Dixon Technologies (India) Limited

20th May, 2024

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 Q4 FY 24 Earnings Conference Call held on 15th May, 2024

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 Q4 FY 24 Earnings Conference Call of the Company held on Wednesday, 15th May, 2024.

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
Date: 2024.05.20 16:07:44 +05'30'

Ashish Kumar
Chief Legal Counsel & Group Company Secretary

"Dixon Technologies (India) Limited

Q4 FY'24 Earnings Conference Call"

May 15, 2024

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

MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Dixon Technologies Q4 FY'24 Earnings Conference Call, hosted by DAM Capital Advisors Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you, and over to you, ma'am.

Bhoomika Nair: Yes. Thanks. Good evening, everyone, and welcome to the Q4 FY'24 earnings call of Dixon Technologies India Limited. We have the management today being represented by Mr. Atul Lall, Managing Director and Vice Chairman; and Mr. Saurabh Gupta, CFO.

I now hand over the floor to Mr. Atul Lall for his initial remarks, post which we'll open up the floor for Q&A. Thank you, and over to you, sir.

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

Saurabh Gupta: Good evening, everybody.

Atul Lall: Thank you very much for joining this earnings call for the quarter and year ended March '24. Our company has delivered yet another year of strong performance. First, coming to the overall performance for the fourth quarter. Consolidated revenues for the quarter ended March 31, 2024, was INR4,675 crores as against INR3,070 crores in the last year, that's a growth of 52%. Consolidated EBITDA for the quarter was INR199 crores and against INR158 crores in the same period last year, growth of 26%. Consolidated PAT for the quarter was INR97 crores against INR81 crores in the same period last year, which is a growth of 20%.

Coming to overall performance for the fiscal year ended March '24. Consolidated revenues for the year ended March '24 was INR17,713 crores against INR12,198 crores last year. This is growth of 45%. Consolidated EBITDA for the year is INR720 crores against INR518 crores last year, which is a growth of 29%. Consolidated PAT is INR375 crores against INR255 crores, which is growth of 47%.

Another highlight for the year was a strong cash generation from the operations, which is approximately INR584 crores, which was used for funding a capex of INR569 crores in the year '23, '24. With a strong capital allocation discipline, effective working capital management, and earnings improvement, we were able to expand our ROCE and ROE which was 38% and 25.2%, respectively, as of 31st March '24, and further extending the balance sheet with gross debt-to-EBITDA ratio of just 0.09.

Working capital days stood at negative of 8 days. Our balance sheet strength enables us to direct grow capital safely enable us to invest in the long-term development of our business. We strongly believe that we have a platform to sustain a strong revenue growth moving forward, addition of new customers across all businesses including some very large accounts in the mobile business.

Now I'll share with you the performance in the strategy in each of our business verticals going forward. Mobile and EMS business, revenue for the quarter was INR3,091 crores, which is a growth of 119% year-on-year. Operating profit was INR105 crores, which is a growth of 78% year-on-year with an operating profit margin of 3.4%. Revenues for the year were INR10,919 crores, a growth of almost 109% year-on-year. Operating profit in this business was INR355 crores, a growth of 113% year-over-year with the operating profit margin of 3.3%.

In the last fiscal year, we had already touched a significant milestone of manufacturing 15 billion smartphones and 38 billion feature phones. Now we have created a capacity of 45 million smartphones and 40 million feature phones. That's approximately 50% of the opportunity pool in this business. We have been making incremental investments in this business in order to meet the increased order book of our customers.

We expect a strong growth in the volumes of Motorola smartphones, including a growth in export orders. A ramp-up in Xiaomi smartphone business is shaping up well and we will clock around INR3 lakhs per month from May onwards. We are expecting a significant ramp-up in the coming months ahead of the festive season. Manufacturing for a global brand through Compal is expected to commence by September 24

With Longcheer as our ODM partner, we start manufacturing the Realme, which is the brand of Oppo. And we are clocking around 4.5 lakhs values in the current month of May, there were substantial uptake in volumes month-on-month going forward. We expect to add one more large global brands in the coming months.

On the ISMU deal approval of Competition Commission of India is awaited. And both parties are working on the deliverables of consummation of transactions. We feel fairly confident that we should start consolidating the financials from Q2 of the current fiscal. Such large order being showcases that practically, we are now having on all the top 6 brands, except for one large global brand as our partners. This has been a major, major positive for us in the last -- next year to consolidate in the coming quarters.

Another important thing which I would like to share with the stakeholder is, that in line with our strategy that once we acquire a large scale, the next phase is the deepening of manufacturing. So we are looking to manufacture display models and we have already finalized the technology partner, the details will be shared shortly. We are also looking at getting into precision components and mechanicals, and the same is under deep study. So these are going to be the next level significantly steps forward to consolidate our mobile business.

Consumer and Electronics. Revenues for the quarter were INR897 crores where the operating profit and margin of INR30 crores and 3.4%, respectively. Annual revenues were INR4,148 crores with an operating profit and margin of INR141 crores and 3.4%, respectively. Our first ODM-based Google TV solution from 32 inches to 85 inches, but rolled out in the current quarter, and we are increasing response from our customers. Manufacturing and the partnership's with Samsung for their Tizen operating system is expected to be rolled out in the current quarter. In addition to interactive flat-display panel, we have now starting to manufacture a digital signages solution from 65 inches to 100 inches. The order book in both these categories were decent.

A state-of-the-art R&D center for display devices has been set up in Noida for superior product developments in televisions and in IFPDs and signages. We are actively exploring manufacturing of industrial, institutional and automotive displays.

