The brand behind brands

Dixon Technologies (India) Limited

30th January, 2023

To Secretary Listing Department BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	To Secretary Listing Department National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Mumbai – 400 051
Scrip Code – 540699 ISIN: INE935N01020	Scrip Code - DIXON ISIN: INE935N01020

Dear Sir/Madam,

Sub: Transcript of the Q3 FY 23 Earnings Conference Call held on 25th January, 2023

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III thereto, please find enclosed herewith the transcript of the Q3 FY 23 Earnings Conference Call of the Company held on Wednesday, 25th January, 2023.

The said transcript has also been uploaded by the Company on its website and the same is available at https://www.dixoninfo.com/earning-call-transcript.php .

We request you to kindly take this on your record and oblige.

Thanking You,

For DIXON TECHNOLOGIES (INDIA) LIMITED

ASHISH KUMAR

Digitally signed by ASHISH KUMAR
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Ashish Kumar
Group Company Secretary, Head – Legal & HR

"Dixon Technologies India Limited Q3 FY23 Earnings Conference Call"

January 25, 2023

MANAGEMENT **MR. ATUL LALL – VICE CHAIRMAN AND MANAGING DIRECTOR, DIXON TECHNOLOGIES INDIA LIMITED**
MR. SAURABH GUPTA – CHIEF FINANCIAL OFFICER, DIXON TECHNOLOGIES INDIA LIMITED

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '23 Results Conference Call of Dixon Technologies hosted by ICICI 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 Mr. Aniruddha Joshi from ICICI Securities. Thank you. Over to you, sir.

Aniruddha Joshi: Thanks, Rayan. On behalf of ICICI Securities, we welcome you all to Q3 FY '23 Results Conference Call of Dixon Technologies India. We have with us senior management represented by Mr. Atul Lall – Vice Chairman and Managing Director; and Mr. Saurabh Gupta – Chief Financial Officer.

Now I hand over the call to the management for initial comments, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Atul Lall: Thanks very much, Anirudh. Good evening, ladies and gentlemen. This is Atul Lall. And we also have on call today, our CFO, Saurabh Gupta.

Saurabh Gupta: Good evening, everyone.

Atul Lall: Thank you very much for joining this earnings call for the quarter ended December 2022. Coming to our overall performance for the third quarter, consolidated revenues for the quarter ended December 31, '22 was Rs. 2.408 crores against Rs. 3.074 crores in the same period last year. That's a degrowth of 22%. Consolidated EBITDA for the quarter was Rs. 114 crores against Rs. 104 crores in the same period last year, a growth of 10%. Consolidated PAT for the quarter was Rs. 52 crores against Rs. 46 crores in the same period last year, a growth of 12%.

We are pleased to report a strong performance on the margin front in this quarter, wherein the margins have expanded by 130 bps year-on-year. This was led by a change in sales mix, operating leverage, cost optimization and efficiency measures across all businesses and continued implementation of the strategic price hikes across our ODM business of washing machine and lighting.

Another highlight was the strong free cash flow generation post CAPEX of Rs. 114 crores in the first 9 months of the current fiscal. We have further strengthened our balance sheet with reduction in gross debt by Rs. 223 crores in the same period, with net debt now of just Rs. 68 crores with net debt to equity of 0.06 as on 31st December 2022.

We are targeting to reduce our debt by another Rs. 50 crores before March 31, '23 and save almost Rs. 22 crores in interest cost annually. Our balance sheet strength and enough credit line from banks enables us to invest in long-term development of our business.

Our basic approach always has been the capital policy which emphasizes on return on invested capital and financial stability. We have successfully improved our ROCE and ROE to 26.3% and 22.3%, respectively, as on 31st December '22. And we feel confident that same will keep improving in the current quarter and in the coming years on account of more debt reduction, working capital efficiency and improved earnings.

With a huge focus on cash conversion cycle and working capital management, working capital days stood at positive 1 day at the end of the December quarter. Our cost optimization initiatives and prudent working capital management will help us to sustain growth, profitability and a strong balance sheet. We strongly believe we have a platform to sustain strong revenue growth moving forward to strengthening in the overall demand environment and addition of more customers, including some large accounts in mobile business.

Now I'll share with you the performance and the strategy in each of our businesses going forward. Consumer Electronics, the revenue for the quarter were Rs. 864 crores with operating profit of Rs. 26 crores and 3.1% operating profit margin, which is an expansion of 90 bps year-on-year.

Year-on-year revenues were low about 39%, led by 17% lower volumes as Diwali was 1 month earlier last year. Also, significant correction in prices of open cell in the international market. Similarly, in 9 months despite 16% growth in volumes year-on-year, revenue declined by 21%.

We have the largest capacity in India with annual capacity of 6 million sets, including backward integration in LCM and SMT lines and keeping to almost 35% of India’s requirement. Our JDM business with our anchor customer has remained strong, and we are in active discussion with our existing customers to offer ODM, JDM solutions.

We've closed the ODM sublicensing rights with Google related to Android and Google TV, which has opened up a lot of opportunities for us with 60% to 65% of Indian market is on this platform. We should be able to roll out the same by Q1 of next financial year.

As a part of our backward integration strategy, we will be starting injection molding in the segment for deepening our television manufacturing in the current quarter of this fiscal. We're also exploring newer products, which is commercial displays used in public advertising and information in this space, and interactive both for use in educational institutions in this particular business.

