

BUY

TP: Rs 6,300 | ▲ 18%

DIXON TECHNOLOGIES

Consumer Durables

26 October 2023

Strong quarter, even stronger outlook – upgrade to BUY

- Q2 sales up 28% YoY led by a 77% upswing in mobiles & EMS business which offset slow lighting sales
- PLI, key customer additions, robust order book and more design-based content to propel medium-term growth
- Upgrade to BUY with a TP of Rs 6,300 (vs. Rs 4,300) as we raise FY24/FY25 EPS by 1%/35% on a stronger outlook across segments

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Impressive quarter: Dixon's Q2FY24 topline grew 28% YoY to Rs 49.4bn backed by robust 77% growth in the mobiles & electronics manufacturing services (EMS) segment. Growth would have been higher but for a 38% YoY decline in lighting owing to a 25% price drop in LEDs. EBITDA margin expanded 30bps YoY to 4% and PAT grew 55% to Rs 1.2bn. Management remains bullish on growth across verticals, especially the mobiles segment which contributes 50% of the topline.

PLI and new customers to propel growth: Dixon is currently operating under various production-linked incentive (PLI) schemes and is in discussions with global brands for production under the IT hardware PLI scheme as well. New customers in FY24, such as Xiaomi (onboarded in Q1), Voltas Beko and Itel (both due to be added in H2), are likely to be key catalysts for growth.

Increasing design-based content: In its FY23 annual report, Dixon asserted that it was looking forward to designing its own products. The company has traditionally run a high-volume, low-margin model but is now looking at product categories that are high margin, such as electric vehicles, defence, drones, medical electronics and telecom infrastructure, which should aid profitability.

ROIC set to rise sharply: Dixon clocked ROIC of 19% in FY23. The company has frontloaded capex in FY24, spending Rs 3.3bn of its Rs 5bn target in H1 itself. We expect capital intensity to reduce, enabling an estimated ~700bps expansion in ROIC to 26% over FY23-FY25, which should lend continued support to valuations.

Upbeat outlook; upgrade to BUY: Following a strong Q2 and management's bullish outlook, we raise our FY24/FY25 EPS estimates by 1%/35%. Our estimate hike is backended in nature considering that the benefits of onboarding Xiaomi in the mobiles business and the impending addition of two large customers in H2FY24 will be fully visible in FY25. We expect consensus upgrades to follow and continue to value the stock at an unchanged P/E of 55x – a 20% premium to the 5Y average. On rolling valuations over to Sep'25E, we have a revised TP of Rs 6,300 (vs. Rs 4,300). Dixon looks best positioned in the EMS space – raise from HOLD to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	DIXON IN/Rs 5,341
Market cap	US\$ 3.9bn
Free float	66%
3M ADV	US\$ 35.4mn
52wk high/low	Rs 5,607/Rs 2,553
Promoter/FPI/DII	34%/12%/24%

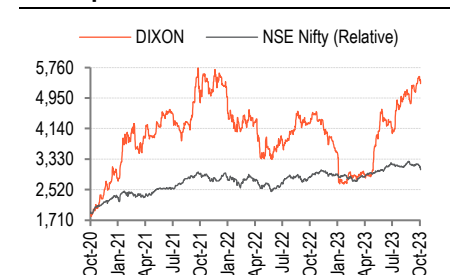
Source: NSE | Price as of 26 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,21,920	1,83,702	2,55,453
EBITDA (Rs mn)	5,128	7,601	10,501
Adj. net profit (Rs mn)	2,555	4,116	6,005
Adj. EPS (Rs)	42.9	69.1	100.8
Consensus EPS (Rs)	42.9	67.6	93.6
Adj. ROAE (%)	22.4	27.7	30.3
Adj. P/E (x)	124.5	77.3	53.0
EV/EBITDA (x)	62.0	41.8	30.3
Adj. EPS growth (%)	34.3	61.1	45.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	49,432	38,668	27.8	32,715	51.1	82,147	67,218	22.2
EBITDA	1,989	1,452	37.0	1,319	50.8	3,308	2,453	34.9
EBITDA Margin (%)	4.0	3.8	30bps	4.0	0bps	4.0	3.6	40bps
Depreciation	364	291		337		702	532	
Interest	171	158		140		311	303	
Other Income	7	6		29		36	10	
PBT	1,461	1,008	44.9	870	67.9	2,331	1,628	43.1
Tax	352	231		229		311	396	
Adjusted PAT	1,194	772	54.6	688	73.5	1,751	1,232	42.1
Exceptional item	-	-		0		131.7	(2.6)	
Reported PAT	1,194	772	54.6	688	73.5	1,882	1,230	53.1
Adj. PAT Margin (%)	2.4	2.0	40bps	2.1	30bps	2.1	1.8	30bps
EPS (Rs)	18.6	13.0	42.7	10.8	72.8	29.4	20.7	42.1

