"Dixon Technologies Limited
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Q3 FY2020 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the Conference Call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Ms. Nair.

Bhoomika Nair: Good evening everyone. On behalf of IDFC Securities, I would like to welcome you to the Q3 FY2020 Earnings call of Dixon Technologies. The management today is being represented by Mr. Atul Lall, Managing Director and Mr. Saurabh Gupta CFO. I will now hand over the call to Mr. Lall for his opening remarks post which we will open up the floor for Q&A. Over to you Sir!

Atul B. Lall: Thank you so much Bhoomika. Good afternoon everyone. Thanks very much for taking our time for this call. I will first give you a snapshot of Q3 performance before we get into the question-answer session.

We have delivered another quarter of resilient growth. Consolidated revenues for the quarter ended December 31 2019 was 996 Crores against 795 Crores in the same period last year. That is the growth of 25%. Consolidated EBITDA for the quarter was 53.4 Crores as compared with 39.6 Crores in the same period last year. That is the growth of 35%. The margins have expanded from 5% to 5.4%. This is primarily due to the operating leverage taking in and the teams working on value engineering and more migration onto ODM and also the contributors are at stable currency and softness in the commodity pricing. So this margin expansion is happened across all our product category. Consolidated PAT for the quarter end at December 31 was 26.3 Crores against 17.6 Crores in the same period last year. It is a growth of 49%.

Significant part of our performance is that we have generated a free cash flow of around 92 Crores in the first nine months at the current fiscal. This is on account of a strong profitability and a much more efficient to working capital management. This has resulted in a negative debt position of 24 Crores as on December 31, as compared to 97 Crores as on March 31, 2019.

The interest cost, both year-on-year and quarter-on-quarter adjusted after in Ind-AS has come down significantly and this has improved our return ratios. So, the ROE has expanded to 24.9% at the end of December 31, and return on capital employed is 32.6% at the end of Q3.

So, we will continue to focus on three drivers, the future cash flow on an expansion, working capital efficiency and disciplined investments. I have in all my interactions shared that our strategy is simple and straight to achieve the scale to generate operating leverage, migrate more and more towards ODM categories, focus on low capex backward interrogation, for margin expansion and sharing other customers, new customer acquisition and strengthening the stickiness with our existing customers to get a larger share of the pie. Across all our verticals, we have been able to do this and this is what has helped us generating and operating leverage and the improved results.

Before I go onto vertical wise performance, I would also like to share with you that we have acquired a new customer in Reliance Jio and we have got a large order for Cable Set Top Boxes, dual tuner cable Set up boxes. The delivery of the Set Top Boxes will start from March 2020. We are extremely excited about this customer acquisition. We feel that there is a possibility of expanding the areas of cooperation into other product category.

As third party vendor to Jio, we have already started supplying to them. From the Tirupati plant, the dual tuner hybrid Set Top Box PCBs through an Israeli design house. So that growth has already started. Our new Set Top Box order will be executed from our earlier mobile plant that the capacity utilisation was low and the same set of machinery is going to be used for Set Top Box or intuition with a very, very minimal capex.

Now, I will come to the vertical wise performance, in consumer electronics segment, the revenues have grown by 58% as compared to last year. It has grown from 288 Crores to 454 Crores. Operating profit has increased significantly by 90% year-on-year. It is 11.5 Crores as against 6 Crores in the same period last year.

We presently have a capacity of 3.6 million; however, because of extremely good performance of our anchor customer in market place that is Xiaomi and also now we have acquired new customer in Samsung for whom we will be manufacturing say it is up to 65 inches size. The order book looks extremely healthy and we are expanding a capacity to 4.8 million in television. This capacity expansion will be over by April-May 2020-2021. We had a further deepening our manufacturing facility, so the expansion will take place mostly in panel assembly line but also LCN. We are doubling our capacity to PCBA from 1 million per annum to 2 million per annum. This further will strengthens the numbers and this further will strengthens the positions on comparative side, on the cost side and also enhances stickiness with the customer.

Today, we will be the largest capacity in India vertically integrated. We have also expanded our R&D resources both in China and India Labs. We are also in advance stages of discussions with two more-large MNC brand and we expect the production for them to commence to.

In lighting segments for the quarter, we have shown a decent growth of 18% year-on-year that is 277 Crores in Q3 as compared to 234 Crores in the same period light last year. Operating profit grew 26% as compared to 19 Crores in the same period last year. The significant part of the lighting business is margin expansion which has expanded to 8.6% in Q3 and the ODM migration which in the last quarter was 81% and last year was 44% has increased to 89% in for current quarter. So, that is the significant change in the performance.

So, practically now all the brands in lighting business or ODM business and large part of the various brands who are all customers today are sourcing from Dixon. So, we are India's largest OEM in lighting vertical. We have a large capacity of 20 million bulbs which is almost 45% of the Indian requirement.