In lighting, revenues for the quarter were Rs. 253 crores with operating profit of Rs. 24 crores with an operating margin of 9.1%, an expansion of 90 bps in Q2 numbers, in line what we have been guiding for. We were able to increase operating margins through a combination of reduction in input prices, calibrated pricing actions, inventory planning and value engineering.

Apart from sluggish demand, renews for lower revenues, reduction in commodity prices, freight rates and migration of LED bulb technology from driver-based to DOB, that's driver on board, which are 18% to 20% lower in the earlier technology SKUs.

We are India's largest ODM player in lighting and have the largest capacity in various SKUs. In LED bulbs we have a capacity of 300 million, which is 45% of Indian requirement. We already have expanded the annual capacity in battens to 15 million and downlighters to 18 million.

We're getting into new product categories, like the starting strips and rope lighting, which will be launched in March '23. We'll also launch protection lighting perhaps in the course of '23, '24. Our first supply is against exports to a new customer in UAE has been executed in Q3 and we've already received repeat orders for Q4.

In Q3, we completed the technology acquisition of Bluetooth mesh technology and work-in-progress WiFi-solution with a smart lightning from Ibahn Illumination, a premier smart lighting company, new product leveraging with acquisitions will be launched in Q1 of next fiscal.

We have hired Kunal Chaudhary, as Head of R&D for Lighting Solutions. He's one of the most experienced R&D leaders in lighting industry in India. We are also in the process of strengthening R&D team further in the space of smart lighting and protection products.

We have also started investing under the PLI scheme for LED lighting components in line with our backward integration strategy, which will make us even more competitive. The new plant for LED lighting components in Dehradun will be again operational in March '23. The capital employed in this business has been reduced by Rs. 161 crores on account of huge focus on current investment.

Home appliances, revenues for the quarter were Rs. 244 crores with an operating profit of Rs. 25 crores, that is 10.3% operating profit margin. The margins have improved both year-on-year and Q-on-Q, led by passing on the impact of commodity cost and exchange rate fluctuations to customers, improved operating leverage and cost optimization measures.

We have 160 odd models in semi-automatic category ranging from 6 to 14 kg with an annual capacity of 2.4 million. We have added more customers like Bosch, TCL, Onida in the semi-automatic category.

In fully automatic category, we have a capacity of 0.6 million with 96 variants across 6.5 to 11 kg with Bosch as an anchor customer. In addition to Bosch, we've started manufacturing for Lloyd, Croma, TCL, Akai, Onida, Acer, and Japanese customer, SHARP. We are targeting more than 100% growth in this business in the next financial year.

We will be introducing more designs with new features in both categories with semi and fully automatic and increasingly invest on making this segment more R&D driven to serve industry with the latest innovative technologies. The order book in this business for the upcoming quarters looks very healthy.

Mobile phones and EMS division. Revenues for the quarter were Rs. 915 crores with an operating profit of Rs. 33 crores, that's 3.6% operating margins. We've got some large orders from Nokia for feature phones. We are working on 2 large customer acquisition in this vertical, which I had shared in our last results. We are likely to close the first account in a week's time and expecting the second account to conclude by end of the current quarter.

Both these customers can potentially add almost Rs. 6,000 crores in revenues annually. We have started the construction activity in our new 5 acres integrated facility in Noida. There in Phase 1, we will be constructing almost 400,000 square feet. We have hired a very senior person as our R&D head for mobile phones from a branded mobile company, who will build a team of engineers and the lab in Hyderabad.

Security surveillance system. Dixon share of 50% of revenue is Rs. 118 crores with an operating profit of Rs. 2 crores. We are going in for further capacity expansion from 10 million per annum to 14 million per annum, and we are relocating our campus from Tirupati to Kopparthi electronic manufacturing for cluster where we have taken 200,000 square feet constructed facility. It will be operational by March '23. Operating profit and margin in this business are down year-on-year and quarter-on-quarter, mainly due to shifting expenses and duplication of fixed cost structure.

Telecom and networking products, a separate facility in Noida which got operational in December '22, and we are enforced to achieve thresholds of CAPEX and minimum revenue in first year as per the PLI guideline. Airtel is the anchor customer, and there was strong market share in ONT and setup boxes. We have already supplied almost 0.6 million ONT to Airtel since we started manufacturing them.

We have also bagged a very large order of HD Zapper set-up box from Airtel and the mass production will start by Q2 of next fiscal. Also, we have won large business of Android set-up boxes in partnership with global ODM. The development work has started in March, production will start by Q2 of next fiscal. This has potential to grow even to other geographies outside India.

We are also in active discussions in this business with some other large global brands for existing and new product categories. We're also building a team for joint R&D with our partners to support our end customers from India.

Laptops, tablets and IT hardware, the government is expected to come out with a revised PLI scheme for IT and hardware, which is much more attractive and higher incentive outlay. We will be participating in this PLI.

Inverter controller boards for air conditions, a 40-60 JV with Rexxam, Japan to manufacture these boards of air conditions for Daikin. A new facility under the PLI scheme has been set up. The JV company is a beneficiary under the PLI, we'll make a total investment of Rs. 51 crores, where Dixon share is Rs. 20 crores over a period of 5 years. And we have already achieved the CAPEX threshold in the PLI in the current financial year.

Wearables and hearables. For boAt brand, we had a revenue of Rs. 85 crores in Q3 and in 9 months, Rs. 230 crores of the current fiscal. Presently, we are manufacturing TWS and neck bands. With more SKUs like Bluetooth speakers and smart watches will be added in the new facility, which will be operational by March '23.

In line with our strategy to deepen the level of manufacturing, the SMT for PCB will also be done in-house in the next financial year. And additionally, we're manufacturing TWS and the smart watches for Samsung with heavy weighted front in Q4 of the current financial year.

