"Dixon Technologies India Limited Q2 FY2021 Earnings Conference Call"

October 30, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies India Limited Q2 FY2021 Earnings Conference Call hosted by Ambit Capital. 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 Mr. Dhruv Jain from Ambit Capital. Thank you and over to you Sir!

Dhruv Jain: Thanks. Welcome to the Q2 FY2021 Earnings call of Dixon Technologies. From the management today, we have with us Mr. Atul Lall, Managing Director of the company and Mr. Saurabh Gupta, Chief Financial Officer. Over to you Sir for your opening comments!

Atul B. Lall: Thank you so much. Good afternoon ladies and gentlemen this is Atul Lall and we also have on the call today my colleague Saurabh Gupta, CFO. I hope that you and your family are safe and healthy.I will just share with you an insight into Dixon numbers of Q2 2021.

Our consolidated revenues for the quarter ended September 30, 2020 was Rs.1639 Crores against Rs.1405 Crores in the same period last year, that is a resilient growth of 17%, consolidated EBITDA for the quarter ended September 30, 2020 was Rs.89.6 Crores against Rs.65.9 Crores in the same period last year that is a growth of 36%. EBITDA margins have expanded from 4.7% to 5.5% year-on-year. This is mainly on account of operating leverage improved sales mix value engineering productivity improvement and other cost efficiencies. Interestingly, we have seen margin expansion across all our key product categories. Consolidated PBT for the quarter ended September 30, 2020 was Rs.71.8 Crores against Rs.48.3 Crores in the same period last year that is a growth of 49%. This is mainly due to the reduction in our finance cost. Healthy growth momentum was witnessed in all verticals in Q2 and we have an extremely healthy order book across all the verticals. We look forward to regaining fast momentum in the forthcoming quarter and expect revenues and profitability to increase on account of a healthier order book. We are well positioned with a robust balance sheet with cash balance of Rs.74 Crores and net debt of Rs.17 Crores as on 30th September. We have adequate working capital lines to ensure that even if things worsen due to pandemic we are fully protected and continue to build our business in capability through this difficult and uncertain period by generating strong cash flows, have adequate liquidity and have enough cushion on the balance sheet to raise debts if required to meet the planned capex in the pre-COVID period.

We have a strong conviction as I have been reiterating in all our interactions. The consumer durable and electronic items that will be sold in India are going to be made in India and Dixon in this space is sitting on a sweet spot. More and more brands will outsource more manufacturing and in Dixon we have been able to build a scale and skill set and capability to execute that. Further the momentum of domestic manufacturing is aided by the government schemes it is beneficial for the company usually. Our main focus as we have maintained right through our journey is on total backward integration and migrating more and more to our own design solutions, which helps in expanding the margins and further enhance the stickiness with our customers. Our capital allocation will always be prudent and very frugal, we are maintaining that we will be generating a return on capital employed of 30% plus and return on equity of 25% plus in the forthcoming quarters and years.

I will share with you the performance in this strategy in each of the verticals going forward. In consumer electronics that is LED televisions mainly revenues for the quarter under review was Rs.957 Crores against Rs.738 Crores in the same period last year which is a strong growth of 30% and this is in spite of July we were in the process of recovering only so we have not had full July and there were also certain supply chain issues. Operating profit saw a robust growth of 50% year-on-year, it was Rs.26.5 Crores in Q2 2021 against Rs.17.7 Crores in the same period last year.

Operating profit margins also expanded from 2.4% to 2.8% year-on-year on account of scale, higher level of backward integration, the expansion of PCB capacity and also there was improved sales mix wherein the share of the large screen sizes that is 43 inches and above has significantly increased which is generating better margins. As I had shared in the last call, we have already completed our capacity expansion of 4.4 million TV sets including backward integration and LCM and also we have doubled our capacity by installing the second line of SMTP for PCP. This capacity is almost 30% of the Indian LED TV market so we acquired a large scale and it is a global scale now. In order to meet the strong order book of our anchor customers Xiaomi and newly acquired customers like Samsung, Nokia, Hisens, Toshiba and also in view of the recent notification wherein imports on completed television has been shifted to license category we are witnessing a significant traction in additional volumes, so we are further expanding our capacity from 4.4 to 5.5 million in this fiscal. We are confident of executing this expansion plan within Q4 of this fiscal that will take our capacity to almost 5.5 million sets per annum. Now putting LED TVs under restricted category will not only boost domestic manufacturing, but we will also deepen the level of manufacturing in India and accelerate brands of domestically designed solutions for TV so that is the path we are pursuing, with our strength being our R&D and trying to get a larger share of customers business to our own design solutions. We are extending our R&D and we have also tied up with some global design houses like Soin Technologies US premium sound solutions. The latest customer edition in our customer portfolio of LED televisions is Huawei which is a significant domestic play in LED television, the production will start in November and also we have acquired One Plus as a customer, One Plus the production will start in Q4 of this fiscal.

