Dixon Technologies

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Operator: Ladies and gentlemen, good day and welcome to the Dixon Technologies Q3 FY26 earnings conference call hosted by DAM Capital Advisors. As a reminder, all participant lines will be in 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 call over to Mr. Kanishk from DAM Capital. Thank you and over to you, sir.

Kanishk - DAM Capital: Thank you. A very good evening to everyone. Welcome to the Dixon Technologies Q3 FY26 earnings call. Today we have the management being represented by Mr. Atul Lal, Vice Chairman and Managing Director, and Mr. Saurabh Gupta, Director of Finance and Group CFO. At this point, I will hand the floor to Mr. Lal for his initial remarks, post which we will open up the floor for Q&A.; Thank you and over to you, sir.

Management: Thank you, Kanishk. Good evening everyone. This is Atul Lal and joining me today is our Director and Group CFO, Saurabh Gupta. We thank you all for taking the time to join us to discuss our performance and progress for the third quarter of fiscal year 2026. Key highlights for the quarter are as follows.

Consolidated operating revenues for the quarter ended December 31, 2025 was 10,678 crores against 10,461 crores in the same period last year. Consolidated operating EBITDA for the quarter was 421 crores against 398 crores in the same period last year. Consolidated operating PAT for the quarter was 214 crores against 217 crores in the same period last year.

The electronics market faces near-term headwinds from commodity inflation and memory price increases. We continue to focus on building scale, bringing operational efficiency, strengthening relationships with customers, focusing on backward integration, and diversification from the core electronics business to navigate the environment.

Important external headwinds include the short-term increase in memory prices globally, driven by AI and data center demand, reallocating the memory capacity away from traditional consumer devices. Industry reports indicate that conventional DRAM contract prices have already risen sharply over the last two quarters with further increases expected in mid-2026. For smartphones and PCs, memory has moved from being a relatively small line item to one of the most sensitive parts of the bill of materials, especially for lower-priced devices.

Our returns remain robust with industry-leading ROE and ROCE, low leverage, and a negative working capital cycle, which gives us sufficient headroom to invest in capacity, components, and new categories. Our working capital cycle remained at negative 7 days, complemented by a strong balance sheet reflecting a net debt position of 246 crores. We maintain our return ratios with ROCE at 45.1% and ROE at 32% as of December 31, 2025, demonstrating fundamental strength and stability.

Dixon has been selected as a PLI EMCS beneficiary for camera modules and optical transport receivers, marking an important milestone in our expansion into components manufacturing and reinforcing our strategy to move up the electronics manufacturing value chain. We expect to receive the EMCS approval for display modules and enclosures shortly. We have built a strong foundation as India's leading home-grown EMS company and now we are steadily transforming into a more integrated, design-oriented component manufacturing partner across consumer, industrial, and strategic electronics.

I will now share the business performance and insights into each of the segments.

Mobile and EMS: Revenue for the quarter for the Mobile and EMS business was 9,750 crores with an operating profit of 150 crores. As per industry reports, the Indian smartphone market in Q3 fell about 7% year-on-year. This decline reflected the usual post-festive slowdown and was stressed by elevated channel inventories for brands, a depreciating rupee, softening mass-market affordability, and moderation in demand due to persistent supply constraints and the rising cost of memory chips.

The potential cutback in smartphone shipments comes as brand struggle with an unfolding super cycle in the global memory sector. Top suppliers are shifting capacity for large intelligent applications, resulting in a supply squeeze for the smartphone segment. Our new 400,000 square feet facility for our 74:26 Longcheer JV for manufacturing smartphones and other electronic devices is expected to start operations by Q2 FY27. Construction of a 1 million square feet facility in Noida with higher capacities for our anchor customers is expected to be completed by Q1 FY27, with mass production to start by Q2 FY27.

Construction of our facility for display modules in the 74:26 JV with HKC is nearing completion. In the first phase, we are creating a capacity of 24 million units per annum for smartphones and 2 million units per annum for notebooks, largely for captive consumption and automotive sectors combined. Trials are to commence by Q2 of the next fiscal year. In the second phase, we will enhance the capacity to 60 million units per annum, largely for smartphones and IT displays for LED TVs. We have received a very encouraging response from all the major automotive players.

We are expanding capacities and deepening the level of manufacturing of camera and fingerprint modules for smartphones. We target expanding the volume of smartphone camera modules from 40 million units in this fiscal year to 190-200 million units per annum. We remain confident of getting the PMO approval for our Vivo JV soon.

