RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 13,800 | ⮝ 15%

DIXON TECHNOLOGIES | Consumer Durables | 31 July 2024

Beats estimates; mobile dials growth

- **Q1 revenue jumped 101% YoY, driven by mobile and EMS growth; EBITDA margin slid 20bps on input cost hike**
- **Management upbeat on growth, especially in the mobile segment comprising about ~80% of the topline**
- **Raise FY25E/26E EPS by 7% each to bake in strong Q1, and value stock at target P/E of 60x on strong return ratios. Raise TP to Rs 13,800. BUY**

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Successful quarter: In Q1FY25 DIXON's revenue surged 101% YoY to Rs 65.7bn, largely driven by a 189% increase in the mobiles and EMS segment, which brought in Rs 51.9bn. Although EBITDA margin slightly contracted by 20bps to 3.8% due to higher input costs, PAT grew by 113% to Rs 1.4bn. Management remains positive on growth prospects, especially in the mobile segment which now contributes 80% of the company's revenue.

Enhanced financial metrics: In Q1FY25, DIXON's financial performance improved significantly with its return on equity (ROE) rising by 180bps YoY to 27%, and return on capital employed (ROCE) increasing by 40bps to 38.4%. Looking ahead, management is committed to sustaining these positive performance metrics. It plans to focus on enhancing profitability, optimising working capital and increasing asset turnover. It aims to drive growth with a strategic approach, particularly within the mobile and IT hardware sectors, ensuring continued financial strength and operational efficiency.

Building blocks for sustainable growth in place: DIXON has expanded its business horizon by securing partnerships with two leading global notebook brands, with production scheduled to commence in Q1 of the next fiscal year. In a separate strategic move, Dixon has divested a 50% stake in its security surveillance system joint venture to Aditya Infotech. In return, Dixon has acquired a 6.5% stake in Aditya Infotech. Aditya Infotech is known for its strong profitability, and this investment aligns with Dixon's strategy to enhance its market position and financial growth.

Maintain BUY: Buoyed by Dixon's strong performance in Q1FY25 and reinforced by its promising guidance, we have increased our EPS estimates by 7% for both FY25/FY26. Given the strong results and anticipated consensus upgrades across the market, we maintain our target P/E at 60x. Reflecting the improved outlook, we raise our TP to Rs 13,800 from Rs 9,400. Dixon's leading position in the EMS sector underscores its continued growth potential, solidifying our stance in maintaining our BUY rating on the stock.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DIXON IN/Rs 11,977
Market cap	US$ 8.5bn
Free float	66%
3M ADV	US$ 58.7mn
52wk high/low	Rs 12,879/Rs 4,020
Promoter/FPI/DII	34%/12%/24%

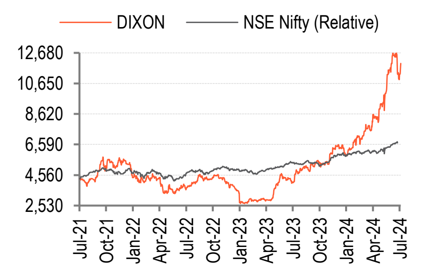
Source: NSE | Price as of 30 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	176,909	274,643	372,627
EBITDA (Rs mn)	6,976	11,930	16,352
Adj. net profit (Rs mn)	3,678	6,814	10,074
Adj. EPS (Rs)	61.8	114.4	169.2
Consensus EPS (Rs)	61.8	116.0	165.0
Adj. ROAE (%)	24.7	33.6	35.2
Adj. P/E (x)	194.0	104.7	70.8
EV/EBITDA (x)	102.2	59.8	43.6
Adj. EPS growth (%)	43.9	85.3	47.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Fig 1 – Quarterly performance

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	BOB cap Q1FY25E	Variance (%)
Revenue	65,798	32,715	101.1	46,580	41.3	50,708	29.8
EBITDA	2,479	1,319	88.0	1,825	35.9	1,941	27.7
EBITDA Margin (%)	3.8	4.0	(20bps)	3.9	(10bps)	3.8	(0)
Depreciation	545	337		510			
Interest	293	140		214			
Other Income	82	29		167			
PBT	1,723	870	98.0	1,267	36.0		
Tax	400	229		322			
Adjusted PAT	1,397	656	113.1	952	46.8	975	43.2
Exceptional item	-	-		0			
Reported PAT	1,397	656	113.1	952	46.8		
Adj. PAT Margin (%)	2.1	2.0	10bps	2.0	10bps		
EPS (Rs)	22.2	10.8	106.1	15.9	40.0		