Coming to lighting, revenues for the quarter witnessed growth of 4% that is Rs.296 Crores in Q2 against Rs.284 Crores in the same period last year. Operating profit witnessed a strong growth of 21%, i.e., Rs.27.7 Crores in Q2 against Rs.23 Crores in the same period last year. The margin the lighting business have expanded from 8.1% in Q2 last year to 9.4 in Q2 this year primarily due to operating leverage, migration to more ODM so in last quarter the share of our ODM business was more than 90% further value engineering and also automation. All the brands in lighting business today who are our customers on ODM basis and practically most of the brands today are our customers. We are India's largest ODM and lighting and we already have a capacity of almost 250 million by LED bulbs which is more than 40% of Indian requirement. We have also developed solutions for the smart led bulbs, batteries and down lighters and emergency bulbs and battens for various customers. As shared with you on earlier occasions we have expanded our capacity of battens from 250k in phase one 1.5 million and this is the number we will be executing in our October month and also 2 million so this 2 million will start happening per month hopefully from the month of December. In the case of down lighters also we have expanded our capacity from 150k per month to 600k per month and we will be going to 1.2 million per month by Q1 next fiscal. We feed the kind of volumes an entire range of portfolio, we are now globally competitive and among the top companies in the world as far as volume is concerned. We have the cost competitiveness now to explore the global markets. We have already sent pilot consignments for our anchor customer to US and Indonesia and we are in discussions with large chain of stores for exploring the international opportunity. We are also automating a line and one third of our volumes of LED bulbs will get automated with Q3 of this fiscal which will give a significant boost to our productivity. Now we are venturing into outdoor lighting that is primarily street light and two by two we are confident of launching this product portfolio by Q1 of the next fiscal.

On home appliances, revenues for the quarter saw growth of 4% that is Rs.145 Crores in Q2 of this fiscal versus Rs.139 Crores in last fiscal. The operating profit increased by 5% year-on-year at Rs.17.3 Crores it was Rs.16.4 Crores in last year. The EBITDA margin in this vertical is 11.9%. We have had our highest ever sales of 1.14 lakh and 1.17 lakh machines in August and September respectively. So to meet the festive peak period demand we have added one more line within a very short period of time. We presently have 140 odd models and have the largest portfolio ranging from 6 kg to 10 kg across semi-automatic category with an annual capacity of 1.2 million. In Q3 we will be launching a new 10 kg model and also an electronic panel model for which there is a significant traction. Our expansion plans on automatic top loading FTL washing machine is on track in our Tirupathi campus, a new factory is getting ready. We are fairly confident of our trials in end of Q3 this fiscal. There are approximately 30 variants in fully automatic category to start with and we will have an annual capacity of 6 lakhs. We are targeting to start the commercial production in Q4 of this fiscal. We have already closed an agreement with a very large global MNC. In this vertical we have a roadmap of more and more localization and we are very fairly confident that next 18 to 24 months, the imports will come down to barely 30%.

Coming to mobile phones and EMS division, so from this quarter friends, we will be reporting mobile and EMS divisions. Presently in the EMS division, we are we are doing set up boxes and medical equipments so we will be combining the results of them together. The revenues for this division for the quarter was Rs.197 Crores as against Rs.193 Crores of mobile revenues in the same period last year. In the current quarter the revenues of set box business and medical equipment business was Rs.35 Crores and Rs.96 lakhs respectively out of Rs.197 Crores. Operating profit witnessed a very strong growth of 294%, it was Rs.16.2 Crores against Rs.4.1 Crores in the same period last year. This is mainly an account of our anchor customers in phone business and also setup box business. Operating margins have also significantly expanded from 2.1% to 8.2% year-on-year. We today have largest capacity of 2G phones in the country. We are the largest manufacturer and this is happening for our anchor customer both for domestic and export markets. We are confident that the numbers for Q3 and Q4 will be better than Q2. 100% subsidiary company in which we do our mobile and EMS business has started. We have very strong order book again on smart phone as well as the 2G phones. Recently we got the approval under government PLI scheme on mobile phones. The government plans to provide incentives up to Rs.41000 Crores over next five years period. So sharing the details of this scheme, domestic companies were incentivized for mobile phone of less than $200 that is Rs.15000 which is a special cover for domestic company with the capex investment of Rs.200 Crores over four years. Eligibility will be subject to threshold of incremental sale manufacturer good, incremental sale of manufactured goods over base here for financial year 2021 was Rs.500 Crores, financial year 2022 Rs.1000 Crores, financial year 2023 Rs. 2000 Crores, financial year 2024 Rs.3500 Crores and financial 2025 is Rs.5000 Crores. One positive thing is the ceiling revenues have been revised upwards in favor of domestic companies so now the revised ceilings for 2021 is Rs.2000 Crores, 2022 is Rs.4000 Crores, 2023 is Rs.6000 Crores for financial year 2024 is Rs.8000 Crores and financial year 2025 is Rs.10000 Crores. We have already started investing to increase our capacities of Smartphone and we will be taking it to 15 to 16 million level annually in next couple of years against three million today. We have already taken a factory on lease in Noida approximately 200,000 square feet. We are fairly confident of the starting the new capacity by early Q4 that is January of this fiscal. We are in final round of discussions with three large global brands. This is an addition to our present anchor brands for tie-up for manufacturing for them both for domestic and global markets.

