

**HOLD**

TP: Rs 4,300 | ▲ 5%

**DIXON TECHNOLOGIES**

Consumer Durables

26 July 2023

**Good quarter; cut to HOLD on limited upside**

- Q1 topline strong at Rs 32.7bn (+15% YoY) with improved margins; new customer additions provide healthy visibility
- Consumer electronics business posted a flattish topline (ex-JV revenue last year); above-industry growth guided for FY24
- Downgrade to HOLD due to the sharp runup in valuations; upon rollover, our TP changes to Rs 4,300 (vs. Rs 4,100)

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**Positive surprise on margins:** Dixon’s Q1FY24 topline came in at Rs 32.7bn (+15% YoY) and EBITDA margin at 4% improved 50bps due to a higher share of lucrative original design manufacturing or ODM-led business. EBIT margin expanded across verticals led by the home appliances segment at 10.8% (+270bps YoY). Adj. PAT at Rs 688mn grew 51% YoY. Home appliances and mobiles aided topline growth, but the consumer electronics and lighting divisions were weak YoY.

**Client signups continue in mobiles business:** Though delayed client addition has clouded the outlook for the mobiles business in H2FY23, Dixon has brought in Xiaomi as a client in Q1FY24. In FY23, management had partly allayed concerns by announcing major orders from Jio and Nokia.

**Making the most of PLIs:** Dixon is currently operating under various production-linked incentive (PLI) schemes and all of its businesses (excluding Samsung smartphones) are eligible for incentives. The company is in discussions with global brands for production under the IT hardware PLI scheme as well.

**EMS outlook upbeat:** Management remains optimistic on the opportunities in the electronics manufacturing space (EMS) and expects to deliver growth significantly ahead of the industry in FY24, backed by a strong order book, client addition and resultant incremental capacity. New customers such as Voltas Beko, ITEL and Xiaomi are likely to be key catalysts for growth.

**Downgrade to HOLD post rally:** We continue to value the stock at an unchanged P/E of 55x – a 20% premium to the 5Y average – and roll valuations forward to Jun’25E, yielding a revised TP of Rs 4,300 (vs. Rs 4,100). Though we believe Dixon remains better positioned in the EMS space than peers, the sharp 26% runup in stock price since our [last quarterly update](#) leads us to downgrade the stock from BUY to HOLD as we await a better entry point.

**Key changes**

Target	Rating
▲	▼

Ticker/Price	DIXON IN/Rs 4,113
Market cap	US\$ 3.0bn
Free float	66%
3M ADV	US\$ 29.8mn
52wk high/low	Rs 4,730/Rs 2,553
Promoter/FPI/DII	34%/12%/24%

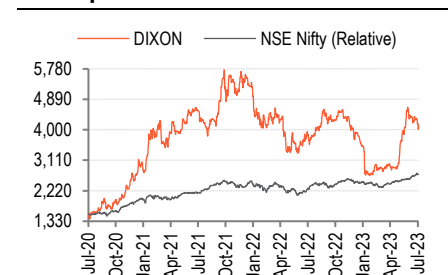
Source: NSE | Price as of 25 Jul 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,21,920	1,76,886	2,09,182
EBITDA (Rs mn)	5,128	7,556	8,409
Adj. net profit (Rs mn)	2,555	4,086	4,460
Adj. EPS (Rs)	42.9	68.6	74.9
Consensus EPS (Rs)	42.9	69.9	92.0
Adj. ROAE (%)	22.4	27.5	23.5
Adj. P/E (x)	95.9	59.9	54.9
EV/EBITDA (x)	47.8	32.4	29.1
Adj. EPS growth (%)	34.3	59.9	9.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	32,715	28,551	14.6	30,655	6.7
EBITDA	1,319	1,001	31.7	1,563	(15.6)
EBITDA Margin (%)	4.0	3.5	50bps	5.1	(110bps)
Depreciation	337	241	-	325	-
Interest	140	144	-	151	-
Other Income	29	4	-	18	-
PBT	870	621	40.2	1,105	(21.3)
Tax	229	165	-	315	-
Adjusted PAT	688	457	50.6	806	(14.6)
Exceptional item	-	-	-	0	-
Reported PAT	688	457	50.6	806	(14.6)
Adj. PAT Margin (%)	2.1	1.6	50bps	2.6	(50bps)
EPS (Rs)	10.8	7.6	41.0	13.3	(18.8)

