



“Dixon Technologies Limited
Q1 FY2020 Earnings Conference Call”

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

Bhoomika Nair: Thanks Melissa. Good evening everyone. I would like to welcome you on behalf of IDFC Securities to the Q1 FY2020 Earnings Call of Dixon Technologies. The management today is being represented by Mr. Atul B. Lall, Managing Director and Mr. Saurabh Gupta, CFO. I will now hand over the call to Mr. Lall for his opening remarks post, which we will open up the floor for Q&A. Over to you Sir!

Atul B. Lall: Thanks Bhoomika. Good evening everyone. Thank you very much for taking out time for this call. I will give you a snapshot of our Q1 performance and before we get into the question and answer session.

The consolidated revenue for quarter ended June 30, 2019 was 1147 Crores as against 594 Crores in the same period last year. This is a growth of almost 93%. On consolidated EBITDA for the quarter was Rs.53.15 Crores as against 27.25 Crores in the same period last year that is a growth of 95%. Consolidated PAT for the quarter was 23.58 Crores against 12.76 Crores in the same period last year, which is a growth of almost 35%.

Another highlight of the quarter has been a strong generation of cash flow, which is around 30 Crores. This is primarily on an account of profitability and more efficient work capital management, which has also resulted in net debt reduction. So our operating cycle, working capital cycle has improved from seven positive days to negative three days in Q1 2019-2020. Well we have strong order book across all our verticals and would like to share that in the month of July also we have had the highest ever sale in the history of Dixon that is almost 441 Crores.

In all our interactions, I have been sharing that the focus in the company is to achieve the scale migrating more and more to ODM 4% backward integration, customer acquisition, and deepening our relationship with our existing customers, so across all the verticals the endeavor will be the same. We have seen that when we need these objectives we are able to generate a significant operating leverage and become more and more competitive, which helps us in acquiring new customer and which helps us in taking a larger share of the customer orders. So, I feel that in the verticals of lighting we have done fairly well and we are in particular position.

In TV and washing machine also we are somewhere midway. We need to more to improve our operating leverage. In mobile and CCTV journey has just started, so if it is okay, I will take you through the performance in the strategy in each verticals going forward. In the consumer electronics segment, which is dominated by televisions, the revenues for the quarter under review

was 510 Crores against 223 Crores, which is a growth of 129% over the last year's quarter, first quarter. This was mainly due to our new customer acquisition that is Xiaomi. Xiaomi since has got a hold position, it is number one, it is smart television market in India. It has got a market share in the last two quarters of more than 35%. So these increased volumes, which have more than doubled in the Q1, it has led to certain level of operating leverage ATN and this has resulted in 2.6 times growth in the operating profit, which has increased from 2.5 Crores to 11.4 Crores in the last quarter.

The operating margins have also expanded from 1.1% to 2.2%. We have made a very strong start in the second quarter with July being the best month in our operating history. So far we clocked the sale of 2.4 lakhs TV. We have also expanded the capacity in our Tirupati plant now from 2.4 million TVs to 3.6 million annually. This is the largest capacity that any company has in India. It is almost 25%. We have also deepened our manufacturing facility both with now LCM lines completely operative and the LCM capacity is in line with the final assembly capacity of 3.6 million annually.

Now, the SMT lines have been installed and sales one, the SMT PCVA there is 1 million per annum. The commercial production of SMT line has already started, so with this kind of infrastructure friends we are now the most vertically integrated TV plant in India. We are focusing a lot on our ODM solutions. So we have now R&D both in China and in India. In the last quarter, one of our largest customers that is Panasonic both Panasonic and Sanyo brand have migrated from the pre-scripted kind manufacturing who our own ODM solutions.

Also, I would like to share, I am not in a position to share name, but we are in advance discussions with the very large brand, which normally expand in market and we are extremely optimistic and bullish on that relationship coming soon.

Next I go to the lighting segment. Revenue for the quarter has shown a growth of 71% year-on-year. In Q1 2020, we have clocked a turnover of 324 Crores as compared to 190 Crores in the same period last year. This is despite the fact that the conventional CFL business, which was carrying in last quarter, it has clocked in September 2018. So if we adjust the revenue of CFL business, the revenue growth would have been around 87%.

Increased volumes led to a 17% growth in the operating profit, so the profit in Q1 is 21.4 Crores as compared to 14.5 Crores in the same period last year. The margins in lighting also have expanded from 7.6% to 7.8%. In the second quarter start that is in the month of July, again it has been a best month in the operating history of Dixon. We have clocked the same volume of 19.4 million LED bulbs, which I feel there is more than 50% of the total Indian requirement. The new brand that we have added apart from Philips is Panasonic Anchor, Bajaj, Wipro, Orient, Ajanta, Syska, Polycab, Control and Switchgear, Jaguar, Usha, Looper and also Plunt.