I am not in a position to share the name as of now. Hopefully we will be sharing these names very shortly. We think it is a big opportunity for the company and we are confident of generating the cumulative revenues of 28000 to 30000 Crores revenues over a period of five years with a decent EBITDA margin and a very robust ROCE and quick payback on the investment. We are also hopeful that even the first year incentive of incremental sales of Rs.500 Crores for August 2020 to March 2021 we will be able to avail the benefit to some extent, although it is a challenge to start fresh production in 3 to 4 months but I am fairly confident that our team will be able to deliver on it. On set of box side, we have already delivered 5.2 lakh cable and hybrid set of boxes for Jio dish and Cherry cable and we have generated revenues of almost Rs.35 Crores. We have a strong order book of almost 0.3 million per month from October onwards. On medical equipments also we dispatched our first set of body machines and now consistently we are delivering and this is a decent high margin business for us.

Coming to security surveillance systems there is a 9% degrowth in our share of the percentage values so from Rs.43 Crores in Q2 of 2019, the revenues have come down to Rs.40 Crores, however the operating profit witnessed a growth with an expansion in the operating margin from Rs.1.06 Crores of 2.4% percent in Q2 2019-2020, Rs.1.17 Crores with an operating margin of 2.9% in Q2 FY2021 mainly due to the reduction in the fixed cost. Now this vertical has also come back towards the normal capacity utilization and we feel that we have decent numbers in Q3 and Q4. Reverse logistics, revenues for the quarter was Rs.3.6 Crores with an operating profit of Rs.37 lakhs at 10.2% operating margin. Our both set box refurbishment and led TV repair business is doing fairly well and we have a strong order book in fact we are setting up a small center in Tirupathi also for this because it is more of a strategy kind of business. So I would like to stop here now and me and Saurabh are there to answer your questions. Thank you.

Moderator: Thank you very much. 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: Thanks for the detailed update that clarifies a lot of things. My first question is on working capital, which appears to have risen a bit in second quarter, what has contributed to the same?

Atul B. Lall: There was a bit of a challenge in supply chain. The transit period in the imports and also custom clearance time expanded a bit by almost 12 to 15 days because of which there has been some pressure on the working capital, but we are extremely confident and that it is going to come back to normal it already has at October end and this has happened mainly due to our led television business. It will come back to normal by Q3 end.

Saurabh Gupta: As Mr. Lall mentioned it is already partly corrected in October month and it will significantly get connected by end of Q3 by end of December.

Aditya Bhartia: Sir from a slightly longer term perspective, do you see a challenge of continuing to import open cell panels or would ultimately the government be wanting open cell panels to also start getting manufactured in India?

Saurabh Gupta: so I think government intent would always be to create that ecosystem and if open cell panel can be set up in India but it is not a simple business, it is a huge capex so I think one will have to wait and watch, at present I feel the open cell will be a significant import item in television category.

Aditya Bhartia: And Sir when we say that TVs have been placed under restricted category, there is no restriction on open cell panel per se or do you think that even that is getting a bit more difficult to import?

Atul B. Lall: No open cell is under OGL and there is no restriction as such I do not see any challenge in imports of open cell.

Aditya Bhartia: Understood and Sir next question is on the PLI scheme so obviously you did highlight quite a few things on the scheme? How should we be really looking at it, would we be looking to operate at maybe the ceiling limits of the scheme and generate a higher EBITDA margin or rather could the strategy be to deliver revenues higher than the ceiling limit maybe at a slightly lower margin?