Refrigerator, we have started the construction on 20 acres of land in Greater Noida, where we are creating a capacity of 1.2 million DC refrigerators under various sizes of 190 liters to 235 liters. We have positive response from lot of global and national brands, and we expect the trial production to start in Q2 of '23, '24.

I would like to now stop here, and me and Saurabh are there to respond to your question. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Sir, the first question is on the TV segment. While there would have been some realization decline, which has led to the revenue decline. But can you give some color on what has happened in terms of volumes? And how is the industry demand? And how are we seeing this segment going ahead, particularly with the Google Android license coming up, where are we seeing the customer ramp up? So, that's my first question.

Saurabh Gupta: So, Bhoomika, let me share the volume numbers and I'll request Mr. Lall to answer the question on the Google and Android license. One of the reasons why there is a decline in Q3, one, of course, the Diwali last year was in November first week. This year, the Diwali was in October 24. So, clearly, the peak sales for Diwali happened in Q2, and we had a very good Q2 as far as TV sales was concerned, both in terms of volumes.

So, if you look at the volume numbers in Q3, this year, we did 6.9 lakh TVs as against 8.3 lakh TVs same period last year. But if you look at the 9 months performance, there is a growth of 16%, and we have done 26.7 lakh TVs in the first 9 months, which is a growth of almost 16% as against same 9 months of last year. Now the major reason, of course, one, is of course the volume degrowth, mainly because of the Diwali impact. And second is, of course, another 25%, 28% kind of an impact, which we are seeing on account of the open cell prices coming down.

So, just to share some numbers on the weighted average selling price that we had in Q3 last year was somewhere around Rs. 16,000, mainly because the open cell prices were higher, and it's a prescriptive business to pass on in the selling prices. And now the average selling price for the complete portfolio of TV has come down to almost Rs. 11,500. So, there has been a significant pricing degrowth, which has also led to that revenue degrowth overall.

Atul Lall: So, Bhoomika, taking forward what Saurabh has shared, as far as the demand is concerned, we are fairly confident against the volume of 2.9 million that we did last fiscal. You should have around 20% growth in volume terms in the current fiscal.

The market itself is not growing, but we're going to have this growth because of certain new customer acquisitions and a larger share of pie of some of our anchor customers. So, we should be closing at around 3.5 million to 3.6 million in the current fiscal, which one sees is a decent growth.

Bhoomika Nair: Is it due to the significant ramp up in the fourth quarter from the current levels of third quarter of 6.9?

Atul Lall: Yes. So, responding to your question of the business opportunity on the Google side, first on the technical side, the product launch, we're targeting sometime in Q2. The trial will take place in Q1, the licensing agreements have been closed and the various technology partners have been aligned with. For Q2, this should launch. One project has been signed with one of the brands. Please appreciate that almost 60%, 65% of the TVs sold in India are on Google and Android platform. So, we feel that over 1 year, 1.5 years, the opportunity pool in front of us is possibly of additional 1 million sets. That's what one is targeting through this route. The second, you would have seen the financial metrics that the margin profile has significantly expanded. The main reason for it is a step-by-step migration to owning the design. So, these are 2 directions we're pursuing in LED televisions.

Bhoomika Nair: Sir, the second question is on the mobile segment. We've seen a decline even on a Y-o-Y basis where at that point in time, we were kind of still ramping up the Motorola volume. While there is some decline in terms of the industry demand, et cetera, but it's just surprising to see such a sharp Q-on-Q kind of decline in revenues. So, if you can throw some color of how has been the decline in the Motorola volumes per se in the current quarter? And number two, if there is a delay in terms of client additions that we're likely to add into the current quarter, we were talking of earlier revenue of about Rs. 5,000 odd crores in mobile. What is the risk to that number now? And as we scale up into the next year, what could be the risk from if there is a delay in adding any client?

Atul Lall: So, Motorola volumes have been under pressure in the current quarter which has impacted our performance in mobile business. However, in this business also because of huge focus on generating more efficiency and cost optimization, the margins have expanded. Motorola, we are in discussions with them, on how the volumes are going to pan out. And I think the next year business plan, we're going to be concluding in a couple of weeks' time. They're reassuring us that more export is going to come in, but let's wait and watch on that.

On the new customer additions. One customer agreement, as I shared in my opening remarks, is going to close in a week's time. We are there. It's already been done. And we feel that it's going to get fructified as far as revenues is concerned in Q2 of the next fiscal. The other business that we are talking about to another large customer, we feel that it will take some more time. We are confident that we should conclude the other large customer's engagement also within the current quarter. As far as revenues is concerned, on the mobile side, what we have targeted for Rs. 5,000 crores, I think we should end up doing around Rs. 4,000 crores, somewhere between Rs. 3,800 crores to Rs. 4,000 crores in the current fiscal. Now these 2 new customers should add for us at least Rs. 5,000 crores in the next financial year. That's what we are looking at.

Bhoomika Nair: And just lastly, what are the Motorola volumes in the current quarter?

Atul Lall: In the current quarter, we are expecting the Motorola volumes to be around 800,000 to 850,000.

Moderator: Our next question comes from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, my first question is on mobile phones and lighting verticals wherein we were anticipating an improved performance in quarter 3 when we had last spoken after the Q2 numbers, but the performance obviously has been far weaker than that. So, just want to understand what really changed so dramatically and the indications or the order book that we get from customers, is that a very, very broad indication on which customers have lot of flexibility to be downgrading their numbers?