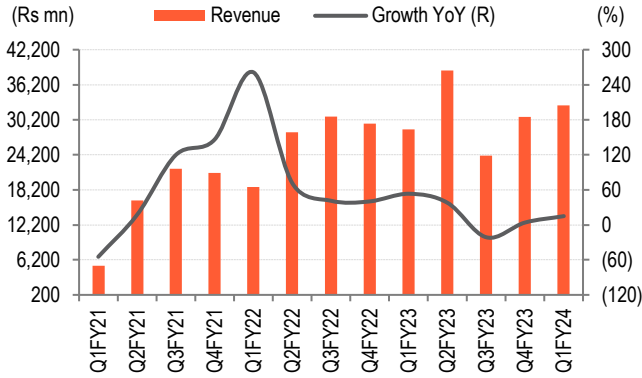
Source: Company, BOBCAPS Research

**Fig 2 – Segment-wise performance**

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Revenue</b>													
Consumer electronics	3,487	9,605	13,643	11,786	12,623	14,865	14,104	10,104	9,322	15,007	8,640	9,810	8,820
Growth YoY (%)	(31.6)	30.1	200.3	199.9	262.0	54.8	3.4	(14.3)	(26.2)	1.0	(38.7)	(2.9)	(5.4)
Lighting products	777	2,957	3,486	3,817	1,535	3,957	4,304	3,046	2,312	2,904	2,630	2,700	2,220
Growth YoY (%)	(76.0)	4.2	26.0	49.8	97.5	33.8	23.5	(20.2)	50.6	(26.6)	(38.9)	(11.3)	(4.0)
Home appliances	241	1,454	1,152	1,465	706	2,240	1,801	2,341	2,556	3,629	2,440	2,810	2,590
Growth YoY (%)	(75.6)	4.5	68.4	62.7	193.0	54.1	56.4	59.8	262.3	62.0	35.5	20.0	1.3
Mobile & EMS	531	1,974	2,992	2,899	3,059	5,986	9,397	12,941	13,049	15,944	9,150	14,100	17,950
Growth YoY (%)	(63.1)	2.1	114.4	380.7	476.3	203.2	214.1	346.4	326.6	166.4	(2.6)	9.0	37.6
Security systems	134	397	555	1,092	751	990	1,127	1,096	1,311	1,183	1,184	1,240	1,140
Growth YoY (%)	(80.3)	(8.7)	10.4	99.8	461.6	149.4	102.9	0.3	74.5	19.5	5.1	13.2	(13.1)
<b>EBIT</b>													
Consumer electronics	86	265	394	282	297	318	303	284	248	428	260	370	300
EBIT margin (%)	2.5	2.8	2.9	2.4	2.4	2.1	2.1	2.8	2.7	2.9	3.0	3.8	3.4
Lighting products	58	277	332	307	69	333	280	217	167	238	239	260	190
EBIT margin (%)	7.4	9.4	9.5	8.1	4.5	8.4	6.5	7.1	7.2	8.2	9.1	9.6	8.6
Home appliances	4	173	118	103	44	199	121	186	207	327	250	310	280
EBIT margin (%)	1.7	11.9	10.2	7.0	6.3	8.9	6.7	7.9	8.1	9.0	10.2	11.0	10.8
Mobile & EMS	20	163	138	74	42	179	303	457	328	423	330	590	530
EBIT margin (%)	3.8	8.2	4.6	2.5	1.4	3.0	3.2	3.5	2.5	2.7	3.6	4.2	3.0
Security systems	0	12	20	31	26	13	47	38	52	36	20	36	15
EBIT margin (%)	0.1	2.9	3.5	2.9	3.5	1.3	4.2	3.4	4.0	3.0	1.7	2.9	1.3