In LED bulbs we have expanded our capacity to almost 20 million bulbs a month, which is 55% of the Indian requirement. We had already expanded the capacity in batons from 250K to 800K inn phase 1 and phase 2 should be over by Q3 of this fiscal we will have a capacity of 1.5

million. The total Indian requirement is around 5 million, so we are going to build a capacity in phase 2 of almost 30%, so the customers in LED bulb and batons performance. We will strive when we are fairly confident that we will be able to build the volume in this business also.

Next product line we are targeting is downlighters wherein we are at present at a level of around 150K a month. In phase 1, we are planning to expand it to 2.5 million that is 500K a month and then we plan to build it up to a million a month. From next fiscal we will have a couple of large accounts for export of LED bulbs because we feel that we are within top 4 globally now as far as the volume of LED bulb that we can and we have the cost comparativeness to enter the global markets so same thing that we have been able to do in LED bulbs. We will strive to do in batons. Next, I go to the Home Appliances segments. In the home appliances, the revenues for the quarter has grown by 15%, so we are at 98.8 Crores in Q1 financial year 2019-2020 as compared to it 85.8 Crores in the same period last year.

Operating profit grew by almost 16% year-on-year that is at 10.7 Crores versus 9 Crores in the same period last year. In the second quarter beginning that is the month of July in our operating history again they were the highest sale. We clocked the sale volume of more than a lakh machine, which is 100% capacity utilization and a turnover of almost 48 Crores. We feel that we can grow by 30% in financial year 2019-2020 in terms of volume. We are the very large in fact the largest product portfolio today in semiautomatic category. We have more than 140 models. Our order book is fairly healthy. Our anchor customers, Samsung in January 2019 has more than doubled the volume and from July we added another model for them, which will take the volumes to almost half or mid in the year.

So, in semiautomatic also we are planning a further capacity expansion to 105 million. If you recall in my last interaction that we have shared that we now have top loading fully automatic plant in place. This new plant will be coming up in Tirupati. The new parcel of land, which is contiguous to our existing campus has been acquired. The construction will be starting shortly. So we have finalized two platforms in this in both 6 and 7 kg category it will complete our portfolio and this factory will be operational in next fiscal.

Now, I come to mobile phone segment. The mobile phone segment, if you recall we have Padget Electronics may be to our mobile business has become 100% subsidiary during the quarter in 2017, 2018 and 2019, so revenues for the quarter was 144 Crores for 100% against 73 Crores for 50% last year.

Operating profit was 3.2 Crores to 100% as against 81 lakhs to 50% same period last year. The operating profits margins have improved to 2.2% in the current quarter as compared to 1.1% in the same period last year mainly this is due to the backward integration of PCBA that we have been, that is in operation now.

So the PBCA backward integration capacity for mobile phones is 300k to 350k per month for Smart Phone and 750k per month feature phones. So we have strive to build a large scale in mobile business and I am glad to inform and report you that we have got a very major

breakthrough in this division and we have signed with a very close 250 accounts, which is in the top two in India and globally. So we have taken as a new factory in Noida and we have almost 2.2 lakh a square feet and we are setting up a capacity of 1.8 million phones in both domestic and export market. The trials in this factory would start in September 2019 the next month, and commercial production will start in Q3 from first week of October that is what we are targeting, and the order book, so this is though the disruptive in a positive way for Dixon, let us hope we are able to execute it well and to a good growth there.

In security surveillance segment, revenues for this segment were 68 Crores with operating profit of 2 Crores and an operating margin of 3 Crores. So while in last fiscal, we hardly had any revenue share, so this commercial product is kind of stabilized. But Q-on-Q that as compared to Q4 last fiscal the revenues have been flat and the margins have improved slightly. It has improved from 2.3% that is 1.6 Crores to almost 3% in Q1 2019-2020. This business is in a 50% JV with Aditya Infotech who are the trade mark owners of CP Plus, Dahua and Dahua which is a Chinese client. Here we have a capacity of 6 lakhs per month for CCTV and 1 lakh per month of DVR. Order book here again continues to be fairly healthy.

Reverse logistics is a segment which is more of a strategic nature, it is a, we are not making significant money there, so we have a negative operating profit of 11 lakhs in the last quarter of year this is primarily because of writing off of some unusable inventory. This will continue like that, this is more in a strategic sense because the main focus now there is on LED TV panel and we are doing it for Xiaomi so that is the way it is.

