



“Dixon Technologies Limited
Q2 FY2020 Earnings Conference Call”

November 13, 2019



Management:

Mr. Atul B Lall – Managing Director
Mr. Saurabh Gupta – Chief Financial Officer

Analyst:

Ms. Bhoomika Nair – IDFC Securities Limited

Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Q2 FY2020 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, 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: Good afternoon everyone. On behalf of IDFC Securities, I welcome you to the Q2 FY2020 Earnings Call of Dixon Technologies. The management today is being represented by Mr. Atul Lall, Managing Director and Mr. Saurabh Gupta, CFO. I will now hand over the floor to Mr. Atul Lall for his initial remarks post, which we will open up the floor for Q&A. Over to you Sir!

Atul B. Lall: Thank you very much Bhoomika. Good evening everyone. Thank you all for taking out time for this call. I will just share with you the snapshot of Q2 performance, before we get into Q&A.

Consolidated revenues for quarter ended September 30, 2019 was Rs.1405 Crores against Rs.741 Crores in the same period last year. That is a growth of around 90%. Consolidated EBITDA for the quarter ended September 30th was Rs.65.9 Crores against 34.6 Crores in the same period last year that is a growth of 91%. Consolidated PAT for the quarter ended September 30, 2019 was Rs.43 Crores against 16.4 Crores in the same period last year, that is a growth of around 62%.

So that is on the numbers front. What I wanted to highlight in this half yearly performance has been a strong generation of free cash flows, post capex we generated free cash of around 65 Crores in the first six months. This is of course on account of improved profitability but more than that it is on account of improved working capital efficiency, this has also resulted in net debt reduction to Rs.52 Crores on September 30, 2019 against 96 Crores as on March 31, 2019 in spite of significant increase in the revenues.

Further because of this focus by the team, the working capital cycle which on March 31, 2019 was seven day has improved to zero days at the end of Q2 financial year 2020. The return ratios have also expanded at the end of Q2 the ROE stands at 25.6% and ROCE is at 33%. We have shared on earlier occasions also that our strategy is primarily to achieve a scale migrating more and more to our own design solutions, focus on backward integration wherever we are enhancing our operating leverage, customer acquisitions and enhancing and deepening our relationship with our existing customers. So that is what we have been focusing on and trying to do across all our verticals, which has resulted in significantly better performance.

Now I will take you through the performance in the strategy in each vertical going forward. In consumer electronics segment, that is primarily LED televisions, the revenues for the growth come for the quarter Q2 2019-2020 was 738 Crores against 360 Crores in the same period last year, that is a growth of 105%. The operating profit also grew by 40% that is 17.7 Crores in this Q2 against 12.6 Crores in the same period last year.

We have also expanded the capacity from 2.4 million to 3.6 million that makes us having a largest capacity of LED TV in India today. It is more than 22%, 23% of the total Indian requirement. Whoever as a part of our strategy of deepening the manufacturing, we have a compatible LCM capacity of 3.5 million, which has been expanded in this fiscal.

On our SMT side currently we have a capacity of 1 million and by the end of this fiscal we will further expand this capacity to 2.4 million. We have invested in R&D and we have a large R&D team both in India and China now.

Also, an important development for us is that we are in very advance stages of an agreement closure with a very large brand we nominate both Indian and global market and we expect the production for that brand to commence from January 2020.

Going to the next vertical lighting. Revenues to the quarter have grown by 49% year-on-year. we are at 284 Crores in Q2 against 190 Crores in the same epode last year. This is in spite of the CSL business completely shutting off. So, if I compare on like-to-like basis the growth would have been almost 56%.

Increased volumes have led to almost 108% growth in operating profit, profit for this quarter is 23 Crores and as compared to 11 Crores in the same period last year. The margins in lighting business have also expanded from 5.8% in Q2 last year to 8.1% in Q2 this year.

So now we have all the major brands in lighting industry in our portfolio most of them and all of them are primarily on ODM basis. We have also expanded our capacity in LED bulbs, which is now 20 million per annum, which is almost 50% of the Indian requirement. In the last quarter we have developed new solutions smart LED bulb and emergency bulbs which assuming to three prominent brands in India.