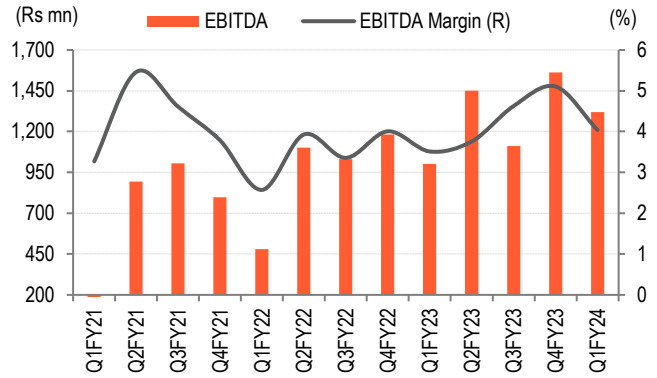
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth**



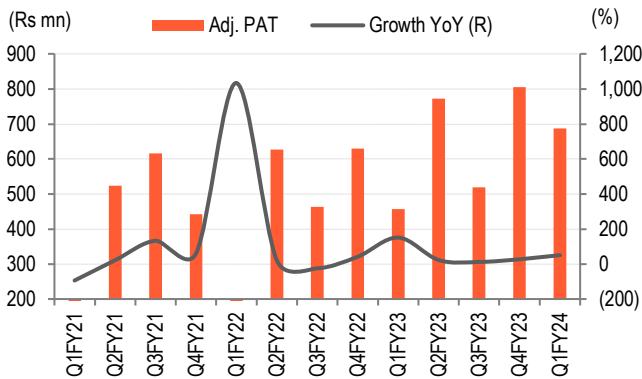
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth**