Atul B. Lall: So we are evaluating, it is a question of slightly longer term perspective so we have to strike a balance possibly we will be going even beyond the ceiling.

Aditya Bhartia: Sure I understood thanks.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My first question is respect to the margins in the mobile phones so basically mobile phones and EMS margins are 8.2, how much of it is for mobiles alone and what is the kind of margin profile of the other two products which are there that is the medical devices and other products?

Saurabh Gupta: As Mr. Lall mentioned that the revenue generation from set top boxes is around Rs.35 Crores, the margin profile in that particular business is somewhere around 3.2% and the medical electronic unit just started so I think so it will be prudent for us to give you margin profile in the next quarter or so it will be slightly higher so broadly you can assume a margin of around 20%-22% as far as medical electronic is concerned, but we had a very small just 96 lakhs of revenues but Q3 the revenue should be higher and of course the profitability from that vertical should also be higher.

Ravi Swaminathan: Okay what I am trying to ascertain is the margins in the mobile business also expanded that is what?

Saurabh Gupta: Ravi basically expanded on account of the anchor customers that we acquired in November last year for which we are manufacturing the 2G phones so it was not there in the similar period last year in the comparison period so that is basically, they are the margin profile so this three would be the reasons why our overall margins has actually gone up.

Ravi Swaminathan: Okay and my follow-up question is on the PLI scheme, so basically you had mentioned three large customers with whom we are talking about, would they feel I mean put together, would they alone individually cross Rs.10000 Crores kind of revenue target that is being set for FY2025 and if that is so, blended what kind of margins we can make over on sustained basis over the next three to four years average?

Saurabh Gupta: So one we are fairly confident of achieving the revenue targets that we just shared and you also just mentioned we feel that the operating margin should be somewhere in the level around of 3% in this business.

Ravi Swaminathan: Got it Sir and with respect to the electronic TV, the new customer Vu, One Plus etc., if you can share what kind of potential volumes can be there from them it will be great?

Saurabh Gupta: So the indicator volumes that we are expecting from the new customers as the names that you mentioned should be somewhere between 0.8 to 0.9 million TV per annum.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Congratulations for a very good set of numbers, so my first question is on the TV segment which has seen a very strong growth led by addition of new client, as we are adding as you said VU, One Plus and some others, how quickly do you expect the volumes to kind of scale up what is the current level of utilization which is what is making you confident to kind of expand capacity to 5.5 million from the current 4.4?

Saurabh Gupta: We did almost 318k televisions in the month of September, in the month of October we are going to prove that 360 and the order book looks healthy and then from the month of January we are adding some more customers and also please appreciate that there is a peak always in TV business around the festive period so we need that buffer that is the reason for expanding the capacity because the forecast being given to us by existing anchor customers and also the new acquisition of LED.

Bhoomika Nair: So what I am trying to just understand is that what proportion of this would be led by the import restriction ban in the current quarter or is that still yet to play out and this is largely led by a strong festive demand and client addition that we saw earlier during the year?

Saurabh Gupta: My sense of things is that the import restrictions are listed to play out so usually the dip that we have post Diwali we will not see that this time it is going to be compensated by additional traction from the customers.

Bhoomika Nair: Sir my second question is on the home appliances in the washing machine space again they a fairly healthy performance how we seeing in terms of the fully automatic washing machines to kind of come in and contribute or by when is that expected and any other client addition out here we spoke about new model addition in 10 kg etc., but are there any client addition out there that we are targeting.

Atul B. Lall: As I shared that we are very confident of starting a commercial production of fully automatic top loading in Q4 of this system, the facility is getting ready. We already have an anchor agreement signed with a large global customer, we are going to be rolling out our samples by November and early December of this fiscal and we are already in discussions with all the existing brands who are our customers in semi-automatic category. We are confident that we will be able to get significant breakthroughs because the solutions that have emerged are extremely good so we are fairly confident and that the revenues are going to start from Q4, but for the business to acquire the full mast will take time and it will take a couple of quarters.

Bhoomika Nair: And you think this would be at similar margins as our semi-automatic washing machines or do you think it will take time to scale up?

Atul B. Lall: I think so finally yes.

Bhoomika Nair: Great Sir. Wish you all the best. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Thank you for the opportunity and congratulations on a great set of numbers. Sir my first question is again on the PLI scheme I know you mentioned that you are in the final round of discussion with three large global brands, but you know over and above these three brands and our anchor customers, potentially which other clients could we target in terms of attaining our revenue target say that you said of about 280 billion to 300 billion revenues over the next five years and also if you could throw some light on the value addition aspect of that?