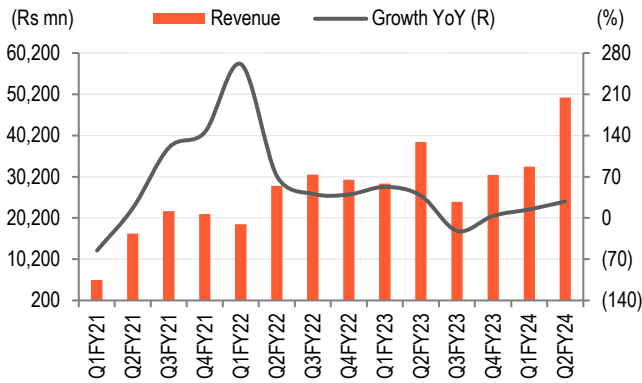
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue														
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	14,400
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)	(4.0)
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	1,810
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)	(37.7)
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	3,640
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	0.3
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	28,190
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	76.8
Security Systems	134	397	555	1,092	751	990	1,127	1,096	1,311	1,183	1,184	1,240	1,140	1,400
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)	18.3
EBIT														
Consumer Electronics	86	265	394	282	297	318	303	284	248	428	260	370	300	490
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	3.4
Lighting Products	58	277	332	307	69	333	280	217	167	238	239	260	190	130
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	7.2
Home Appliances	4	173	118	103	44	199	121	186	207	327	250	310	280	420
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	11.5
Mobile & EMS	20	163	138	74	42	179	303	457	328	423	330	590	530	930
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	3.3
Security Systems	0	12	20	31	26	13	47	38	52	36	20	36	15	23
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	1.6

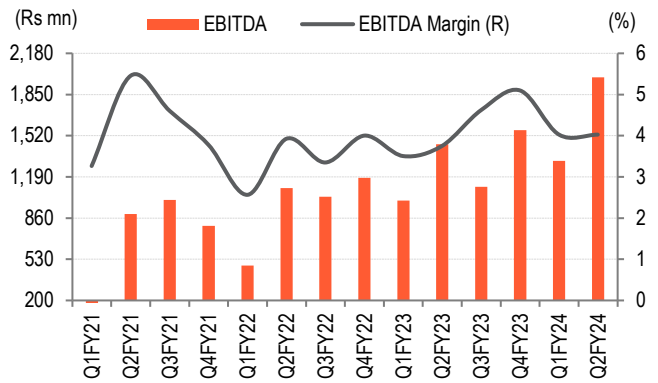
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



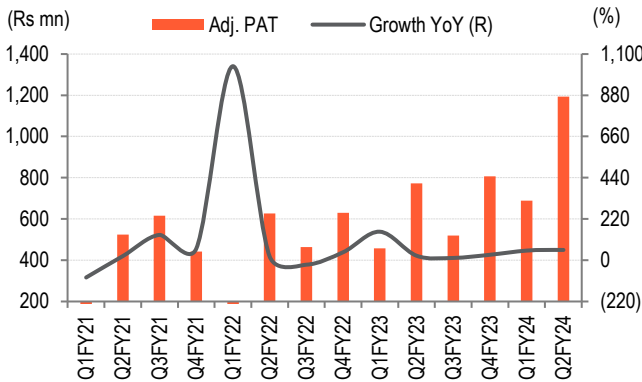
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