Home appliances, revenues for the quarter was INR294 crores with an operating profit of INR30 crores, an operating margin of 10.2% and annual revenues of INR1,205 crores. Operating profit for the year stood at INR131 crores, which is a growth of 20% year-on-year. Mass production has already committed -- commenced in our new facility in Dehradun which has an installed annual capacity now of 2.5 million. In line with our backward integration strategy, our tool room is now fully operational, and a large part of our mold requirement is done in-house.

Manufacturing for BSH in semi-automatic category and Panasonic and Lloyd in fully automatic category has already started. Pilot productions for the brands for Reliance in both the categories is completed and mass production will be starting in the current month. Lighting in the revenues for the quarter were INR197 crores with an operating profit of INR14 crores. Annual revenues were INR787 crores with an operating profit of INR59 crores.

We have launched professional product floodlight series in Q4 of the last financial year. Further new product introductions and ceiling lights and extension of professional lighting range are planned in Q2 and Q3. We are getting into backward integration for mechanicals, that is injection moulding for ceiling lights in Q1 and extrusion for battens in Q2 to achieve better cost optimization for ceiling lights.

We are working to expand our product basket by moving to high-value premium products. We have achieved the thresholds for investments and also the incremental revenue under the PLF of '23-'24. Telecom and networking products, revenues in this segment for the quarter and the year under review were INR228 crores and INR655 crores respectively.

We are adding one more facility, Noida, to meet the increased order book from our customers. Mass production is now ongoing for telecom, GPON, OLT routers and Android set-top boxes for Airtel in partnership with various local ODMs. We have started pilot production for Airtel.

So 5G fixed wireless access devices and also mass production is expected to commence on June, July and in fiscal. We have signed an agreement with Nokia to manufacture 5G fixed wireless devices, and we see an extremely good order book in this particular domain. In this particular category also, we met the thresholds both for PLI investment and revenue.

Laptop, tablets and IT hardware products, Dixon in its 100% subsidiary Padget now the beneficiary in IT PLI 2 under the hybrid category. We have committed an investment of INR150 crores. We already have now the contract with Lenovo and Acer. We are targeting to start Lenovo production by September in the current fiscal. Wearables and hearables, the menus for the segment at the current -- in the last quarter was INR72 crores and INR747 crores on the year basis with healthy operating margins. In line with our strategy to deepen the level of manufacturing, we have started the PCB operation, and we're looking at injection holding within India.

Security service, Dixon share, 50% share of revenues for the quarter and the year was INR179 crores and INR673 crores, respectively. The government has come up the PPO and ER for adding the domestic value addition and also the domestic designing which as an entity we are perusing. Rexxam, Dixon Electronics Limited, so 40-60 JV with Japanese company Rexxam for manufacturing inverter controller boards for Daikin. The JV achieve revenue of INR94 crores in Q4 and INR262 in '23, '24, with extremely heavy margins and the strong ROCE. We have a strong order book in this vertical. In this business also, we have achieved the thresholds for PLF growth for capex and revenues.

Refrigerators, we have created capacity of 1.2 million direct cool refrigerator, which is more than 10% of Indian requirement and the various product categories of 175 litres, 235 litres. We have started mass production. We have an extremely in healthy order book in the current market fiscal, we are targeting produced almost 60k which is 60% of our production capacity. The season is looking good. We have our anchor customer in Voltas and various other customers. And some other large brands given to be acquiring and servicing them in the next quarter or so. This is the one of the most backwardly integrated and automated plant in the country. And I think that the team has done a great job in setting that.

So I'd like to stop here. And Saurabh, and I am there to address your questions, please. Thank you.

Moderator: The first question is from the line of Aditya Bhartia from Investec.

Aditya Bhartia: Sir, you spoke about vertical integration in the mobile phones business. It would be great if you could share some more insights into this, what exactly are we planning? What kind of an opportunity would it be? What kind of margins it could be pay? Anything that you can share around that?

Atul Lall: So the specific component that we are pursuing vigorously. And hopefully, we should be able to conclude is display module for smartphones a little step. We are targeting in Phase 1 to create a capacity of almost 25 million in the Delhi NCR region. We are almost at a closure of a technology partnership and possibly a deeper partnership with the technology provider.

So we are putting resources in place. The capex in this is going to be almost USD30 million without land and building. And it's going to be a relatively higher margin business. And yes, so that is the point. The exact numbers are still being finalized, but I'm just giving you the basic idea.

Aditya Bhartia: And this will likely be in a JV kind of a form. And does that also mean that we're incrementally becoming more open and more excited towards getting into the component ecosystem?

Atul Lall: Yes, absolutely. Absolutely.

Aditya Bhartia: Sure. In the last conference call, sir, so you had also referred to the opportunity on the PCB assembly side with one of the large global customers from whom you had received RFQ. Any details that you can share around that?

Atul Lall: So that is what we're pursuing. We are going to be setting up a campus, a new campus in which the non-consumer side of that PCB is going to be that house in tonight that RFQ is being pursued are we're very optimistic that we're going to secure the business.

Aditya Bhartia: Understood. Sure, sir. And sir, my last question is on the kind of acquisition that we did with ismartQ. Do you think this kind of an acquisition could pave way for most of these, especially with customers who have their own manufacturing facilities?

Atul Lall: So I think ismartQ is extremely positive strategic acquisition for us. And it's a larger relationship. It goes for years and years. We are pursuing those kind of relationships, at present, but we are pursuing, and we're pursuing vigorously. Let's see where we reach, but we'll keep updating you as and when we have significant tangible developments there. But we are going to pursue.

