"Dixon Technologies Limited Q3 FY2018 Earnings Conference Call"

February 08, 2018

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Moderator: Good day ladies and gentlemen, and welcome to the Q3 FY2018 Earnings Conference Call of Dixon Technologies Limited 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 Ms. Nair!

Bhoomika Nair: Thanks Margaret. Good morning everyone. On behalf of IDFC Securities, I would like to welcome you all to the Q3 FY2018 earnings call of Dixon Technologies. The management today is being represented by Mr. Atul B Lall, Managing Director, Mr. Gopal Jagwan, CFO, and Mr. Saurabh Gupta, Senior Vice President - Strategic Planning & Investor Relations. I will now hand over the call to Mr. Lall for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

Atul Lall: Thank you Bhoomika. Thank you so much. Good afternoon everyone. Thank you so much for taking out time for this call. I would share with you the snapshot of the Q3 performance before we get into the question and answer session.

The consolidated revenues for this quarter ending December 31, 2017 was Rs.681 Crores. The consolidated EBITDA was 29 Crores against 26 Crores in the same period last year showing a growth of 11%. Consolidated PAT for the quarter was 15 Crores against 12 Crores in the same period last year that is up by 23%. In the last quarter, we delivered extremely good and positive performance in lighting as a vertical. There has been a growth of 30% in the revenues in Q3 as compared to Q3 last year. However, the EBITDA growth has been 456% over last year. The margins have expanded from 1.6% to 7%. This is primarily if you recall the right through we have been sharing with your strategy of a scale, which leads to the operating leverage, backward integration, new customer acquisition and migration to the ODM design. So, in lighting as vertical we have achieved the stepping point. In my roadshows before the public issue the questions and very greatly were being raised on lighting as a vertical because that is the time when we were going through the ramp up phase and the margins are under pressure, now there we have acquired this mass and there has been a significant improvement and it has been a stellar performance in lighting.

As far as the consumer electronics vertical is concerned, there has been slight degrowth in the numbers. This is primarily because one in Diwali this year was slightly earlier and the hike in the volumes was reflected and the numbers reflected in the last quarter, but let me show you that the numbers in Q4 are getting back to normal and also there was certain additional cost because we shifted our production facility from Dehradun to Tirupati leading to certain additional cost, which led to slightly lower numbers in consumer electronics.

In washing machines I know there would be many, many questions in washing machine as a segment, but washing machine again is though we reaching the similar tipping point, which we have already achieved in lighting Q3 we have to certain extent been able to restore the business model because we had gone in for the capacity expansion and there were certain ramp up challenges. In Q4 we are back to normal, so there was in Q3 we had an EBITDA of around 12% and in Q4 the present run rate is around 14.6%. We feel that we are going to be ending up around 12.7% to 12.8% as a whole year in this particular segment, but going forward we should be able to maintain around 14% to 14.5% in the next year. It is going to be similar kind of thing that has happened in lighting that we are reaching the tipping point. When we look at the mobile business, this business is under challenge because our capacity utilization is low primarily because one of our major customers that Gionee is struggling in the market place.

This is slightly tough in the market because the brand preferences keep shifting. However, we are in very advanced status of discussions with some significant customers, some significant brands and I am very confident that from the next quarter we are going to be having a much higher capacity utilization one, second we are also extremely confident the government of India as far as space manufacturing programme is going to impose custom duty on mobile PCB and for that we are almost ready and ordering is about to be done for the machinery for the PCB line, which will deepen the manufacturing and improve the margins.

In reverse logistics, the capacity utilization primarily because of saturation breaching in the digitization domain is reaching, so the capacity utilization has dropped. However, LED panel TV repair business and mobile repair business because we are in the processes of finalizing more and more new customers is going to go up. I feel the uptick will happen from Q2 of next year. In CCTV and that is JV with CP Plus they have already started commercial production and in December 2017 there was a notification wherein the custom duty on the security surveillance system has been increased to 20%. So giving up further flip to this particular vertical we have a very, very robust order book from our customers in this particular vertical and we are going to be making a significant capex also in this vertical to enhance the capacity from present around 2.5 million to almost 5 million, which will become operational by June 2018–2019. So this is what I wanted to share with you and now you are most welcome to raise the questions and we are there to answer with me or my colleagues Gopal, our CFO and Saurabh, our Senior Vice President - Strategy and Investor Relations.