I had shared in the last call that we are expanding our total portfolio and we are expanding our capacity. So now we have expanded our capacity in phase I in batons from 250K a month to 800K per month and in phase II that is by Q1 next fiscal this will be expanded to 1.5 million. So, the total Indian requirement we understand is around 5 million a month, we will be almost at 30%, please also appreciate that the brands whom they are servicing are having batoning is an important SKU in the product portfolio, so we are fairly confident that we will have a large customer base for batons also.

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Same is the case in Downlighters we have already expanded our capacity from 150K a month to almost 800K a month which again is almost 25% of Indian requirement and the customer base is the same.

Now with this increased volume that we have had, we feel that they are globally competitive and for one of our major anchor customers we start exports to the global market within December this year. We are in discussion with some large global chains and we are fairly confident that we will get a breakthrough in the international markets in lighting, in indoor lighting very shortly.

Coming to our home appliances, that is washing machine segment. Revenues for the quarter has grown by 34%, it is 139 Crores in Q2 financial year 2019-2020 as compared to 104 Crores last year. Operating profit has also grown by 94%, it is 16.4 Crores in Q2 FY2019-2020 versus 8.5 Crores. The margins have expanded from 8.1% in washing machines in Q2 last fiscal to the 11.8% in the last quarter. This business is completely on the ODM basis, we have the largest product portfolio right from 6 kg to 8.5 kg so 140 odd models in that industry. Also, we are adding 10 kgs by Q1 next fiscal.

We are in advance stage of an agreement closure with a very large Indian multinational brand and for this particular brand the execution will start by December this year. I had shared with you that we are expanding into top loading fully automatic category. So, the plans are in place and this campus the factory is coming up in our Tirupati campus and we are targeting to start the production there by Q3 in next fiscal, we will have the complete range right from 6 kgs to 10 kgs category almost 30 models and we are in process of tying up with two large MNC brands this will consume almost 70% of our capacities. So that is going to be a significant positive for the company in this particular segment.

Coming to mobiles revenues for the quarter are at 193 Crores against 63 Crores for 50% for the same period last year. Operating profit is at 4.1 Crores against 58 lakhs last year. The operating profit margins have improved to 2.1% in the last quarter as compared to 0.9% in Q2 last fiscal. If you recall we have always been sharing that what we are aspiring for in mobiles as a business is the scale that is the part of our overall strategy and a large anchor customer.

So I am pleased to inform you that we have setup our new capacity now for mobile phones in Noida which is almost 250000 square feet, this facility has become operational, the combined capacity now we do only smart phones is going to be around 1 million, it use to be 1 million a month which use to be 300K per month which is almost 6.5% to 7% of the Indian requirement so we have acquired a certain level of scale in this business now and also I am pleased to inform you that we have already started commercial production for Samsung feature phones around three weeks back in this particular factory. The production

is being ramped up and we feel that by January or latest February in the next quarter we should be able to achieve a 100% capacity of 127 or 128 million feature phones.

In security surveillance segment, the revenues for this segment are 43.5 Crores it is our share with operating profit of 1 Crores and an operating margin of 2.4 Crores, this is not a comparable thing because in last fiscal we were barely operation in this particular vertical. We have again catered a large capacity in this particular segment.

Reverse logistics, we had shared that this particular segment vertical is more of a strategic nature, in which we are doing LED TV panel, mobile and set top box repair. This vertical was losing money, so I am pleased to inform you that, we have been able to turn around and we have declared operating profit of almost 75 lakhs in this business and this is going to be now a profitable business for us in current quarters and the coming quarters.

So, this is what I wanted to share about our quarter performance and the present status of our various businesses. We welcome any questions.

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

Aditya Bhartia: Sir you spoke about, new customer addition in the washing machine category both for semiautomatic as well as tying up capacity for top load washing machines. It would be great, if you could share some more details especially for the semi automatic washing machine customer, how large can this contractually and how it is likely to scale up.

Atul B. Lall: I am not in a position to share the name of the brand as of now, we feel that this is going to be almost a contract of 100000 machines a year, which is going to be almost 11% to 12% of our total capacity and as far as the product portfolio is concern to start with this and right it from 7% to 8.5% at semi category.

Aditya Bhartia: And this will be for Indian market only.

Atul B. Lall: This will be for Indian market.

Aditya Bhartia: And just to clarify for top load washing machines you mentioned that the two brands with whom you are in status of agreement that will constitute almost 70% of our capacity.

Atul B. Lall: That is right.