We have also developed solutions for Smart LED bulbs and emergency bulbs which are being supplied to the various large brands in the domestic market, significant new acquisitions in the lighting segment is Havells as a brand which is an extremely prominent brand and we start supplying emergency bulbs to them. Also in the new customer we have added HPL. HPL will be supplying to them entire range of lighting products. We have expanded our capacity as I had showed in last interaction in battens from 250000 to 800000 K. Today the order book is around a million per month. So we are further expanding our capacity to 1.5 million which will happen by April this year and now battens are also going to be supplied to almost all the customers and the major brand for buying the LED bulbs from us.

In downlighters, we have expanded our capacity from 150000 to 800000 and will shortly by Q1 next fiscal, it will be expanded to 1.2 million per month and the brands we are I think servicing almost 80% of the Indian brands, the same brand will be mined both downlighters and battens to us. We feel the kind of volumes in the product portfolio as we have, we are now globally comparative and we are within top 4 to 5 companies as far as volume is concerned globally. So we have the operating leverage and the scale advantage here. We will start exporting. So, one of our large multinational anchor customers we start exporting for them to US from March. So, we feel that it is a big leap and we are confident that in the next fiscal, we should be able to acquire a couple of new accounts globally for exports.

Home appliance segment was under pressure because of the market situation post Diwali. There is degrowth of 26%. This specifically also happened because one of our customers had large inventory in the trade. So, there is a 26% degrowth. We had the revenues of 92 Crores in 2018-2019 Q3 which has come down to 68 Crores in Q3 2019-2020. Over despite the low revenues, the operating profit has contracted by just 8%.

The operating margin is expanded to 13.4% in washing machine segments. This is primarily because of cost controls and also stable currency in benign commodity prices. I have shared with you earlier that we are the largest in this segment in the country which is completely on ODM basis. We have 140 odd models and annual capacity is around 1.2 million. So, the new account acquisition, new customer acquisition in the semi automatic washing machine segment is Voltas Beko. We have already started supplying to them from the current month and we have a decent order book. Now we find them in the current quarter that the sales is normalised and we are going to be back to normal.

I have shared with you last interaction that we are going ahead with top loading fully automatic projects. The technology partner has already been finalised. We are setting up a capacity of 600000 in a contiguous campus in our Tirupati facility. This factory construction is about to start and it should be operational by October next year. This is having almost 30 variants. So this is going to be most comprehensive product portfolio of top loading fully automatic with any company in India.

We have already closed in agreement with the large multinational brand, so this agreement was concluded in November and this was the complete comprehensive stage. So this is going to be the next growth area.

In mobile segment, we did 139 Crores to 100% as against 151 Crores of 50% of the same period last year. The operating profit was 3.2 Crores for 100% as against 4.4 Crores for 50% the same period last year so in the existing plant, there is an under capacity utilisation. So this capacity utilisation this is primarily because of not very good performance for some of our customers in the market place. So this capacity is being loaded with the Jio Set Top Boxes, it will start from March and we will see a significant improvement in numbers.

We have started manufacturing for Samsung from November. I think the team has done a very good job that they have been able to ramp up very fast and this month we are utilizing almost 110% of the capacity which is I think very, very credit for the team and this is going to be a good profitable business with no working capital deployment. In this plant we have done a capex of 25 Crores for Samsung and we expect a fast pay back.

The next vertical is Security Surveillance System. There is 16% growth in our share of 15% revenues quarter-on-quarter and as compared to last year of course there is a significant improvement. Operating profit witnessed a strong growth quarter-on-quarter with an expansion in the operating margins from 2.4% to 4.4% that is from 1.06 Crores to 2.23 Crores. We here have a capacity of 600000 month of cameras and 100000 of DVRs.

The next segment I would discuss is the reverse logistic. In this segment there has been significant around of the business. Revenue and operating profits have both grown quarter-on-quarter and year-on-year. Revenues quarter-on-quarter grew at 20% from 3.8 Crores to 4.6 Crores. Operating profits are very significant quarter-on-quarter with an expansion operating margins from 72 lakhs with an operating margin of 18.8% in Q2 to 1.59 Crores in operating margin of 34.4% in Q3. In this we have a very large, very healthy order book both in panel repair business and also in Set Top Box businesses.

So, this is what I wanted to share about the Q3 performance. Any questions, you are most welcome please.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Vishal Baria from Aviva Insurance. Please go ahead.

Vishal Baria: Sir, this pertains to the Voltas Beko contract that we have received, could you elaborate a bit more us to what is the scope, how big is the contract, what is the duration, I will ask the addition questions later?

Atul B. Lall: See initially we are starting with the categories of 7.5 kg to 8.5 kg category. The other smaller capacity sizes are being discussed. We are confident that we are going to be starting that also. So, I feel that substantial portion of Voltas Beko semi-automatic portfolio is going to be done in Dehradun factory. Exact number is slightly difficult to promote because this business is just started but I am confident that a very large portion of Voltas Beko semi-automatic business will be excellent.

Vishal Baria: When we say we are doing we are expanding lighting very aggressively, this would be all across the lighting spectrum as to from the lower end products to the highest end products or we are concentrating in some specific segments as only in the lighting space?