Moderator: Thank you very much. We will now begin with a question and answer session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: My first question is on washing machines wherein margins have been lower than expectations, is it the Samsung contract, which is lower margin one or is it mainly on account of ramp up issues and how do you think those ramp up issues will get sorted out over the next few quarters and this 14% to 14.5% margin that we are speaking about will still be somewhat lower than 16% odd that we have delivered in last year despite operating leverage benefit, so what is that on account of?

Atul Lall: Aditya, one the ramp up challenges cost is getting stabilized and I have shared with you the run rate in the present quarter is around 14% to 14.6% of EBITDA that we are targeting. So it is almost getting back to normal. Second, yes you are right. The new customer Samsung was at a lower margin business; however, we have a very focused plan on localization and efficiency improvement in that and the margins not the current quarter, but in Q2 mixed fiscal in Samsung was also significantly increased please be rest assured on that. Now, what we expect is that the overall EBITDA of washing machine in this particular area because of the ramp up cost challenges is going to be somewhere in the range of around 12.5% to 12.6% closing about to be 13%. The present run rate is going to be 14% to 14.5% and this is what we expect to maintain in the next fiscal.

Aditya Bhartia: Sure Sir. You mentioned about the discussions that you are having with the large customer on the mobile phone side, this has been made over there in case you can share and what could be the timeline for that?

Atul Lall: We feel that the capacity utilization and these new customer order infusion is going to kick in from Q1 2018-2019 and also we have made a strategic shift, one is that now we are going ahead with order booking for future phones also, that gives us a additional margin and fixed cost remaining constant, so that is what we are doing and please be rest assured that from next quarter the capacity utilization will significantly improve.

Aditya Bhartia: Understood Sir and Sir obviously on the lighting side we have had very, very strong year so far and margins have really improved quite sharply, now going forward do you see further scope of expansion in margins on the lighting side and some of the newer products that you have now started doing something like drivers or downlighters, how different our margins for that compared to lamps?

Atul Lall: Aditya, you see there is a significant improvement in lighting margins primarily because of the operating leverage kicking in and the new customer acquisition. In the LED bulb as a category. Now, LED bulb we are on continuous spree of expanding a new customer acquisition. We are in advanced stages of discussions with more brand and I am extremely confident that this order execution for this new brand is going to come in from April 2018-2019. Also I am extremely confident that our new project of backward integration of LED bulbs is going to be operationalizing sometimes in another 10 days time, which will help us in improving the margin. In LED bulbs, the capacity enhancement will get operationalized from 9 million to 14 million bulbs in a month or two, so we are I think on an extremely positive wicket in lighting. As I shared with you that in December just like mobile phone the duty increase has taken place on all the other luminous, so now we will be offering both downlighters and battens to all other customers and we are extremely optimistic on this particular vertical.

Aditya Bhartia: Sure and this is really helpful. Thanks a lot.

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

Nitin Arora: Sir, thanks for taking my question. The first question as you mentioned that the Diwali was earlier this quarter, if you keep aside that argument can you tell us how was the demand from your large customer like Panasonic this Diwali because what numbers he did, what is the actually number done by Intex, so if you can just throw some light on the demand side on the TV and then I will take up with further questions?

Atul Lall: Mr. Arora, you know that Diwali there is a pickup in the consumer electronics side. Post Diwali there was a blip, but from January we are seeing the demand getting restored particularly of Panasonic as a brand. Other brands are slightly slow, but Panasonic has picked up very well and recovered well. So we are finding the normalcy retuning to television as a vertical in the current quarter.

Nitin Arora: Sir, in terms of you know you have been talking about this custom duty, which will be benefiting us, now what we see in Haier has set up his own TV panel unit in Pune, is it still sourcing from us the TV or is there are shift he wants to do it away from us?

Atul Lall: Haier will continue to source 24 inches and 32 inches TVs from us.

Nitin Arora: How much it would, if I have to look at it from a number perspective, I think Haier was doing about 6000 to 7000 TVs a month from you, as that number gone down because of this particular shifting or as it gone up?

Atul Lall: No, the similar number will keep happening.

Nitin Arora: You do not see a shift even Haier setting up his own TV panel unit in Pune?

Atul Lall: The 24 inches and 32 inches will continue demand.

Nitin Arora: Is that possible just last question to give a number of TV for nine months this year versus nine months last year and washing machines for nine months this year versus nine months last year in terms of volume?

Atul Lall: Remaining number or the volume number?