Aditya Bhartia: Then for the consumer electronics business Sir. Generally, we tend to see volumes per TV sales dropping quite sharply post Diwali, but at the same time so far, we had not really been

doing complete requirement for Xiaomi given the capacity constraints. So, looking at these two things put together, how should we look at volumes over the next two quarters?

Atul B. Lall: In the post Diwali quarter there is always a dip, but what I can see is the volume breakup are significantly almost back to normal from Q4.

Aditya Bhartia: And in Q3 can we expect, would we be doing a much higher proportion of Xiaomi sales than we usually do given that we will be having surplus capacity.

Atul B. Lall: Yes.

Aditya Bhartia: And therefore, the impact that we will have on our TV sales would possibly be much lower than the overall decline that the market would be seeing.

Atul B. Lall: That is the right understanding Aditya, so this Q3 would be significantly better than historical Q3 is that we have seen because the question that you are talking about is still doing very well in the market place and we will be there most of the quantities were there, and they are the one who is doing really well in the market place. So, our quantity for Q3 would be I would say somehow comparable to Q1 kind of levels slightly lower than Q1 kind of levels.

Aditya Bhartia: Understood, and lastly on the reverse logistics business, we have seen profit in this segment after quite a few quarters what has resulted in the same and you mentioned that this segment is likely to remain profitable going forward as well. So, if you could just guide us how exactly that is panning out.

Atul B. Lall: Let us say we have taken two significant steps, one is very drastic cut in the expenses, much more increased focus on panel repair business, in which our volumes have grown by almost 300%. It is relatively more profitable business. So now we are confident that this will be profitable on a sustainable basis.

Aditya Bhartia: And the kind of numbers that we are seeing in Q2 should they be seen as sustaining or they were any one off in this particular quarter.

Atul B. Lall: I think this should be better.

Aditya Bhartia: Thank you so much Sir this is helpful.

Moderator: Thank you. The next question is from the line of Naval Seth from 'Emkay Global. Please go ahead.

Naval Seth: congratulations on good set of numbers. Two questions first is on home appliances margins, if we look at in terms of raw material where polypropylene prices have fallen off in high

double digits in last two quarters. So, do you think that margins will further inch up from here because historically when Samsung came in the volume skewness was more towards Samsung so margins could not expand. So, can that expand from here on also.

Atul B. Lall: I do not think so, so we have given certain kind of guidance on our washing machine operating margins because we are going to be on 10%, 10.5% so I feel it is going to be around that.

Naval Seth: Even after raw material being favorable to us.

Atul B. Lall: because it is a combination of various factors this volume is many, many things.

Naval Seth: And my second question is on lighting 2Q obviously was bit weak on sequential basis but Y-o-Y growth continue how 3Q you are seeing because underlying brands are talking about slowdown in retail lighting business so is there cut in the volume expectation from the brands or the clients or customers you have.

Atul B. Lall: Naval it as we have shared that we are continuously focus on new customer acquisitions and enhancing the share of our existing customers further expanding our product portfolio through batons and Downlighter route so there is a general slowdown in the industry but I feel that we should be able to sustain our numbers.

Naval Seth: Thanks a lot, and I will come back in queue.

Moderator: Thank you. The next question is from the line of Udit D from Kotak Mahindra Bank. Please go ahead.

Udit D: My question is around the cost of material consume, so I wanted to check that on a standalone basis the cost of material consumed has moved from about 84% to about 90% as a percentage of sales. So, could you explain this movement?

Atul B. Lall: Yes basically because of the change in sales mix. So, if you look at our quarterly numbers, it will be, the consumer electronics segment has contributed almost 50% of the sales and there the margin profile is generally lower as compared to what we make on the lighting or the washing machine home appliances segment so that is predominantly the reason.

Udit D: Sir another question is around the consumer electronics segment wherein we have said that we are in advance stages of discussion with the player for Indian and international markets both. So, what are the kind of volume that we are looking at here.

Saurabh Gupta: What we shared was that we are in the process of China with large global brand, which dominates both Indian market and the global market. So, I am not saying that we are going in, or we are getting an opportunity for exports there.