So this is what I wanted to report you and I welcome question and answers, both me and Saurabh my colleague, our CFO is there with me. Thanks so much.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir just wanted to understand about the LED TV vertical a bit more, what is the kind of quantity that Xiaomi is today selling in the market and what proportion of that is being supply by Dixon, and do you see a scope of further increase in volumes for Xiaomi over the next few quarters?

Atul B. Lall: Aditya consistently now we are doing around 150k to 160k per month for Xiaomi. We understand that the volumes in Indian market is around 200k to 220k per months, so almost 20% is a gap in what we are not able to do because we were in a capacity ramp up phase and we feel that from next quarter whatever they sell in India would be manufactured by us.

Aditya Bhartia: This 200000 to 220000 TVs that Xiaomi is selling, is this the average number for the full year which means that the numbers would be higher during Diwali months and would be significantly lower maybe around 120k, 130k in other months or is it the normal run rate that Xiaomi is clocking every month.

Atul B. Lall: Normal run rate I feel is around 200k to 220k then the, some increase more so which they have

done some CPU imports in Diwali month, just immediately post Diwali I feel there is going to be a dip, but I feel, if everything goes well, they will come back to this number of 180k, 200k back on monthly basis.

Aditya Bhartia: Sir what proportion of our consumer electronic revenues would be coming from Xiaomi today?

Saurabh Gupta: Aditya almost 41% in terms of volumes and almost 68%, 69% in terms of value is what comes from Xiaomi.

Aditya Bhartia: My second question is on the lighting segment. There have been a few articles, which kind of indicate that your competitors in the lighting segment are in a pretty terrible state. Is that true and is that the main reason why we have seen such strong growth happening in this segment. Also are you seeing any brands which are now thinking of setting up their own facilities or are engaging with the other vendors or do you think that they are happy on being completely reliant on you.

Atul B. Lall: Answering your first question first. Yes, I think our competition coming in a stress has definitely helps us in acquisition of new customers. Second thing your question wherein the brands are looking at their own manufacturing facility. I do not see any significant news in that direction. There are some brands which are completely on in-house manufacturing mode, you know those brands, there are some brands which are midway and there are some brands which are completely on outsourcing mode. I know where you are coming from possibly you are referring to Phillips acquisition of Klein so I do not think that is happening in India.

Aditya Bhartia: Last question on the potential of exports in lighting business how are you seeing that and how has been the progress over there?

Atul B. Lall: We are already in discussion with some of our anchor customers, so one methodology is that that we go through our anchor customers and there the level of discussions at a fairly advanced stage, second is that we are building our own organization both on the development side and the marketing side. Recently we have had a consultant for building up our relationship in the American market. We are going to be targeting other countries as well. So it is going to take some time, but we feel that we should be able to start generating revenues from international markets sometime in Q4 early next fiscal.

Aditya Bhartia: That is helpful Sir. Thanks a lot.

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

Renu Baid: Good evening Sir. Congratulations for a very strong performance this quarter. Given that you have performed so strongly this quarter, my first question would be to try and take some market assessment. So across categories we have seen higher than expected growth so do you, as and based on your interactions with your customers have you seen indications of secondary sale flowing in the end market though this has been offseason but what has been the comments with respect to end market demand because I think that is where the broad concern of the market is

that the brands are not so optimistic on the near-term demand outlook. So from your perspective what has been your feedback from the end markets which eventually would translate into our growth also during the year?

Atul B. Lall: Renu as of now when we talk to the brands one can sense that that kind of buoyancy is not there, I can sense it, but I also see that in certain categories there are some outliers. So for example I do not see any slowdown in Xiaomi TV and see some other verticals, I can see that that kind of buoyancy or some kind of slowdown is there. So in our case the focus again is on two steps on two kind of methodology, one is the continuous customer acquisition and second taking a largest slice of their share. So I feel that is the path we are pursuing and we will have a reasonably decent growth in this fiscal.

Renu Baid: Sir television itself now a) you have Xiaomi with you, second you mentioned that you are in advanced discussions with among the top players in this space to add them in this category. So structurally are we seeing that television segment which did not have any top three players with us as market leaders as a customers now the shift is happening from the Tier II to Tier I or the market leading brands for us and how should one read the implication of this on our margin profile, will this also have any marginal impact on the operating margins or you think the operating leverage and backward integration should be able to take care of in the margin profile?