Atul B. Lall: In lighting space, we already have a very large capacity. LED Bulb is a segment. So, Dixon primarily is in indoor lighting segment and our main product portfolio is LED bulbs where we have more than 2,000 SKUs. We are into battens and tube lights and we are into downlighters and we are into drivers. As far as LED bulb is concerned, we already have a large capacity, a minor additional capacity may be required depending upon the order book. The focus in LED bulb segment is going to include in the product portfolio. There are Smart solutions, the emergency bulb solution and on the industrial engineering side both focus is going to be on automation to reduce labour intensity in business and then we are making an attempt and we are confident about it of developing the product portfolio, the supply chain skill set for the global market. As I had shared with you that one of our large anchor customers has already placed an order for us, now first shipment for the international markets are going to start from March. In batten, we feel that we still have a large scope but at present we are at almost a million and the market is around 6 million to 7 million. Just like we have almost 35% to 40% market in LED bulb and the brand and the customers are the same, we feel strongly that we should be able to raise our market share to almost a similar level. The capacity which has been expanded to 800,000, in phase 1 it will be expanded to 1.5 million which will happen by April and then to 2 million. The next product line that we are into is downlighters where we were a relatively smaller player we were doing only for one large customer. So that was around 100,000 to 250,000 per month. The market again for downlighters we feel is around 5 million a month where again we are expanding a capacity in phase 1 and developing a very large product portfolio and trying to take up the capacity and also the business to almost a million a month. So, these three are the focus areas, drivers is a prescriptive business, customer design and that is the way we are going to continue.

Vishal Baria: One last thing is what kind of revenue growth do you see for the coming year and the year after as to what how should we look at it?

Atul B. Lall: You were talking about whole of Dixon or you are talking about lighting?

Vishal Baria: Lighting.

Atul B. Lall: We feel that we should continue to grow it around 22% to 25%, that is we are confident about.

Vishal Baria: What is the capex guidance overall for Dixon as a whole for the coming year for the FY2020-2021?

Atul B. Lall: If you see the capex for the last fiscal in the first nine months we have done around 60 Crores and the current quarter we have a plan of another 10 Crores to 12 Crores and we feel that in the next fiscal also it will be somewhere between 65 Crores to 70 Crores.

Saurabh Gupta: Yes. So our capex plan getting finalised but broadly it will be in a similar range.

Vishal Baria: Thank you very much.

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

Nirav Vasa: Thank you very much for the opportunity. Sir, my first question pertains to any kind of interruption are we seeing in our supply chain because of the Corona Virus because I believe lot of OEMs have their supply chains which is installed in China and because of this ongoing chaos are we seeing any kind of impact of that?

Atul B. Lall: We were prepared ourselves for Chinese New Year. It has started for various companies between January 16 and 18 and China was supposed to open by February 2 or 3 so our

China dependent supply chain we have taken care up to March. Now the first cut feedback our business team is having is that instead on February 3, China would be opening on February 9 or 10 that is what the intimation is. So we feel that up to March we are fine that is what our sense of thing is, but we are closely watching the situation and see how it pans out for the first quarter next fiscal. We are still waiting and watching. If the factories re-open there might an implication of air freighting cost of certain critical components which is having higher lead time. That is what I am in a position to share as of now. We feel that the current quarter is almost fine next quarter we will have to wait and watch.

Nirav Vasa: Got your point Sir. My second question would be pertaining to volumes, would it be possible for you to share volumes for this quarter across each category?

Atul B. Lall: You are talking about Q4?

Nirav Vasa: Yes.

Atul B. Lall: Q3 or Q4?

Nirav Vasa: 3Q?

Saurabh Gupta: In the consumer Electronic business, LED TV volumes were around 4.5 lakhs, Washing Machine it was somewhere around 1.4 lakhs and security systems both CCTV and DVR put together was around 11.6 lakhs and we sold almost 4.6 Crores LED Bulbs and of course we had other schemes like battens and downlighters.

Nirav Vasa: Thank you very much Sir. My queries have been answered.

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

Renu Baid: Good evening Sir and congratulations for the strong performance. My first question would be to understand a bit more as in lighting we have seen margins actually improving and sustaining at now 8% plus levels. So as we are further looking to increase the ODM portfolio what is the broad outlook for next year I think should we expect these 8%-8.5% kind of margins to be sustainable or you think there could be bit of hiccups when we look for expansion in new category as in new segments being added here?

Atul B. Lall: Renu, I feel that we should be able to sustain this kind of a margin there can be 20 BPS-30 BPS up and down that make upon the commodity pricing. I think the ramp up for battens already kind of maturing it is there in, already the order book is around billion a month. The value engineering there had to be done, we have already passed through that and downlighters in any case is relatively a higher margin. We had margin pressures on downlighters are slightly lower as compared bulbs, it will be in the similar range.

Renu Baid: Correct and in fully automatic you did mention about your plans manufacturing has started etc. So what is the kind of exact capex which you have line for fully automatic and how should one look in terms of the initial capacity ramp up because I think this is stated by October next year say even if you have one quarter for impact coming through what kind of investments we are looking in this vertical both in terms of moulds as well as physical infrastructure?