- Udit D:** So, export opportunities not yet confirm, Sir understanding is correct know, that export opportunity is not yet confirmed for this.
- Atul B. Lall:** It is a global brand but the opportunity will be restricted to Indian market right now.
- Udit D:** Alright, and the size of opportunity would be tentatively.
- Atul B. Lall:** Well it is slightly early I think it is going to a large volume. We will be getting at a better view by the next earning call I think so we will update the market by January end how big is this opportunity.
- Udit D:** Sure, Sir thanks.
- Moderator:** Thank you. The next question is from the line of Meet Jain from Pritvi Finmart. Please go ahead.
- Meet Jain:** First of all, I want to ask regarding the borrowings, our borrowings increased as well as our cash balance also increased in this quarter so for what regarding we took our borrowings.
- Atul B. Lall:** See the borrowing has actually come down so if you look at the net debt level it is actually come down from 97-odd Crores to 52 Crores and if you look at the gross debt number also that has also come down by 8 Crores which has actually not gone up it is only increased and our cash balance has also gone up.
- Meet Jain:** But if I see the borrowings will be took our borrowings of around 13 Crores something in this quarter in cash flow schedule.
- Atul B. Lall:** 32 Crores and predominantly the short-term borrowing...
- Meet Jain:** And this time our working capital days is zero so what is the sustainable working capital days you are planning to go ahead.
- Atul B. Lall:** So, we can internally our ODM share of business entails some amount of working capital, but if you look at last quarter also it is minus 2 days this quarter it is zero days so it will keep hovering around this kind of levels between minus 3 to 4 to 5 days kind of a number
- Meet Jain:** This quarter, our consumer electronics OEMs have decreased to 4% so this because that our Xiaomi strategy increased drastically.
- Atul B. Lall:** It has a majority almost 65%, 70% of the revenues are coming from Xiaomi and that is Xiaomi is on the prescriptive side that is an OEM model that we do for us. So that is the reason, otherwise that absolute ODM numbers are also growing so that in percentage terms since Xiaomi contributes more so in percentage terms it looks lower.

- Meet Jain:** Xiaomi Sir has increased as compared to previous quarter like we are on Panasonic and Sanyo for around 8% to 9% of our total revenue for consumer electronics so it is as when came down because the Xiaomi itself are increasing that is the reason for that.
- Atul B. Lall:** That is the reason so Xiaomi contributes a major portion of the overall revenues and that is on the prescriptive mood so as a result ODM is the overall percentage looks low.
- Meet Jain:** And on the inventory Sir also we are seeing the inventory has raisin in the quarter first half.
- Atul B. Lall:** Inventory has raisin in this year it is proportionate to the increase in business so our business has grown by 90%, but the inventory has grown only by 59% so because of the efficiency that we have got in the working capital including inventory days if you look at the Bosch numbers also our inventory days has actually come down from 50 to 45 days. So, the other increase is basically because the business has increase, the business has almost increased by 90% so it is lower than that so inventory increase is lower than the increase in revenues.
- Meet Jain:** And on the home appliances side can you provide a guidance regarding this quarter means what was the like this quarter is a cyclical quarter for our home appliances or our revenues generally has fallen by around 50% quarter of Q-on-Q basis so what was the reason behind that.
- Atul B. Lall:** Revenues of which segment.
- Meet Jain:** In the home appliance segment our Q-on-Q revenue has decreased like around 139 Crores in this quarter as compared to 324 Crores in previous quarter.
- Atul B. Lall:** No. So our revenues has actually increased, so Q2 is generally the best quarter for home appliances, in fact it was 90, 95-odd Crores in last quarter so it is actually move to 139-odd Crores, I think so you are looking at lighting for the first quarter numbers, you are comparing lighting with home appliances, so the number that you spoke about the 323 Crores kind of a number whereas for lighting in first quarter.
- Meet Jain:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.
- Prithvi Raj:** Sir just on the lightening segment, so we are seeing a very strong growth quarter-on-quarter, so I was just trying to understand what would be the industry growth rate in LED segment.
- Atul B. Lall:** See the industry growth I think we are flattish.

