

BUY

TP: Rs 6,900 | ▲ 15%

DIXON TECHNOLOGIES

Consumer Durables

01 February 2024

Mobile business dials up growth; maintain BUY

- Q3 revenue up 2x YoY led by robust growth in mobile & EMS segment; EBITDA margin dips 80bps on higher input costs
- Management remains bullish on growth across verticals, especially the mobile segment which forms ~50% of topline
- We revise FY24/FY25/FY26 EPS by -7%/+0.4%/+3% and roll forward to revised TP of Rs 6,900 (vs. Rs 6,300)

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Robust quarter: Dixon's Q3FY24 topline doubled YoY to Rs 48.2bn backed by robust 250% growth in the mobiles & electronics manufacturing services (EMS) segment to Rs 32.1bn. EBITDA margin contracted 80bps YoY to 3.8% due to higher input costs, while PAT grew 87% to Rs 971mn. Management remains bullish on growth across verticals, especially the mobiles segment which contributes 50% of the topline. ROE and ROCE were at 25.6% and 35.6% respectively in 9MFY24, expanding 320bps and 220bps YoY. Management expects to maintain these return ratios going forward given better profitability, working capital management and higher asset turnover in the mobile and IT hardware segments.

Segmental growth strong: The company has delivered healthy topline growth and margins across segments in Q3, though lighting revenues declined on account of continued price erosion in the industry.

Building blocks for growth in place: Dixon has added two clients in the mobiles business and is in discussions with global brands for production under the government's IT hardware production-linked incentive (PLI) scheme. It is also undertaking backward integration in televisions with LED bars and injection moulding, besides expanding in the mobiles business through vertical integration. Management does not anticipate any significant impact on ROE due to the integration process.

Focusing on design-based content: The company is looking to design its own products, as highlighted in its FY23 annual report. It has traditionally run a high-volume, low-margin model but is now looking at new product categories that have higher margins. Some of the areas identified in its annual report are electric vehicles, defence, drones, medical electronics and telecom infrastructure.

Maintain BUY: We revise our FY24/FY25/FY26 EPS estimates by -7%/+0.4%/+3% and value the stock at an unchanged P/E multiple of 55x, a 20% premium to the 5Y average. On rolling valuations forward to Dec'25E, we have a revised TP of Rs 6,900 (vs. Rs 6,300). Dixon remains the best positioned EMS play, in our view; BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DIXON IN/Rs 5,991
Market cap	US\$ 4.3bn
Free float	66%
3M ADV	US\$ 35.3mn
52wk high/low	Rs 6,765/Rs 2,581
Promoter/FPI/DII	34%/12%/24%

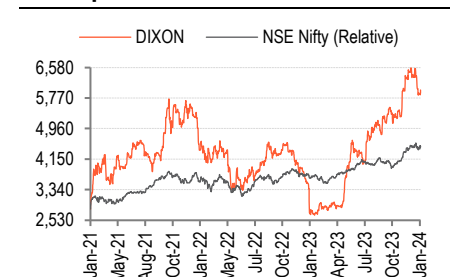
Source: NSE | Price as of 31 Jan 2024

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	7,399	10,505
Adj. net profit (Rs mn)	2,555	3,824	6,031
Adj. EPS (Rs)	42.9	64.2	101.3
Consensus EPS (Rs)	42.9	67.6	93.6
Adj. ROAE (%)	22.4	26.0	30.9
Adj. P/E (x)	139.6	93.3	59.2
EV/EBITDA (x)	69.6	48.2	34.0
Adj. EPS growth (%)	34.3	49.7	57.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	48,183	24,047	100.4	49,432	(2.5)	130,329	91,266	42.8
EBITDA	1,844	1,112	65.9	1,989	(7.3)	5,152	3,564	44.5
EBITDA Margin (%)	3.8	4.6	(80bps)	4.0	(20bps)	4.0	3.9	0bps
Depreciation	407	290		364		1,109	822	
Interest	222	152		171		533	454	
Other Income	23	28		7		59	38	
PBT	1,238	698	77.4	1,461	(15.2)	3,569	2,326	53.4
Tax	287	186		352		533	582	
Adjusted PAT	971	519	87.0	1,194	(18.7)	2,702	1,744	54.9
Exceptional item	-	-		0		151.0	4.5	
Reported PAT	971	519	87.0	1,194	(18.7)	2,853	1,749	63.2
Adj. PAT Margin (%)	2.0	2.2	(10bps)	2.4	(40bps)	2.1	1.9	20bps
EPS (Rs)	16.0	8.6	85.8	18.6	(14.2)	45.4	29.3	54.9