Nitin Arora: Volume number.

Atul Lall: In the nine months in washing machine we would have done around 380, 2% to 3% here and there and this was our total number and in television we would have crossed around 820000.

Nitin Arora: That number nine months FY2017?

Atul Lall: Yes, TV segment we did around 820000, which is 8.2 lakhs and we are on course to achieve most of the plans for this year, so we will close at somewhere around 1 million TV this year.

Nitin Arora: No Sir, my question was what was this number in nine months FY2017?

Atul Lall: In FY2017, I would not have the corresponding number of nine months, it is not readily available with me on the numbers wide, but overall in the whole year on the television side, which is around 750000 and in washing machines we did whole year number of around 378000, so this number has already been achieved volume wise in the first nine months.

Nitin Arora: Thank you very much.

Moderator: Thank you. The next question is from the line of Pranav Gokhale from Invesco Mutual Fund. Please go ahead.

Pranav Gokhale: Sir, there is a 10% duty on open cell LED panels, how does it affect your business?

Atul Lall: If you see earlier before December notification of customs duty on television on the CBU import that the complete TV import the duty was 10% and on the open cell the duty was 0%. Then in December notification they increased the CBU import duty to 20% and they increased the panel import duty to 7.5% and open cell continue to be on 0%, so there was this kind of a status. In the budget they have increased the panel duty from 7.5% to 15% and they have increased the import duty on open cell from 0% to 10%, so if you see from pre December situation to the present situation the differential remains the same, so there is no change as such in the ecosystem. There was an improvement on the domestic advantage post December notification, which has come back to the pre December notification scenario.

Pranav Gokhale: Sir, do you expect television guys to actually get the entire sets now rather than just getting the open LEDs or asking you guys to assemble the television because the impact could be much different now?

Atul Lall: No, that is what I am trying to explain. The differential is the same as 10%. So the pre December scenario and the post budget scenario there is status quo. There was a slip in the domestic advantage post December notification, which has gone back to the pre December notification, so there is no change as such for us.

Pranav Gokhale: Fine. Thanks.

Moderator: Thank you. The next question is from the line of Dhwanil Shah from Girik Capital. Please go ahead.

Dhwanil Shah: Congratulations on good growth in the lighting business. Sir, I have questions mainly on the other two divisions. Sir, you mentioned that things are back to normal, so what does that mean in terms of volumes because if you see our quarterly run rate for the first two quarters is higher than third quarter on an average, so what do you mean by the normal scenario?

Atul Lall: You are talking about specific verticals, you are taking overall?

Dhwanil Shah: I am taking about TV and washing machine.

Atul Lall: In TV and washing machines as a number, in Q4 we are looking at a very significant growth in respect of washing machine.

Gopal Jagwan: Just to point out in Q3 we basically did a margin of around 12% odd. Sir, just briefly mentioned that now we did the capacity utilization has stabilized from Q4 levels and going forward we will start achieving a run rate of around 14.5% kind of a EBITDA margin and the absolute growth in revenues and EBITDA will also take place. If you look at the consumer electronics segment, our EBITDA margin was 1.5% and the reason for that in Q3 was of course we had shifted the TV line from Dehradun to Tirupati so we had a fixed cost structure, which was created at both the places and there is certain shifting line expenses and of course this whole Diwali impact, which we had mentioned, we think it will revert back to the normal levels of what we have achieved in the first six months of the financial year, which will be right 2.3% to 2.4% margins, so there is a growth of 100 BPS that is a bit of Q3 and next year consumer electronics we are creating a capacity of 1.8 million in Tirupati and we plan to do a growth of around 35% to 40% in terms of volume as compared to this financial year and we are also confident that our ODM percentage revenues would actually be moved from a single digit this year to a lower double digit next year, so that would also help us improving the margins.

Atul Lall: In my opening statement both in washing machine and television we are almost there in the tipping point and the mass that we have already achieved in lighting as a vertical, so we will see a robust growth across all financial parameters in these two verticals.

Dhwanil Shah: So, in lighting we have done around 7% EBITDA this quarter, so which is much, much higher than any expectations for this division, so such growth in margins had come because of the backward integrations and what else had led to such high growth in the EBITDA margin?

Atul Lall: At present the growth is primarily because of the volume, it is primarily because of the new customer acquisition and the margins because of the backward integration bit and the new product portfolio as Aditya had asked that question due to a portfolio of batten and downlighter is still to kick in.