Atul B. Lall: Thanks Sonali so one we feel that these three customers agreements in itself more than sufficient for meeting the ceiling numbers under the PLI. In fact what I can sense there is a problem of plenty there however in every vertical if you see Dixon endeavor is to start first level of assembly and deepen the manufacturer through motherboard if possible go in and use our skill set in polymer processing and make an attempt for our own design solutions so please be rest assured that in mobile also we have already initiated this journey. It is going to take time but it is going to happen so that is the path we are going to pursue. We aspire to emerge as an ODM player in the smart phones as well and also I would like to share that infrastructure being set up is also having the capability to do this.

Sonali Salgaonkar: Sure Sir and Sir also you spoke about the capacity in the Smartphone being enhanced to about 15 to 16 million so currently we have 40 million capacity in mobile phones, so just wanted to understand is the capacity for feature and Smartphone fungible or else what is the breakup of this 40 million?

Atul B. Lall: So the capacity is fungible but in mobile or for that matter in any electronic manufacturing to put it in very layman kind of terms, it is ultimately the component count on the motherboard and the test setup so usually you can take a ratio of 1:3 on a line on which you do one phone Smartphone 4G phone who can do three 2G phone.

Sonali Salgaonkar: Understood Sir.

Atul B. Lall: Infrastructure is fungible not only for smart phones and mobile phones the lines on which we are doing are a Smartphone they are also doing set of boxes in the same line. We are also doing our medical electronics on the same time.

Sonali Salgaonkar: Got it Sir. Sir my second question is on the customer concentration and utilization, so Sir we understand that probably you do not share numbers of how much our top five clients are contributing to in those segment right now but any broader idea of how concentrated every segment is in terms of our anchor customers and currently on an average what is the capacity utilization that we are looking at?

Atul B. Lall: I will share with you number. Our top most customer contributes around 32% of our revenue followed by the second one which is around 17% however when you look at the profitability profile, the biggest customer contributes around 14%, 14.7% for operating profit. Now we are very conscious of this and if you look at our numbers in 2017-2018 and when we were listed almost 85% of our profits were coming only from two anchor customers so in spite of the growth this ratio has rationalized it has become much, much better and let me assure you that the growth and diversification that we are having is going to have a much larger sense of balance. On the capacity utilization, I will just share these numbers. Lighting overall in Q2, we used 81% of our capacity, in LED television 78%, in home appliances is 83%, in mobile phones on the 2G side we used almost 68% and on the Smartphone side we use the smaller one of 35%. In security systems because Q2 was under pressure, the capacity utilization was around 36%-37% however the capacity which was not utilized for phones and CCTV were used for set up boxes so that is the status so overall you can say that the capacity utilization is between 75% to 80%.

Sonali Salgaonkar: Understand Sir. Sir my last question is our ODM share currently is about 35% any vision as to where we want to get it say over the next five years?

Atul B. Lall: So the path is like that but there is a percentage because most of the ODM share is primarily from home appliances, which is 100% and from lighting, which is around 90% from consumer electronic it still is very small of just 3% and in other verticals of our primarily OEM business, which is on prescriptive mode now the humongous growth is going to happen on the mobile side on the EMS side so I do not see as a percentage ODM contribution will increase, but in absolute numbers the ODM contribution will significantly increase, however as I shared that if you are able to get breakthroughs because that is the path we are pursuing in LED television already and we want to trigger that on the Smartphone also. If we are able to crack it and hopefully we should we have that capacity, in a couple of years a significant portion on an overall basis would come from ODM. What percentage I do not know.

Sonali Salgaonkar: Sure. Thank you Sir that is it from my side.

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

Renu Baid: Congratulations for the strong performance for this quarter. My first question is to understand a bit more since you have highlighted that you would want to aspire to emerge as the ODM solution provider Smartphone segment if globally this trend has picked up in the sub $150 market and but essentially the companies who are concentrated in this segment are the ones who also have strong capabilities on the semiconductor on the shift side so today even if you are aspiring today what is the base work that you are starting in this segment to scale up the R&D capabilities and also related to the same question is across new segments that we are entering whether it is mobile phones are there far more complex products in the current profile so what is the kind of beef up that we are doing on the R&D side of the business to improve ODM solutions as well as continue observation of the existing portfolio?