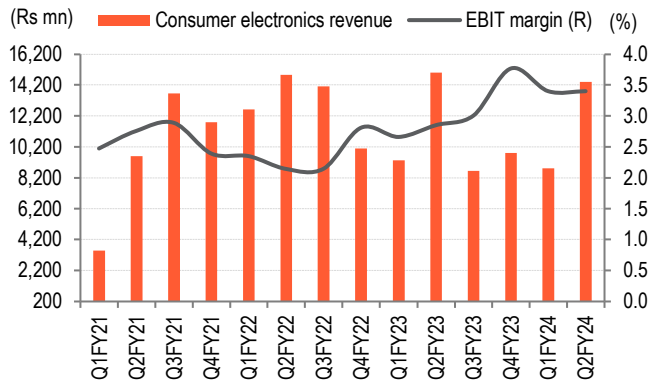
Source: Company, BOBCAPS Research

Fig 5 – PAT growth



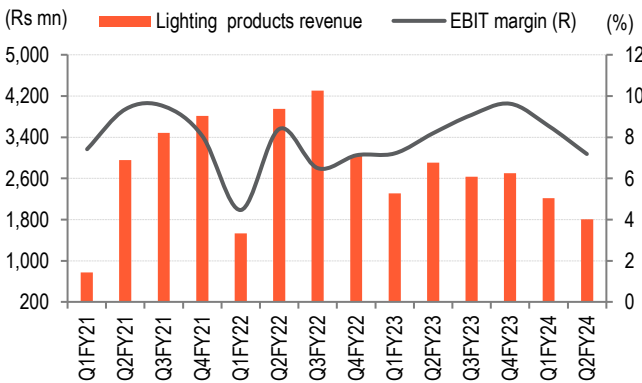
Source: Company, BOBCAPS Research

Fig 6 – Consumer electronics business growth



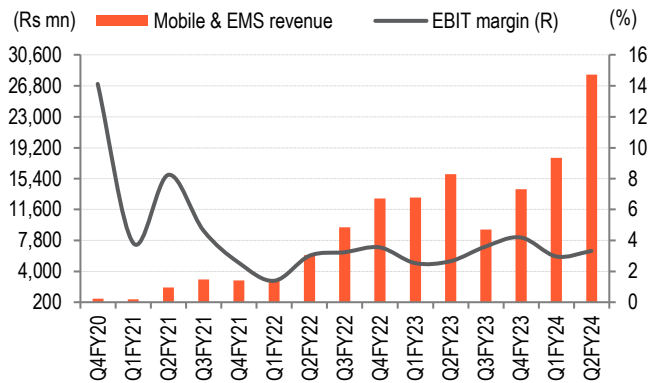
Source: Company, BOBCAPS Research

Fig 7 – Lighting business growth



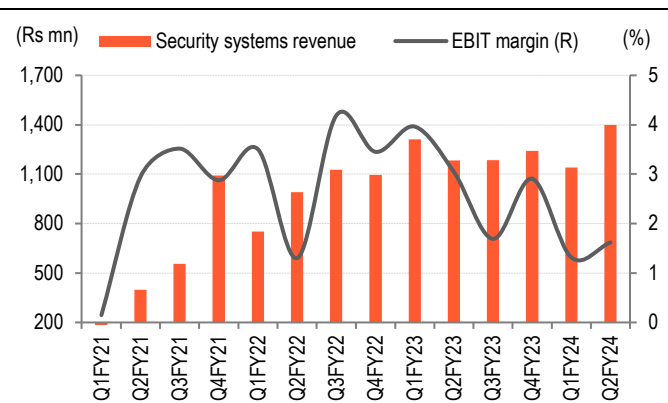
Source: Company, BOBCAPS Research

Fig 8 – Mobiles business growth



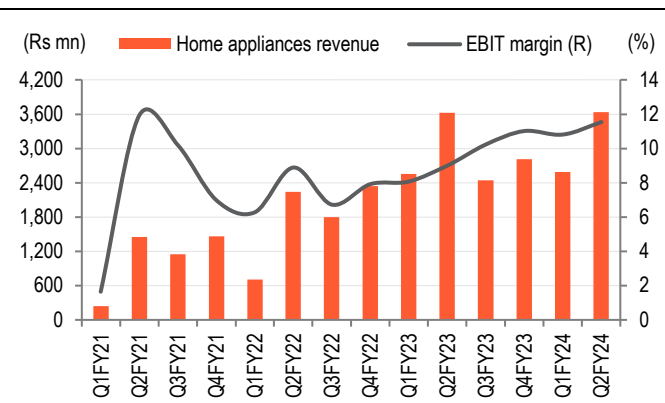
Source: Company, BOBCAPS Research

Fig 9 – Security systems business growth



Source: Company, BOBCAPS Research

Fig 10 – Home appliances business growth



Source: Company, BOBCAPS Research

Fig 11 – Product commencement plan

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

Source: Company, BOBCAPS Research

Earnings call highlights

PLI scheme participation

- Dixon is currently participating in five PLI schemes and has realised Rs 170mn in H1FY24, of which Rs 112mn was booked in Q2.

Fig 12 – PLI disbursements

Type of PLI	Until Dec 2022	Jan-Mar 2023	Apr-Sep 2023
Mobile	Received	To be received in Q3	Yet to file
Telecom	Not Applicable	Rs 360mn to be received	Yet to file
IT	Not Applicable	Not Applicable	Awaiting approval under revised hardware scheme
Lighting Components	Not Applicable	Not Applicable	To be filed after FY24 end
Inverter Components	Not Applicable	Not Applicable	To be filed after FY24 end

Source: Company, BOBCAPS Research

Consumer electronics

- **Revenue stable:** Segmental revenue fell 4% YoY in Q2FY24 largely due to transfer of the AC inverter controller board business to the joint venture with Rexam, excluding which the segment grew 1%. The festival season has shifted to Q3 in FY24 as compared to Q2 last fiscal, which explains the flattish revenue.