Atul Lall: So, in lighting, Aditya, one, of course, the demand has been slow. The second, the unit value has significantly reduced with the migration from driver-based technology to BOB, wherein there is a reduction in unit value of almost 15% to 18%. Third, there is always an internal reason. So, it's a combination of 3, which has led to this Q3 number. All along internal work was done on value engineering, current asset management, working capital, which has led to the margin expansion to 9.1%, and we have reached the same level where we used to be 1 year, 1.5 year back.

Now the main thing is to grow the revenues. So, in the current quarter, the revenue has already started touching more than Rs. 100 crores. We are in the range of somewhere Rs. 100 crores, Rs. 110 crores, Rs. 115 crores a month. So, we are recovering. So, I think with the addition of new product portfolio and some new large customers. Today Havells is a new strategic customer for us, and we are going to be on a reasonably good growth path with decent margins in this business in the forthcoming fiscal.

Aditya Bhartia: Sure, sir. And on the mobile phone side, is it that the slowdown was very stark and nobody saw it coming? Or is it that Motorola is changing some sourcing strategy?

Atul Lall: So, in mobile side, there has been a slowdown, and we're getting a sense of it. And the key to growth in this business is the new customer acquisition, and that's what we are working on. As I said, that one customer we have almost closed, we're just 7 days away from signing. And another customer which we are confident about, I think want to close in the current quarter itself by March end.

Aditya Bhartia: Sure, sir. And when you speak about this Rs. 5,000 crores to Rs. 6,000 crores of revenue potential, firstly, is that for next year? Or given that we will be starting this business progressively over a few quarters, unless the number is likely to be realized. And secondly, this

Rs. 5,000 crore to Rs. 6,000 crore will be what proportion of the overall business that these customers may be doing in India if it's a domestic contract?

Atul Lall: So, in the current fiscal, we should close somewhere around Rs. 4,000 crores in mobile revenue. We feel that in the next year, because it's going to take certain time to launch the products for the new customers, we should be able to double it to around Rs. 8,000 crore.

Aditya Bhartia: And sir, what proportion would this, whatever, Rs. 5,000 crores, Rs. 6,000 crores of annual revenue potential for these 2 customers be of the overall business that they will do in India?

Atul Lall: Sorry, just come again, please?

Aditya Bhartia: So, just trying to assess the size of these customers?

Atul Lall: Graduated shift, the potential is much, much larger. But I think first, Dixon has to prove on its credentials and deliver on the committed deliverables, then the scope is much larger.

Saurabh Gupta: So, as we said, the opportunity is much, much larger, but initially, like the way it happens is us across verticals and across customers, it starts with lower volumes. We have to show our execution, delivery and then gradually the numbers increase. So, please be rest assured that the opportunity size and the customers that we are working with are much, much larger and definitely, they should grow year-on-year.

Aditya Bhartia: And just 1 last question. This contract is mainly for domestic market or there is an export limit involved?

Atul Lall: So, one customer is a combined of both domestic and export, Aditya. And another customer is mainly domestic-focused, to start with.

Moderator: Our next question comes from the line of Niket Shah from Motilal Oswal AMC. Please go ahead.

Niket Shah: I had 2 questions. One is the new mobile order that we just talked about. I just wanted to understand what kind of margins on that incremental revenue can we generate? Will it be at far more competitive margins as compared to what the blended margins of the business is?

Saurabh Gupta: So, Niket, those margins will be definitely higher than what we are doing today because those commercials have been partly negotiated. And plus the fixed cost gets absorbed of the team there on a much larger revenues. Of course, you need to build a bigger team, but clearly, there's some kind of fixed cost which gets absorbed over the larger revenue so you have the benefit of operating leverage also kicking in. So, yes, the margins in both these customers will be much, much better than what we're currently doing.

Niket Shah: And I'm assuming the working capital cycle doesn't change in the new order versus the existing mobile order?

Saurabh Gupta: That focus will always be there. Initially, yes, there can be some deployment of working capital. But once the business ramps up and stabilizes, the working capital intensity will not be there.

Niket Shah: And the second question was within your existing segments across the board, all the segments that you present, as we stand today, do you think there is likely to do any downgrade in estimates within the existing customers, either due to slowdown or change in strategy from that customer? The reason why I'm asking this question is while new customer addition is obviously an area of growth for you, but the existing client also, when it declines, it kind of compensates for the higher growth. So, just trying to understand that. One is on the new customer addition, that is clearer tailwind. But do you think within existing customers, is there any scope for downgrades?

Atul Lall: So, Niket, taking you through the various businesses, we shared with you that in the mobile current customers business, there has been a pressure. There has been a challenge. Taking you through the other businesses, starting with LED televisions, the current order book looks good. We are also working on some new customer clients. With the current order book also, we're going to have almost 18% to 20% growth. In washing machine, we have an extremely good order book with the existing customers itself. In the current fiscal, in semi-automatic, we're going to grow from 1.1 million that we did in '21-'22 to around 1.5 million in the current fiscal. And this trend is going to continue. We feel that we're going to have almost 15% growth in the next fiscal with the current customers itself.

In the new category of FATL, obviously, the leads were small. So, we're going to be doing almost 160,000 in the current fiscal. And this quantity should double in the next fiscal. In lighting business, we had a challenge, but please be rest assured, we are on an extremely strong recovery path and month-on-month and quarter-on-quarter, we'll keep on growing in our existing businesses itself in lighting.