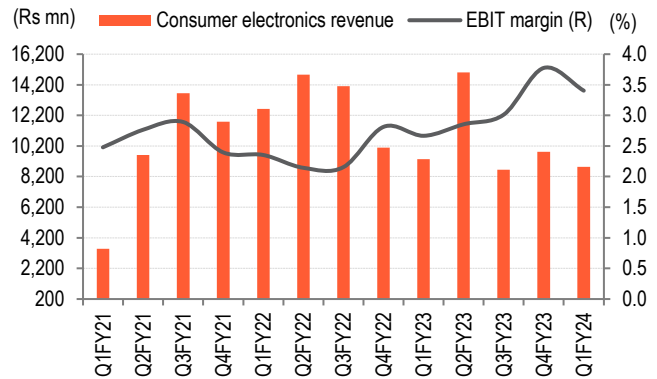
Source: Company, BOBCAPS Research

**Fig 5 – PAT growth**



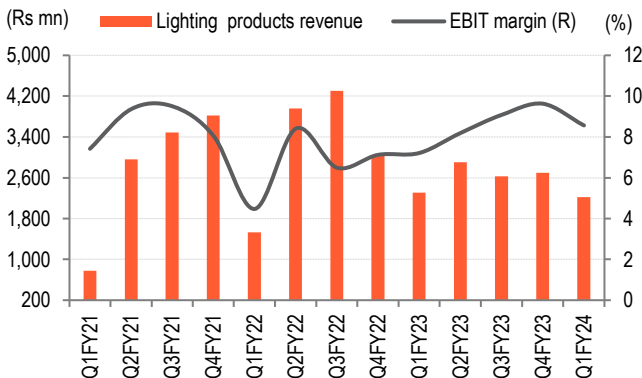
Source: Company, BOBCAPS Research

**Fig 6 – Consumer electronics business growth**



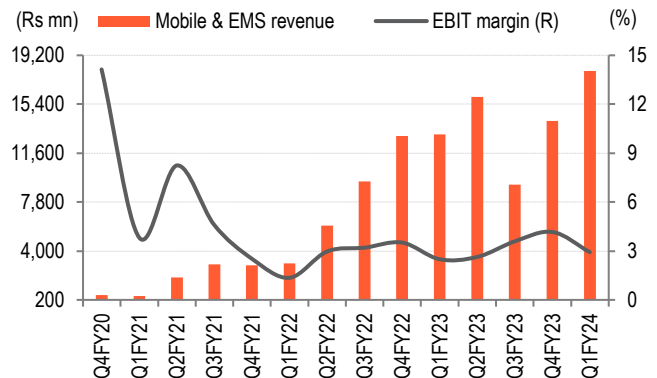
Source: Company, BOBCAPS Research

**Fig 7 – Lighting business growth**



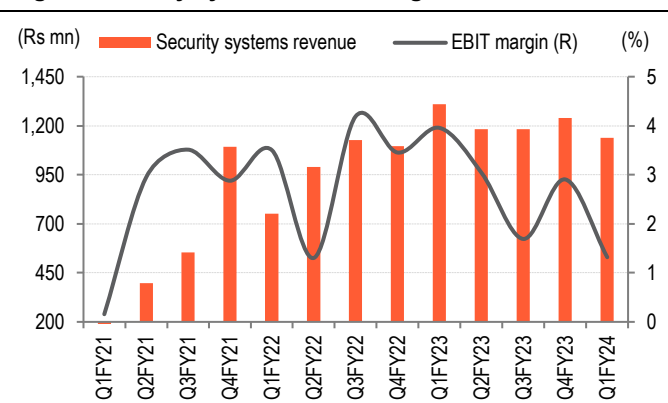
Source: Company, BOBCAPS Research

**Fig 8 – Mobiles business growth**



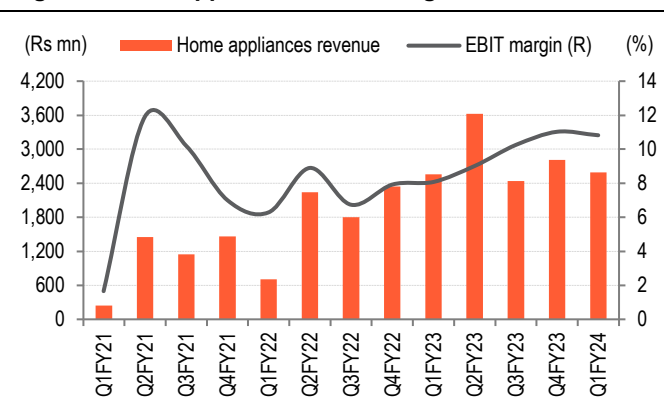
Source: Company, BOBCAPS Research

**Fig 9 – Security systems business growth**



Source: Company, BOBCAPS Research

**Fig 10 – Home appliances business growth**



Source: Company, BOBCAPS Research

**Fig 11 – Production commencement plan**

Customer	Product	Rolled-out as of	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Beyond FY24
Google	Android-based solutions			Yes			
Samsung	Tizen system				Yes		
Dixon (backward integration)	Injection molding	Yes					
Dixon (backward integration)	LED bulbs for internal consumption				Expected		
	Commercial displays					Expected	
	Strip and rope lighting					Expected	
	Smart lighting				Yes		
Germany	Lighting export order			Yes			
	Professional lighting					Expected	
Lloyd, Lyons, Panasonic	Home appliances						In a few years
Jio	Internet-based set-top boxes				Yes		
Jio	5G CPE boxes					Yes	

Source: Company, BOBCAPS Research

### Earnings call highlights

- Margins:** Dixon’s EBITDA margin expanded ~50bps YoY in Q1FY24 on account of better operating leverage, cost optimisation, and strategic price hikes in the ODM businesses. ROCE and ROE stood at 32.4% and 23.1% respectively in Q1 as compared to 33.4% and 22.4% in FY23. Management expects incremental operating leverage to kick in from Q4FY24 for the ODM business.
- Working capital management:** Net working capital days were negative in Q1 (at -6 days vs. -2 days in FY23). Dixon freed up Rs 1.4bn in working capital during the quarter.