- Prithvi Raj:** So, the growth that we are showing is because of increase in the wallet share.
- Atul B. Lall:** That is right, so it is primarily customer acquisitions and increase in the buy of our existing customer.
- Prithvi Raj:** Higher share of customer orders. And Sir on the washing machines, the new client for semiautomatic washing machines you are mentioning 100000 machines per year, so when do we see this full ramp up happening.
- Atul B. Lall:** Sorry.
- Prithvi Raj:** The new client for washing machines for semiautomatic where you are mentioning...
- Atul B. Lall:** You see this new client executions are start by December end early January.
- Prithvi Raj:** And the ramp up of 100000 machines can happen in couple of months or will it take some time.
- Atul B. Lall:** Yes, yes, it will be faster because it is a matured product.
- Prithvi Raj:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Rishab D from Sharekhan. Please go ahead.
- Rishab D:** Sir what is the capex guidance for this year and next year are we expanding further capacities beyond Tirupati.
- Atul B. Lall:** So, our capex for the first six months was around 35, 36-odd Crores and I think Sir it should a similar number for the balance part of the financial year, H2 of the financial year. So we should be somewhere looking 65 to 70 Crores, so definitely we are expanding capacities in the fully automatic segment so we have construction, so we have taken a land in Tirupati where the fully automatic front would come in and the production should commenced by Q2, Q3 of next financial year so we would start doing the construction there so that would entail some capex there we are anticipating a capex of around 45, 50 Crores so that will be split up between H2 of the financial year and H1 of next financial year and then there will be always some capex that will happen on expansion of capacities in the LED TV segment where we just mentioned that we have got a we have been getting a new customer also on board so the new put expansion capacity there and then the minor then capex on backward integration and some part of capex will keep happening on other verticals as well. So broadly our guidance for the annual guidance would be somewhere around 65 to 70 Crores for this year as well as next year.

- Rishab D:** And this will be broadly an internal accrual because the cash generation...
- Atul B. Lall:** Yes, yes so, we have the weak but fully automatic we are looking at kind of loan as well, loan at a very attractive rate but broadly for other capex it will be completely funded out of the internal accruals we think we will generate significant amount of free cash flow this year as well as next year.
- Rishab D:** And in case Sir if we can have the order book number let us say we are booked for next six months, next nine months, next three months in different verticals can we have this number on a regular basis or referring the same, this will also helping assessing how capacity utilization has been across segments.
- Atul B. Lall:** See that will be slightly difficult with this the market dynamics keeps changing, yes, but we can give some kind of a broad guidelines.
- Rishab D:** So, if you could just elaborate on this aspect slightly.
- Atul B. Lall:** I will give you just some broad numbers. So, in lighting we are typically at around 75%, 80% kind of the utilization there the expansion would happen in batons and Downlighters which Mr. Lall mentioned in TV we are presently at around again a 75%, 80% kind of utilization but here we need to expand capacity because of increase out of this. Home appliances in this quarter two we were at somewhere around 75%, 80% again kind of utilization and in mobile phones and security system the utilization levels are low, but now we have got Samsung as a customer for feature phones and mobiles so that capacity utilization would go up and security system we are somewhere around 50%, 55% kind of a utilization levels.
- So, in mobile and security system the economies of scale may play out whereas in lighting, TV and home appliances since we are operating at a pretty high-level scope for margin expansion looks limited baring the input price favorable which could be passed on to customers of it. Margin will continue to expand see margin at a company level or at a segment level will expand because of the scale on price that gives a significant operating leverage then because of the whole the absorption cost on a higher scale of revenue so all these three verticals, lighting, home appliances there is a margin expansion that has happened this year, LED TV the margin looks low because it is also a function of selling prices, but to Xiaomi which is the main customer in LED TV sells more 43 inches where the selling prices are higher but there you should now look at margins, there you should look at the absolute growth in EBITDA that is happening both H1 again in this first half as compared to first half of last year. The margins have significantly expanded both quarter-on-quarter and year-on-year, year-on-year it has moved from 5.8% to 8.1% and quarter-on-quarter it moved from 7.5% to 8.1%.