Then we have security surveillance systems. Security surveillance systems is going to take -- have a challenge for a quarter or so because we're shifting the campus to a new site. So, there will be some additional costs. And the volumes are going to be fairly steady with a single-digit growth. Then we have the new businesses. In new businesses, wherein we are in hearables, wearables. Yes, there is going to be significant growth because we're going to be adding new SKUs for both. Then in telecom devices, that is a new business we just started with Airtel, and that's also going to be a high-growth business. So, this is going to be the trend. We feel confident about our existing business as well, except for mobiles, wherein we're working on new customer acquisition.

Moderator: Our next question comes from the line of Ankur from HDFC Life. Please go ahead.

Ankur: Sir, one, if you could just remind us on your top line and margin guidance for '23. Obviously, we are very close to completing the year. And also, overall, any guidance for '24 on top line and margin?

Saurabh Gupta: Yes. So, Ankur, we did around Rs. 9,200 crores revenue in the first 9 months. Broadly, we should end quarter 4 somewhere between Rs. 3,000 crores to Rs. 3,500 crore of revenues. So, that should take us to broadly somewhere between Rs. 12,200 crores to 12,700 crores revenues. So, that is a broad guidance. But I see that the margins in Q4 should also be, if not on the similar lines, at least much higher than the quarter 1 and quarter 2 numbers. So, we are hoping to close that closer to 4% kind of margins.

As far as the guidance for next year is concerned, clearly, we have a big growth coming in all the verticals, our wearables, hearables, telecom, TV, as we mentioned can be 15% to 18% growth. Fully-automatic washing machine can be 100% growth for us because the business just started to ramp up now. Mobile, as we had guided for, we're looking for these 2 customer account acquisitions and this would really add to our top line.

So, somewhere between, I would say, next year, it can be somewhere between Rs. 19,000 crores to Rs. 21,000 crores kind of revenues. In the next couple of months, we'll be doing our budget and exercise for next year. And I'll be in a better position to share those numbers with you. But yes, this is the broad numbers that we should target for next year.

Ankur: Second, sir, and not just for Dixon but for the industry as a whole, we've been hearing of a slowdown. When you look at GSK numbers, for example, for ACs, refs, washers, the numbers which are out for October, November. And I understand the Diwali piece being slightly earlier last year. But still, we see single to high single-digit decline. As you said, even on TVs, we've not seen any growth at least on the industry side. So, how are you seeing, at least for the near term. So, I understand '24 maybe obviously because of new customer additions, et cetera, Dixon may see growth. But on the overall industry, if you could talk about some of the larger segment, what are you hearing from your end customers?

Atul Lall: So, I'm kind of sanguine about it. What you are saying is correct. So, we have to keep watching and let's see how it evolves. So, we can't be absolutely gung-ho about it. I think it's going to be guarded kind of growth in existing businesses. In Dixon's case what is extremely important is to run the existing businesses much more efficiently, acquire new customers, widen the product portfolio and ensure that the new businesses that we have entered into are executed well. That's going to be the key trigger for the Q4.

Ankur: And sir, sorry, just on the lighting piece, if you could remind us, I think that's been weak for quite some time. And I know that's for the industry as a whole, but what's really driving that? I mean, is it that the penetration levels are high? We also spoke about some drop in pricing. I'm sorry, I missed that. So, what's kind of driving this weakness in lighting again?

Atul Lall: So, in lighting, we feel confident that we are on a correct recovery path. We're going to have growth in value turnover. We're going to be adding new SKUs. We're going to be launching the new product of strips and product lighting in the current quarter itself. We have built our R&D team for professional illuminers, which are going to be launched in a couple of quarters.

We're going to start leveraging our acquisition in the smart lighting front. There is a lot of effort going in for value engineering and cost optimization, which has led to the expansions of operating margin from 6.7% to 9.1%. We feel that we can sustain these margins.

So, we feel that lighting, we're on the right track and the right steps have been taken, the team has been built to put us on a growth path. Undoubtedly, the current year has been a challenge. But please be rest assured that we're on the right path. And this quarter itself there'll be a significant recovery.

Ankur: And just one last one on cellphones again. And given, I think our earlier guidance was a number closer to 5,000 plus. Now, we're talking of around Rs. 3,800 crores to Rs. 4,000 crores for this year. And as you mentioned, right, Motorola volumes have been a little weak, but what's really driving that? Is it just their end market where they sell, things going slow? Just trying to understand a little more. And do you think that's going to come back next year? Or will volumes remain low from Motorola and therefore, a lot of the incremental sales has to come from these 2 new customers? How should we kind of view that?

Atul Lall: In Motorola's case, their market share in India has sustained. But what we were expecting the volumes to come from exports, exports to U.S., that did not materialize, because the global markets, particularly the U.S. market on the smartphone side, and in Motorola's case, most of the export was to operators, those numbers very dwindled. That has impacted us. We are discussing with Motorola for next year's budget. We have not concluded the numbers. We are hoping that numbers are going to be decent, let's see, but we are not still concluding the numbers. The other customers and new acquisitions, I have shared with you. The new customer acquisitions are going to materialize and that's going to happen very soon.

Moderator: Our next question comes from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Sir, my first question is we have seen a good rebound in margins. What was the quantum of price hikes that we have taken on an average in this quarter?

Atul Lall: So, it's basically lot of value engineering initiative, Sonali, and also cost optimization, reducing the manufacturing cost and also passing on certain increases in the commodity prices to the customer. It takes certain time.

We have shared with you that in ODM business, there is a certain lag in that. But in the last quarter, we have been able to do that. And that has led to the increase in operating margins in the businesses like washing machines and lighting.