- **Increasing profitability:** Segmental operating margin expanded 50bps YoY from 2.9% in Q2FY23 to 3.4% in Q2FY24, led by better operating leverage, backward integration and an increasing share of own-design solutions. With injection molding being commissioned as part of its backward integration strategy, management expects 40-50bps margin improvement. Additionally, LED bar lines that are expected to be commissioned in FY24 could provide a further 15-20bps upside to margins.
- **Volumes healthy:** The segment posted volumes of 3.4mn units in FY23, and management expects to sell 3.6-3.7mn units in FY24 assuming a robust Q3 ahead.

Lighting

- **Revenue soft:** Lighting revenue was soft at Rs 1.8bn for the quarter, largely owing to increasing competitive intensity, a change in technology for LED bulbs (the bulk of Dixon's lighting business), and price reductions due to a drop in commodity prices and freight rates.
- **Impacted by technology shift:** LED bulbs form a large part of Dixon's lighting business, and this market has declined due to a migration of technology along with margin reduction. The company has seen an absolute increase in topline in terms of batons and ceiling lights but an absolute decrease in LED bulbs, largely due to market size reduction and slight market share loss.

Home appliances

- **Improving profitability:** Home appliances posted 250bps expansion in operating margin from 9% in Q2FY23 to 11.5% in Q2FY24, largely due to passing on of the commodity cost and exchange rate impact to customers, better operating leverage, and cost optimisation from backward integration.
- **Washing machine volumes ramping up:** Volumes in the semi-automatic and fully automatic categories grew 14% and 4% YoY respectively in H1FY24. Dixon has begun manufacturing fully automatic washing machines for Voltas Beko, an important customer in the semi-automatic category, and for other customers such as Bosch and Panasonic in the fully automatic category. It also plans to launch new models for Lloyd and Panasonic soon.
- **Refrigerators segment achieves PLI threshold:** The company has a capacity of 1.2mn refrigerators and has achieved the PLI thresholds for FY24. It expects to start mass production by Q4FY24.