Atul B. Lall: This will be somewhere between 50 Crores and 55 Crores as far as the capex is concerned, a part of it will happen in the current quarter. The balance is going to happen in the next fiscal.

Renu Baid: One small question to Saurabh as he can just elaborate a bit on the interest expense side I understand there is some portion of it coming in from the lease expenses which are there and the fact that now we have been able to reduce the total debt on books. How should we read in terms of sustainability of this kind of bill average in that we have seen in the last quarter?

Saurabh Gupta: I think so Renu this should continue, we have been able to generate a free cash flow of 92 odd Crores and I think so we are looking at least a 30 Crores-35 Crores kind of a free cash flow in Q4 as well. So I do not see the debt level is going up the interest level should keep coming down. This quarter also it has significantly come down so if you remove the India's adjustment year-on-year it has come down by almost 4% so there is a degrowth of 4% both quarter and quarter it has come down. As on March 31 there should not be any debt and the interest levels in Q4 should be even lower and even to fund most part our growth going forward now so our balance sheet is more stronger more healthy and it is so most part of our capex going forward will be funded completely from internal recovers we would not require any funding for the project.

Renu Baid: Right, say if I get right we are targeting the books to be debt free by the end of the year. Is it like net debt free or absolutely debt free?

Saurabh Gupta: On a net debt basis I think on a similar levels as what you see right now.

Renu Baid: Okay sure and what is the current borrowing cost that we are having and if you can help with break up the interest expense in terms of what is the actual interest outflow and what are the other charges as well as the Ind-AS traded expense?

Saurabh Gupta: Ind-AS related expenses in this quarter is almost 1.8 Crores so if you just adjust that number for the reporting number of 8 odd Crores the number comes to around 6.2 Crores as against 6.5 Crores same period last year so it is lower by 4% and so this all 6.2 Crores is all your interest on the working capital facilities that we have. Bank charges are clubbed and there is a part of operating expenses so this only the interest component that there.

Renu Baid: Okay perfect and overall just two more incremental points; a) As we have mentioned that some of the inventory built up which have seen across the OEMs in the washing machine side and seasonal correction in the Television which is happened during third quarter we now see overall business momentum and volumes getting back to normal life level from the fourth quarter. so is that in line with what we have been saying and second would be, b) Samsung has started with us in the semi-automatic space, they have extended relationship on the mobile phone side and now in the television side as well. So should we presume that there would be opportunities coming in from Samsung in terms of the other business segments as well and one could see a portfolio expansion also happening on those lines because of the deeper relationship that you have built up with them?

Atul B. Lall: Answering the first question Renu, we are seeing normalizing of business in the current quarter for semi-automatic and on an overall yearly basis I feel in spite of the slow 3rd quarter we will have almost 17%-18% growth on overall yearly basis. So the Q4 order book looks very healthy and the next quarter Q1 also the next year outlook is pretty good. We have brought in another new 10 Kg solution specifically for Samsung for which the production is going to start by May-June. So we feel that we are going have a healthy growth in our Dehradun plant then from the on semi-automatic numbers next fiscal also with particularly new customer acquisition in Voltas and Haier coming back to us. And now as far as Samsung relationship is concerned I think it has been extremely positive for us because we started Samsung relationship only in 2017-2018, when we started the semi-automatic and then semi automatic volumes grow and on the basis of the performance they gave us an opportunity in the Mobile phone business which is the turning point for us and then we have been given the TV business. So one I feel across all the verticals the share of a pie of Samsung business will increase. New opportunities we keep talking to them they are extremely positive towards them. At present I am not in a position to comment but there is definitely opportunity.

Renu Baid: Sure that is interesting Sir. Thank you so much. That is it from side, all the best.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Nippon India. Please go ahead.

Tejas Sheth: Good evening Atul Ji, good evening Saurabh. On the Reliance Jio opportunity side I think total they have some 1million households on MTTH. So is there any thoughts they have told you on what could be the opportunity for assembling the Set Top Box?

Atul B. Lall: The order books are half a million Set Top Box. This is primarily the cable Set Top Boxes, the dual tuner Set Top Boxes which are going to be deployed in the network of Den and Hathway where the household population is much, much larger.

Tejas Sheth: Okay and we will be the sole supplier.

Atul B. Lall: Other reason that we are giving to them that is Hybrid box that basically for fibre connectivity, it will done from Tirupati plant so when you are referring to one million population there that facility is.

Tejas Sheth: Yes that is a fibre one.

Atul B. Lall: That is right.

Tejas Sheth: And you will be the sole supplier to them?

Atul B. Lall: No it is not like that we have tie up with certain design always who are finalizing the solutions with Jio and we are manufactures it is a prescriptive manufacturing being ask them the design house for Jio that is the status of this business and the commercial production for hybrid Set Top Box PCB has already started. Our dual tuner cable box the production will be starting by March.