Sonali Salgaonkar: Sir, in that ODM, it's still at about 30% of the sales, right?

Saurabh Gupta: In the first 9 months, Sonali, ODM is around 24% of our sales.

Atul Lall: Again, it's a very large contributor to our profitability now. So, almost 48% of our operating profits are coming from ODM business.

Saurabh Gupta: So, last year, it was around 20-odd percent. So, first of all, it is 20 and moved to 24 and on much higher revenues. So, in absolute numbers, the ODM numbers are growing very fast.

Sonali Salgaonkar: And lastly, on the exports, can you quantify our export revenue for the first 9 months?

Saurabh Gupta: My export revenue is majorly Motorola and a small bit in lighting. We had an export order to UAE markets for lighting business. So, broadly, I may not remember the exact number, but it should be somewhere in the range of Rs. 700 crores to Rs. 800-odd crores.

Sonali Salgaonkar: And how much do we expect to increase that over the coming year?

Saurabh Gupta: So, this year, we should close at somewhere around Rs. 1,100-odd crores. And hopefully, by next financial year, as we mentioned that we are waiting for Motorola to give the guidance on exports for next year. So, that should increase our revenues for next year on export side. And one of the new customer acquisition that we're looking for will be both for the domestic market as well as for exports. And hopefully, in lighting business also, we should crack some more accounts on lighting. So, yes, my sense is that number should grow at a good pace, very difficult to quantify right now.

Atul Lall: My sense is, Sonali, that it will be somewhere in the range of around Rs. 2,300 crores to Rs. 2,500 crores next fiscal. Let's see how Motorola plan pans out but that's what my sense is.

Sonali Salgaonkar: Sir, and lastly, you guided for Rs. 8,000 crores sales in mobile phones in FY '24, right?

Atul Lall: That's right.

Moderator: Our next question comes from the line of Keyur from ICICI Prudential Life Insurance.

Keyur: Sir, first question on the profitability of 2 of our large ODM segments, lighting and washing machine. So, probably despite lower volumes, the kind of margin we have seen for Q3, so with improving trajectory, should we assume that this kind of EBIT margin or EBITDA margin are more sustainable or probably we can improve from these margins? That is first question.

Atul Lall: So, we feel now that in our ODM businesses of lighting and washing machine will be somewhere in this range only in the coming months. We feel that we are back to where we were, and we should be able to sustain it. And also, there has been an expansion in margins on the TV side because of larger volumes of the ODM, JDM business, that also we should be able to sustain.

Keyur: Second, sir, on the growth side for 2 segments of TV and lighting. So, in TV with this addition of JDM as well as Android licensing and on the export thrust on the lighting, so what kind of growth do we expect in these 2 segments? I got confused in TV since you talked about 15% kind of growth in TV. I think earlier you had guided for much higher growth. So, if you can just clarify growth trajectory for these 2 segments.

Atul Lall: So, what one feels is that this year, we should close at somewhere between 3.5 million to 3.6 million, which is an 18% to 20% volume growth. We feel that in the next financial year, the kind of order book we are looking at, we should be able to have around 15% volume growth. And a large portion of it is going to be on the ODM business and also some contribution will start from the Google kind of business from Google kind of own variance solutions. So, next year, we are targeting to close at somewhere around 4.2 million to 4.3 million.

Keyur: And on the lighting side?

Atul Lall: The lighting side, the revenues the run rate had shrunk. We had a revenue run rate in the last quarter of around Rs. 75 crores to Rs. 80 crores a month. We are back to a run rate in the current quarter of Rs. 110 crores. We feel that we should be able to generate a growth of around 15% to 20% from the next fiscal.

Keyur: Sir, just a follow-up on lighting. So, there were 2 export opportunities, at least through our anchor customer in lighting. And second is the white-label export to some of the developed nations which can be a large opportunity, more of a bulk business. So, if you can divide our export opportunities in these 2 subcategories? And where are we in both of these journeys?

Atul Lall: So, raw work is being done for the developed markets of U.S. and Europe. We feel that we're going to have breakthroughs, both in LED bulbs as well as the ceiling lights in U.S. and in Europe. We feel that these breakthroughs are going to happen in the next quarter, and the execution should start from Q3. Initially, it's going to be small numbers, but the opportunity pool is very, very large. At this stage, to put a number to it, it's slightly premature.

Moderator: Our next question comes from the line of Gopal Nawandhar from SBI Life Insurance. Please go ahead.

Gopal Nawandhar: Sir, my question is on the guidance. In the beginning of the year, we started with Rs. 17,000 crores and kept on reducing it almost every quarter. And even in December, you came on the television and guided for Rs. 14,500 crores to Rs. 15,000 crores revenue for financial year '23. And now we are guiding for Rs. 12,700 crore kind of revenues for the current financial year. Is there any way we can just improvise on our forecast or plans so that we have a better handle on the guidance?

Atul Lall: So, undoubtedly, we appreciate your input. But please appreciate in our nature of the industry, we are a B2B company. And we are closely associated with the budgeting exercise of our customers. On the basis of their inputs, we plan our capacities and we plan our numbers. And that guidance and forecasting is prepared on that basis. However, I appreciate and your input and advice is well appreciated and well noted.

Gopal Nawandhar: Second question is on the television segment. Is there any big revenue loss from any particular customer? Is there any big change in the volume for Xiaomi or something?

Atul Lall: Yes. So, Xiaomi volumes have not exactly grown as per the plan.

Gopal Nawandhar: Has that declined?

Atul Lall: It has not declined, but it has not grown.