Moderator: The next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: First question on the cell phone segment slightly softer revenues this quarter but I'm assuming your things will start ramping up over the next few quarters. I think you mentioned you have about 45 million smartphone capacity is what you've created, by when do you think you can actually fully utilize it? Is it like a 2-year, 3 year timeframe by when you can actually fully utilize our capacity?

Atul Lall: So Ankur the ramp-up is happening. To share with you in the current month itself and here I'm talking about without Ismartu. We are at a level in the current month of approximately 1.5 million, 1.6 million. And if I add the Ismartu volumes that's another 0.7, 0.8. So we are already at 2.3 million a month and we'll keep improving. So yes, I feel that this year itself it should be somewhere around 28 million to 30 million.

Ankur Sharma: I'm sorry, 20 million you said, sir?

Atul Lall: Sorry?

Management: Around 28 million to 30 million excluding Samsung. Samsung will be over and above.

Atul Lall: Because Samsung would be more than 10 million, but without Samsung we should be at somewhere around 28 million.

Ankur Sharma: Okay. And if you can also share the volume numbers annual volume numbers for your category, TV, washing machine, lighting, so on and so forth.

Saurabh Gupta: Yes sure. So I'm sharing you the annual numbers. So in LED TVs the volumes was around 3 million. LED bulbs the volume was 94 million, [inaudible 19:16] 20 million; downlighters 2.5 million and other lighting products which is other products which don't fall in the above SKUs is [inaudible 19:33] million and then semi-automatic washing machine was 1.7 million. Fully automatic washing machine was 1.6 lakhs 0.16 million.

Smartphones excluding Samsung was around 6.5 million, featured phone was 38 million. Samsung smartphone was around 8.6 million and yes so, we are pretty much these are the numbers. You want it for security service and all other products as well.

Ankur Sharma: I think that's all from my side. All the best.

Moderator: Thank you. The next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: So maybe just one first to start off just a bookkeeping question. Anything in other income that you see...

Moderator: Sir, may I request you to use your handset, sir, your audio is slightly muffled.

Deepak Krishnan: Yes. Is this better now?

Moderator: Yes, sir, please go ahead.

Deepak Krishnan: Maybe just a bookkeeping question first. Anything in other income that we've seen a sharp jump this quarter? Anything that sort of is one-off or any PLI or anything that is booked over there?

Saurabh Gupta: So basically, this -- Deepak this includes -- we have got a large FX income in this quarter, foreign exchange gain of almost INR10-odd crores and then INR7 crores to INR8 crores is some of the liabilities which have been written that, but majorly it's on the account of the FX income.

Deepak Krishnan: And the PLI income booked in revenue this year for the full year versus what was it for last year?

Saurabh Gupta: Yes. So PLI income for the full year was around INR71-odd crores across 4 PLIs excluding IT hardware.

Deepak Krishnan: Sure. And the corresponding number would be closer to INR9 crores last year, if I remember correctly?

Saurabh Gupta: Last year it was a number of around INR10 crores to INR11-odd crores.

Deepak Krishnan: Sure. Sir, maybe just on smartphones given that we sort of have this tie up with long share as well, how are we looking at the ability to add further customers? I think you sort of indicated one large customer is the potential, but in terms of -- and further just for the year how are we looking at the overall ramp up because you've given a number of closer to 30 million smartphones, but if I look at is the ramp-up already from the beginning of the year or should we assume that Ismartu comes in and that's a larger kicker that kind of comes through from 2Q?

Atul Lall: So as I shared with you Ankur, please appreciate that we have now drop six brands except one large global brand in our customer portfolio. And one more large global brand we're going to be adding in the next 3 months to 4 months. So practically, we have all the brands dominating in the Indian mobile field.

And we are ramping up, ramp-up takes some time, but we feel confident that quarter over quarter this volume keeps -- will keep on increasing. And definitely what you are saying is absolutely act that the [inaudible

22:59] number, the Ismartu number this is going to be an extremely important kicker in this.

Deepak Krishnan: Sure sir. Those were my questions and best of luck for future quarters.

Moderator: Next question is from the line of Girish from MS. Please go ahead.

Girish: I had a couple of questions. So when I look at the consolidated cash flow for the full year, we were at INR726 crores last year and this year we were at INR584 crores post tax. Can you explain because your net working capital is minus 8 days for the three-line items. So what exactly has led to a reduction in cash flow from operations?

Saurabh Gupta: Yes. So basically last year if you look at the cash flow there was a INR275 crores working capital positive change for us which got generated mainly on account of the good work done on the lighting business where our working capital intensity in a year prior to last year went up high.

So we got a lot of money released in the working capital in the lighting business and also in our mobile business because initially those were an initial years in mobile business. And initially whenever new business starts working capital gets stuck which we were able to correct in the last financial year.

So that INR726 broadly you should attribute it to -- out of that INR276 crores coming from working capital broadly. So if I exclude that INR276 crores we are talking about INR450 crores of cash flow which were generated last year that INR450 crores has actually gone up to INR580 crores because this year there is no working capital generation because a small INR9 crores negative working capital. So broadly that's how you should look at it.

Girish: Saurabh I also see an increase in payables of INR16 crores, INR21 crores that is offsetting the receivables and other financial assets and inventory etc receivables and all of that. So, is this the way to be now going forward that the payables will continue to increase at the same pace at which receivables and because and how fragmented is this payable basket like is it concentrated? How is it like can you probably provide some colour around sustainability of these payable days?