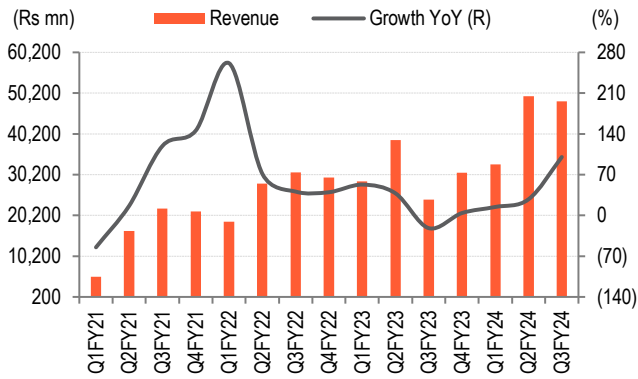
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue													
Consumer electronics	13,643	11,786	12,623	14,865	14,104	10,104	9,322	15,007	8,640	9,810	8,820	14,400	9,290
Growth YoY (%)	200.3	199.9	262.0	54.8	3.4	(14.3)	(26.2)	1.0	(38.7)	(2.9)	(5.4)	(4.0)	7.5
Lighting products	3,486	3,817	1,535	3,957	4,304	3,046	2,312	2,904	2,630	2,700	2,220	1,810	1,870
Growth YoY (%)	26.0	49.8	97.5	33.8	23.5	(20.2)	50.6	(26.6)	(38.9)	(11.3)	(4.0)	(37.7)	(28.9)
Home appliances	1,152	1,465	706	2,240	1,801	2,341	2,556	3,629	2,440	2,810	2,590	3,640	2,880
Growth YoY (%)	68.4	62.7	193.0	54.1	56.4	59.8	262.3	62.0	35.5	20.0	1.3	0.3	18.0
Mobile & EMS	2,992	2,899	3,059	5,986	9,397	12,941	13,049	15,944	9,150	14,100	17,950	28,190	32,140
Growth YoY (%)	114.4	380.7	476.3	203.2	214.1	346.4	326.6	166.4	(2.6)	9.0	37.6	76.8	251.3
Security systems	555	1,092	751	990	1,127	1,096	1,311	1,183	1,184	1,240	1,140	1,400	2,000
Growth YoY (%)	10.4	99.8	461.6	149.4	102.9	0.3	74.5	19.5	5.1	13.2	(13.1)	18.3	68.9
EBIT													
Consumer electronics	394	282	297	318	303	284	248	428	260	370	300	490	320
EBIT margin (%)	2.9	2.4	2.4	2.1	2.1	2.8	2.7	2.9	3.0	3.8	3.4	3.4	3.4
Lighting products	332	307	69	333	280	217	167	238	239	260	190	120	130
EBIT margin (%)	9.5	8.1	4.5	8.4	6.5	7.1	7.2	8.2	9.1	9.6	8.6	6.6	7.0
Home appliances	118	103	44	199	121	186	207	327	250	310	280	420	300
EBIT margin (%)	10.2	7.0	6.3	8.9	6.7	7.9	8.1	9.0	10.2	11.0	10.8	11.5	10.4
Mobile & EMS	138	74	42	179	303	457	328	423	330	590	530	930	1,040
EBIT margin (%)	4.6	2.5	1.4	3.0	3.2	3.5	2.5	2.7	3.6	4.2	3.0	3.3	3.2
Security systems	20	31	26	13	47	38	52	36	20	36	15	23	50
EBIT margin (%)	3.5	2.9	3.5	1.3	4.2	3.4	4.0	3.0	1.7	2.9	1.3	1.6	2.5

