ODM solutions, so this is what was happening and now even in the baton side even for Philips at Dixon Solutions all ODMs and also the solutions of course that we have been offering to other brands in fact are going to Dixon designed, so a large portion of our lighting business except for the business of outdoor and indoor drivers of Philips is going to be ODM.
- Rahul Ranade:** Should not that kind of start reflecting in the margins then the margins have gone down even sequentially, so just wanted to understand that?
- Atul Lall:** Yes I feel so definitely, we will have that kind of situation. Please appreciate Q2 has been a very typical kind of quarter, so wherein there has been a very significant volatility of the currency and commodity, so I feel that in medium term there has to be an improvement in the margin.
- Rahul Ranade:** Just one more question, I was just looking at data I am trying to calculate the implied pricing growth for some of the segments that have been disclosed, so we have disclosed the volume data, which is kind of and I have taken the topline, so the revenue growth for the segment, so just peculiar for the consumer electronics segment actually even on a YOY basis an implied pricing or implied realization kind of things seems to have gone down quite significantly like 25%, 30%, so wanted to understand what is happening over there?
- Atul Lall:** Yes, so what you are saying is right, the pricing in television has gone down, which you have captured it has gone down and the pricing of television is linked to the pricing of open sales, which contributes almost 65% of raw materials and in the higher phase even higher. The open sale pricing has been under pressure lately, which is reflecting in bomb coming down and also the pricing coming down, but in Dixon's case please appreciate 90% of business is the EMS business, so there is no pricing impact on us. Our mandate and our strategy is very simple to build the scale, to book the capacity, to deepen the manufacturing and improve our margin that is what we are doing and migrate also to ODM, but in television's case in a very calibrated way because we do not have the bandwidth first and it is a high working capital business, so we will not take the chances there, so the migration to ODM in television is going to be in a much more calibrated way. A large portion of a television business would continue to be in EMS, for

example Xiaomi the large account that we have got to the Skyworth or Metz, or TCL, they are all conversion businesses, wherein the objective is to improve the margins through scale and through deepening of manufacturing route.

Rahul Ranade: Yes Sure, so now just thinking about it as in this cost is going to be passed on and since this cost goes down the margins effectively will go up just by the cost going down right?

Atul Lall: As a percentage.

Saurabh Gupta: That is right.

Rahul Ranade: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Akash Manghani from BOI AXA Investment. Please go ahead.

Akash Manghani: Referring to one of the earlier questions to start with you said the lighting margins should come back in spite of this ODM as the percentage increasing and you were said that the reason was the depreciation in the currency and the raw material, so how soon do you think we should come back to what we were clocking in Q1 or what your guidance was earlier?

Saurabh Gupta: That is a slightly difficult question, but I feel that from Q4 of this year it should be coming back to the level at which we were that is what I feel.

Akash Manghani: So that should be at Q1 margin level around 7.5?

Saurabh Gupta: Somewhere around that 7.27.

Atul Lall: Yes that should be at around Q1 level, also what is happening on the lighting side apart from this currency pressure we are also expanding our capacities in batons and downlighters, which should also help us improving our margins and of course the customers that you have added towards the end of second quarter we will have a full quarter running for Q3 and Q4 that should help us improving our margin because as I keep adding more customers the whole operating leverage benefits keep coming in, I think so you will revert to the same level of margins what we have been guiding in Q4.

Akash Manghani: And now since we are doing more of ODM and probably going forward will increase the share, so how does the contract pricing work, it takes about one month, three months or six months to pass on any commodity or currency shift, on an average if you could give some?

Saurabh Gupta: In lighting the largest customer is on monthly basis, with the other customers we have to go back to them and renegotiate, so there is some lag always, but we have to go back to them and renegotiate. Now when we are talking about margin improvement in Q4 it is primarily because of three reasons, one the operating leverage coming in because of the scale is LED bulbs. Second now we are getting into the higher voltage bulbs, which is 20 volts plus, 20, 30, 40, 50 where

obviously the margin is significantly higher. Third the baton ramp up, which I think will start getting included from Q4, so these three reasons should help us in improving the margins.

Akash Manghani: The other question is on the washing machine business over here I think in one of the earlier calls you mentioned that there is a plan to do something on the fully automatic side as well, so any update on that?