Tejas Sheth: Okay on the lighting export opportunity side you said that deliveries will start by March if you can highlight how big this opportunity can be from this single customer right now and obviously you are looking at signing more customers. So just from this single customer is the opportunity very big and secondly with this what is going in China would the vendor look at Dixon in much more serious way considering that they would again may re-think on having a high dependence on China sourcing?

Atul B. Lall: This is in line with the strategy of large global brands of having China plus one. So for this customer we had already been exporting large numbers of analogue solutions till two years back in lighting. So we start digital then LED Bulb export I feel it is going to take time for things to stabilise for us also to streamline the supply chain. So I feel this business is going to take some time to build up. I think in the next fiscal it is difficult to give a number but I definitely feel that from the next to next fiscal that is 2021-2022 the main growth is going to be coming from the global market for us. So this is the stepping stone Tejas. I am sorry i am not in a position to suddenly give you the numbers.

Tejas Sheth: Okay no problem. How advance are the talks with the other customers in exports in lighting?

Atul B. Lall: We have had factory rounds, we have had audits but we feel that it should happen by second half of this fiscal.

Tejas Sheth: Fine that is from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Good evening Sir. Sir we have seen a fairly sharp reduction in capital employed in the consumer electronics business. So just want to understand what has contributed to the same and whether it is sustainable?

Atul B. Lall: I think it is operational efficiency which has been bought in primarily on account of the largest customer. So operating cycle when we started and I also shared when there were concerns on the enhance intensity of working capital in the Xiaomi business. So we have been able to bring down the operating cycle which at one point of time was at 108 days to 82 days, 83 days and 84 days for every order. So that has led towards significant reduction in the working capital intensity and second one on ODM part which is smaller part but sustain more working capital and the team has been able to manage the current assets much better. So we are confident in fact it is going to be better you will see.

Aditya Bhartia: Instead of Samsung LED TV business if you start form February there well be a negative working capital in that that should also help us generating more working capital out of this TV business?

Atul B. Lall: My observation and what I shared with you just that should be even better is basically on the operating cycle of Samsung.

Aditya Bhartia: Sure Sir. But Sir the reduction that we have seen is actually quite significant we are speaking about hardly any working capital now being deployed in the business while it used to be fairly capital consuming. Even on a quarter-on-quarter basis wherein things had started normalizing we have seen very sharp reduction from almost 110 Crores to 40 Crores. So is it only on account of reduction from 108 days to 83 days?

Saurabh Gupta: Mainly it is on account of that only I would say. Xiaomi contributes significant portion of the revenues in TV business. When we started the business our working capital went haywire and if you remember Q4 of last financial year when we just started the business and business was ramping up with Xiaomi, we ended up deploying money in the working capital which I had mentioned that we will bring it down. I think so we have gradually brought it down significantly quarter-on quarter and there is a huge focus internally on working capital intensity on the ODM business as well which is even 8% to 10% of my revenues so there was a deliberate work had gone in to bringing this working capital down and you will not see this working capital intensity going up, may be another 10 Crores to 12 Crores of capex that we would doing for the Samsung LED TVs that would be the incremental capital employed that we would we would be doing. But apart from that working capital intensity would be on a similar line.

Aditya Bhartia: Sure and at terms in relation to GST payments that we used to do and then later recoup from Xiaomi all of that remains the same?

Saurabh Gupta: That would remain the same but on an overall level when I say working capital we get payments, we get our debtors realized first before we make the creditors payment. So that is really the gap between the debtor's realisation and the creditor's payment has increased significantly and that is the reason there is kind of reflecting in negative working capital.

Atul B. Lall: Also Aditya in Xiaomi's case when we initially started in the creditor terms were slightly tougher. We have been able to get them extended now that has further improved.

Aditya Bhartia: Perfect. You shared some of the large contracts that you have won off late obviously that is Samsung LED TV business, there is Havells Lighting, Jios cable Set Top Box business and Voltas Beko washing machines. You kind of shared some insights about how these businesses are likely to scale up, if you could give us some more sense especially about this Samsung LED TV business. What kind of volumes we are likely to be doing and whether you expect these volumes to further scale up from FY2022 onwards and similarly for Havells Lighting, what is the real scope of this business how large that could be?

Atul B. Lall: Samsung's this year number can be around half million to 600,000 and let us see how it pans out in the next fiscal. So the visibility that has been given to us is this. When we look at the Voltas Beko, we feel that we are going to be having a large share of this semi-automatic business because they have finalised with us their complete product portfolio. It is slightly difficult at this stage to share the exact number. Havells is an entry point. We have been working on this account for a long-time and I think it is an entry point it is a small business, which is niche business in smart emergency lighting that is there we are.

Aditya Bhartia: Understood and Jio Cables Set Top Box business Sir how large could that be in revenue terms and whether it is more like a one-time business or you expect that to be recurring business?

Atul B. Lall: It is going to be a recurring business and the first order is to the tune of around 50 Crores.