Consumer Electronics, LED TVs, and Refrigerators: Revenue for the quarter was 567 crores with an operating profit of 24 crores. This quarter witnessed a temporary moderation in industry demand primarily driven by seasonality, withdrawal of consumer offers, and elevated channel inventories. Despite these short-term headwinds, market conditions should strengthen meaningfully, and we remain optimistic for rebounding volumes by Q1 of next fiscal year as channel inventories normalize.

Our strategy to increase market share in large-screen TVs and smart connected models will continue. We have launched production of high-end Mini-LED TVs, enabling our customers to tap into the fast-growing premium segment and continue technology leadership. We are the first to introduce features with a built-in robotic personality and remote finder, enhancing consumer engagement.

Refrigerators: Q3 is seasonally the weakest quarter for the refrigerator industry, with demand typically ramping up from January ahead of the summer season. Softness was further stressed by the transition to new energy efficiency norms effective January 1, 2026, resulting in brands consciously limiting inventory of current models due to an impending one-star downgrade. Despite these industry-wide constraints, we continue to strengthen our product portfolio and customer base. Alongside a strong presence in direct-cool refrigerators, we successfully introduced minibars in 50-liter and 100-liter categories, which received an extremely encouraging market response with entire available capacity already booked. We are also onboarding leading brands including Haier in this segment. We will introduce a new 170-liter low-cost refrigerator model targeted at export markets which has seen healthy traction. To support future growth, we have commenced construction of phase expansion facilities and another 30,000 square feet facility for two-door refrigerators, deep freezers, and side-by-side refrigerators.

Home Appliances: Revenue for the quarter was 35 crores, operating profit was 14 crores with an operating margin of 11.5%. Our washing machine portfolio demonstrates full ownership capabilities from design support to testing and manufacturing. Our expansion into the new category of semi-automatic washing machines in 16 kg and 18 kg capacities is completed, and mass production will start in March 2026. Our new facility for front-loading washing machines is ready, and mass production will start by Q2 FY27 with an annual capacity of 300,000 units. Production started for robotic vacuum cleaners with Ecovacs with a healthy order book, and we are actively exploring other appliances like microwaves and kitchen electronics.

Lighting: The JV with Signify continues to deliver exceptional results. This partnership is driving robust revenue growth, enabling better client asset utilization and deepening localization levels. We significantly enhanced our market share in LED bulbs and lights through this partnership. We are seeing several small players in the lighting industry struggling to keep pace with required investment, technology, quality, and compliance, which is creating a favorable competitive backdrop for a well-capitalized platform like ours. We are moving up the value curve with an increasing focus on premium and technology-led lighting solutions. Leveraging our manufacturing expertise, we see strong potential to export high-quality LED lighting products to markets such as Europe, the UK, UAE, and the US.

Telecom and Networking Products: Home broadband penetration in India continues to grow at a very fast pace. We have been continuously building more capacity and have a stable order book for our anchor customers on CPE devices. We started manufacturing highly complex telecom backhaul microwave radios for a US telecom brand. We have localized components such as mechanical adapters, plastic moldings, and sheet metal. We have been selected as an EMCS beneficiary for optical transport receivers and plan to focus on diversifying into technologically advanced product categories next fiscal year.

Laptops, Tablets, and IT Hardware Products: The segment saw a healthy uptick in revenue this quarter. We have a very strong order book for the next financial year and capacity enhancement is ongoing. Our dedicated IT hardware unit in Chennai has successfully stabilized manufacturing of laptops and All-in-Ones for HP and others. We have bagged orders for desktops from one of our customers and will start manufacturing in Q4 of this fiscal year in Chennai. We are also in active discussion with our existing customers to manufacture tablets. The new facility being developed as an extension to our existing facility under our 60:40 JV is near completion. Mass production of SSD and memory modules is planned to begin in Q2 FY27, which will deepen the level of manufacturing and contribute towards improved margins. We are also in deep discussion with our JV partner for the manufacturing of servers to capitalize on the fast-growing market.

Rexxam Dixon Electronics: Our JV for PCBA continues to perform well and remains a strategic asset in our component portfolio. We expect a robust amount from this season and will scale up our capacity, operationalizing a new upcoming facility by the end of Q4 of the current fiscal year.

With that, I will conclude my remarks. Saurabh and I are happy to take any questions.

Operator: Thank you very much. We will now begin the question and answer session. The first question comes from the line of Ankush Sharma with HDFC Life. Please go ahead.