### Consumer Electronics

- **Revenue:** Q1 of last year included an amount of Rs 710mn which was part of the air conditioner inverter business that was later transferred to the joint venture with Japanese company Rexam. Ex-JV revenue, the consumer electronics business posted a flattish topline for the quarter. Management expects to deliver topline growth much ahead of the industry in the segment for FY24.
- **Volumes:** Dixon registered sale volumes of 710,000 units in TVs and 309,000 units in semiautomatic washing machines for the quarter compared to 740,000 and 350,000 units in Q1FY23 respectively. For Samsung, volumes stood at 1.1mn units (vs. 850,000 units). Other products such as CCTVs and DVRs totalled 1.9mn units. With customers like Voltas onboard, this segment has a strong order book.
- **Demand:** Products such as washing machines, mobiles, wearables and hearables are witnessing healthy demand, mainly due to new customer acquisition, whereas TVs are seeing flattish demand and CCTVs and DVRs have decent demand visibility. Volumes from Motorola and Nokia are seeing some uptick but are still subdued. Since Diwali falls in the middle of November this year, management expects demand to sustain in Q3 as well.
- **Pricing:** The weighted average selling price of Dixon's portfolio increased from Rs 11,400 in Q1FY23 to Rs 12,000 this quarter.
- **IT hardware PLI:** The company is in discussions with global brands for product categories such as notebooks, desktops and tablets under the IT hardware PLI scheme, with a focus on notebooks.

### Lighting

- **Revenue:** The lighting segment recorded a 4% YoY decline in Q1 revenue, mainly due to 30% price erosion in LED bulbs (65-70% revenue share), apart from sluggish consumer demand. Competitive intensity is also increasing which could have a slight impact on Dixon's market share in bulbs.
- **Update on PLI-related efforts:** The company has made investments in LED lighting under the LED lighting and components PLI scheme, in line with its backward integration strategy, and the new plant in Dehradun has begun production from May of this year.
- **Professional lighting:** Dixon was not present in professional lighting earlier, which comprises 40% of the Indian lighting industry, and hopes to launch this segment by Q4FY24.

### Home appliances

- **Backward integration:** The company has set up in-house manufacturing, in line with its backward integration strategy in the home appliances segment.
- **Customers:** Voltas Beko has been onboarded for supply of fully automatic washing machines. Dixon has also expanded its customer base to Lloyd, Lyons, and Panasonic. Products to these customers are expected to be rolled out in the coming years.

- **R&D:** The company is investing aggressively in this segment with a special focus on R&D.

### **Mobiles & EMS**

- **Intel:** Dixon has garnered Intel as a new customer for the manufacture of phones and is planning to supply 0.8-1mn units a month.
- **Reliance Jio:** The company had earlier secured a large order form Reliance Jio for over 15mn units and has already delivered 1mn units.
- **Xiaomi:** Xiaomi was recently onboarded as a customer and capacity setup is underway. Production is targeted to start from Sep'23 at 0.5mn units a month with gradual ramp-up to 1mn units a month within 8-10 months of commencement.
- **Motorola:** Production for Motorola has been flattish at ~1mn units in Q1 even as the current order book is strong.
- **PLI:** The company has already achieved the threshold for PLI in terms of capex and revenue in the first year and has filed for incentives with the government.
- **Production:** Management expects production to ramp up significantly from Q3 of FY24.

## Valuation methodology

We continue to value the stock at an unchanged P/E of 55x – a 20% premium to the five-year average – and roll valuations forward to Jun'25E, yielding a revised TP of Rs 4,300 (vs. Rs 4,100). Though we believe Dixon remains better positioned in the EMS space than peers, the sharp 26% runup in stock price since our [last quarterly update](#) leads us to downgrade the stock from BUY to HOLD as we await a better entry point.

## Key risks

Key upside risks to our estimates are:

- above-anticipated customer acquisitions, and
- faster volume ramp-up in the mobiles segment.