Aditya Bhartia: Understood and on the lighting side while the export opportunity and our expansion into battens and downlighters these are fairly attractive opportunities but the base business that we are having today that of manufacturing bulbs, how is the outlook over there and do you see that business as now maturing and therefore growth over there tapering off quite sharply?

Atul B. Lall: I feel that the growth is going to be in double-digit in LED bulbs in the forthcoming fiscal and it is not going to be hiked 25% to 30%. The significant revenue growth we are planning is through battens and downlighters and LED bulbs as I have shared we are trying become global to get the revenue growth there, but what you are saying is right. The LED bulb growth as such is going to be benign.

Aditya Bhartia: Understood. Perfect Sir this is really helpful. Thanks a lot.

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

Naval Seth: Thanks a lot for the opportunity Sir. Two questions on washing machine business, if you can share some light on further scope of business from incremental customer in semi-automatic and do you see that happening or it is more so which will be coming from the existing customers only?

Atul B. Lall: We are continuously working on new customer acquisitions but most of the major brands who are into the outsourcing mode are already with us. So the outlook that we have is that I think this fiscal we should around 830,000–840,000 which is a growth of around 14% to 15%, next year we should be somewhere around a million to 1.1 million that is the kind of outlook we are getting. New acquisitions are already happening so we have recently finalized with the Reliance Care, for the new brands that they required in Kelvinator and Disney so we will be start supplying to Reliance for these brands, Kelvinator and other brands from February onwards. Similarly we are starting again supplying to Flipkart private labels. We are also acquired Croma so we have started supplying to them but there relatively smaller volumes.

Naval Seth: Sir on fully automatic in last earnings call you had stated 70% of capacity has been already booked for, now as the quarter has passed by so have you seen that moving towards 80%-90% getting booked and if yes are we contemplating to put up a capacity more than 0.6 million, any thoughts there?

Atul B. Lall: In Phase I the capacity being built is 0.6 million only and as I said in my initial opening remarks that a substantial part of the capacity almost 60%-70% of the capacity has already been closed with the large multinational brand and we are in dialogues with other global brands and also domestic brands and we were confident that after the ramp phase is over which takes a quarter or two, complete capacity this plant would be booked. Once we start sensing the order book and the execution are streamlined expansion there is enough land available to us in that particular campus.

Naval Seth: A question to Saurabh, on margins although this quarter commodity prices were quite favourable as that stabilizes what should be the margin run rate going forward in home appliances, should it be 10% or because of the cost optimization what do you had I mean Mr. Lall shared in his opening remarks, so can it go beyond that on sustainable basis?

Saurabh Gupta: There are two three things positive I think so, one is the favourable commodity prices, commodity prices have been quite stable, currency has been quite stable so that has also helped and we are also doing lot of value engineering on our bill of materials so some work has already been done and some work will be done over the next six-seven months so that should have a positive impact on margins. So if currency and commodity remains the same I think so these margins should be sustainable for at least Q4. So it really a function of how the commodity prices and currency moves because it is a 100% ODM business and there is a lag in passing on this currency and commodity prices to our customers but having said that even next year if we are looking at 1 million to 1.1 million kind of a quantity I think so even more operating leverage benefits should also kick in. I think on the sustainable basis we are confident that at least at 11.5% to 12% margins should be sustainable and then it will really depend on how the commodity prices play out and other things which are mentioned play out.

Naval Seth: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities Private Limited. Please go ahead.

Dipan Mehta: Congratulations on good set of numbers. Just wanted an explanation again for why our home appliances and mobile phone there was a decline year-on-year for the quarter and revenue?

Atul B. Lall: In washing machine, post Diwali there is always slowdown on the demand side. In last particular quarter one of our large anchor customers, at law of inventory that they trade the lifting was impacted significantly. Now as I shared with you it has normalised and we are back to old rates that were the reason.

Dipan Mehta: In Q2 the inventory was high that got normalised in Q3 now.

Atul B. Lall: The Q3 opening inventory of this particular brand in the trade was very high so they were able to liquidate by December end, now the government has started back of the normal way that is what the situation was. In the case of mobile in our earlier plant two main customers were not performing well in the marketplace which has impacted us and the new plant of Samsung which has been setup at an extremely in a shortest possible time got operational only in November that has impacted the numbers of mobile. The new mobile plant in the current month is running at almost 110% capacity and we will see the numbers recouping significantly in the current quarter. The old mobile plant, the capacity utilization continues to be under pressure but with the Set Top Boxes of Reliance, Jio getting loaded there the capacity utilization will almost be 80%-90% from March onwards that is what the status is.

Naval Seth: One last quick question Sir, you referred to exports from the lighting products division so that is more of an event of 2020-2021 but do you think it will make a material difference like 15%-20% plus of the total revenues or we should factor in the lower?

Atul B. Lall: I think in 2021 we should factor in the lower number but I think it will be a significant number as a percentage from the next to next fiscal year 2021-2022, so this is a building block for 2021-2022.

Naval Seth: Thank you and all the very best.