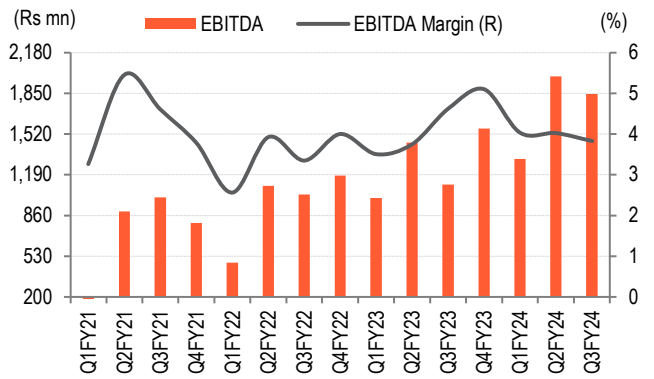
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



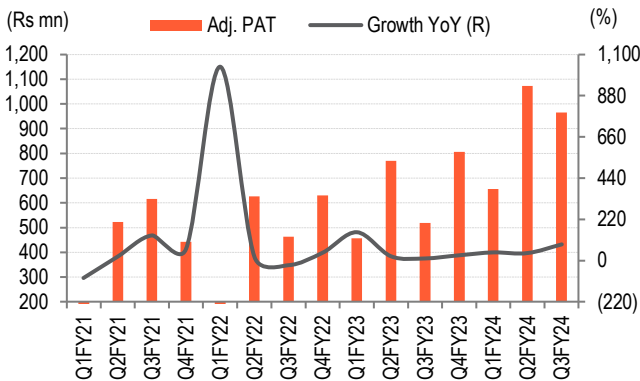
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