Ankush Sharma – HDFC Life: Hi, good afternoon. Thanks as always for your time. A couple of questions on the mobile phone side. If you could just help us with volumes for Q3 and how you see volumes for both FY26 and FY27 versus the earlier guidance?

Management: The smartphone volume for Q3 was around 6.9 million. Overall, in nine months, we had a volume closer to 21 million. Q4 volumes are expected to be somewhere between 7 to 7.5 million. For FY27, the numbers are still being looked at. The situation is slightly skewed because of memory prices. Also, we are confident and close to government approval for Vivo. So, it is slightly premature to commit on a number for FY27.

Ankush Sharma – HDFC Life: Okay. So if you could just help us, what is leading to this delay in the Vivo JV? Is it just procedural or is there anything else you can talk about? Because we have been expecting this to come through.

Management: I appreciate that, but we feel that we are fairly close to it. It should happen shortly. That is where we are.

Ankush Sharma – HDFC Life: On the margins, how do you see mobile margins shaping up as the original PLI benefits move toward their end as we head into FY27? How do you see margins shaping up, perhaps with some dip and then catch-up in the second half? Also, we are hearing about a second PLI for mobile phones. Could you please talk about that?

Management: As we have mentioned in previous calls, mobile business margins are closer to 3.5%. On top of that, the PLI benefit comes to about 5-6%, which is consolidated in this margin. It is difficult to say with certainty right now if the PLI will be renewed. Deep discussions are happening between the industry and the government. We are realistic about it, but a definitive statement on my part wouldn't be fair. There is a positive response because they want to support the sector until a full component ecosystem is created.

Worst case, if it does not get extended, our margins will be impacted, which we communicated earlier. However, we feel confident that our backward integration will help us overcome that. Additional margins will come from our component play, which will largely play out in FY28. Both in terms of capacity expansion and deepening manufacturing, it will take six to eight months. Display machinery has been ordered and mass production should start towards the end of Q2. There can be quarters where the margin looks lower if PLI doesn't extend, but by FY28, we are confident in margin expansion due to the component play. On the display side, we are expanding capacity from 40 million to almost 190 million. The building is ready and the first set of machines for the 2 million per month mobile phone capacity has already arrived. Trials should start by June or July.

Operator: The next question comes from the line of Samit Sinha with Macquarie Capital. Please go ahead.

Samit Sinha – Macquarie Capital: Hello, can you hear me? Thank you. Memory prices have been going up for the last two quarters and there are reports about display prices also increasing. How are the OEMs reacting to this? Are they de-stacking or shifting memory configurations to keep prices stable? My second question is regarding media reports about Motorola using you for the camera module. Have other OEMs also signed up?

Management: Regarding the first part, for us, it is a pass-through. There is no impact on our margins on an absolute basis. When prices increase significantly, there is a concern about the impact on demand, particularly in the mid and lower segments. That leads to an element of uncertainty.

On the second part, regarding the camera module, we are already supplying to Motorola. We have had an extremely positive response. We are also supplying to various other brands like Vivo, Samsung, and Oppo. Almost all brands in the Android ecosystem are our customers. The camera module market is approximately 350 to 400 million units, largely serviced through imports today. We want to service that through our Q-tech partnership. In Q-tech, we have also received the EMCS approval.

Samit Sinha – Macquarie Capital: What is the timing on the Vivo JV so we can model different margin scenarios for FY27 and FY28?

Management: We feel we are close to the Vivo JV as we are pressing deeply with the authorities. However, it is not possible to give a specific timeline. We still feel we should have a margin between 2.8% to 3.2% in our mobile phone business. As we integrate our backward integration play, margins should incrementally go up month-on-month. The timeline for the integration of components is about six to eight months. Finally, we see almost 70-80% of our business being integrated into the component landscape by FY28, which will lead to margin expansion, even without PLI.

Operator: The next question comes from the line of Bipul Srivastava with PhillipCapital. Please go ahead.

Bipul Srivastava – PhillipCapital: Hi, good evening. Previous quarters showed revenues from iSmartu and other segments separately, but they are not listed this quarter. Is there a reason why the disclosure changed?

Management: There is no specific reason. This is a combined entity and we look at iSmartu as part of the mobile phone business, so we consolidated them. If you need separate numbers, we can have a separate discussion.

Bipul Srivastava – PhillipCapital: On the mobile phone volume side, your component story is a function of those volumes. How confident are you in the component story if mobile volumes remain weak?