Saurabh Gupta: So Renu it is a journey now I think the team has done fairly well in the verticals of lighting and appliances as of now and in appliances also launch your fully automatic uploading is going to be a significant milestone for us. Now same is the case in LED television so we are ready with the solution and we are ready with the solutions on the smart side also on the android series so the team has been able to execute that. When we come to a Smartphone it is a much more complex journey so it is going to happen to start with partnership, first the focus is going to be on sourcing and supply chain and closely working with chipset people like media tech and those skill sets have to be built, but we are going to start that journey. On the refrigerator side we have a leadership team who has executed a large series. We have confidence, we have taken some talent already from the industry leading this project so once we take the final call of launching it because you are looking at some other inorganic opportunities let us see how it pans out otherwise we are going to be going in on our own, we already have a technology partner in place. We have selected the product portfolio it is going to be a slightly longer gestation product but it is going to happen.

Renu Baid: Sure and have earmarked or have you targeted X proportion of spending on R&D in the next three to four years and targeted team size or it would be decided in the due course of time?

Saurabh Gupta: So it is going to evolve and it is going to be a decided in due course of time.

Renu Baid: Sure Sir second question is to understand a bit more on the margin side specifically for the LED lighting segment as well as for washing machines, should we say most of the margins could also be driven by the strong volume and a bit of cost structures or inventories which were carried from the previous quarter and cost headwind could moderate a bit of the margin profile going forward or what would be your sense that given the mix of new customers coming in these categories and portfolio 9% margins in lighting and about 11.5%, 12%, margins in washing machines seems to be more sustainable?

Saurabh Gupta: So both in lighting and washing machine the margins are derivative of various elements one is value engineering which is an extremely important element. Second is continuous automation and reducing the manufacturing cost so we already embarked on this journey in lighting and third is the commodity prices in the currency so how it balances out one has to wait and watch but I feel that in lighting the margins are going to be hovering between 8% to 9.5% and in the case of washing machine would be somewhere between 10%, 10.5%, 12% somewhere like that so I cannot predict the exact number but that is the range in which I feel there is an operating margin.

Renu Baid: Sure and my last question would be a bit of clarification again in the set up box part of the portfolio given that now we have strong order books scaling up from Q3 we had a set of side on aggressive target of Rs.1000 Crores plus of revenue in the next financial year so are those targets intact both with respect to orders from customers or are we seeing a new addition of portfolio in that business?

Saurabh Gupta: So we are very confident next fiscal that will be the grid number. The order book looks healthy so I think they are fairly doable numbers.

Atul B. Lall: So Renu just to add if you look at Q2 numbers, we mentioned in our earlier remarks that we did 5.2 lakh units and we also mentioned that we have a order book now of almost 3 lakh units a month, the revenues in H2 would be significantly higher than what we have done in our Q2 so even within this year only we will start generating in H2 only around somewhere around 450 Crores kind of revenues in set up boxes so next year the revenue is a Rs.1000 Crores which we are guided for looks absolutely intact.

Renu Baid: So which means broadly for the current financial year set up boxes could do approximately close to Rs.500 Crores kind of revenue?

Atul B. Lall: That is right.

Renu Baid: Overall I think that volumes margins in STP business will also improve or they should be broadly in similar 3.5% range?

Atul B. Lall: They will be in the range of 3% to 3.2%.

Renu Baid: Sure thank you so much.

Atul B. Lall: ROC profile is the limit, because the incremental investment is very minimal.

Renu Baid: Right using the exiting capacity is there. Got it. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Sir one question on the AC, PCB revenues that you have mentioned and disclosed right while it is it is small at around Rs.18 Crores in this quarter but if you could just throw some light on how it is seen in the last couple of quarters and what customers that we are doing and if we can add some more customers on that front?

Atul B. Lall: So this particular vertical extent is we are doing for Daikin we have our tie up with a Japanese solution provider for inverter controller of PCBA, Reisin is a global partner and they are into business for last almost three years and all the inverter controller PCB for Daikin are done at Dixon. Last two quarters in this particular vertical has been under pressure because of lockdown and also the AC market was impacted whether we are looking at expansion of this particular business? we are and we are talking to some other brands also for a breakthrough, let us see?

Dhruv Jain: What was the FY2020 revenues?

Atul B. Lall: Basically in a normal situation we were doing revenues of something like Rs.35 Crores and Rs.40 Crores a quarter so it should be somewhere around 130 by 140 plus or minus something so I do not remember the exact number but Rs.35 Crores was the quarterly run rate.

Dhruv Jain: Okay Sir and Sir margins around in this vertical?

Atul B. Lall: So margin is also similar somewhere around 3.5% to 4%.

Dhruv Jain: And Sir you spoke about tie up that you are doing with respect to creating your own ODM solutions in TV and Sir if you could just talk a little bit about that and when do you expect to sort of a breakthrough there in terms of getting your own design?