Atul B. Lall: There is no single answer on this particular question covering all the verticals. Renu, the scenario in each vertical is different. So in television it does not make any impact, as far as the margin profile is concerned, because it is more on conversion mode. So the larger quantity that you do, you have a larger operating leverage kicking in and in fact the margin profile should improve, but when we are looking at the ODM that is in lighting or in washing machine it can have an impact sometimes the lower end players you are able to make more money. So when they were shift to a larger brand there can be some impact on operating leverage on the margins, but at the same time as an organization we have to be much more efficient to take advantage of the scale in a buying and in allocation of our fixed cost. When I should do the balancing exercise when I was reading out my opening statement that is what I said that when I see lighting I think the team has been able to do a good job and the operating leverage advantage has kicked in, but I still feel that in our washing machine as a segment in spite of the growth we need to do some work on bringing in more operating leverage and similarly in TV so TV still the ODM volumes have to go, so it has to come in. So it is going to vary from vertical to vertical Renu are you getting my point.

Renu Baid: Yes absolutely. On the balance sheet side, sorry now coming first to automatic washing machine you mentioned of capacity expansion in semiautomatic as well as fully automatic Greenfield expansion of Tirupati. So I want to look at the capex expectation this year and next financial year for these segments and incrementally would you have any insight to share on the fully automatic plans with reassert to the customer or the revenue expectation to start put at this point of time?

Atul B. Lall: First, I will explain to you on the capacity expansion. The semi automatic the capacity expansion is going to be from 1 million to 1.5 million and because what is happening is that let us say in the

month of July we did more than 100k and we have to reject some orders. So the capacity expansion has become imperative now otherwise we will be loosing the client. So that capacity expansion will entail capex of almost 7 to 8 Crores which I feel is going to happen in the next three quarters. The capex on the fully automatic plant which again in phase I is going to have a capacity of 500k and will become operational in the next fiscal will be somewhere in the region of around 25 Crores to 30 Crores. Now I am not, it is not prudent to me to share on the fully automatic side the customer profile and the number at this stage. I am not in a position, I can share, but I am not be able to do that, are you getting my point.

Renu Baid: I think it would be perfect, yes, but we have identified customers already who would be the key customers.

Saurabh Gupta: So Renu the customer is identified, so based on that we are putting up the capacity.

Renu Baid: Sir in the mobile phone segment you mentioned that the new customer already on board and is expect to start work and then revenue should probably start kicking in end of 2Q and 3Q. So any numbers that you would like to guide on the mobile phone segment for us, for this financial year?

Atul B. Lall: You see the ramp up always take some time, you see that happening in our security surveillance we have seen that in other verticals and TV also when we started our Tirupati plant, finally these numbers are going to be in the range of around 1.5 million, 1.8 million phones a month and 12 I think is slightly early to share the operating profit numbers on this particular vertical, but let me show you it is not be fairly healthy.

Saurabh Gupta: Renu, the numbers will be fairly healthy without on the same premises that there will be no working capital deployed in the mobile business.

Atul B. Lall: There is no working capital deployment in the mobile business.

Renu Baid: Sir these when your customer with whom we are expecting to start work will be also smart phones or there will be some of the feature phones as well?

Atul B. Lall: This is feature phones for domestic and exports market.

Renu Baid: Sir last question for the year as a whole what would be the total capex that we are expecting this year and next year across segments categories combined?

Atul B. Lall: See the capex stand each year is going to be in the range of around 60 Crores to 65 Crores.

Renu Baid: So this includes the capex expansion for washing machines as well?

Saurabh Gupta: That is right.

Saurabh Gupta: So first quarter Renu we have done a capex of around 13.5 Crores and it should be the annual

capex guidance should be somewhere around 60, 65 Crores the capex on the fully automatic will be more back-ended both towards the second part of the financial year. Presently lot of decent amount of capex will be incurred on this mobile factory that we are setting up for this new big account.