Dhwanil Shah: Mainly on TV, so why our ODM share, which was around 12% in FY2017 has come down to 3.3% in this quarter?

Atul Lall: This is primarily because a large portion of our business coming from our largest customer Panasonic there has been a very large growth there. Please appreciate that we are going to touch almost a billion TV this year from last year of around 720000 or something and again coming from Panasonic, which still continues to be on the EMS side that is the reason this percentage has dropped.

Dhwanil Shah: So, going forward, how would this mix change?

Atul Lall: Please also appreciate that and I have always maintained that we will focus on migrating to ODM, but the EMS business in television is extremely important because it is a very, very high ROC business.

Dhwanil Shah: What is the progress on the fully automatic washing machine, have we started anything?

Atul Lall: We have put our design teams in place now, that has happened and the first cut evaluation of the various models and certain prototypes preparation is happening. We feel that by Q3 2018-2019 we should be able to make an offering.

Dhwanil Shah: Sir, on the mobile phone, in the presentation it is mentioned you have added Blaupunkt as a customer, now we were going for Gionee then Gionee had problems in terms of market share, which impacted us, now Blaupunkt is not a known brand at all in the mobile phone market, it is more of car audio brand then what is the thought process behind taking up business with them?

Atul Lall: Appreciate that any business that comes to us in mobile as a segment it does not stuck in any capital. It is a capital neutral business. There is no working capital deployment in this business. All these businesses are required to improve the capacity utilization from that perspective this is an important business and I am not able to share the names of the clients at this stage, but please be rest assured that we are in very advanced stages of discussion with fairly large customers who have a significant presence in Indian market and we feel that we should be able to rope them in. Second as I shared with you in the opening remarks that now we are also going to be entertaining the future phone order where is the market is much more stable and the brand shift is not as referred as it happened in the smart phone, so that will again enhance the capacity utilization and margin improvement.

Dhwanil Shah: Fine Sir. Thank you.

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

Renu Baid: Few questions from my end. First, if you look at the television segment based on the ODM mix that you have suggested in the presentation, the ODM sales are pretty weak this quarter just about 7.5 Crores, which has been with whatever reported number we have it is significantly lower compared to any of the previous quarters and even the OEM sales implied would be something like 220 odd Crores, so I am just trying to understand that if you are seeing that sharp growth in OEM it does not look like on a Y-O-Y basis and more importantly the ODM mix has relatively declined significantly, so is there any customer, which has reduced sourcing from us or are we seeing in general some of the local the so called private label the brand is declining in terms of market share, so if you can help us give more insights on that?

Atul Lall: Renu, in one business post Diwali scenario we are saying Diwali was in October for which from our side the sales takes place from September and if you compare it with the last year numbers, last year Diwali was in November not in October, so it is not an absolute apple-to-apple comparison and post Diwali because of this year also with the special event of GST taking place and consumer durable purchase taking place in the month of May, June, the demand in Diwali and post Diwali has been very, very flat, which is making this impact and it is making this impact on the Tier II, Tier III brands who are our customers for the ODM set.

Renu Baid: Probably the sales have reduced from 80 Crores to 50 odd Crores in nine months?

Atul Lall: That is right, so that has been very significant reason, but as far as the large customers are concerned the sales has picked up in Q4. We did a sale of almost 65000 sets in the month of January. We are targeting a similar number in the month of February. So Panasonic has picked up and some other brands have also picked up, however, the Tier II ODM brand has still some way to go.

Renu Baid: Have you seen any, as in Flipkart volumes also improving or yet to pick up?

Atul Lall: No, it is not there. I think it is going to take some time for them to stabilize. I think it is going take them some time to actually achieve that margin, so repeat orders are coming in, but growth is not, I think it will take some time.

Renu Baid: Sir, related to your television itself we have made this announcement that we have added Skyworth as a customer, now Skyworth who had bought Toshiba was a big client for us in FY2014-2015, so how are we looking at this and this customer would be across all ranges of television in ODM, OEM what is the kind of arrangement that we are open with them?

Atul Lall: This is an OEM business. The Skyworth is amongst the top 10 brands globally and it is amongst the top three in China. This is an EMS activity that we have started for Skyworth and also as far as volume is concerned in television we will grow from around 720000 odd to a million this year and next year we are again because we have ramped up our capacities and we have gone in for the new customer acquisition we are targeting almost 1.4 million sets. We are talking about 40% growth in the volumes.