Saurabh Gupta: Gopal, it would be flat this year. They would not have grown. Our major growth this year is 18% to 20% growth in volumes, which should majorly come from Samsung. And even next year, we are expecting some more volumes from Samsung on some higher category TVs as well and some more customer acquisitions. Also led by the Google and Android license.

Gopal Nawandhar: And do we expect any decline going ahead in the Xiaomi volume? Or do you expect to maintain the volumes from the Xiaomi?

Atul Lall: Well, let's wait and watch because Xiaomi is also doing its internal budgeting. We have not heard from them for the next year budget.

Saurabh Gupta: Over the next couple of months, we'll get a lot of clarity on our customer budgets. And accordingly, we will factor in our budgets as well.

Gopal Nawandhar: And sir, are there any PLI incentives which we have booked in this current quarter and the 9 months? If you can qualify the number.

Saurabh Gupta: Yes. So, we would have booked the PLI incentive. Gopal, I can get back to you. I won't be remembering this number, but I can get back to you after this call.

Atul Lall: It would have been a miniscule number.

Saurabh Gupta: A small number. It would be somewhere around Rs. 8 crores to Rs. 9-odd crores broadly.

Gopal Nawandhar: And sorry, I'm not sure whether we already discussed on the export side on the lighting because I think the commentary in the past has been there are large opportunities and we are very close on some orders. If you can just give us some color on that lighting exports.

Atul Lall: So, when I shared that, business with Middle East has already started. We have executed the first order and the repeat orders have started pouring in. So, we have a consistent business from the Middle East market. And we are in the final stages of remediation in the U.S. market. We're expecting some breakthroughs in March or early next quarter. And the executions should start from Q2 of next year.

Gopal Nawandhar: And if I'm right, we said that the customer which we're concluding in the coming week, the revenues will start from Q2 of next year?

Atul Lall: That's right.

Saurabh Gupta: That's right, yes.

Gopal Nawandhar: So, in that case, whatever like revenue projections or estimates we have for next year, it will be back ended?

Atul Lall: That's right.

Moderator: Our next question comes from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: So, sir, in the event that you are able to close the customer in next 1 week and it probably takes slightly more longer time for the second customer on mobile side, what could be the incremental revenue be from this customer that you close in the next 1 week, approximately?

Atul Lall: So, it's going to take some time to ramp up, and that's what I indicated that in the current fiscal, we'll close the mobile revenue somewhere around Rs. 4,000 crores because it is going to take some time to ramp up. In the next fiscal with the addition of new customers and expecting Motorola revenues to remain almost the same, we should double that to around Rs. 8,000 crores.

Girish Achhipalia: No. My question was if you were not able to convert both, but at least one. So, the first one, which is likely to happen sooner. In that situation, what could be the number?

Atul Lall: Customer one should generate next year around Rs. 1,000 crores to Rs. 1,200 crores because it will start around Q2 and the customer, too, will generate around Rs. 2,500 crores to Rs. 3,000 crores.

Girish Achhipalia: Understood. And then, sir, just in terms of CAPEX, what is the outlook for this year and next year, please?

Saurabh Gupta: So, Girish, this year, 9 months, we had done a CAPEX of almost Rs. 280 odd crores. And broadly, we will do another Rs. 80 crores to Rs. 90 crores of CAPEX in Q4, mainly on a refrigerator project. So, we should close this year around Rs. 360 crores to Rs. 380 odd crores of CAPEX. I think the plans for next financial year are getting made. I will be in a better position to guide by the month of March. But broadly, it should be lower. It should be lower than what we have done this year as well as last financial year. But my broad sense is, it should be in the range of around Rs. 250 crores to Rs. 260-odd crores.

Girish Achhipalia: So, CAPEX would be lower despite 2 mobile customers potentially getting added?

Saurabh Gupta: Yes. So, in those customer accounts, asset turns are significantly higher. In terms of CAPEX investments and all, it will not be that much. So, mobile is one business where the asset turns are significantly higher.

Girish Achhipalia: And if you could put some color around margins for mobile business? I think it was stronger. So, how this kind of continue into next year?

Saurabh Gupta: First 9 months, the mobile and EMS business, of course, has done around 2.8% margin. Of course, if I remove the EMS business, the mobile margins would be something around 2.5%, 2.6%. Of course, the customer accounts that we're talking for next financial year should come at a slightly higher margins based on the broad commercials that we have and we will be agreeing with them. And then also the operating benefit. So, yes, this margin should inch up by around, if not more, at least 25, 30 bps year kind of an improvement next year on the mobile business.

Girish Achhipalia: And this higher margin is driven by lower PMI being given or shared to them? Or is it some specific operating leverage or ODM if it's good to your backward integration that you're targeting?

Atul Lall: So, it'll be a combination of commercials, including your NVA that you charge to the customers. And also, the benefit of operating leverage benefit will lead to margin expansion on much higher volumes. And third, what I can say as of now, Girish, those commercials as compared to our existing portfolio will be slightly better.

Girish Achhipalia: What is the bill discounting number, last question, at the end of this quarter and what is the rate of interest?

Saurabh Gupta: Bill discounting number was around Rs. 130-odd crores.

Girish Achhipalia: And what is the rate of interest that you pay on the bills discounting?

Saurabh Gupta: It's somewhere around 7.5%, 8%. But a lot of our interest cost, Girish, is also on account of the MDS adjustment. So, of the Rs. 15 crores interest that you are seeing for the quarter, Rs. 4 crores is on account of the MDS adjustment. The rental premises that we have taken, that gets bifurcated between depreciation and interest. So, that's more of an accounting entry.