- Rishab D:** Lastly Sir, do we provide any ballpark revenue guidance and EBITDA growth guidance.
- Atul B. Lall:** So basically what we are looking I think so this year performance based on the first six months performance our revenue growth should be somewhere between 35% to 40% this year, 30% to 35% this year and there should be the growth in profitability and EBITDA should be slightly higher than the growth in revenue mainly because of the increase in scale in size more ODMs and more backward integrations so you can expect a 40% kind of a growth in EBITDA this year.
- Rishab D:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Neelesh Wagle from Suyash Advisors. Please go ahead.
- Neelesh Wagle:** I am relatively new to the company and I am just about 13 year business I noticed on your slide that your working capital conversion cycle is very impressive it is zero days can you just take me through your debtors inventory and creditors how does it work I can see the numbers what they are but just in terms of what are the terms you have on each of these components that helps you generate a net zero working capital cycle.
- Atul B. Lall:** See on debtor side generally as per the industry factors a lot of your debts at between 55 to 60 days these are the general trade term that we give to our customers, inventory days again it defers from business to business because of the concept of how much is imported and how much is local so it is presently 45 days it generally it ranges from similar level of that we are anywhere in 40 to 50 days and creditor days since we buy in bulk and we have the scale in size so we get very good credit terms from lot of vendors and specially lot of import vendors that we have so as a result we deliberately try to have this kind of a cash convergent cycle so that we do not deploy money in the working capital.
- Atul B. Lall:** Also conceptually if you use the business has two formats one is a prescriptive OEM format and the other is the ODM format now OEM business is a fairly large chunk of our overall business and as a principle to a very large extent the business concept is that we do not deploy our working capital in the OEM business that is the reason the working capital intensity is low and also in the ODM business the objective is to acquire scale to generate an adequate sourcing power and enhance the credit term from the vendors. So that is the strategy.
- Neelesh Wagle:** Got it very interesting. Another question I have is, is it fair to assume your business after it has reached a certain scale in a quarter see this quarter you have a certain revenue scale and you have six, seven business lines that there is not a lot of seasonality on a quarter-to-quarter basis and one should reasonably expect this level to be maintained and ramped up as you add more clients and more revenue stream.

Atul B. Lall: There are two parts to it, there is a seasonality factor in some of the verticals, in some of the other verticals the impact of seasonality is lower. So, one would see an overall impact of seasonality however it is going to be different in different verticals in Dixon's case we try to keep on acquiring new customer and a larger share of the existing customers to sustain growth that is what the focus is. So, all of us know that the consumer durable industry on the overall consumption side has gone through a slow growth sale, applied the difficult sale, but our numbers have been fairly okay that is because you are personally despairing. Also, on a bigger level see we have always shared that our core is electronic manufacturing tax for the core is so we keep on looking for new verticals with this core has to be maintained. So, we keep on adding new verticals so if you see a year and a half back we had a security surveillance system is a vertical, three years back we are at mobile as a vertical, seven years back we are at writing as a vertical, four, five years back we are at washing machine as a vertical. So we keep on looking for new vertical and please be rest assured that this journey is always on and we are looking for some new verticals to keep on sustained our growth, but the core remains later mind because what we see we understand well as chip semiconductor, silicones, circus mount, thermal, off takes, walks building, polymer, sheet metal, so around all this wherever the opportunity comes in and it fits into our overall strategy wherein the return ratio is extremely important, looks possible to achieve then we have take a branch.

Neelesh Wagle: Another question I had is in the early 90's we use to see companies like TCL, Samtel, a lot of manufacturing companies in the electronic domain that use to make for our customers and do contract manufacturing and eventually these companies went Bosch because of significant pressures in terms of FX volatility and inventory obsolescence how has that business model the risk changed in the current time and I understand you are very diversified across business lines across customers and all of that it is not like you have a monocline large volume single product issue here. But has this manufacturing outsourcing business has that fundamentally changed over the years.

Atul B. Lall: So in our case I will share with you, as we just shared that our business is primarily OEM that is a prescriptive mode and ODM which is our old reliant model now as far as our OEM business is concerned which is a largest chunk of a business it is both currency and inventory are agnostic so we do not take any inventory risk we do not take any currency risk. That is the way the value chain is designed. In the ODM part we carry the risk, but in the business model the way we have structured is we have kind of delisted to a very large extent but there can be some lag impact for some quarters. So that is the way the business is structured.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Edelweiss. Please go ahead.