Mobiles & EMS

- **Strong growth:** The mobiles & EMS segment grew 77% YoY to Rs 28.2bn, with 60bps expansion in operating margin from 2.7% in Q2FY23 to 3.3% in Q2FY24.

- **Phone production:** Dixon has entered a strategic partnership with Nokia to manufacture 1mn phones per month and landed an order for 15mn units of Jio Bharat phones, of which 1.5mn have already been manufactured. Additionally, it has started manufacturing feature phones for ITEL and expects to roll out smartphones as well. Dixon also plans to ramp up volumes for Xiaomi to 0.3mn units in Q4FY24 and thereafter to 0.5mn units a month, besides rolling out smartphones soon.
- **Growth triggers:** Dixon is in talks with large global brands and expects client decisions by Q4FY24. Management expects the mobiles & EMS business, which is currently ~50% of the topline, to increase to 60-70% in FY25 and outpace peers.
- **Increasing backward integration:** The company is exploring the manufacture of battery packs to deepen its backward integration in surface mount technology (SMT) for printed circuit board assembly (PCBA).
- **Laptop manufacturing:** Dixon is in discussions with global brands for laptops and has achieved manufacturing costs competitive with China, which will be a key catalyst for growth. It plans to first supply laptops in India and increase exports once it is established in the domestic market.
- **Volumes scaling up:** The company achieved volumes of 2.5mn smartphones and 12mn feature phones in H1FY24, in addition to 4.2mn smartphones for Samsung. It has a capacity for 2.5mn smartphones and 5.5-6mn feature phones.

Export guidance

- **Exports:** Dixon expects to achieve Rs 20bn-25bn in export revenue for FY24 vs. ~Rs 10bn in FY23, led by anchor customer Motorola and others such as Nokia, along with customer expansion in Germany and the UK in the lighting business. The company has received a few export orders to begin with and expects healthy year-on-year growth, likely taking its export revenue share above the 8-9% level reported in FY23.

Balance sheet

- **Working capital:** Dixon has improved its working capital management, with a cash conversion cycle of -6 days in H1FY24 vs. -2 days in FY23. ROCE has expanded across segments, except security systems which accounts for 3% of its revenue. The company's ROE and ROCE stood at 32.9% and 24.4% respectively in H1FY24, a 50bps contraction and 200bps expansion over FY23 respectively.
- **Capital expenditure:** Management plans to incur Rs 5bn in capex for FY24, of which it has already spent Rs 3.3bn in the first half. It expects capex intensity to decrease in FY25, leading to better return ratios as operating leverage takes effect.
- **Cash flow:** Dixon reported negative free cash flow of Rs 1.8bn for H1FY24, which compares to Rs 500mn of positive free cash for H1FY23. This can be attributed to historically higher working capital requirements in Q2 as preparation for the festive season raises receivables. Additionally, the company is in a ramp-up phase in most of its segments, including the mobiles business from Jio and telecom business from Airtel. Once these stabilise, management expects to end FY24 with positive cash flow.

Valuation methodology

We continue to like Dixon in the EMS space given its superior asset turn and best-in-class ROCE of 33.4% in H1FY24. Demand remains buoyant and the company has a strong order book across verticals. Further, capex plans to support growth are backed by healthy liquidity, with free cash flow generation of Rs 2.8bn in FY23.

The company has frontloaded capex in FY24, spending Rs 3.3bn of its Rs 5bn target in the first half of the fiscal itself. We expect capital intensity to reduce further, enabling an estimated ~700bps expansion in ROIC from 19% in FY23 to 26% by FY25, which should lend continued support to valuations.

Following the strong Q2FY24 result and even stronger guidance, we raise our FY24/FY25 EPS estimates by 1%/35%. Our estimate revision is backended in nature considering that the benefits of onboarding Xiaomi in the mobiles business and the impending addition of two large customers in H2FY24 will be fully visible in FY25. We expect consensus upgrades to follow and continue to value the stock at an unchanged P/E of 55x – a 20% premium to the five-year average. On rolling valuations over to Sep'25E, we have a revised TP of Rs 6,300 (vs. Rs 4,300). Dixon looks best positioned in the EMS space – raise from HOLD to BUY.