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

Udit Birpalya: My question is around the revenues on standalone level, so basically I wanted to know that on a Q-o-Q basis we have seen a sharp jump of about 30%, sharp fall of about 50% from 1,164 Crores in the September quarter to about 808 Crores in December quarter and this will drill down into the products segments there we see that this is largely contributed by the home appliances segment and the fall is largely denominated by the home appliance segment and consumer segment and part of the explanation we have already given in the last question but adding to that if we go by the same logic that December quarter has been generally been a weaker quarter. Last year if we compare to same situation it was not prevalent, so what were the factors which led to this decline this time around?

Atul B. Lall: See last year if you see Diwali was later and in our certain categories like consumer electronics and appliances festival sales is a very significant sale and any quarter post Diwali, post festive season is a dip as far as I recall there was a gap of almost 15-16 days in the Diwali dates which has made an impact.

Udit Birpalya: All right. So going forward what are the plans for the consumer segment because that has seen a sharp dip of about 40% odd, do we have any significant new customers that we are looking forward to target?

Atul B. Lall: If we see our overall numbers in the last fiscal that is 2018-2019 we close at 1.1 million televisions and in the current fiscal we are confident of closing somewhere between 2.2 and 2.3 and when I am talking about the capacity expansion it is primarily because of a very healthy order book in the LED television segment. We have already shared that we have a large relationship here the anchor partner Xiaomi and a new customer which is a very major and largest TV brand in India we started manufacturing from them from February 5 and we are in discussions with two more multinational brands, global brands who are starting their production and we see that should start sometime in end of Q1 next fiscal. So to be honest as far as the consumer electronic goes the order book is very, very good.

Saurabh Gupta: You will see some of those numbers coming back in Q4?

Udit Birpalya: Okay Q4 will see a reversal. Thank you Sir. That answers my question.

Moderator: Thank you. The next question is from the line of Uttam Kumar from Spark Capital Advisors. Please go ahead.

Uttam Kumar: Sir, just a small clarification in terms of the sales volumes which you have shared earlier, I think I missed out only mobile phones number, could you just share that one?

Saurabh Gupta: Mobiles volumes was almost 10 lakhs phones that we sold this quarter spread between both smart phones and feature phones.

Uttam Kumar: 10.4, I am right Sir?

Saurabh Gupta: 10.6 lakhs.

Uttam Kumar: Second is, 10.70 previous year, right?

Saurabh Gupta: As against 9 lakhs in terms of quantity we have grown but the contribution of smart phones has significantly come down because two of our customers Xiaomi and Panoramic they are not doing that well in the marketplace and contribution of feature phones have gone up which gives us slow realization as compared to smart phones.

Uttam Kumar: Okay got it. That is it from my side.

Moderator: Thank you. The next question is from the line of Pritesh Chedda from Luck Investment Managers. Please go ahead.

Pritesh Chedda: I just was little bit confused on the capacity that you mentioned in the lights side and just if you correct me if I am wrong you mentioned 1.5 million bulbs per month, downlighters is 1.2 million?

Atul B. Lall: The capacity to LED bulbs present is somewhere around 16 million to 17 million a month that is 200 million a year.

Pritesh Chedda: Downlighters is?

Atul B. Lall: Downlighters capacity presently is around 200,000 per month which will be expanded to a million.

Pritesh Chedda: 200,000 will be expanded to a million.

Atul B. Lall: Batten capacity has already been expanded to a million and by April it should be expanded to 1.5 million and then subsequently it will be expanded to 2 million a month.

Pritesh Chedda: So what is it right now?

Atul B. Lall: Presently it is a million battens.

Saurabh Gupta: So the capacity is also million and we have an order book of one million.

Pritesh Chedda: So one million is current capacity which will be taken to two million.

Saurabh Gupta: Two million over a next five months – six months.

Pritesh Chedda: Three million.

Saurabh Gupta: Two millions.

Pritesh Chedda: Two millions and what is the utilization or what is the battens volume that we would do in FY2020?

Atul B. Lall: Batten volume in the current quarter is already at a run rate of a million a month.

Pritesh Chedda: Okay it already had a million a month.

Atul B. Lall: In the current quarter.

Pritesh Chedda: Secondly in the 17 million bulbs per month, now what would be our market share in the volume?

Atul B. Lall: Indian market is around 35 million to 40 million a month. It should be around 40%.

Pritesh Chedda: Okay and in downlighters what would be our market share?

Atul B. Lall: Downlighters there is small. I think the market is around 500 million a month at present only 150,000 to 200,000. We want to take it up to 20% of the Indian market. The capacity is being ramped up to a million a month.

Pritesh Chedda: So which means that a bigger opportunity for us is in battens and downlighters in which battens already in the quarter we are started clocking a million a month?

Saurabh Gupta: That is right. So next year our growth mainly will come from both, battens and downlighters then whatever exports we are able to crack.

Pritesh Chedda: In home appliances the growth is largely coming from the new client which is Kelvinator and Disney.

Atul B. Lall: So those volumes will be lower because the volumes would come from Voltas which we have recently started production. Also for Samsung, Samsung we are launching a new model in 10 kg category. It would be launched sometimes in May that will give us additional volumes.