Atul Lall: So on the fully automatic we are still in the conceptualization and the study phase, concrete plans are still not on the table, we are still in the study mode.

Akash Manghani: So the new products that you are talking of from Samsung over the next 12, 13 months is all on semiautomatic?

Saurabh Gupta: Yes appreciate 65% to 70% of the market in India is still semiautomatic and that is where the space is for outsourcing, a fully automatic most of the brand that we get from their own factories at present.

Moderator: Thank you. The next question is from the line of Rishabh Potra from Sharekhan Limited. Please go ahead.

Rishabh Potra: What is our capacity utilization, ex-Tirupati plant and how much volume or turnover can we do in each of the verticals at full capacity and what timeframe it will take?

Atul Lall: So in our Tirupati plant we are running two product categories, one is LED television. At present the capacity is around 200000 per month that is 2.4 million, this is going to be expanded to 3.4 million in next three months. What we have executed in the month of October is around 160000. So that is where we are that is the key capacity utilization in the month of October, sometime in the month of September also we did around 150000, 155000. The other product category that they are into, so as far as the value and turnover is concerned I am requesting Saurabh to come back to you separately on that. On the CCTV side that is both the cameras as well as the TV the capacity has now been ramped up to 500000 cameras per month and 150000 DVRs per month. The order book for the complete quantity is there with us. The challenge at present is of ramp up, which I feel is going to stabilize in the month of November, December. I think from December, January onwards this should be at around 350000, 400000 per month and 100000 of DVRs per month, so order book is not a challenge again. As far as the value is concerned I am requesting Saurabh to come back to you on this separately that what revenue will be generated, but please appreciate that the revenue in this case is more of a pass through.

Rishabh Potra: And excluding Tirupati the existing capacity is how much can we scale up or increase the revenue by?

Saurabh Gupta: We have five verticals, now I feel that as far as lighting is concerned we should be clocking a revenue of around Rs.90 Crores a month. Television depends on which size and which brand, what value and it is a pass through most of it 90%. Same is the case in CCTV, DVR, same is the

case in mobile. In washing machine I feel that we should be clocking a turnover around Rs.25 Crores to Rs.30 Crores a month and from January onwards this is going to increase to around Rs.35 Crores a month. From June onwards it should be increased to around Rs.40 Crores, Rs.45 Crores and that is with ODM business.

Rishabh Potra: And lastly Sir do we have any absolute inventories also because of technical shift and any disputed accounts in terms of receivables?

Saurabh Gupta: So we have hawk's eye on our inventories and we keep taking adequate provisions this is an extremely important current asset point, which our audit committee is specifically focused upon, so please be rest assured and there is some absolute thing, which has been taken care of and will be taken care of in future. As far as the debtors are concerned, we have already provided for the bad debt, at present there is some litigation with one of the customers, but for a small amount, it is not a very large amount at all.

Rishabh Potra: So these are put together will be less than 0.5% of sales or so?

Saurabh Gupta: Total amount on the debtor side would be around 50, 60 lakhs.

Rishabh Potra: I will come back in queue again.

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

Nikhil Gada: Sir my first question is regarding washing machines, can you give us an average sort of number for the customers and how much timeframe in which the contracts get renewed, if there is an average number you can give?

Saurabh Gupta: The contracts are renewed, sorry I am not able to get the question?

Nikhil Gada: Sir basically based on different customers that we have can we just sort of quantify what would be the renewal cycle like you said for like 6 months, 12 months for different, different customers, so is there any average number you can give on that?

Saurabh Gupta: In most of the customers it is one month for passing on the impact of the currency in the following months, with one customer it is three months and with one customer it is six months.

Nikhil Gada: Sir my second question would be regarding Xiaomi, so is there any specific, Sir first of all does the margins vary across screen size and if so is there any specific screen size that you are getting higher orders from Xiaomi?

Saurabh Gupta: The margins vary from size-to-size. At present what we are doing for them is 43 inches, very shortly we will be doing for them 50, 55 and 32 also.