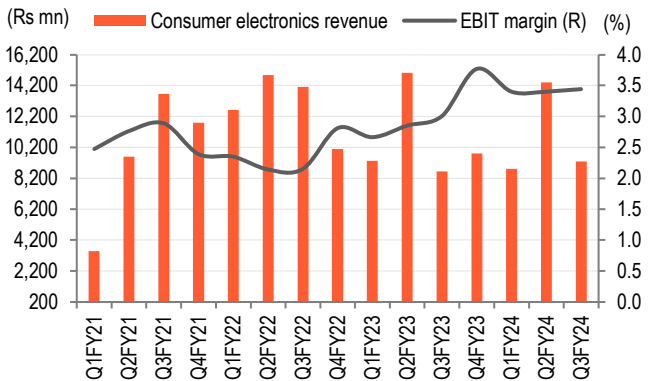
Source: Company, BOBCAPS Research

Fig 5 – PAT growth



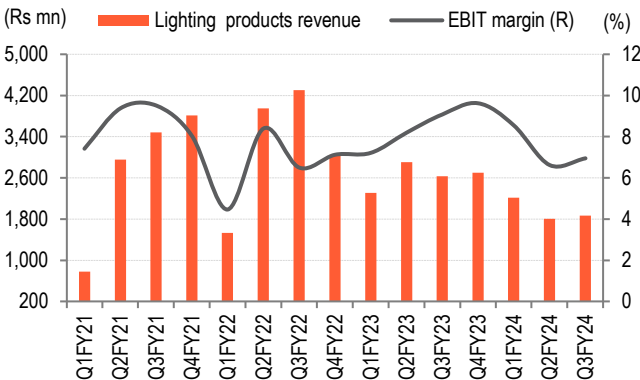
Source: Company, BOBCAPS Research

Fig 6 – Consumer electronics business growth



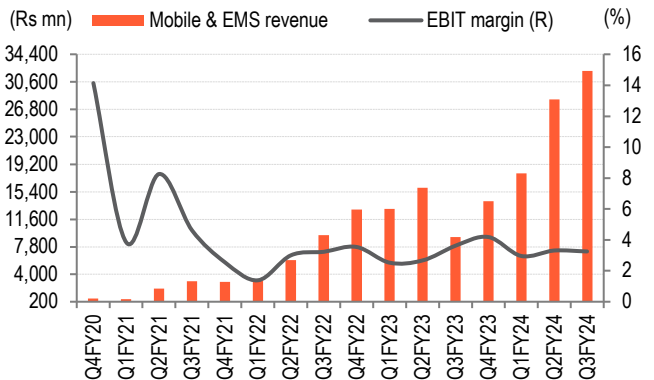
Source: Company, BOBCAPS Research

Fig 7 – Lighting business growth



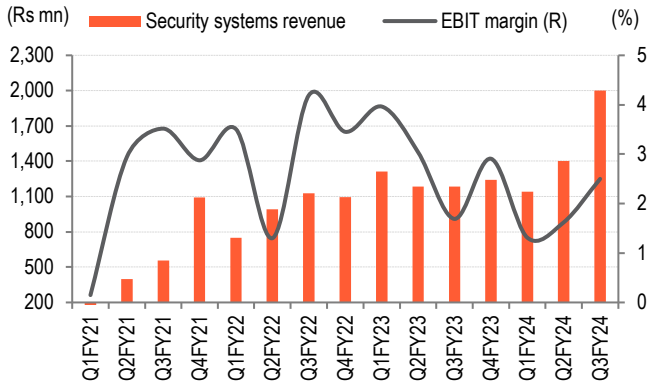
Source: Company, BOBCAPS Research

Fig 8 – Mobiles business growth



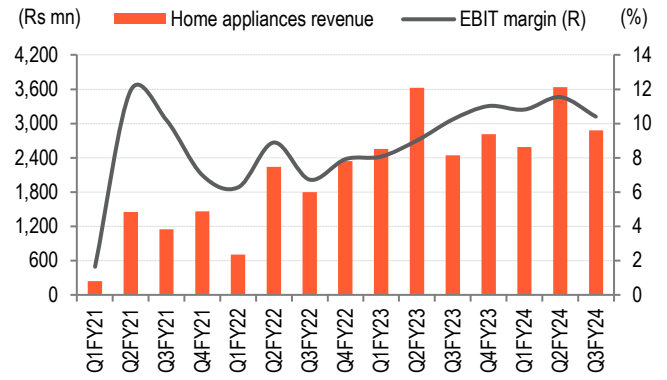
Source: Company, BOBCAPS Research

Fig 9 – Security systems business growth



Source: Company, BOBCAPS Research

Fig 10 – Home appliances business growth



Source: Company, BOBCAPS Research

Valuation methodology

We revise our FY24/FY25/FY26 EPS estimates by -7%/+0.4%/+3% and value the stock at an unchanged P/E multiple of 55x, a 20% premium to the five-year average. On rolling valuations forward to Dec'25E, we have a revised TP of Rs 6,900 (vs. Rs 6,300). Dixon remains the best positioned EMS play, in our view – maintain BUY.

Fig 11 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	1,83,702	2,55,453	2,98,618	1,83,702	2,55,453	2,98,618	0.0	0.0	0.0
EBITDA	7,399	10,505	13,284	7,601	10,501	13,002	(2.6)	0.0	2.2
PAT	3,824	6,031	7,965	4,116	6,005	7,735	(7.1)	0.4	3.0
EPS (Rs)	64.2	101.3	133.8	69.1	100.8	129.9	(7.1)	0.4	3.0
EBITDA Margin (%)	4.0	4.1	4.4	4.1	4.1	4.4	(10bps)	0bps	10bps

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- volatility in mobile business revenue, and
- lower margins on reducing original design manufacturing (ODM) contribution.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Blue Star	BLSTR IN	2.7	1,140	1,300	BUY
Crompton Greaves	CROMPTON IN	2.3	303	330	BUY
Dixon Technologies	DIXON IN	4.3	5,991	6,900	BUY
Havells India	HAVL IN	9.9	1,294	1,600	BUY
KEI Industries	KEII IN	3.5	3,193	3,120	HOLD
Orient Electric	ORIENTEL IN	0.5	209	240	HOLD
Polycab India	POLYCAB IN	7.9	4,343	5,200	BUY
Syrma SGS	SYRMA IN	1.3	599	560	HOLD
V-Guard Industries	VGRD IN	1.5	292	300	HOLD
Voltas	VOLT IN	4.4	1,093	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jan 2024

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	7,399	10,505	13,284
Depreciation	840	1,146	1,602	1,892	2,069
EBIT	2,952	3,981	5,797	8,613	11,215
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	5,113	8,062	10,648
Income taxes	644	897	1,288	2,032	2,683
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	16	110	0	0
Reported net profit	1,903	2,555	3,824	6,031	7,965
Adjustments	0	0	0	0	0
Adjusted net profit	1,903	2,555	3,824	6,031	7,965