- Renu Baid:** Thank you so much and all the best. Great set of numbers.
- Moderator:** Thank you. We have the next question from the line of Harish Bihani from ICICI Prudential. Please go ahead.
- Harish Bihani:** On the television just wanted to understand the new customer will this likely so, if we finely convert this customer will this be on ODM basis or on EMS basis?
- Atul B. Lall:** No, it is going to be in all probability a collaborative JDM kind of a business.
- Harish Bihani:** In terms of mobiles if I understood correctly we are speaking to customer who is globally number two among the top two players globally is that a correct understanding?
- Atul B. Lall:** Yes, globally and India.
- Saurabh Gupta:** Globally and India, yes. So it is among the top two brands in India.
- Harish Bihani:** Do they have an existing facility in India or are they partnering with anyone else or is it a first partnership with somebody outside their own facility?
- Atul B. Lall:** They have a facility in India, globally they have started outsourcing a bit, on India they are outsourcing for the first time.
- Harish Bihani:** Thanks so much, appreciate.
- Moderator:** Thank you. We have the next question from the line of Prithvi Raj from Unifi Capital. Please go ahead.
- Prithvi Raj:** Thanks for the opportunity. Just wanted to understand if the market share gains that we have made in the LED lighting segment would be here to stay, in other words if the competitors who are under stress will somehow to come back to the market, is it fair to assume that these volumes, if you can could able to be given up your comments on that?
- Atul B. Lall:** You see the business environment is always dynamic. Now our teams cannot just pause and sit idle. So they have to be continuously on the job and if you see our lighting revenues from almost 34% ODM our own design and now 84% is ODM. So we have to keep on doing value engineering, we will have to keep on working with the new chipsets, we will have to keep on working with new profiles come with product portfolios we have to keep on expanding. So we have now launched a very cost effective smart solution which operates both on WiFi and

Bluetooth, we have now come up with a battery backup bulb. We have come out with a new innovative downlighter which can be installed without a false ceiling there is a continuous excise now what you are saying is right that if my team is not able to do this well then obviously this competition steering it as always.

Prithvi Raj: Just to place some context to quality of growth will be fair to assume that the market share gain is that we have gotten are from existing customers or have you won any new logos?

Atul B. Lall: It is across the customers. As I shared with you we have a very large portfolio of customers. Now if you see, let us say our anchor customer Phillips, now Phillips we do 90% of their indoor lighting requirement but our revenue share of Phillips which a year back...

Saurabh Gupta: The year back was around 76% has now come down to 47% so year-on-year they have also grown but since we have added so many customers in the last one, one and a half years. So as a percentage of their contribution it has come down.

Atul B. Lall: So I will share with you, like we do almost 100% of Wipro's requirement, we do almost 60% of Bajaj's requirement, we do almost 60%, 70% of Panasonic anchors requirement, now we have a very large relationship with Orient, we do 100% of control in switchgear requirement we do 100% Usha's requirement so that is the way we are trying to acquire new customers and also these customers our endeavor is to acquire a larger pie in the business.

Prithvi Raj: What is the market share we have taken from our peers in Q1 will that then accelerate given what the financial situation of your peer is or whatever can be taken has already been taken?

Atul B. Lall: Well, I think we are sitting at almost 45%, 50% market share on LED bulb side so I think we will strive to remain there. I still feel that there is a scope for acquiring more customers because many, many regional brands are coming up and our next effort is to bring into our customer portfolio the Tier II, Tier III brands. They will further add to our volumes and the second growth has to come as I shared with you, because we have a long way to go on the backend side and our journey in downlighters has just started. So this is the focus area and then in a period of a year or so we have to build a global business that is the journey, which I have shared earlier occasions also.

Prithvi Raj: Moving our focus to the TV segment do you think even this kind of distribution that Reliance might be talking about could eventually affect the off take that Xiaomi is enjoying in India today?

Atul B. Lall: Well, there has been an investment by Reliance yesterday so one has to wait and watch that what it exactly means, what they are talking about because they are talking about 4k television the set top box free but on what package, what volumes but we also know that Reliance is our customer, Reliance is our large customer.

Prithvi Raj: So should they assemble 4k TVs in India is it fair to assume that we would be one of the

preferred vendors?

Atul B. Lall: Definitely, I hope so, that is what I am saying in today we have been reconnecting.

Prithvi Raj: Lastly just to make sure we got it right the contractual proposition on the mobile side that is feature phone right not the smart phones?

Atul B. Lall: That is a feature phones right.

Prithvi Raj: Is that a very, very topical opportunity because obviously in feature phones consumption worldwide optically seems to be declining so is this a onetime topical opportunity or do you think whatever volumes we have done could eventually be sustained?

Atul B. Lall: So the capacity that we have been asked to build by our customer is around 1.5 million to 1.8 million. If you look at the Indian scenario the market for feature phone is till continues to be around 9 million to 10 million and that is the volume which is being sold month after month and there is a reasonable quantity of exports also of features phones. So I think this volume will keep sustaining. More than this it opens up an opportunity for the smart phones in the next stage.

Prithvi Raj: That is very helpful Mr. Lall and so thank you.

Moderator: Thank you. We have the next question from the line of Neerav Vasa from Anand Rathi. Please go ahead.