Management: On a conservative basis, for us, growth in the mobile business should be somewhere around 60-65 million units. That is a large play for our component business. At 60-65 million phones, I am looking at 160-170 million camera modules and 40-50 million displays. We are also working on increasing exports. There can be some quarters with delays in execution, but we feel confident about the numbers playing out for FY27 and FY28.

Bipul Srivastava – PhillipCapital: Do you maintain the 20 million volume target for Vivo for FY27, or is there a downside given the approval delay?

Management: We feel confident, but it is subject to how soon we get approved. After approval, it will take at least 45-60 days to intimate and close the transaction. Depending on that timing, the numbers will play out.

Operator: The next question comes from the line of Siddhartha Patra with Nomura. Please go ahead.

Siddhartha Patra – Nomura: We had talked about the addition of another global ODM. When should we expect that to come through? And on exports, it has slowed down; how do you see that for next year?

Management: Discussions with a new customer are ongoing. We are confident we should conclude it by Q1 of the forthcoming fiscal year. Regarding exports, we are pursuing two opportunities. Motorola is already on. We have exported almost 4,500 crores in the first nine months and should close at 5,500-6,000 crores in the current fiscal year. We feel this will be the run rate. We are in discussions with another large partner and are planning a new facility in Tirupati for 2G and 5G phones. Regarding the EU-FTA, it likely won't impact phones as there are already no tariffs, but it will help our lighting and TV business.

Siddhartha Patra – Nomura: What revenue was booked for Q-tech this quarter and how should we think about the ramp-up?

Management: The revenue for Q3 was closer to 400 crores, and we are looking at a similar rate of 2,000 crores annually. In the next 6-9 months, we are significantly scaling capacity. Last year volumes were 40 million; this year should be similar. The idea is to take it up to 180-190 million. We are deepening the manufacturing process to capture more value in India. Q-tech will also be a beneficiary of the EMCS scheme.

Operator: The next question comes from the line of Aditya Bharti with Investec. Please go ahead.

Aditya Bharti – Investec: Could you quantify the amount due from the government for PLI and if there have been delays in payments?

Management: I don't have that exact number with me right now, but we have been getting our PLI from the government for our telecom and lighting businesses. This year's numbers will come in after the close of the financial year. There have been no unusual delays. We already have the PLI approved for our Mumbai operations as of September 2025.

Aditya Bharti – Investec: Once Vivo is operational and the component ecosystem is running, what are the longer-term growth levers?

Management: Apart from mobile, which includes the Vivo partnership and component depth in display and camera modules, our IT hardware business is a major trigger. We are expanding beyond notebooks to All-in-Ones, desktops, tablets, and printers. We are operationalizing a JV with Innodisk for SSD and memory modules. We are also executing projects for servers. Our telecom business should reach a revenue scale of 5,200 crores this year. We are the largest in India for CPE devices and have bagged an order for complex telecom backhaul microwave radios for a US brand. In lighting, our JV with Signify is growing well and migrating to premium products. In washing machines, we are expanding into front-loaders by Q2 of the next fiscal year. In refrigerators, we are expanding capacity to 3 million units and adding side-by-side and double-door models. We see a huge opportunity for lighting exports to Europe and the US now that tariffs are being optimized.

Operator: The next question comes from the line of Bhavik Mehta with JPMorgan. Please go ahead.

Bhavik Mehta – JPMorgan: What is the update on the Longcheer JV in terms of the plant and expected volumes?

Management: We have received the approval and will be signing the JV agreement by the second week of February. Factory construction has already started. A new 400,000 square feet facility is under construction and will be operationalized by Q2 of the next fiscal year. Initially, the capacity will be 18 million units. We are also in discussions for expanding the portfolio beyond mobile phones to IoT devices and smart glasses.

Operator: The next question comes from the line of Sonal Mehta with Kotak Securities. Please go ahead.

Sonal Mehta – Kotak Securities: If there are more delays in the Vivo approval, what is the plan B? Do we continue as a contract manufacturer?

Management: we feel very confident as we are deeply involved in this process. Please bear with us. We are not currently looking at a "Plan B" as we expect the approval shortly.

Sonal Mehta – Kotak Securities: How were the December volumes and where was the decline sharper?

Management: As mentioned, memory prices have been intense for the lower and mid-segments, and that is where we have seen an impact. The total was 6.9 million for the quarter. It would not be fair to share which specific brands saw a decline.

Sonal Mehta – Kotak Securities: Has there been any market share loss for your largest customer as another Indian partner has started manufacturing for them?