Saurabh Gupta: Yes. So this is sustainable because clearly a large part of the payments is attributable to our mobile business. So if you see the whole revenue breakup, 62% of our revenues are coming from mobile business. And we have two business models, OEM business and ODM business model.

In a prescriptive business or OEM business model clearly there is an understanding that when the customer will pay to the vendors only when the customer pays us. So there is a negative working capital. So for every receivable that you see there is correspondingly payable which is due there and that's the whole reason why both receivable and payable are looking on the higher side it's mainly attributable to the mobile business.

And also over the -- also what our team has done that increasingly on account of better scale, size our teams keep – they keep negotiating with the vendors and get the creditor days pushed, get better credit days from the vendors, but majorly it's largely attributable to the prescriptive part of the business and also being an prescriptive that's attributed to the mobile business.

Management: And business model has been defined like this that the deployment in the current asset should be absolutely minimal.

Girish: Okay. My second question was on capex. So we incurred a net INR569 crores this year. So what are we pencilling in this year given that we have some expenditure on display also going in? And if you can provide some high-level breakup of that capex for fiscal '25, '26.

Saurabh Gupta: Girish, the numbers are being worked out, but clearly one of the numbers we are -- which Mr. Lall also mentioned in his remarks is that USD30 million on the mobile display. This in itself is INR240-odd crores. Then there are certain committed capex is under the PLI, under the lighting components PLI, under the IT hardware PLI that we have to do and also on the inverter controller board where we've a JV with Ericsson some part of capex.

So my -- our first impression is I think so broadly I'll have that number by -- in the next 7 days, 10 days, but probably if on the opportunities that exist today I think so it should be lower than the current financial year of INR570-odd crores, but yes things are dynamic and a lot of opportunities are coming to us, but as of now we believe that it should be lower than the INR570-odd crores.

Management: Yes, because lot of capex in mobile has already been front ended and large part of our capex last year happened on refrigerators and washing machines. So those capacities have already been created. So some balancing capex more has to be done, but large part of capex has already been front ended. New capex will happen only in some new volumes and some PLI commitments.

Girish: Okay. Let me ask, on the land side have you incurred any numbers can you share in FY'24? And is there any land capex that is required to be done in '25, '26. If you have any estimate on that?

Saurabh Gupta: See two land parcels that we bought one for a mobile plant where the construction is happening. We are creating almost 1 million square feet facility there. So that land payment has been done there and also the refrigerator plant is now operational. So the other large land parcel was for the refrigerator plant, where both the payments would be.

So the only investment that we foresee, so can be in Chennai where either we can go and take a lease model there, or go on a rented premises for our EMS business which also is mentioned by Mr. Lall or otherwise which we can potentially buy some land infrastructure, but as of now those things are not finalized, but most of the other things have already come into the system.

Girish: Okay. And the customer acquisition on the margins for mobile side outside of this display, obviously, they are prescriptive so you have been running at 3.4, 3.5 including the PLI, but the new acquisition that has come through on customer side, are they margin accretive and if you can qualitatively say like how will the mix margin for mobile segment look for FY'25?

Saurabh Gupta: Yes. So I can clearly say that those new customers are definitely margin accretive as compared to our earlier anchor customer and also secondly if you look at the -- once you get the operating leverage into the system you generate that extra margin. So there is clearly operating leverage benefits which come in.

And as mentioned, we're also now looking at a backward integration of mobile display and also at some point of time getting into the precision components and mechanicals. So both of them will also add to the margins.

Girish: And sorry last question on lighting margins. You used to have close to 8% to 9% margin. Now the margins have trended down a little bit for the last couple of quarters. I understand the devaluation aspect on the revenue. What I wanted to understand was that with the PLI benefits also flowing through, is there any one-off in the second half this year on lighting margins or are these likely to sustain going into next year?

Saurabh Gupta: Yes. So please appreciate, Girish, there's always a level, an element of fixed cost in any business. So when the volumes fall or when the revenues fall, but you need a certain level of minimum fixed expenses to run those operations. So that is visually attributable for the margin, for all that is happening in the lighting business.

Moderator: Thank you. The next question is from the line of Mayur Patel from 360 ONE AMC. Please go ahead.

Mayur Patel: Yes. Thanks for the opportunity.

Moderator: May I request you to use your handset, sir. Your audio is muffled.

Mayur Patel: Am I audible?

Moderator: Yes, sir, please go ahead.

Mayur Patel: While the company remains on a very strong growth path driven by mobile phones, but on the other segments like consumer electronics and lighting, you saw a 10%, 9.9% decline, and around 27% year-on-year decline. Just if you can share some thoughts around how do we see where this can settle in terms of bottoming out and start to grow? That's question number one. And then I'll ask the second question.

Saurabh Gupta: You see, please appreciate, Let's first talk about the television business. In television business, as far as the outsourcing opportunity is concerned, we have almost 60% to 65% market share. So that opportunity pool is not going. That is the reason one is leading to this kind of a situation. So what are we doing to address that issue? We are basically doing three things. One is going in for backward integration. So we have already invested in the injection moulding plant and the mechanicals for televisions are happening and out now. We should add to our margins. We have also started the manufacturing of LED bar, which should add to our margins.

The second step we have taken is to migrate more and more to JDM and ODM. So the contribution of JDM, ODM is increasing. And we have successfully launched the Google solution and now the timing solution is also be launched in this fiscal, which we should be able to acquire more customers and it's more margin accretive.