Atul B. Lall: So on the analog side, our solutions are already going so even to the brands like Panasonic or Sanyo, domestic brands like Llyod or to Intex or to Reliance or Reconnect they are all Dixon's ODM solutions, we are ready with the smart solutions also in that one is the open software and the other one is the android, the market is shifting more and more towards android. We are working on a positive relationship with Google in getting an android license but we are still working upon it however as far as the solution is concerned we are ready with it we are ready with both the electronics and the mechanicals on the android side also so that is the status.

Dhruv Jain: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Ankoor from HDFC Life Insurance. Please go ahead.

Ankoor: Sir good evening a couple of questions, could you please share the volume numbers during the quarter across segments the TV, washing machines, lighting and cellphone?

Atul B. Lall: TV around 8.5 lakh units as against 7.5 lakh in this same period last year so probably there is a 14% kind of volume growth. Overall in terms of lighting products which includes LED bulbs and other products like batten lighters, we did around 571 lakh units as against as 508 lakh units mainly there has been a significant increase in LED bulbs there in terms of mobile phones which includes 2G in the Smartphone and for an anchor customer as well. We did around 96 lakhs phones as against 16 lakhs last year so mainly the growth has been made up for the growth in the anchor customer of 2G phones where then in the case of CCTV and DVR, CCTV we did around 6.6 lakh units as against 6 lakhs same period last year and DVR we did 2.1 lakh which is almost similar as last year as well and set up boxes I mentioned that we did 5.2 lakhs and medical we did a dispatch of 41 units.

Ankoor: And Sir washing machines I think that is one?

Atul B. Lall: Yes I missed the washing machine. Washing Machine is 3.1 lakhs.

Ankoor: Thank you so much. So secondly just on the TV margins and what we have been hearing is that open-cell prices have actually jumped over the past quarter most of the exports from China and I am guessing also Thailand so how has that worked for you, have those price increases being completely passed onto your customers because I normally thought that there is a certain lag right before those prices get passed on?

Atul B. Lall: Our LED TV business is an OEM business and all the cost variations are passed on to the customer in this business there is no lag. So you are absolutely right the prices of open cell globally have really shot up significantly however in our case all the costs are passed on to the customer.

Ankoor: Perfect okay so there has been passed on and so thirdly just on this jump in debtors and tables that we see this quarter so as I understand that maybe because of the restrictions on imports you may have delayed payments to your vendors, but I am just trying to figure out, what led to this a big jump in debtors as well at about Rs.1100 Crores and where do you see this and how do you see this normalizing?

Atul B. Lall: Basically if you look at the TV sales we did almost Rs.950 Crores kind of revenues so mainly the receivables have increased and even if you break down the entire Q2 performance our September month performance is better than August and similarly August was significantly better than July so if you look at the numbers it is mainly increased on account of TV business where our debtors have increased and correspondingly our creditors have also increased so we do not deploy money in the working capital since it is a prescriptive business so both has increased.

Ankoor: Okay and as production normalizes as you said you would see these numbers coming back to the previous historical numbers right so you would not expect them to remain as elevated going into Q3 and Q4?

Atul B. Lall: If just look at that debtor dates actually you should more instead of actual number of debtors so our debtors days was around the 58-days and it was a similar level at around June of 57 days and the cash flow in cycle inventories has actually come down to 28 days as against 45 days and creditor 86 days as against 93 days in the month of June.

Ankoor: Okay all right. Thank you so much.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: Good set of numbers and thank you for the opportunity. My first question is on the PLI scheme and given there will be government receivables involved in there, what kind of contract structure are you working with customers and what kind of delay in receiving those payments is anticipated by the customer any clarity there?

Atul B. Lall: So the contracts are in the process of getting finalized and structured however please be rest assured there are adequate preventive mechanisms in the contract that the customer will be reimbursed on the PLI side only once we receive the incentive from the government.

Akshay Bhor: Understood and what kind of delay do you anticipate in receiving those is there a within the PLI scheme mention of what kind of delays are?

Atul B. Lall: As per contour of this key what it says is that you have to move the eligibility criteria, which is two elements one you have to have a capex confirmed of Rs.50 Crores before filing your application. Second you have to meet the threshold plus the incremental number of your baseline figure. Once you have achieved that threshold with adequate evidences the application has to be filed with the project agency and they are going to verify the data and the incentive will be credited to your account that is what the mechanism says and the application has to be filed on a quarterly basis so I am not in a position to say that how it actually works but the laid down guidelines in the scheme are as I just shared with you.