Fig 13 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	1,83,702	2,55,453	1,76,886	2,09,182	3.9	22.1
EBITDA	7,601	10,501	7,556	8,409	0.6	24.9
PAT	4,116	6,005	4,086	4,460	0.7	34.7
EPS (Rs)	69.1	100.8	68.6	74.9	0.7	34.7
EBITDA Margin (%)	4.1	4.1	4.3	4.0	(10bps)	10bps

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- volatility in mobile business revenue, and
- lower margin levels on reduced original design manufacturing (ODM) contribution.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.2	2,939	2,900	HOLD
Crompton Greaves	CROMPTON IN	2.2	288	360	BUY
Dixon Technologies	DIXON IN	3.9	5,341	6,300	BUY
Havells India	HAVL IN	9.7	1,267	1,600	BUY
KEI Industries	KEII IN	2.7	2,494	2,300	HOLD
Orient Electric	ORIENTEL IN	0.5	213	250	HOLD
Polycab India	POLYCAB IN	8.9	4,872	6,100	BUY
V-Guard Industries	VGRD IN	1.6	299	290	HOLD
Voltas	VOLT IN	3.3	829	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 26 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,06,971	1,21,920	1,83,702	2,55,453	2,98,618
EBITDA	3,791	5,128	7,601	10,501	13,002
Depreciation	840	1,146	1,414	1,922	2,094
EBIT	2,952	3,981	6,187	8,579	10,907
Net interest inc./(exp.)	(442)	(606)	(746)	(618)	(642)
Other inc./(exp.)	38	56	62	68	75
Exceptional items	0	0	0	0	0
EBT	2,548	3,432	5,503	8,028	10,340
Income taxes	644	897	1,387	2,023	2,606
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	16	0	0	0
Reported net profit	1,903	2,555	4,116	6,005	7,735
Adjustments	0	0	0	0	0
Adjusted net profit	1,903	2,555	4,116	6,005	7,735

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	23,137	24,519	39,760	55,290	64,632
Other current liabilities	2,615	4,341	4,490	6,244	7,299
Provisions	0	0	0	0	0
Debt funds	4,580	4,531	5,329	5,153	5,348
Other liabilities	2,472	555	837	1,165	1,363
Equity capital	119	119	119	119	119
Reserves & surplus	9,849	12,730	16,727	22,613	30,228
Shareholders' fund	9,968	12,849	16,846	22,732	30,348
Total liab. and equities	42,772	46,794	67,263	90,585	1,08,990
Cash and cash eq.	3,174	2,592	2,947	6,932	12,436
Accounts receivables	13,564	17,155	24,570	35,055	40,459
Inventories	11,557	9,579	17,140	21,952	26,761
Other current assets	3,176	2,068	3,115	4,332	5,064
Investments	0	0	0	0	0
Net fixed assets	9,542	9,425	12,011	13,089	13,995
CWIP	220	1,197	1,804	2,508	2,932
Intangible assets	494	3,012	3,012	3,012	3,012
Deferred tax assets, net	0	0	0	0	0
Other assets	1,045	1,768	2,664	3,705	4,331
Total assets	42,772	46,794	67,263	90,585	1,08,990

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	2,728	7,258	4,896	8,697	9,281
Capital expenditures	(4,174)	(4,502)	(4,000)	(3,000)	(3,000)
Change in investments	(452)	984	0	0	0
Other investing cash flows	(19)	(38)	(1,220)	(1,417)	(852)
Cash flow from investing	(4,645)	(3,556)	(5,220)	(4,417)	(3,852)
Equities issued/Others	642	336	0	0	0
Debt raised/repaid	2,174	(2,776)	798	(176)	195
Interest expenses	0	0	0	0	0
Dividends paid	228	(856)	(119)	(119)	(119)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,043	(3,296)	679	(295)	76
Chg in cash & cash eq.	1,126	406	355	3,985	5,504
Closing cash & cash eq.	3,174	2,592	2,947	6,932	12,436