Pritesh Chedda: Did we mention in TV we will go from 1.1 million to 2 millions in a year's time, that is what the volume numbers were shared for TV?

Saurabh Gupta: Last year we closed at 1.1 million, this year we will closed at 1.1 million, this year will close somewhere around 2.2 million and we are now expanding the capacity to 4.8 million because of the strong order book that we have for Samsung, for our anchor customer Xiaomi and other potential customers that we are looking. So next year there should be even at 35%-40% growth on this numbers.

Pritesh Chedda: So 2.2 million in FY 2020 and 35% growth over that?

Saurabh Gupta: Yes.

Pritesh Chedda: Thank you very much.

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

Sachit Pal: Congrats on a good set of numbers. My question basically relates with supply chain, so what regards to happening in China, so in terms of raw materials how much outsourcing that we do of the components that we do from China, so that is what I wanted to understand?

Atul B. Lall: Though it differs from category to category in lighting almost 45% to 50% of the raw material is imported from China. In washing machine also around 40% - 45%. In the case of mobiles because our main customer is Samsung today so I do not see much impact there, televisions almost 80% is from China, so there is a huge dependency on China.

Sachit Pal: Thank you.

Moderator: Thank you. The next question is from the line of Rishab Bothra from Sharekhan. Please go ahead.

Rishab Bothra: Congratulations on good set of numbers. Sir, just wanted to understand during the quarter have any of our clients withheld order uplifting which they have their provided?

Atul B. Lall: In the current quarter?

Rishab Bothra: Yes Q3.

Atul B. Lall: In Q3 as I shared with you there were pressures in the washing machine segments.

Rishab Bothra: Yes, I mean despite those pressures in washing machines which had inventory and mobile phone segment where two customers were not doing well, other customer did they had any postponement of lifting?

Atul B. Lall: No. I did not see anything.

Rishab Bothra: In regards to this China virus issue, since you have mentioned we have a lot of dependence of our raw materials from China, you mentioned Q4 we will not be seeing any impact but next quarter we might see, so how are we going to mitigate that risk?

Atul B. Lall: Answer to that is first we have to wait and watch and second there might be some essential air freights so let us see how it ramps it but it is difficult to make a comment on that, usually, the transit times for 20 days.

Rishab Bothra: Transit time of 20 days. But since plant are shut down as of now so even if they open up the requirement, our requirement will not be fulfilled for next quarters might be?

Atul B. Lall: You see at present what they are seeing is they were supposed to open up after Chinese New Year on February 3 and 4, so now they are saying that that has been delayed by a week, delayed by week I feel the situation will come under control, but if it is delayed indefinitely one has to see how pans out then we have an issue.

Rishab Bothra: If you could throw some light on our reverse logistic business, it has been scaling back after seeing a downtrend for last three to four quarters, I mean in FY2019, FY2020 has seen a up move quarter-on-quarter and margin profiles has also improved. So how are we placed in this segment?

Atul B. Lall: You see in this particular vertical we are into main products lines. One is TV panel repair and the second is Set Top Boxes. Since we have a large account acquisition of Xiaomi in this business the numbers just gets ramped up. This business is primarily for the strategic reasons when answering the stickiness with the customer, now in the numbers front, one because the scaling up has happened, the margin expansion is happened it has become significantly profitable and because the capital deployment is miniscule is just 7 Crores to 8 Crores the return ratios are very high and I feel as per the present order book and the visibility that we have, this is going to be sustainable in fact even doing better.

Rishab Bothra: Lastly Sir, budget expectation how do we see this budget panning out, is there any talks or incentives for outsourcing industry?

Atul B. Lall: I think the government is committed for promoting the electronic manufacturing. Our Chairman has been one of the policy influencers because of his representation and chairing the various industries situations in CII and our own industry. So we feel that it is going to be a favourable budget for promoting electronic manufacturing in India, either through duty arbitrage or certain other financial incentives for enhancing the manufacturing so I feel that overall it is going to be a positive budget when we focus an electronic manufacturing that is the sense we get.

Moderator: Thank you. The next question is from the line of Jayakanth Kasturi from Way2Wealth Securities. Please go ahead.

Jayakanth Kasturi: I have just one question. Sir I missed on that you said the current order book for reverse logistic that number, if you could let me know?

Atul B. Lall: We have a very strong order book in our panel division and also TV repair division so I feel that we should have a run rate of 70 lakhs to 80 lakhs of EBITDA every month in this particular business.

Saurabh Gupta: It is a very good business as far as margins are concerned because the total capital required in this business is not more than 8 Crores and it is a very high margin business, so the business has completely turned around so we have a very strong order book both LED TV panel repair business and Set up Boxes.

Jayakanth Kasturi: Thank you Sir.

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

Bhoomika Nair: I would just like to thank everybody for being on the call and particularly the management for giving us an opportunity to host the call. Thank you very much Sir.

Atul B. Lall: Thank you so much everyone.

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