Neerav Vasa: My queries have been answered. Thank you.

Moderator: Thank you. We have the next question from the line of Rajeev Roy an Investor. Please go ahead.

Rajeev Roy: Congratulations for good set of numbers. Sir in our home appliances division we are entering into this automatic washing machine segment so what is the capacity addition we are looking at with this segment whether it will be an OEM or ODM business and which customers are we targeting for this division?

Atul B. Lall: The capacity that we are going to build in phase I is going to be for 0.5 million top loading fully automatic washing machines. The platforms you are right from 6 kgs to 9 kgs. We already have a significant traction from domestic brand. The anchor customer that we are talking to, are a couple of very large global brands. I am not in a position to share the names of these large global brands as of now.

Rajeev Roy: Will this be OEM business or will it be ODM business?

Atul B. Lall: It is going to be completely ODM it is our design.

Rajeev Roy: Thank you Sir.

- Moderator:** Thank you. Ms Nair would you like to proceed with questions while we wait for participants?
- Bhoomika Nair:** I had a question on the TV segment. You mentioned earlier that Xiaomi is now almost 68%, 69% in terms of the segment revenues. So while it is obviously fantastic that we have kind of scaled up fairly well but the customer concentration has increased quite a lot and with the unfavorable duties I think exports will be a challenge and also increasing new customers. So how are we seeing this to from a more medium to long-term perspective to diversify our client base here?
- Atul B. Lall:** The customer acquisition is always working towards that. In television what you are saying is right. So as I had shared in my opening statement that we are in discussion with some top most brands in India. Once it happens and then we have Xiaomi, we have Panasonic, Sanyo, we have Lloyd, we have Reliance, we have Koryo and once this large brand comes into the system I think we will be in phase I fairly derisked.
- Bhoomika Nair:** Obviously this segment is seeing a fairly strong traction in the current year driven by Xiaomi, but if I were to look at FY2021 will the growth kind of slowdown as we start picking out in terms of monthly volumes to Xiaomi?
- Atul B. Lall:** I feel that once we have the customer acquisition it should start kicking in hopefully by Q4 this fiscal and actually want to take off next fiscal we also have a reasonable rate of growth in TV segment as well, and please appreciate that in Xiaomi itself we still have some way to go to takeover completely their production numbers.
- Bhoomika Nair:** Sir just on washing machines while you might not able to speak about the customer names for the fully automatic washing machines, but what kind of scale we could achieve in the first year of operations or in the medium-term if you can just throw some light on that that will be appreciated?
- Atul B. Lall:** This is going to start somewhere in mid 2020-2021 I think in year one we should be around 150k to 200k and in the next year it is going to actually scale up because that global times for global players for top loading solution is a long thing, it takes time.
- Bhoomika Nair:** I will come back in the question queue. Thank you.
- Moderator:** Thank you. We have the next question from the line of Nikhil Gada from Asian Market Securities. Please go ahead.
- Nikhil Gada:** Thanks for the opportunity. Sir my first question is regarding the lighting segment. So while our share of ODM has increased significantly, it is not percolating in terms of margin as in the margin improvement has only been 20 BPS, is it purely because the realizations in lighting business have fallen off or would that understanding be true?
- Atul B. Lall:** I feel there is some scope of improvement there and I feel that when you see the numbers of Q2.

- Saurabh Gupta:** This number should be better than Q2 as far as the margins are concerned.
- Nikhil Gada:** So we are not seeing any per se realization dip in terms of per unit realization?
- Atul B. Lall:** Sorry.
- Saurabh Gupta:** No, so nothing of that sort.
- Nikhil Gada:** Sir secondly in the consumer electronic business, just wanted to check whether I heard it correctly you said that Panasonic is also migrating to ODM business.
- Atul B. Lall:** That is right.
- Saurabh Gupta:** On the analog side 24, 32, 43 inches sets both the Panasonic brand and Sanyo brand are Dixon ODM Solutions now.
- Nikhil Gada:** What would be their share in our overall mix?
- Saurabh Gupta:** This activity has just started off. It is still going to be a minor small number. I think in an overall number it is going to be around 8% to 10%.
- Nikhil Gada:** Sir regarding this mobile phone so when will this will start production for this new customer as and will it start by FY2021?
- Saurabh Gupta:** The trials are going to take place next month in September and the commercial production will start in October. I feel that October to December quarter will be required for ramping up and stabilizing the processes. We should be start delivering consistently from Q4 in this particular vertical, in this particular, for this particular customer.
- Nikhil Gada:** Margins would be in the similar range that we are doing right now of the maybe slightly lower than the current margins?
- Atul B. Lall:** See this is our feature phones business so I should not be sharing the margin profile at this stage just wait for sometime if you did not mid.
- Saurabh Gupta:** It is slightly premature to share the numbers on this at this stage I think so maybe by next call we will have a better idea we will be able to update the market on the launches.
- Nikhil Gada:** Sir just last one question if I may regarding security systems any guidance that you can give for us in terms of FY2020 how we see the revenues and the margin profile going in FY2020?
- Atul B. Lall:** Yes so security systems if you look at this quarter we have done 68 Crores which is basically 50% of the overall revenues. I think so we should do somewhere around 600 Crores to 650 Crores at a total level. So 300 Crores to 325 Crores is what would be our share of revenues and