Key downside risks to our estimates are:

- volatility in mobile business revenue,
- persisting weakness in the lighting and electronics divisions, and
- margins reverting to lower levels on reduced ODM contribution.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,265	2,260	HOLD
Blue Star	BLSTR IN	0.9	776	1,650	BUY
Crompton Greaves	CROMPTON IN	2.2	287	370	BUY
Dixon Technologies	DIXON IN	3.0	4,113	4,300	HOLD
Havells India	HAVL IN	9.9	1,304	1,600	BUY
Orient Electric	ORIENTEL IN	0.6	231	240	HOLD
Polycab India	POLYCAB IN	8.5	4,693	5,000	BUY
V-Guard Industries	VGRD IN	1.5	281	270	HOLD
Voltas	VOLT IN	3.1	767	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 25 Jul 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>64,482</b>	<b>1,06,971</b>	<b>1,21,920</b>	<b>1,76,886</b>	<b>2,09,182</b>
EBITDA	2,866	3,791	5,128	7,556	8,409
Depreciation	437	840	1,146	1,414	1,922
EBIT	2,429	2,952	3,981	6,142	6,488
Net interest inc./(exp.)	(274)	(442)	(606)	(742)	(593)
Other inc./(exp.)	16	38	56	62	68
Exceptional items	0	0	0	0	0
EBT	2,170	2,548	3,432	5,462	5,962
Income taxes	572	644	897	1,376	1,502
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	16	0	0
<b>Reported net profit</b>	<b>1,598</b>	<b>1,903</b>	<b>2,555</b>	<b>4,086</b>	<b>4,460</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>1,598</b>	<b>1,903</b>	<b>2,555</b>	<b>4,086</b>	<b>4,460</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	17,097	23,137	24,519	38,285	45,275
Other current liabilities	898	2,615	4,341	4,324	5,113
Provisions	0	0	0	0	0
Debt funds	1,513	4,580	4,531	5,298	4,944
Other liabilities	1,576	2,472	555	806	954
Equity capital	117	119	119	119	119
Reserves & surplus	7,256	9,849	12,730	16,696	21,037
Shareholders' fund	7,373	9,968	12,849	16,816	21,156
<b>Total liab. and equities</b>	<b>28,457</b>	<b>42,772</b>	<b>46,794</b>	<b>65,529</b>	<b>77,442</b>
Cash and cash eq.	1,641	3,174	2,592	3,042	6,025
Accounts receivables	10,891	13,564	17,155	23,658	28,705
Inventories	7,432	11,557	9,579	16,504	17,976
Other current assets	1,946	3,176	2,068	3,000	3,548
Investments	0	0	0	0	0
Net fixed assets	5,403	9,542	9,425	12,011	13,089
CWIP	724	220	1,197	1,737	2,054
Intangible assets	122	494	3,012	3,012	3,012
Deferred tax assets, net	0	0	0	0	0
Other assets	297	1,045	1,768	2,565	3,034
<b>Total assets</b>	<b>28,457</b>	<b>42,772</b>	<b>46,794</b>	<b>65,529</b>	<b>77,442</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>1,701</b>	<b>2,728</b>	<b>7,258</b>	<b>4,887</b>	<b>7,094</b>
Capital expenditures	(1,680)	(4,174)	(4,502)	(4,000)	(3,000)
Change in investments	(949)	(452)	984	0	0
Other investing cash flows	(26)	(19)	(38)	(1,085)	(638)
<b>Cash flow from investing</b>	<b>(2,654)</b>	<b>(4,645)</b>	<b>(3,556)</b>	<b>(5,085)</b>	<b>(3,638)</b>
Equities issued/Others	269	642	336	0	0
Debt raised/repaid	688	2,174	(2,776)	767	(354)
Interest expenses	0	0	0	0	0
Dividends paid	(322)	228	(856)	(119)	(119)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>635</b>	<b>3,043</b>	<b>(3,296)</b>	<b>648</b>	<b>(473)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(318)</b>	<b>1,126</b>	<b>406</b>	<b>450</b>	<b>2,983</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,641</b>	<b>3,174</b>	<b>2,592</b>	<b>3,042</b>	<b>6,025</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	26.8	32.0	42.9	68.6	74.9
Adjusted EPS	26.8	32.0	42.9	68.6	74.9
Dividend per share	1.0	2.0	3.0	2.0	2.0
Book value per share	123.8	167.4	215.8	282.4	355.3