Akshay Bhor: Understood and so just a clarification on the lighting side, the volume growth is slightly dipped in the quarter even on the appliances side as well just wanted to understand this is nothing to do with any loss of customer, this is just the industry was being muted?

Atul B. Lall: I do not know what number so if you look at the numbers we did 3.1 lakh washing machines almost equivalent to what capacity we have as compared to 2.8 lakh washing machines. Also the factory opened only in June and July we were still struggling. In July, the execution was still muted only from August and September and we have been able to come back to normal so I think from that perspective the numbers are healthy. Growth has been 15%.

Akshay Bhor: Got it thanks.

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

Naval Seth: Sir I have two questions on TV, first if you can give some insight that new customers, what you have won in the quarter, the volume numbers what you stated 0.8, 0.9 million so what would be that percentage of their current sales right now if any insight there?

Atul B. Lall: So Naval 100% of the business will come for sales.

Naval Seth: Okay. Second question is a bit long-term on TV segment so we are expanding capacity almost now twice in a year with strong order books so are we on the same path of lighting where from 30% market share we can reach 40%-45% for domestic sales is that the visibility you have over the period of next three years?

Atul B. Lall: So we are striving towards that usually the Indian market is around 15-16 million now if we are able to do around 4 million in a couple of years that is a large number that will be almost, it will be a large number almost 27%, 28% of Indian requirements.

Saurabh Gupta: Naval to answer your question that is definitely achievable with this new client addition and strong order book from our existing customers so we already this year also we do a decent increase in our volumes compared to last year and so with the new client additions the numbers that we are talking about definitely achievable next year or maybe a year after.

Atul B. Lall: So Naval in this fiscal itself we will have I think 30% growth over the last year.

Naval Seth: Yes Sir great Sir thank you and all the best.

Moderator: Thank you. The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.

Nirav Vasa: Sir would it be possible for you to give me the breakup of capex that we intend to do in FY2021 and FY2022and if possible break up category-wise?

Saurabh Gupta: As part of the PLI, we have to do a capex of Rs.50 Crores every year for the next four years mobile PLI would be Rs.50 Crores every year so that is one. Secondly in this year we have on our fully automatic the total capex of around Rs.65 Crores to Rs.70 Crores out of which we have already done a capex of Rs.18 Crores to Rs.20 Crores so we have to balance Rs.40 Crores to Rs.45 Crores will happen in the balance six to nine months and then we will have another vertical the average run rate of capex should be somewhere around anywhere between Rs.10 Crores to Rs.20 odd Crores so that specific plans we will have only later but this would be the broad numbers.

Atul B. Lall: Also I would like to share that substantial investment in our mobile side, we have now secured long term payment plan from the equipment supplier so the payment plan of 18 months so the capex will be made but the cash outgo will be less.

Nirav Vasa: You will be paying it as and when the factory is getting more operational?

Atul B. Lall: It is not linked to that but there is a payment plan. There is a deferred payment plan, so the cash out would be significantly lower than the Rs.50 Crores incentives.

Nirav Vasa: Sir my other question is again basically pertaining to PLI because of this capex commitments which are there and other players who have got PLI scheme approvals especially the Indian manufacturers their balance sheets are not very strong so is there any provision in this agreement that we can get some rate we can say funding from brands or any of the players have they approached you for any kind of a potential JV or something like that because you have got the size and scale all the customers so that it can be mutually beneficial partnership for you as well as the others?

Atul B. Lall: On the first question of yours, there is a provision in the PLI scheme and the government will be sharing the data with us on quarterly or bi quarterly basis wherein they are going to be so if some of the other companies are not able to meet this then the overflow will be shared with the performing company so that is a significant positive on your point number two I am not in position to comment.

Saurabh Gupta: You are observation is right there that there are a couple of advantages, one our balance sheet is much stronger as compared to some of the other players they have got the P&L and of course we do not have our own brand so that also makes a lot of difference.

Nirav Vasa: Exactly because this business is all about size and scale and their balance sheets are heavily constrained right now so thank you very much Sir.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will take that as a last question. I would now like to hand the conference over to the management for closing comments.

Atul B. Lall: So thanks very much. Thanks for this call and thanks to all the stakeholders for supporting Dixon journey. We are on the path that we feel that that it is on an extreme positive, we feel that industry is having a significant tailwind and we are going to work harder to deliver more and better so thanks for your support at all times thank you so much.

Saurabh Gupta: Thank you everybody in case you guys have any follow-up questions you can always call me. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Ambit Capital that concludes this conference. Thank you all for joining and you may now disconnect your lines.