The third thing is that we're in the same infrastructure with a balancing capex, we increase we, enhance and expand the product portfolio. So that's what we have done. By launching as far as IBPD that is an interactive black panel displays. The production has already started with some large global brand, and we keep on expanding. And the second is to get into digital signage. So that's what we are working upon. And please also appreciate that in this particular space, where 4 to 5x of our next information. And we're fairly confident that we'll hold on to that full position. So that's where it is.

In lighting, the industry has gone through significant stress. So what are we doing? One, we are trying to build up a larger product portfolio. We have entered into professional IT. The flood lights and the panel lights have already been launched. The streetlights are going to be shortly launched. Further, we have got into our own toolings of downlighters. We have also set up an infrastructure for exclusions for battens. This should make and build more competitive strength into the company.

Third, we are also looking at some new customer acquisition, and we've been successful. Now we have some large anchor relationships with some large brands in India who have moved out of insourcing to outsourcing. And we're going to be their anchor suppliers. So these are some steps taken. And internally, we have also restructured the organization. So I see an improvement in the order book in the current quarter. Hopefully, it should keep improving. I think it's going to take a couple of quarters more.

Mayur Patel: Sure. Sir, is it fair to assume that going forward, at least we will be flattish to get into some positive growth driver in these two businesses?

Saurabh Gupta: I'm not able to hear you. The voice is not clear.

Mayur Patel: Is it fair to assume that this decline would be arrested in quarter 2 and then we have been a positive growth trajectory in these two businesses?

Atul Lall: Yes, yes. I feel, like in lighting, the growth will happen. And the number is going to be better from the current quarter itself. And in television, I see that from the second part of Q2, the number should start getting better.

Mayur Patel: Sure, sir. Sir, just one more question, if you may allow me, on like we have delivered very robust growth across top line EBITDA and PBT, but for the year, the operating cash -- sorry, if you have already answered this, I joined a bit late, operating cash generation has declined year-on-year, and this increase in -- is it because of working capital? And is it temporary in nature because of the ramp-up in mobile phone? Or is it structural? Any change in the working capital structurally -- working capital days currently.

Atul Lall: As Saurabh was explaining, in '22 '23, we've corrected the working capital situation, because at that time, it was in ramp-up, the mobile phone business was in a ramp-up phase. We had to invest a lot of capital in our Motorola business, and also in our lighting business. So we corrected that working capital. And by that, we generated almost INR276-odd crores.

So working capital today, you see the operating cycle today is negative 8 days, is almost at an optimal level. So there was no more scope of improving the working capital situation, and -- so we removed the INR276-odd crores. In '22, '23, the cash generation was approximately INR450 crores. And then this year, I think, Saurabh, it's INR580-odd crores. So the cash generation from operations this year is higher than '22, '23.

Mayur Patel: Sure. So you think the negative working capital cycle can be sustained in this mobile ramp-up trajectory...

Atul Lall: We feel so. We, see that, in the company, we have a huge focus on our operating cycle, on our current assets, day in and day out our team work to correct. So there can be some challenge changes in near term for a quarter or so, and some new customer acquisition because it takes time to stabilize. But on an overall basis, there will be no dilution of this focus.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Congrats for a good set of results. Sir, generally...

Moderator: Sorry to interrupt you, sir. There is slight disturbance from your line. May I request you to please use your handset.

Aniruddha Joshi: Sir, just generally, you give guidance about the next year at the Q4 quarter. So any guidance in terms of relative growth for FY...

Moderator: Sorry, sir, to interrupt you. But your line is not clear. Sir, there's a lot of disturbance on your line.

Aniruddha Joshi: Is it okay now?

Moderator: Yes, sir. You can go ahead.

Aniruddha Joshi: So sir, I guess the guidance for FY'25 in terms of revenues as well as margin, if you can share Qs at the consol level.

Atul Lall: So we are not -- we have not been giving that guidance now. So we are not in a position to share the numbers and guidance at this stage. But please be rest assured, the growth is going to be robust. New customer acquisition that's taking place, new verticals have a very decent order book. So we are confident about our growth numbers.

Aniruddha Joshi: Obviously, yes. But any ballpark figure that you would like to share, like let's say, 30%, 40% or any variance which you can at least guide, because there are too many moving parts. And, I mean, in a way the guidance could be much more helpful to the entire investor and analyst community also and also on the EBITDA margin. Yes, just the kind request.

Atul Lall: I can't give the growth forecast. But what I'm reiterating is that the growth is going to be extremely healthy, very good.

Saurabh Gupta: So, Aniruddha, on the EBITDA margins, you can assume a similar level of sub-4%, 4%, because a large part of our growth will come from mobiles, which is relatively a low-margin business. Of course, the margin leavers for us will be operating leverage, more backward integration and designing wherever possible. But yes, so margin-wise, you should assume a same level what we have achieved this year, but we would refrain from giving any guidance.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: A couple of them. Sir, first one, I want to just understand predictability of our mobile phone revenue because while we've been winning a lot of orders, even on a Q-o-Q basis, our revenue hasn't grown. Now you've spoken about a few numbers, not guidance, but effectively how many million you expect to do? How predictable is it? Is the customer going to decide it two months ahead of schedule, whether you make it? Or is this sort of carved in stone that the 27 million, 28 million you spoke about is something we should be able to do next year? That's my question number one.

Atul Lall: So Pulkit, how does it work? We are an extended arm of the principal. We have to create capacities for them. As per their internal business plan, they asked us to create capacity, they gave a quarterly breakup of their expected requirements. Now is that cast in the stone? No. Can there be a variability to it? Yes. But largely, what they share, it's broadly in that range. They can be a variability of 10% to 15%. So that's one aspect of it.