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	3.8	2.3	2.0	1.4	1.2
EV/EBITDA	85.5	64.6	47.8	32.4	29.1
Adjusted P/E	153.3	128.7	95.9	59.9	54.9
P/BV	33.2	24.6	19.1	14.6	11.6

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	73.6	74.7	74.5	74.8	74.8
Interest burden (PBT/EBIT)	89.4	86.3	86.2	88.9	91.9
EBIT margin (EBIT/Revenue)	3.8	2.8	3.3	3.5	3.1
Asset turnover (Rev./Avg TA)	11.9	11.2	12.9	14.7	16.0
Leverage (Avg TA/Avg Equity)	0.8	1.1	0.8	0.8	0.7
Adjusted ROAE	25.0	22.0	22.4	27.5	23.5

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	46.5	65.9	14.0	45.1	18.3
EBITDA	28.5	32.3	35.3	47.4	11.3
Adjusted EPS	32.6	19.1	34.3	59.9	9.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	4.4	3.5	4.2	4.3	4.0
EBIT margin	3.8	2.8	3.3	3.5	3.1
Adjusted profit margin	2.5	1.8	2.1	2.3	2.1
Adjusted ROAE	25.0	22.0	22.4	27.5	23.5
ROCE	23.8	19.1	18.8	23.5	20.3
<b>Working capital days (days)</b>					
Receivables	62	46	51	49	50
Inventory	42	39	29	34	31
Payables	97	79	73	79	79
<b>Ratios (x)</b>					
Gross asset turnover	11.3	11.8	10.1	12.1	11.6
Current ratio	1.2	1.2	1.1	1.1	1.1
Net interest coverage ratio	8.9	6.7	6.6	8.3	10.9
Adjusted debt/equity	0.2	0.5	0.4	0.3	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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## Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

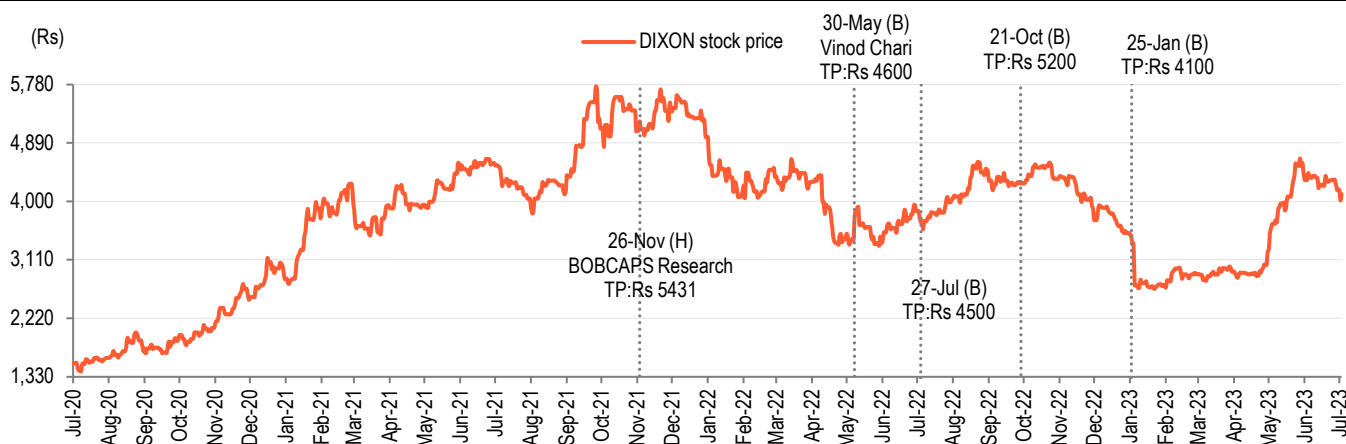
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): DIXON TECHNOLOGIES (DIXON IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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