Renu Baid: If you look we did mention the margins were impacted because of X number of issues and relocation of facility, so the sequential decline in margins to barely 1% to 1.5% is that purely because of the relocation of facility in extra overhead or it could also be a timing issue with respect to coverage of increase in cost for us?

Atul Lall: No, it is primarily because of the ramp up cost in the relocation cost.

Renu Baid: But would you have any number, which Gopal can share on what was the incremental cost this particular quarter?

Gopal Jagwan: The way Renu should look at it that the things would have been normal in this shifting or the ramp up phase of Tirupati would not have been there, then we would have done somewhere around 2.3% margins as compared to 1.5%, so on a topline of 228 Crores that is the fact we are looking at, 228 in 2.7% I would say around Rs.2 Crores.

Renu Baid: Second one would be on the lighting done fairly well and strong, if you can help us throw a little more insight on how was your overall growth with respect to aid of CFL business for us, is it flat, is it still growing because market is moving towards LED and how has been the growth in LED bulbs and the rest of the portfolio, if you breakup the portfolio to three categories how does the growth look like?

Atul Lall: The CFL till now has been stable both exports and domestic. I was expecting a decline there, but it has not happened, although I do not expect a very large growth in CFL as a category. Room for us Renu is LED bulbs seems to be at a run rate if you recall of around 4.5 million bulbs in a month, we are at a run rate of 9 million LED bulbs in a month and one major reason, which has triggered this growth and this has happened of course through deepening of our relationship with one Philips and we sustained our very large share of their orders and then the new customer acquisition, which has kicked in, which has really helped us. Also one important product portfolio, which is doing very well for us is the drivers, which is Philips business for outdoor drivers on an EMS activity front they are used in the street lights, the combination of these three and also to recall that when we used to have question answer session on lighting as a vertical last year when the margins are under pressure I always used to explain that we are going to a ramp up phase, but ramp up phase in lighting as a vertical we were able to control right from the Q1 of this fiscal and then it has been an upswing. Now **(inaudible) 34:03** more now is within the position of the custom duty on downlighters and battens and other luminous, so we are trying to receive what we have done in LED bulb as a category in these products as well.

Renu Baid: Correct, and have we started marketing the open cell as well as the street lighting drivers on the ODM basis to other clients or still sternly on OEM basis?

Atul Lall: No, it is on an OEM basis only. What we are going to be marketing now is going to be our battens and downlighters, which is a very large market.

Gopal Jagwan: So Renu what used to happen is downlighters and battens before this custom duty increase in December mostly got imported. Now we think there is a huge opportunity for them to get manufactured in India and of course we will participate in that.

Atul Lall: In this particular vertical we already have fairly deep relationship with significant brands Philips, Crompton, Panasonic, Anchor, Bajaj, Wipro. We already have customer base in front of us. We will expand our relationship just like we have done in Philips case with these customers as well on the other products, which has tremendous potential.

Gopal Jagwan: I just also want to add one thing. In lighting product government has increased the duty from 10% to 20% December notification, India will improve and the part of the Make in India plan.

Renu Baid: In the washing machine category apart from the stabilization cost, have we seen as a continued pressure on the inflationary impact on the motor side or probably now the pass through to customers are happening in place, so that should not be area of concern?

Atul Lall: Motor prices and commodity prices have been on an upswing. This trend has started happening sometime in October, November. In Q3 we were partially hit by this component price increase, motor price increase; however, now in almost 85% to 90% of cases they have been successful in passing on this increase to the customer. Before the time lag when these things happen first you put pressure on a vendor to earn a point when you are not able to do that when you start talking to a customer to involve, so there is a time lag always, so we have been able to pass on that both the price increase to most of our customers almost 85% to 90% of our customers.

Renu Baid: If I can ask one last question, can you explain us as in probably Gopal can explain how the incentives for GST has impacted us on the books and is this particularly related to any specific segment or on a preferred base for segment, GST incentives, which you have also mentioned?

Gopal Jagwan: Actually it is 2.42 Crores is the GST incentive **(inaudible) 37:38** at Dehradun we were at Tier-III zone, all the amount is included in the trade cost. Then GST is introduced the government has given a GST some benefit on the stock, whatever the opening stocks we have given a credit for that.

Atul Lall: More than that Renu, they have grandfathered that excise free scheme we gave 58% of 14% because that is the CGST portion on the consumer durables and specifically in our case to washing machine, so 58% of total percent of value add becomes a refined amount.