The second aspect of it, please appreciate that what are we trying to do. Last year the smartphone numbers were 6.9 million. Including Ismartu, we're talking about 28 million to 30 million. Now these are new customers, complex SKUs, complex models, NPIs, launch plan, the ramp-up can get delayed. So that can have an impact. And that's how it is.

Pulkit Patni: Understood, sir. So that's very clear.

Saurabh Gupta: And Pulkit, also to add to it, I think so one of the reasons why our Q4 numbers are also lower is because we ramped out of the Jio Bharat 4G business. And the ramp up of the other businesses, the customer acquisition has taken some time. But now we feel confident with the numbers that we mentioned, and we also gave you a visibility of the current month numbers.

So we feel more confident in the numbers that we have just mentioned to you, on the annual numbers, on the monthly numbers. And there can be delays of a couple of months here and there. But broadly we feel more confident. We have a deep discussion with our customers. We have made those capacities for them on. We have done those capexes for them. A lot of models have already been approved. So we feel more confident here about the…

Atul Lall: Anything can happen. So, for example, let's say, consolidation of Ismartu, now the final approval is lying with ECI. There can be a couple of weeks delay. So that might have an impact. Those kind of situations.

Pulkit Patni: Sure, sir. No, I think the good thing is that at least the year has started off well in terms of general mobile phone shipment. Sir, my second question is again related to the margin bit. Now obviously, we've created so much capacity in the last 12 months on the smartphone side. I would have guessed there would be some part of that capacity which in FY'25 should have given us better operating leverage as we ramp up volumes.

Sir, I'm just trying to understand is the margin number you're giving a bit on the conservative side, or the contracts are negotiated in such a way that sub-4% is the number that we should keep in mind? Just trying to understand that aspect again a little better.

Atul Lall: So let me share with you the new customer acquisitions are better models. So let's see how it emerges because there are so many customers, so many SKUs around blended basis how it evolves. So that's a number that Saurabh has given you on the basis of his internal calculations. But new customer acquisitions are margin accretive.

Saurabh Gupta: Pulkit, you will see, definitely, we think there will be an improvement in margins in mobile business from the earlier years. So even if you look at this year also, of course, this mobile and EMS factors into account the margins of other businesses. So mobile business margins are slightly lower than the 3.3% that we have shown for the combined category mobile and EMS.

So please be rest assured, those numbers of mobile business margins would actually grow this year. And clearly, the point that you have mentioned, the capacity is the larger scale benefit of operating leverage would kick in, and some of the better commercial that we have for the new customers that we have got onboard.

Moderator: The next question is from the line of Nikhil Agrawal from VT Capital.

Nikhil Agrawal: As you said on mobile business margins would improve and the new customer acquisitions are more margin accretive. But since Compal is one of the acquisitions that we did, they are also contract manufactures themselves. I did not really understand like are the margins for Compal on a higher side? Or I mean, if you could just throw some light on that?

Atul Lall: So it's not prudent for us to give the customer-wise breakup. So I'll not be able to share those kind of details, please.

Saurabh Gupta: But most of our point was not meant specifically referring to Compal, it was more referring to the other acquisitions that we have had.

Nikhil Agrawal: Okay. But our margin for Compal would be slightly on the lower side compared to your average…?

Atul Lall: Let's not get into those kind of…

Saurabh Gupta: Won't we share any customer-specific margin? Overall, probably we have given you a direction where the margins can be.

Nikhil Agrawal: Okay. And sir, if you could just repeat you LED TV volumes for Q4?

Atul Lall: 3 million. You wanted for Q4. For Q4 it was 6.5 lakhs.

Nikhil Agrawal: Okay. And so your open cell prices fell down quarter-on-quarter in Q4?

Atul Lall: Sorry?

Nikhil Agrawal: Did the open cell prices fall down further in Q4?

Saurabh Gupta: No, the open cell prices are increasing.

Atul Lall: They are on an upward trend open cell prices. So that's why the drop in volumes is lower as compared to the overall revenue drop.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance.

Keyur Pandya: Congratulations to the team for a good set of results. Sir, first question is on mobile side. So you mentioned about 28 million to 30 million kind of smartphone volumes. If you can just break it up into -- from this at current level of 0.3 million for Xiaomi, 0.4 million for Realme. What kind of peak revenue we should see in FY'25 -- sorry, '26 till whatever time you have the visibility? So you mentioned last year that 0.5 million for Xiaomi, that is what the visibility we have?

Atul Lall: Yes. So that's the visibility we have. And when we put them together the numbers of Motorola, Xiaomi, Realme, Ismartu brands, that's Tecno, iTel, Infinix, the new brand that we're in the process of acquiring and also Compal, yes, we should be hitting on a consistent basis after the ramp up has stabilized somewhere around 2.2 million, 2.3 million a month.

Keyur Pandya: That is in FY'25 sales, right?

Atul Lall: That's right.

Keyur Pandya: Okay. Second, now with a lot of brands at various price points, what would be our average realization for smartphone?

Atul Lall: So now it's averaging somewhere between 8,000 to 9,000.

Moderator: Next question is from the line of Rucheeta Kadge from iWealth.

Rucheeta Kadge: Sir, my question was regarding the partnership that we've had with Dassault. So just wanted to understand a little bit about that, like what kind of benefits that we'll be getting through this? And what is the additional cost that we'll be spending?