Management: One of our customers is manufacturing with another EMS company, but on an overall volume basis, our numbers have not come down compared to last fiscal year. While a certain percentage has been allocated elsewhere as part of their strategy, our numbers for that customer will show growth this year. We still have a lion's share of their business.

Operator: The next question comes from the line of Chinmay Param, an individual investor. Please go ahead.

Chinmay Param – Individual Investor: Regarding the lighting sector, could you repeat your opening comments on the current market scenario and opportunities, specifically regarding GST or tariffs?

Management: In lighting, our JV with Signify continues to deliver exceptional results with robust double-digit revenue growth. Smaller players are struggling, which favors a well-capitalized platform like ours. We are moving toward premium technology-led solutions. We are still waiting for the fine print on the EU-FTA, but we feel tariffs on lighting and LED TVs are a potential area for us. We believe they could come down to zero, which is an opportunity to tap the EU market faster.

Operator: The next question comes from the line of Girish with Morgan Stanley. Please go ahead.

Girish – Morgan Stanley: Can you highlight the CAPEX budget for FY26 and FY27? Also, what would be the cash consideration for the Vivo manufacturing facilities?

Management: For the first nine months, CAPEX was 720 crores. For the full fiscal year, it should be between 1,100 to 1,200 crores. It is not prudent to share the number for the Vivo acquisition right now, but our balance sheet has adequate strength. Last quarter alone, we did 350 to 400 crores of CAPEX.

Girish – Morgan Stanley: On IT hardware, we saw a one-year extension given by the government. How should we think about revenues for next year?

Management: This year we feel revenue should be in the range of 1,500 crores. We have a decent order book for next year, and we feel that the number will be somewhere around 3,500 to 4,000 crores.

Operator: The next question comes from the line of Nirenj with BNP Paribas. Please go ahead.

Nirenj – BNP Paribas: Is the commencement of the HKC JV facility contingent on the government approval?

Management: No, it is not contingent on the approval. Construction is on, the building has been handed over, and equipment has landed at the port. Even if the approval were delayed, it does not have any impact on the execution or starting production.

Nirenj – BNP Paribas: Regarding export orders for iSmartu, we expected 3 to 4 million units for Africa. Where does that stand?

Management: Some exports have already started. We would have done 1.2 to 1.5 million units from iSmartu. Discussions are ongoing, and that is why we are building a large footprint down south.

Operator: The next question comes from the line of Rahul Aggarwal with InCred Asset Management. Please go ahead.

Rahul Aggarwal – InCred Asset Management: On the pass-through of memory pricing and currency depreciation, is there a timeline lag or is it immediate?

Management: It is an immediate pass-through. There is no impact as this is a prescriptive business for us.

Rahul Aggarwal – InCred Asset Management: About Longcheer, does the existing business continue until the new plant is operational?

Management: Yes, the business continues as is. There is no delay in production during the shift. In FY27, we expect the Longcheer volume to be around 8 to 10 million units.

Rahul Aggarwal – InCred Asset Management: Could you break down the CAPEX into categories like camera and display modules?

Management: For displays across smartphones, automotive, and IT hardware, we will be putting in a CAPEX of closer to 1,100 to 1,200 crores. For camera modules, it should be closer to 250 to 300 crores. For EMCS items like optical transducers and mechanicals, it is about 50 to 60 crores each.

Operator: The next question comes from the line of Keyur Pandya with ICICI Prudential. Please go ahead.

Keyur Pandya – ICICI Prudential: Is it fair to assume that in the first half of FY27, we should see de-growth in volume due to memory supply issues?

Management: No, we will still have growth. We are working on the numbers, but we feel there will be growth in the first half in spite of these challenges.

Operator: The next question comes from the line of Nitin Kaushik with InCred Capital. Please go ahead.

Nitin Kaushik – InCred Capital: You projected over 1 lakh crore revenue in the next 3 to 4 years. Given the current memory price increases, does that guidance remain intact?

Management: We are still very optimistic. We have acquisition and JV partnerships in place. We are committed to aggressive growth. We have seen supply chain restrictions before, such as during COVID-19, but that does not change the overall outlook for the company. While mobile will be the largest segment, we see huge potential in IT hardware, components, and telecom equipment.

Operator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Management: Thank you very much for participating in the call. We really appreciate your commitment and conviction in Dixon. Thank you so much.

Operator: Thank you. On behalf of DAM Capital, I conclude this conference. Thank you for joining us and you may now disconnect your lines.