this business should generate somewhere around 2.7% to 3%, somewhere between 2.7% and 3% kind of a margin operating profit margin.

Nikhil Gada: Any plans to do backward integration in this business as well?

Atul B. Lall: We are evaluating doing the injection molding of the camera plastic parts in house, but those plans are still to be detailed because we were waiting for the new land acquisition to take that in Tirupati which has recently happened. So that plant formulation and execution is going to take time. But the direction is that, it is just like in other vertical they will be very seriously looking at the plastic part of the cameras and sheet metal part of the cameras and DBRs in-house.

Nikhil Gada: Thanks. That would be all.

Moderator: Thank you. We have the next question from the line of Tejas Seth from Reliance Nippon Asset Management. Please go ahead.

Tejas Seth: Good evening Atul Ji and Saurabh. Just one question on the feature phone opportunity, one what would be the share of the larger brand will be catering to at 1.5 million to 1.8 million pieces a month and second question is how backward integrated will be in this feature phone mobile are selling?

Atul B. Lall: Tejas can you come again on the question please, sorry, it is not very clear.

Tejas Seth: Just two questions pertaining to mobile phones. The first is once we start this mobile manufacturing what would be the share of this large brand we will be catering to in domestic as well as exports opportunity and second how backward integrated we will be when we start the manufacturing?

Atul B. Lall: So the first question to answer as I had shared. In this particular vertical the volume integration is around 1.5 million to 1.8 million out of that 15% to 20% will be exported out of India balance has to be consumed in a domestic market. So this shows that this particular brand has around 18% to 19% share of the feature phone market in India. In this particular vertical the complete assembly including the PCBA will be done in Dixon facility. So it is a completely backwardly integrated thing.

Tejas Seth: From the day one itself, Sir?

Atul B. Lall: From the day one, yes.

Tejas Seth: So you said 9 million pieces in the market of they have share of around 20 million. 20% so it will be 1.8 million.

Atul B. Lall: That is right, yes.

- Tejas Seth:** Yes, so it nearly you will be catering to 100% of their requirement.
- Atul B. Lall:** Yes, yes it is 100% requirement.
- Saurabh Gupta:** Yes, it is 100% of the requirement on the feature phone segment.
- Tejas Seth:** Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Monali Jain from Dolat Capital. Please go ahead.
- Monali Jain:** Thanks for the opportunity. Sir in the Q4 you are talking about some working capital problems without bit customers like MI and this quarter the working capital has improved. So like has there any backing in the working capital terms in this quarter with the customer like MI?
- Atul B. Lall:** As we mentioned in the last call it was more of an aberration and we had always maintained that the capital employed in the consumer electronic business was around 136 Crores as on March 31, which has now come down to 70 Crores, so relationship started to grow with Xiaomi only towards the end of March the volumes started to pickup so we ended up so there was some brief transition period will be ended up deploying a decent amount of working capital on that account which has significantly reduced, so that has come down which we had guided in the last call as well. So we are quite confident that the working capital deployment including the fixed assets in the working capital in the consumer electronic business should be somewhere between 70 to 90-odd Crores so the March numbers has quite an aberration I would say.
- Monali Jain:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.
- Keyur Pandya:** My question just related to working capital, so now do we considered this a new normal and should we see the reduction in finance cost as well going forward.
- Atul B. Lall:** Can you come again please, this is not audible?
- Keyur Pandya:** Is it audible now?
- Atul B. Lall:** Yes it is audible.
- Keyur Pandya:** The reduction in working capital should be a new normal and this should translate in lower finance cost as well going ahead?
- Saurabh Gupta:** Yes, so if you look at, as mentioned by Mr. Lall at the beginning so there has been a free cash flow generation of around 30 Crores and that has one of the reasons is the better working capital

management so the finance cost if you look at the finance cost is more of a) if you look at quarter-on-quarter the finance has actually not increased so in this 9.85 Crores which is kind of reflected in Q1 results almost 70 Crores is on account of the Ind AS 116 adjustment so basically the rental that gets into the depreciation and sorting the finance cost also one more thing which we want to highlight and which we mentioned in the last call as well there is some interest component recovery which we take from Xiaomi in our recovery sheet so which is kind of clubbed in the finance cost and at the same time it comes in the contribution as well. So the amount is almost 1.6 Crores so if you reduce both the numbers the finance cost is actually come down quarter-on-quarter.