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	32.0	42.9	69.1	100.8	129.9
Adjusted EPS	32.0	42.9	69.1	100.8	129.9
Dividend per share	2.0	3.0	2.0	2.0	2.0
Book value per share	167.4	215.8	282.9	381.7	509.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.0	2.6	1.7	1.2	1.1
EV/EBITDA	83.9	62.0	41.8	30.3	24.5
Adjusted P/E	167.1	124.5	77.3	53.0	41.1
P/BV	31.9	24.8	18.9	14.0	10.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.7	74.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	86.3	86.2	88.9	93.6	94.8
EBIT margin (EBIT/Revenue)	2.8	3.3	3.4	3.4	3.7
Asset turnover (Rev./Avg TA)	11.2	12.9	15.3	19.5	21.3
Leverage (Avg TA/Avg Equity)	1.1	0.8	0.8	0.7	0.5
Adjusted ROAE	22.0	22.4	27.7	30.3	29.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	65.9	14.0	50.7	39.1	16.9
EBITDA	32.3	35.3	48.2	38.2	23.8
Adjusted EPS	19.1	34.3	61.1	45.9	28.8
Profitability & Return ratios (%)					
EBITDA margin	3.5	4.2	4.1	4.1	4.4
EBIT margin	2.8	3.3	3.4	3.4	3.7
Adjusted profit margin	1.8	2.1	2.2	2.4	2.6
Adjusted ROAE	22.0	22.4	27.7	30.3	29.1
ROCE	19.1	18.8	23.6	25.8	25.8
Working capital days (days)					
Receivables	46	51	49	50	49
Inventory	39	29	34	31	33
Payables	79	73	79	79	79
Ratios (x)					
Gross asset turnover	11.8	10.1	12.6	14.1	14.2
Current ratio	1.2	1.1	1.1	1.1	1.2
Net interest coverage ratio	6.7	6.6	8.3	13.9	17.0
Adjusted debt/equity	0.5	0.4	0.3	0.2	0.2

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

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BUY – Expected return >+15%

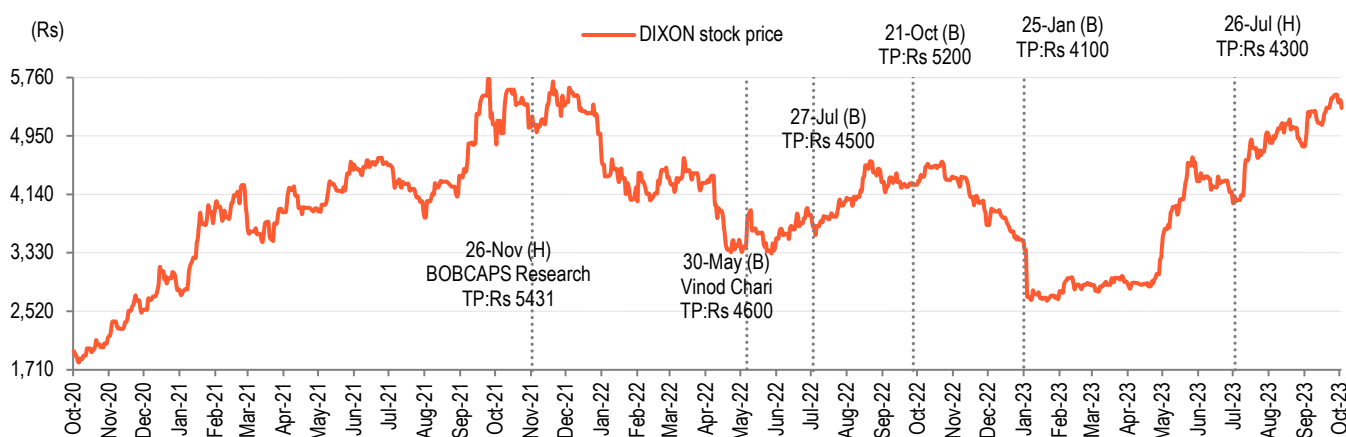
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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