Moderator: Our next question is from the line of Amber from Nippon Mutual Funds.

Amber: This is Amber from Nippon Mutual Funds. Just 2 questions from my side is, one, this year 2 major segments has seen a significant cut on the realization. One, on the TV side because of open cells and then now lighting where because of the change in technology. So, going forward in all the segments where we operate, do you see anywhere where any change in technology is taking shape, which can lead to maybe realization decrease going forward because of efficiency improvement and all? Any of the segments where we operate, we are seeing any such potential technology change, which can lead to lower ASP?

Atul Lall: So, as of now, no.

Saurabh Gupta: In fact, it should be better only because our fully-automatic washing machine, which is at a much -- the realizations are much higher than the semi-automatic, those volumes should grow by more than 100% next year, is what we are targeting. So, clearly, the realization should only go up, and we don't foresee any kind of a thing which has happened on account of open cell.

Atul Lall: And even in televisions, there is a small increase in pricing for open cell now. And also, the pricing of the LED lighting world has kind of bottomed-out. I don't see any further reduction happening in the unit values there.

Amber Singhania: Secondly, sir, if you can give some color about the progress and numbers in the IT hardware, which is tablet and laptop side, how the tie-up with Acer is progressing? What kind of numbers we are doing? Any outlook on that line. And also, along with that, if you can give some color on, is there any opportunity for Samsung smartphones as they are moving out of feature phones? So, on the smartphone side, can we get any volume from Samsung on that line?

Atul Lall: So, on the IT product side, we were a beneficiary of IT PLI scheme. We achieved both the CAPEX and the revenue threshold and our anchor customer there was Acer. We continue to manufacture laptops for Acer. But now the government of India is coming out with another PLI scheme, which is much larger in purpose and much more attractive.

We're expecting a new PLI scheme in IT hardware to be rolled out in the next 30 to 45 days. We will be participating. And Acer is always there as a customer. We are also in dialogue, in discussion with some of the large global brands. We're going to be participating in the new PLI of IT hardware. For Samsung, we are already doing their 4G and 5G phones. In fact, this month itself we'll be doing more than 1 million a month.

Amber Singhania: Sir, just to follow up on this, if you can give some color on the numbers in terms of laptops this year and next year, you're targeting? And secondly, whenever this new IT hardware PLI gets rolled out, so will we get automatic qualification for the same? Or do we need to apply again for the same? How that will work out?

Atul Lall: Responding to the second question first, we'll have to apply again, but we are confident that we will be awarded the PLI under the IT hardware, under the scheme 2. Second, I think it's slightly premature to put the numbers to it, because when scheme be rolled out and the contracts for potential brands are not concluded. So, I think slightly early.

Moderator: Our next question comes from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, both related questions. When we look at the Motorola revenue, which you said actually declined, I mean, how do these contracts work? Because we are investing capital into setting up additional capacities for these companies. Isn't there sort of a committed volume for a particular period? Because I'm just trying to understand how volatile can this business be, given the fact that it can vary so significantly on a quarter-to-quarter basis. So, if you could just explain how does our terms with these customers work in terms of continuity of business? That would be my question number one.

Atul Lall: The way it works, Pulkit is that there are certain committed volumes and if the customer, I am talking about especially the relationship that we are mentioning, does not meet the volume commitment, and then he compensates us for CAPEX investment and also certain fixed cost.

But certain other margin and profitability element is not covered under the contract. So, you would have seen the margin expansion in this business. So, third is cost and amortization of the machinery is covered at a higher rate on the lower volume, that's the way it works. That's the way this contract has been structured, but then you lose out on the profitability.

Pulkit Patni: Sir, second question is related. Like this is one quarter where on a Q-o-Q basis, across most segments we've seen decline. And it's not only a pricing decline, it's a volume decline. But at the same time, our margins across most segments has improved. Now given that there is an element of fixed cost, in the past you've highlighted a few times that because there's ramp-up on certain segments as a result of its margins were lower, it's very counterintuitive that this volume decline on a Q-o-Q basis, but across all segments almost we've seen margin expansion. So, if you could again explain that a little better that is that the degree of value engineering or cost cutting, we are capable of doing, that despite lower volumes, we can actually improve margins? I mean, that will just help us understand this better.

Atul Lall: So, undoubtedly, across our ODM businesses, **(Inaudible) 62:13** mainly in lighting and washing machine. Significant initiative has been successfully done on value engineering, on better sourcing, on passing on the cost increases to the customer, which has led to this margin improvement. Hence, we're going to sustain, we're going to keep on working on this more. This is showing both in lighting and in washing machine.

Televisions, larger share of ODM, JDM business has improved the margins. That is the reason. In the case of the EMS business of mobile and hearables, wearables, our effort has gone in for improving the productivity and the operation efficiency, which has led to **(Inaudible) 63:08**. So, this is the course we have taken. And I think in the last quarter, the team has done well to implement all these initiatives.

Pulkit Patni: So, sir, when the volumes come back, which is what we are expecting in the next year, then these margins could see another leg up or that seems difficult?

Atul Lall: No. I think there can be a small upside to it. Easing volume definitely is an operating leverage working in.

Saurabh Gupta: So, Pulkit, definitely, the margins can expand **(Inaudible) 63:47**.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand over the conference to the management for closing remarks.

Atul Lall: So, thank you so much, Anirudh. Thanks, everyone, for participating in the call. I really appreciate it. All the best. Have a great day. Thank you.

Saurabh Gupta: Thank you very much. Thank you.

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