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	16,435	22,347	30,192
Shareholders' fund	9,968	12,849	16,554	22,466	30,311
Total liab. and equities	42,772	46,794	66,971	90,318	1,08,954
Cash and cash eq.	3,174	2,592	2,844	6,824	12,533
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	11,823	12,931	13,862
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	66,971	90,318	1,08,954

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	2,728	7,258	4,793	8,692	9,486
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	252	3,980	5,709
Closing cash & cash eq.	3,174	2,592	2,844	6,824	12,533

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	32.0	42.9	64.2	101.3	133.8
Adjusted EPS	32.0	42.9	64.2	101.3	133.8
Dividend per share	2.0	3.0	2.0	2.0	2.0
Book value per share	167.4	215.8	278.0	377.3	509.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.3	2.9	1.9	1.4	1.2
EV/EBITDA	94.1	69.6	48.2	34.0	26.9
Adjusted P/E	187.4	139.6	93.3	59.2	44.8
P/BV	35.8	27.8	21.6	15.9	11.8

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	88.2	93.6	94.9
EBIT margin (EBIT/Revenue)	2.8	3.3	3.2	3.4	3.8
Asset turnover (Rev./Avg TA)	11.2	12.9	15.5	19.8	21.5
Leverage (Avg TA/Avg Equity)	1.1	0.8	0.8	0.7	0.5
Adjusted ROAE	22.0	22.4	26.0	30.9	30.2

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	44.3	42.0	26.5
Adjusted EPS	19.1	34.3	49.7	57.7	32.1
Profitability & Return ratios (%)					
EBITDA margin	3.5	4.2	4.0	4.1	4.4
EBIT margin	2.8	3.3	3.2	3.4	3.8
Adjusted profit margin	1.8	2.1	2.1	2.4	2.7
Adjusted ROAE	22.0	22.4	26.0	30.9	30.2
ROCE	19.1	18.8	22.3	26.2	26.7
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	7.8	13.9	17.5
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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

BUY – Expected return >+15%

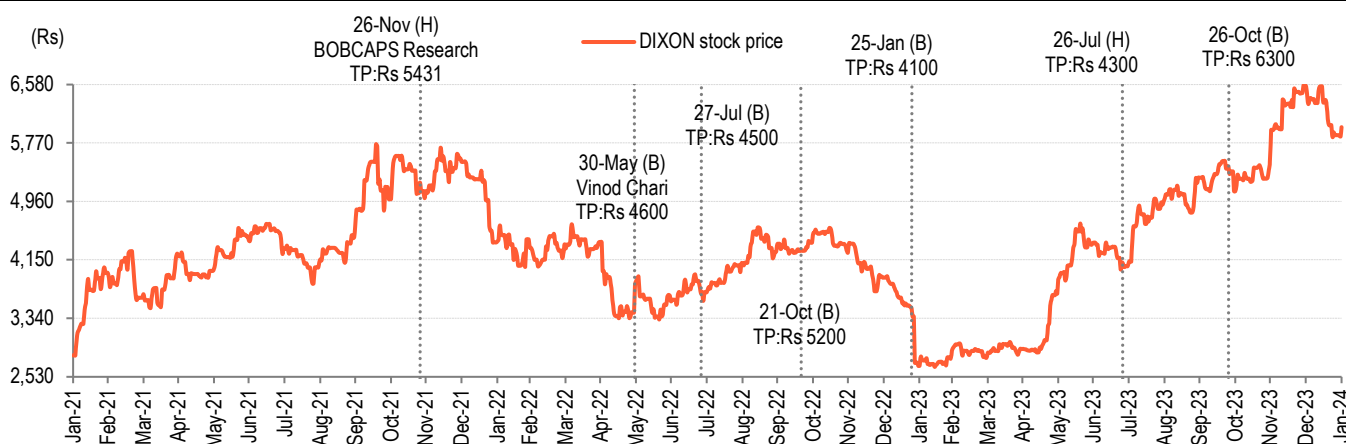
HOLD – Expected return from -6% to +15%

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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