Renu Baid: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Chirag Bhatia from Motilal Oswal Securities. Please go ahead.

Chirag Bhatia: Thank you for taking my question. Just wanted to check if we are moving any plans to fray into the smart phone segment, the world is moving in the smart phone segment and our major customer base is on the future phone side, so any plans over there?

Atul Lall: At present, our complete production of mobile phones is in the smart category only that we are because India market is still almost 50% to 55% is the future phone, which we were not doing till now, to enhance a capacity utilization we are making a shift and we are including in our product portfolio also the future phone manufacturing, so at present the complete production is with smart phones only whether it is for Panasonic or Blaupunkt or Gionee or InFocus it is all smart phones.

Chirag Bhatia: Got it Sir.

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

Nikhil Gada: Thank you for the opportunity. It might be a repeat, but just regarding the custom duty hike on LED panels, so because now the components are also going to be charged, so will we be able to pass on the hike on the open cell to the end customers or we will have to take some hit on those fronts?

Atul Lall: No, in all our verticals so is the case in LED television, we have two revenue streams, one is the EMS revenue stream. EMS revenue stream always pass through and very large portion of our television revenues come from the EMS stream almost 90% plus this year. The balance is ODM. Now ODM as I explained to you earlier that differential between the CBU import and the locally manufactured good continues to be 10%. We had got a flip for a couple of months from December notification that this gap between the CBU and the domestic has increased because the hike in the custom duty on CBU and open cell continue to be at 0%, which contributes almost 80% to the bond, so there was a differential increase, so I could have made some more money so that extra money goes back to the normal money.

Nikhil Gada: No Sir, but we had done some level of backward integration right, which had enabled us to achieve a margin improvement in terms of even LED panels as well, so because now the duty has been imposed so is it like many of our customers would like to directly source it from other places where have a direct FTA agreement or something like that?

Atul Lall: No, FTA agreement in this case will not kick in because there are two FTA agreements, one is from Thailand and the second one is from Asean. In both these countries in both Asean as well as in Thailand there is no panel manufacturing or open cell manufacturing. So the customs really suspect them because there is a certificate origin condition, the value addition condition of 35% and 40% in the two FTA, which is very difficult for the suppliers from there to satisfy. You will see that both from Asean as well as from Thailand then port of CBU product is very minuscule.

Nikhil Gada: Sir, regarding mobile phone, so we have seen some margin improvement this quarter, is it like attributed only to the capacity utilization or better capacity utilization or is that also some mix improvement or something like that?

Atul Lall: Primarily involve the cost focus.

Gopal Jagwan: We are working on a slightly linear cost structure as the revenue has slowed down.

Atul Lall: The capacity utilization in mobile is around 30% in the last quarter and since then we are focused in the cost and that is the reason that the EBITDA in the absolute terms has improved.

Nikhil Gada: Sir, what can be the run rate, we can get to 1.5% to 2% EBITDA margins in FY2019 or is it like this run rate would be around 1.5% to 2% only?

Atul Lall: Please appreciate in this EMS kind of business margin as a percentage is not very significant. So in the absolute terms you will see a significant growth.

Nikhil Gada: Regarding this PCB assembly portion where we are planning to set up the plant, but because now the duty has not come in so is it right now on a backburner or we will continue to still go ahead with the investment?

Atul Lall: See the duty was never expected in the budget. You see the Government of India has announced PMP programme. The duty is supposed to kick in from April 1, 2018. We are still very confident that the duty is going to kick in because that further gives a flip to Make in India, so we are going ahead with our investment in our manufacturing facility for mobile, PCB.

Gopal Jagwan: And that should also lead to a margin improvement, Nikhil to answer your first question. Dixon would start giving results from Q1.

Nikhil Gada: Regarding this export opportunity in lighting so what can be if there is any expectation on revenue front we can achieve in the next couple of years?

Atul Lall: We are already doing exports of CFL bulbs. With 9 million existing capacity of LED bulbs a month and the ramp up taking place to 14 million. The order book is also looking very healthy. We feel very confident that now we are globally comparative. We have already started discussions although it is at a basic level, which can be a very large global account for LED bulb exports and we are confident although it is going to be slightly time consuming. I am not budgeting this fiscal, but I feel that some time from Q3 next year the revenue should start pouring in.

Nikhil Gada: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey: First is a housekeeping question, if you could give us some numbers on the capex plans that you have for the coming two years?