Atul Lall: So see manufacturing execution systems, MES, is an extremely important tool which gives us the real-time data and also automation on our manufacturing lines to improve the production efficiency. So Dassault is the global conglomerate, which has a lot of strength in this tool. We have partnered with Dassault to launch Dassault platform MES, to start with in our mobile plants. The Motorola plant and also the other plants. And this tool will be used for mobile production and also for our IT products production. So the total capex or total spend on this Dassault would be somewhere in the range of around INR7-INR8 crores.

Rucheeta Kadge: Okay. So this would lead to how much cost benefit for us?

Atul Lall: Well, the cost benefit, we have not put a number on that. But this is an extremely important tool for enhancing the productivity, so getting the yields right for reducing the rejection level, for getting the data points to analyse on the quality, on productivity, on manpower efficiency.

So this is an extremely important tool, which globally all the major electronics manufacturer, not the electronics manufacturers across the whole manufacturing industry deals. So we had the first partner in Siemens. So out Siemens MES platform has been rolled out in our TV plant, in our Fully Automatic Top Loading plant. For our production of Xiaomi and Realme, we're using Longcheer MES. For our other products we're using Dassault.

Moderator: Thank you. The next question is from the line of Abhishek from DSP. Please go ahead.

Abhishek: Sir, thanks for the opportunity. Sir, there are two questions from my side. First is, sir, in terms of some of the other initiatives that you have spoken about in terms of the EMS capability thing that we wanted to get into any kind of breakthrough there or any traction on those segments?

Atul Lall: You're talking about the other EMS space, right?

Abhishek: Yes, sir. So the PCBA and the other opportunity that you had kind of articulated in your earlier calls that you want to get in there, any kind of incremental traction on those segments.

Atul Lall: So in my response to Aditya's question I already explained in detail that we are very optimistic of securing some large contracts, and that has to be in a space from a global player. I also shared that we are setting up a campus downside in Chennai, there is going to be housed. We are in discussions in automotive electronics space. And also the industrial electronics space. But can I put a number to it at, is it's in a very, very formative stays. So are we going to pursue this, yes. Pursue, but can I put the numbers in budget to it, no. It's too early.

Abhishek: Sure. We should see something in FY '25, some contribution coming in from there? That's the reason we want to look at it.

Atul Lall: Next fiscal? Yes. Current fiscal to put a number to it is difficult.

Abhishek: Fair enough. Sir, the other thing is in export of lighting any kind of breakthrough there is that something you've pursuing for a long time. So how should one look at that segment?

Atul Lall: So we are exporting to Middle East. We're also exporting to Europe. We are working on some contracts in the U.S. But yes, but we're still waiting for significant breakthrough. I know that I've been talking about it, but to the very candid, I'm still waiting for that breakthrough.

Abhishek: Okay. So wish you all the best there. Sir, just one other thing, now that you have spoken about trying to be deepening the overall manufacturing process and where you are spending in on about $50 million. How should I look at the return on capital on these intangible investment? Will it be very similar to what you have been doing? Or will it be slightly dilutive. Any sense around that?

Atul Lall: So the ROAC is going to be high. The margin profile is going to be better, is going to enhance our stickiness with our customers, it's going to be margin accretive. Yes, it looks good at least as of now. Yes.

Moderator: The next question is from the line of Yash from Stallion. Please go ahead.

Yash: So I just wanted to understand that since you increased the capacity in your smartphone from 30 million-35 million. What is the sort of the utilization level you're looking at broadly an average in FY '25?

Atul Lall: So we feel that we should be -so the capacity is around 40 million. We should touch around 28-30 million. That's what we are budgeting.

Yash: Okay. Got it. And I just wanted to confirm the blended realization number per smartphone. Is it average about 8,500?

Atul Lall: Somewhere between 8,000-9,000.

Yash: Okay. Got it. And, sir, just one thing. So in your Q4 results, I see a big jump in other expenses. It went up 81%. I think it's INR170 crores. So I just wanted to understand what are the components there and why there was such a sharp jump?

Saurabh Gupta: Yes. So this is basically, the ramp-up that has happened in the mobile business, when we review or basically have people on board on the contractor side or their wages side. And currently, reaching to the utilization are [inaudible 56:32] lower. But yes, on the standard cost of the consumables whenever due businesses comes an NPI happens, those cost increases.

Atul Lall: So they basically the ramp up cost. When you're inducting a new principal, and a new SKU, it takes time to reach the optimal level of efficiency. And that leads to the higher cost, which once you reach at the optimal level of efficiency, it normalizes. That's the reason for this increase in expenses. And so many customer acquisitions and so many launches have happened at another pipeline that has led to this.

Yash: Got it. And sir, just one last thing. The realization number that you mentioned is net of GST?

Atul Lall: Net of GST.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: Can you highlight what was the mobile phone export number for FY '23? And of the 28 million-30 million overall sales that we are going to do next year, what proportion can be exports?

Atul Lall: So the export number was INR1,250 crores.

Saurabh Gupta: INR1,250-odd crores, so basically for ranker customer only for North America markets. So the volume number would be somewhere around 1.25 million for this number we report. Now for '24, '25…

Atul Lall: And we're still working on the contracts of export. But my sense is that this should be around 60%-70% growth from this.

Indrajit Agarwal: Sure. That is helpful. Second, on the laptop manufacturing part, right? So if I recall correctly, we earlier guided for tablets in April and laptops in September or somewhere around it, do those tenants still hold or the tablets are moves back to customer as well?