- Praveen Sahay:** Very congratulations for a good set of numbers. Is it possible to give the unit number for the home appliances for a quarter?
- Atul B. Lall:** Volume numbers is it.
- Praveen Sahay:** Yes.
- Atul B. Lall:** So, we did around 2.84 lakh washing machines in this quarter as against 2.11 lakh in the same period last year.
- Praveen Sahay:** And similarly, for the consumer electrical TV segment, can you give.
- Atul B. Lall:** So, consumer electronic we did almost 7.5 lakh units in this quarter.
- Praveen Sahay:** Versus last previous year same quarter.
- Atul B. Lall:** Previous year we did around 4 lakhs.
- Praveen Sahay:** And how much is the capacity of the Tirupati plant.
- Atul B. Lall:** Capacity is around 3.6 million annually along with backward integration of LCM panel assembly and then we have a capacity of SMT as well which is around presently around 1 million per annum.
- Praveen Sahay:** And for that you have to guided for two MNC companies will get it 70%.
- Atul B. Lall:** No, no, so we have guided the two MNC companies for the fully automatic that we are venturing into so there we had said that whatever capacities will create the two MNC brands would consume almost 70% of a capacity.
- Praveen Sahay:** That is for the fully automatic right Sir.
- Atul B. Lall:** Fully automatic washing machines, yes.
- Praveen Sahay:** And in any of the segment are you planning for an export market any of the segment.
- Atul B. Lall:** No, we feel that with the kind of the scale and the product portfolio we have acquired in indoor lightings we are setting on a very large opportunity there and in my opening remarks I said that open up for a very large multinational anchor customers will be starting export to the western global market by December or already January this year. So, we feel that lighting a big potential for us is in the global market.

- Praveen Sahay:** And lastly also on the AC PCB segment you are gaining a traction and numbers looking very good so how much is your target is to and in which plant you are doing this AC PCB.
- Atul B. Lall:** That has been done in Noida plant only which we do for the company call Dixon and they supply to Daikin so that business is also growing and that business is also delivering decent profitability for us.
- Praveen Sahay:** And any target to achieve in that or you have a...
- Atul B. Lall:** In this particular vertical our end customer that Daikin, which the Saurabh head is, do extremely well in the Indian market so we feel that year-on-year we should be able to achieve a growth of around 25% to 30%.
- Praveen Sahay:** Any capacity number can you say around that.
- Atul B. Lall:** These as we said that this capacity is fungible, so on SMP lines there we do a light products we also do our AC PCB so it is fungible capacity, so we have additional capacities and it is common to all so the TV PCB is the security system PCBs, camera PCBs, DVR PCBs, lighting PCBs, mobile PCBs, the surplus amount of capacity for the same and that is the main capex this all fungible capacity and that is what our core is.
- Praveen Sahay:** Great Sir thank you for taking my questions.
- Moderator:** Thank you. The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.
- Prithvi Raj:** Sir on the lighting segment do we expect this 40% to 50% growth even for rest of in next year.
- Atul B. Lall:** Well we feel that the LED bulb which constitute a significant portion of our growth is the growth is going to be a nominal growth however we feel that the new SKUs that we are adding both in batons and in Downlighters is going to be a major player for growth for us in next fiscal. Also, we feel that it will take some time but global markets we should be able to get a break in that.
- Prithvi Raj:** So that is a case I guess the growth should be around 15% to 20% for next year is it a reasonable assumption.
- Atul B. Lall:** I think so, we have 15% to 20% should be the growth.
- Prithvi Raj:** And one more on the fully automatic washing machines what would be the capacity that you are working on.

- Atul B. Lall:** It is going to be 600K annually, 50K a month.
- Prithvi Raj:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Udit D from Kotak Mahindra Bank. Please go ahead.
- Udit D:** Sir my question is around working capital cycle, so as you have mentioned that the working capital cycle is practically zeroed down it is to the level of zero, so has not predict the number I can see working capital net outstanding of 143 Crores, so practically going forward what is the guidance do we require such a working capital level debt level on a zero-working capital.
- Atul B. Lall:** In terms of working capital earliest they required in the business but our effort has always been to bring it down so we are focusing internally on managing our inventory our debtors, debtors has always been in control I think so more focus has always been managing our inventory. So first six months we have generated 69 Crores of free cash flow which is primarily led one of the reasons why we have generated is again the working capital generation of almost 80 to 20 Crores was generated if you look at the cash flow. So, we think this numbers of 52 Crores would somewhere hover around by end of this financial year should be somewhere around 70, 75-odd Crores but we do not see it going beyond that level. We will try to be given those levels of 70 to 75-odd Crores.
- Udit D:** And what will be the guidance for the working capital cycle for the coming quarter Sir.
- Atul B. Lall:** As I mentioned it will be in the range of minus 3 days to anywhere between 3 to 4 days positive. It is very difficult to give you an exact number but it will be typically in this range. So last quarter it is minus 3 this quarter it is zero days so we expected to be in the range of around minus 3 to anywhere between 3 to plus 4 days kind of a positive number at a company level.
- Udit D:** So, in this kind of a scenario will we be looking at working capital requirement or like what is your plan for the management of the working capital in this kind of a scenario.
- Atul B. Lall:** Just it has to bring it down and we are bringing it down but of course it will take some time so as we start generating more cash flows more free cash flows coming in, it will only keep coming down.
- Udit D:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Meet Jain from Prithvi Finmart. Please go ahead.