Atul Lall: If you look at capex for this year we have already incurred a capex of 57 Crores and somewhere around 65 Crores this year, every year somewhere is going to be in that range.

Madhuchanda Dey: If you could also give us some colour on the new products that you are going to do from Tirupati facility, if you could give us an update on that?

Atul Lall: One, we have already started commercial production for security surveillance systems and that comprises of digital cameras, and digital video recorder. The present capacity there is of around 200000 cameras per month and 50000 DVRs per month with the increase in the customs duty we are going to increase this capacity from around 2.5 million to around 5 million of cameras and DVRs from 500000 to almost 1 million so that is the product. Second we are now really enhancing our capacity for panel assembly in Tirupati plant as Saurabh just shared with you that the TV manufacturing capacity has already been enhanced from 1.2 million to 1.8 million also some time in Q2 we will be setting up a lighting line there both for LED bulbs as well as for battens in Tirupati plant, so these three product lines are going to be there from Tirupati.

Madhuchanda Dey: So, what is your tentative expectation of revenue contribution of Tirupati in FY2019 a ballpark estimate?

Atul Lall: I feel that almost 40% of the revenue is going to come from there, 35% to 40%.

Gopal Jagwan: If you look at the consumer electronics that itself contribute around 35% odd and another 5% to 7% of security surveillance camera, so you can easily assume of 40% to 45% kind of a contribution coming from Tirupati.

Moderator: Thank you. I would request Ms. Dey to come back in queue for followup question. We will move to the next question, which is from the line of Anshuman Deb from ICICI Securities. Please go ahead.

Anshuman Deb: Thanks for the opportunity Sir and most of the questions have been answered. I just had one question regarding your customer selection and customer adoption basically the problem is that we see in case of Gionee now you mention that most of the cost has sunk in nature, but to avoid volatility in revenues is there any kind of a customer selection policy or some screening, which we internally do in case of customers and if we could have some company strategy on that?

Atul Lall: Anshuman, if you see verticals like lighting we have all the major customers with us now starting with Philips who undoubtedly continues to be in the lead position and our share of business with Philips has been continuously increasing and the recent customer acquisition are all the major brands namely we have with us now Wipro, we have with us Panasonic, Anchor, we have with us Bajaj and lately we have acquired Crompton. They are all very, very large brands in lighting as a vertical and month-on-month numbers with them and our share of their business is continuously increasing. If you look at washing machine so we are doing 100% of Panasonic washing machine, we are doing whatever is outsourced by Godrej in India completely done by Dixon. We have with us a new customer Samsung. We are doing Haier. These are all very stable customers and that is the reason there is a continuous increase both in revenue as well as the EBITDA in this vertical. Same is the case in television so a large relationship with Panasonic starting with the 10% four years back we do 90% of their televisions, we do 100% of their **(inaudible) 50:57** brand, so that is the way these verticals are. In mobile one we have got into this business only a year-and-a-half earlier. Second, mobile as a vertical as an industry is very different from the other verticals except for you take the top two brands that Apple and Samsung, The Tier-II brands there is every 8 to 10 months there is a brand shift from the customer side, so we had some India brands two years back. For the last two years it has been completely dominated after the Apple and Samsung, the likes of Vivo and Oppo and now even Vivo and Oppo are under pressure what is taken of Xiaomi and also another important play is Reliance. Please be rest assured the element of dynamism in mobile as a vertical is much, much higher than the other verticals and we are aligning ourselves to it and please be rest assured I cannot share the names of the customers, the customers we are going to have in our bucket in the next quarter going to be the ones, which have very deep entrenchment is a very large potential.

Anshuman Deb: Right, thank for a very detail answer and most of the answers in this conference call have been extremely detail. Now, regarding your as you said mobile is a special category one because we are new in it and plus there is a lot of movements, which happened between brands, as you said Jio is also a very big player, which are tied up with some makers of chips in abroad and the market shares are also going to increase, so in this segment in mobile per se we do have a special strategy compared to other segments as far as client acquisition is concerned would that understanding the right?

Atul Lall: Right.

Anshuman Deb: Thanks a lot.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Thank you everyone for being on the call particularly the management. Thank you so much for taking timeout and answering all our questions and giving us an opportunity to host the call. Thank you and wish you all the very best.

Atul Lall: Thank you Bhoomika and thank you everyone. Thank you so much.

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