Keyur Pandya: Sir what kind of debt we should expect and what is the debt right now and what would be the trajectory going ahead?

Saurabh Gupta: Sir net debt was around 100-odd Crores on March 31, which we have been able to bring it down by almost 30-odd Crores so presently whatever cash that we have generated I think so we have reduced our short-term borrowings our working capital borrowings and it is presently in the range of 60 to 70-odd Crores. We hope to maintain this kind of levels in the September number as well.

Keyur Pandya: Congratulations on numbers and all the best.

Moderator: Thank you. We have the next question from the line of Hiren Trivedi from Axis Securities. Please go ahead.

Hiren Trivedi: Thanks for the opportunity. Firstly on the mobile phones we have done up to 144 Crores in this quarter so can you extrapolate this for the whole year or is it would be much better since you got the new customer for the feature phone and secondly on security systems any plan to increase the stake in the JV with Aditya Infotech?

Atul B. Lall: Mobile phones, I think so we should maintain this kind of a run rate. I am not counting in the new customer account so on an average basis today I think so this 150 Crores should be the going quarterly run rate kind of a number and we should do somewhere around 600 to 650-odd Crores on the mobile front on an average basis and it should generate somewhere around 12 Crores to 14 Crores of EBITDA for us so this is on the mobile side. Security systems what was the question if you can come again.

Hiren Trivedi: Yes, so are you planning to increase your stake in the JV with Aditya Infotech currently it is at 50%?

Saurabh Gupta: No we continue with 50% this stake which is the other stake is of our partner who is the brand owner so this is a strategic tie-up so there we are not planning any stake change.

Hiren Trivedi: Thank you.

- Moderator:** Thank you. We have the next question from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** Good evening Sir, one additional question within the consumer electronic segment we have this PCBs for inverter in the bases for Daikin given that this was strong seasonal month and quarter for air conditioners how has been the performance there and given the fact that Daikin is also expanding and doubling the capacity for room ACs are we looking at a higher offtake of new capacity expansion for this?
- Atul B. Lall:** We are in the front of a Japanese Daikin partner. There is a company called Rexene which is the strategic partner for Daikin globally and it provides them the complete inverter control module solution. We are the manufacturing partner for India. I am seeing that this business is continuously growing. One Daikin is doing fairly well. Second it is a pretty strong AC season. Third there is an absolute shift towards the inverter base solutions so I am seeing a significant growth in the Q2 also. Third Daikin is sourcing for all their global factors of Rexene so some exports have also started from Dixon India to Daikin's global factory. We are deepening our relationship with Rexene and very shortly we will be announcing something more in a couple of month in this relationship.
- Renu Baid:** How much would we be contributing to last year's revenues FY2019 and probably for this quarter will you be able to quantify that?
- Saurabh Gupta:** Yes, so that see Renu it is part of the presentation also so if you look at the revenues it is so excused under the consumer electronics head only and this quarter revenues is around 32-odd Crores as against 21-odd Crores same period last year. So there is a strong growth of almost 54% and we have generated a decent amount of operating profit also in this.
- Atul B. Lall:** And this business does not into the work in progress.
- Renu Baid:** Yes, it is only PCBs that you have been doing there. Yes, fantastic thank you so much and that is the question from my side.
- Moderator:** Thank you. Ladies and gentlemen that was the last question and we will now close the question queue. I would like to hand the floor back to Ms. Bhoomika Nair for closing comments. Please go ahead Madam.
- Bhoomika Nair:** On behalf of IDFC Securities, I just like to thank everyone for being on the call and particularly the management for answering all the queries and giving us a good perspective. Wishing you all the very best Sir and congratulations once again on the good set of numbers. Thank you very much.
- Atul B. Lall:** Thank you Bhoomika. Thank you everyone.
- Saurabh Gupta:** Thank you everybody.



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Moderator: Thank you. Ladies and gentlemen, on behalf of IDFC Securities that concludes this conference.
Thank you for joining us and you may now disconnect your lines. Thank you.