- Meet Jain:** Just one question regarding the long-term receivables and payables that was showing in the March balance sheet so have we provided for that in this half year.
- Atul B. Lall:** Yes, so as we mentioned in our previous earnings call there were some long-term receivables and corresponding payables in a mobile business so one of our companies in China they ended up going into liquidation but we have this agreement signed with them whereby any payment coming from the distributors in India and corresponding our payment should done in China so those were actually in form of agreements and we need to take RBI approval so that approval has come in and so those set off of receivables and payables of long-term has happened so that is why you do not see them in the 30th September balance sheet so that is a big positive that has happened a few weeks back.
- Meet Jain:** So, the difference that set off has been like we have a more payables so where has been that will be reflected like we have 148 Crores of receivables and 157 Crores of payables so the difference of that...
- Atul B. Lall:** 157 yes so, the difference has been booked in the, was partly was accounted in the P&L only but it was accounted earlier only.
- Meet Jain:** Earlier in the Q1.
- Atul B. Lall:** Last financial year.
- Meet Jain:** Okay sure.
- Moderator:** Thank you. The next question is from the line of Mehul Mehta from SPA Securities. Please go ahead.
- Mehul Mehta:** Can you share industry growth rate in verticals of LED TV and washing machine during first half.
- Atul B. Lall:** The growth both in LED TVs and washing machines has been kind of neutral I think it will be in the range of around 5% to 6%.
- Mehul Mehta:** For both the verticals you are talking about.
- Atul B. Lall:** Yes, that is right.
- Mehul Mehta:** Because what we are hearing is that LED TV like there has been significant degrowth during first half is that the correct understanding of 5%, 6% growth.

- Atul B. Lall:** No, I do not see there would have been a degrowth as such what has happened is there has been a shift in the brand mix so I do not think there has been a degrowth but I think it has been a muted growth.
- Mehul Mehta:** And this you are talking about primarily sales growth like the company I mean not at treated level right.
- Atul B. Lall:** I do not think the retail would be carrying very large inventory in the case of TVs and washing machines. So, there might be some lag, but what I am referring to is a primarily sales.
- Mehul Mehta:** Got it thank you.
- Moderator:** Thank you. The next question is from the line of Hiren Trivedi from Axis. Please go ahead.
- Hiren Trivedi:** Congratulations on a good set of numbers, it is regarding the security system, what kind of growth do you expect in the security systems for TV and on the margin expectation would it be similar to the full year FY2019 or we can see some improvement and quantify the range for this margin in security system.
- Atul B. Lall:** If you see security systems we have set up a large capacity of almost 600K cameras and 150K DVRs the capacity utilization in this vertical has been relatively lower so I feel the market is slightly stretched so I feel the numbers in this particular vertical are go the with this kind of capacity utilization only at least in the coming quarters slightly better than what we have done the margins are going to be in a similar range we are working on the capacity utilization by booking capacity in some other product areas we have already got the orders for that we will see a better capacity utilization but as far as the security systems is concerned the numbers are going to be slightly better than what we did in Q2.
- Hiren Trivedi:** Sir and for the full year Sir any growth expectations like versus FY2019.
- Atul B. Lall:** At an overall level or security systems you are talking about.
- Hiren Trivedi:** Security systems.
- Atul B. Lall:** Yes so if you look at the Q1 and the Q2 numbers, Q2 numbers has been slightly lower as compared to Q1 so in the first six months we have done around 110-odd Crores that is 50% of our share of revenues, so I think so this Q3 with better capacity utilization and I think so our numbers for this year should look like somewhere around 260 to 270 odd Crores for a 50% share and the margin profile would be somewhere around 2.75% to 2.8% what we have done in the first six months. So, we should generate somewhere around 5.5 to 6 Crores apart 50% share of EBITDA so this is marginally lower than what we had guided for at the

start of the year so that is a broad difference. So, we have guided 8 Crores at the start of the year should be slightly lower at 2-odd Crores this year.

Hiren Trivedi: Thank you that is helpful Sir.

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

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

Atul B. Lall: Thank you so much.

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