Atul Lall: So tablet production, commercial production has still to start. The trials have happened. And yes, the laptop production is targeted for our last instance in September, so to say.

Indrajit Agarwal: So any ballpark revenue that you are targeting, maybe if not for 1 year in the next 3 years cumulative revenue that we are targeting in this segment?

Atul Lall: I think let's wait for some time. It's still in the formative stages.

Indrajit Agarwal: All right. And last one, if I may. So in the PLI for IT hardware, the government has put a lot of emphasis on localization of components. So is there something that you're exploring over there as well in-house come manufacturing? Or those will be done by domestic manufacturers, but not yourself?

Atul Lall: So part of it is going to be done in-house and a part of this is going to be with the local partners within India. So when you are looking at display module, display module will also going to be the book and target.

Management: So display will be extended with that technology partner and for notebooks as well.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: My question is regarding, now you are venturing into so many new ventures. What kind of capital expenditure you would be doing? And any need for requirement of capital for that? As we've already mentioned, if it arises with any go for it. That's the first question.

Saurabh Gupta: So to answer the second question, sir, I think so from the capex requirements, we have now reached a sales share by we don't need any capex funding. It will be funded completely from the It will be funded completely from the internal accruals from the earnings of the company. And the capex number is confirmed for this financial year. All I can say right now is it should be lower than the INR570 crores that we did in last -- in ‘23, ‘24. So we are working out those numbers, but it should be lower than that.

Onkar Ghugardare: [inaudible 60:50]

Moderator: May I request you to use your handset, sir you're not clearly audible on the platform.

Onkar Ghugardare: Am I audible now?

Moderator: Yes. Please go ahead.

Onkar Ghugardare: So as of now, we don't see a reason to use any equity. Okay. All right. The second question is I said that you will be refraining from giving any guidance but directionally you can then see where the revenue headed. [inaudible 61:22] So many opportunities?

Atul Lall: We are not able to hear you clearly.

Moderator: Mr. Onkar, may I request you to use your handset, sir.

Onkar Ghugardare: Am I audible now, sir.

Moderator: Yes. Please go ahead.

Onkar Ghugardare: I was asking with so many kinds -- so many new opportunities coming up. What kind of revenue potential it can be in the next 3 years, 4 years? It's okay if you are not giving any guidance, but just directionally wanted your view on that.

Atul Lall: So I think in this year and in '25, '26, the growth is going to be very heavy. That's what we can foresee.

Saurabh Gupta: And we've given everybody on the call a lot of numbers on the mobile side, which will be the largest figure for our growth. So one can actually one can add a number with, you come with up the numbers here.

Moderator: Next question is from the line of Abhineet Anand from 3P Investment Managers. Please go ahead.

Abhineet Anand: Yes. Just on this PLI part within the INR71 crores, how much is for the mobile segment?

Atul Lall: Yes. So mobile segment will be around INR52-odd crores.

Abhineet Anand: Okay. And based on the projection, as per the PLI whatever revenues, how much that number for FY'25, what could be our number of -- in terms of rupees, crores. Overall.

Saurabh Gupta: We will not [inaudible 62:59] But at the end of the quarter, as in the last, we will share these numbers.

Abhineet Anand: Okay. And just last page, I think, as you rightly said, growth in '25 and beyond, also mobile is going to the key, right? And we can put you back on the numbers that you gave. So mobile plus EMS is working at 3.3. Other at around 5, 5.5. So it takes around 4.1 as the composite.

Simple math also if the 3.3 grows at whatever 70%, 80% because of the numbers that you stated and the other part is in going the decline this year probably grows by 10%, 15%. Still there could be 20, 25 basis point impact, negative impact on the margins. If you can just comment on that?

Saurabh Gupta: I don't think so...

Atul Lall: On a blended basis, we feel continually develop in the range of what Saurabh just shared, it's going to be somewhere around 4%. And so probably even this financial year, where revenue contribution for mobile is already 62%. So even the other verticals like telecom, we have a strong order book.

Other verticals we're looking at to get into new verticals, of course, you will start in next financial year. So my sense is 62% to become 65%, 70%. But probably the other positive guidance for margin expansion would also continue to play, which is operating leverage, which is backward integration which is also the designing wherever possible. So my sense is we feel confident, yes, 10, 15 bps here and there, that's fine, but broadly should be somewhere around 4% or exactly as a margin.

Moderator: The last question for today is from the line of Sankarshan Mehra from Premji Investments.

Sankarshan Mehra: Just wanted to understand on this display manufacturing, what could display be as a percentage of the bomb cost for the smartphone and what percent of value addition are you looking to capture with this quarter?

Atul Lall: I'm not able to hear you, please.

Moderator: Mr. Mehra, may I request you speak a little louder, please?

Sankarshan Mehra: Sure. Is it better?

Atul Lall: Yes, it's better.

Sankarshan Mehra: Just wanted to understand on this display capex that you're doing, what would be the cost in the percentage of cost of this of display overall volume of the smartphones. And what would be the value addition that you're looking to capture even this backward integration?

Atul Lall: So the display module is almost 10% to 11% of a smartphone bomb.

Sankarshan Mehra: Sure, sir. And is there a PLI that we benefit from there yet? Or is there no?

Atul Lall: There's no PLI on this.

Moderator: That was the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited, for closing comments.

Bhoomika Nair: Yes. Thank you everyone, and particularly thanks to the management for answering all the queries and giving us an opportunity to host the call. Thank you very much, sir, and wish you all the very best.

Atul Lall: Thank you. Thank Bhoomika.

Moderator: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.