- Nikhil Gada:** Is there any ballpoint number you can give for the orders that we get from Crompton as in what percentage it would be of our overall book?
- Saurabh Gupta:** Crompton at present is not buying from us, Crompton was our customer, at present they are not buying from us.
- Nikhil Gada:** So how much it was, if you could say for Q1, Q2 previous quarters?
- Atul Lall:** For us the share of Crompton business is very insignificant.
- Nikhil Gada:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Shreyansh Jain from Renaissance Investment Manager. Please go ahead.
- Shreyansh Jain:** Sir just wanted to ask you the Ministry released a notification where they are saying they want to setup a manufacturing eco system for electronics and electronic components, so just wanted to understand on the longer term how big could this opportunity be for us?
- Atul Lall:** Please appreciate that Indian imports of electronics is humongous and it is just next to the crude and Government of India very correctly in its policy framework has announced a lot of actioning programmes and created a differential in duty structures for incentivizing the manufacturing, the complete value chain in the electronic products in India. Apart from that there are various other policy initiatives it was MSIPS that is expiring in December 31, 2018, but I am sure that some other alternatives would come in and new electronics policy is already in place, so I think the government is committed. Industry is almost ready, obviously everything takes time, but I think in next three to five years India is going to be a very major electronic manufacturing hub globally because apart from China and now Vietnam emerging. India is going to be a very, very major hub, one, it has a very large domestic market, second China costs are increasing, third the way the global trade is happening, many, many buyers is large booking India as an alternative and as I shared with you in my opening remarks that we are having a significant traction in our lighting because we know that we are globally one of the most competitor. As far as the scale is concerned in indoor lighting and LED bulbs we would be amongst the top five manufacturers globally as far as volume is concerned, so I think that is what we are heading for.
- Shreyansh Jain:** Alright Sir. Thank you.
- Moderator:** Thank you. We have the last question from the line of Rishabh Potra from Sharekhan Limited. Please go ahead.
- Rishabh Potra:** Just wanted to further ask, we are not as of now into the published category and all our products manufactured are original, the raw materials are also original part?
- Atul Lall:** Yes.

- Rishabh Potra:** For how many clients are we the sole supplier, all the products we manufacture for our clients?
- Atul Lall:** Sole is it?
- Rishabh Potra:** Yes in each of the category, let us say for Samsung he only sources products from us, he does not have any other vendor to supply product, so are we sole supplier for any of the categories in any of the segments?
- Atul Lall:** So let me just share with you like Samsung, Dixon is the only partner as far as washing machine is concerned. Xiaomi, Dixon is the only partner as far as TV is concerned. Panasonic, Dixon is the only partner for TV, for washing machines, mobile phones and almost 80% of their bulb requirement. For Skyworth, PCL or BPL, Flipkart we are the only partner. Philips almost 80% of the indoor lighting is only through Dixon, so I think across all the categories either we are the only partner or we have every dominant share example the new customer that we acquired in Bajaj I think a very large chunk of Bajaj's requirement of indoor lighting is now through only Dixon.
- Rishabh Potra:** So just to further dwell on this point, do they play important role in raw material procurement for us because we are catering most of the product for them, Dixon does the negotiation in the raw material price?
- Atul Lall:** No, the raw material pricing and sourcing is made by us, but when we are getting the product approved the technical approval we have to finalize certain critical components mutually, not the pricing, the technical percentage.
- Rishabh Potra:** The quality part?
- Atul Lall:** Yes the technical specification, the quality norms, yes.
- Rishabh Potra:** So the customer does not provide us any of the raw material size?
- Atul Lall:** No.
- Rishabh Potra:** And lastly Sir how many client interactions are we engaged with as of now, which can be bought into the board for further manufacturing of products and services in each of the verticals that is a fresh addition of a client or a client adding new product for us, which can flow through in next two, three quarters?
- Atul Lall:** That is a continuous exercise and across all the verticals the traction and let me assure you the new customer acquisition will be very, very handy.
- Rishabh Potra:** Thanks a lot Sir.
- Moderator:** Thank you. That was the last question of this conference. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments.



Dixon Technologies Limited
November 1, 2018

Bhoomika Nair: On behalf of IDFC Securities, I would like to thank the management for taking time out and giving us an opportunity to host the call and thank you to all the participants for being on the call. Thank you very much and wish you all the best.

Atul Lall: Thanks very much everyone. Thank you Bhoomika. Thanks a lot.

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