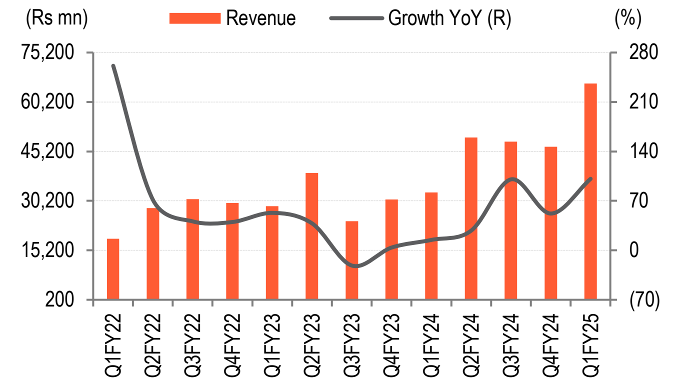
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue													
Consumer electronics	12,623	14,865	14,104	10,104	9,322	15,007	8,640	9,810	8,820	14,400	9,290	8,970	8,550
Growth YoY (%)	262.0	54.8	3.4	(14.3)	(26.2)	1.0	(38.7)	(2.9)	(5.4)	(4.0)	7.5	(8.6)	(3.1)
Lighting products	1,535	3,957	4,304	3,046	2,312	2,904	2,630	2,700	2,220	1,810	1,870	1,970	2,270
Growth YoY (%)	97.5	33.8	23.5	(20.2)	50.6	(26.6)	(38.9)	(11.3)	(4.0)	(37.7)	(28.9)	(27.0)	2.3
Home appliances	706	2,240	1,801	2,341	2,556	3,629	2,440	2,810	2,590	3,640	2,880	2,940	3,050
Growth YoY (%)	193.0	54.1	56.4	59.8	262.3	62.0	35.5	20.0	1.3	0.3	18.0	4.6	17.8
Mobile & EMS	3,059	5,986	9,397	12,941	13,049	15,944	9,150	14,100	17,950	28,190	32,140	30,910	51,920
Growth YoY (%)	476.3	203.2	214.1	346.4	326.6	166.4	(2.6)	9.0	37.6	76.8	251.3	119.2	189.2
EBIT													
Consumer electronics	297	318	303	284	248	428	260	370	300	490	320	300	290
EBIT margin (%)	2.4	2.1	2.1	2.8	2.7	2.9	3.0	3.8	3.4	3.4	3.4	3.3	3.4
Lighting products	69	333	280	217	167	238	239	260	190	120	130	142	150
EBIT margin (%)	4.5	8.4	6.5	7.1	7.2	8.2	9.1	9.6	8.6	6.6	7.0	7.2	6.6
Home appliances	44	199	121	186	207	327	250	310	280	420	300	300	320
EBIT margin (%)	6.3	8.9	6.7	7.9	8.1	9.0	10.2	11.0	10.8	11.5	10.4	10.2	10.5
Mobile & EMS	42	179	303	457	328	423	330	590	530	930	1,040	1,050	1,710
EBIT margin (%)	1.4	3.0	3.2	3.5	2.5	2.7	3.6	4.2	3.0	3.3	3.2	3.4	3.3

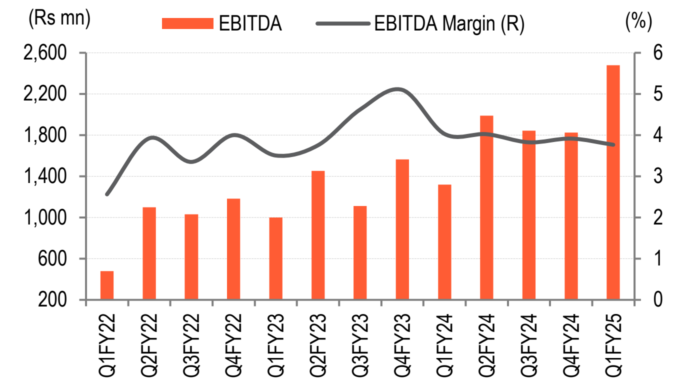
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



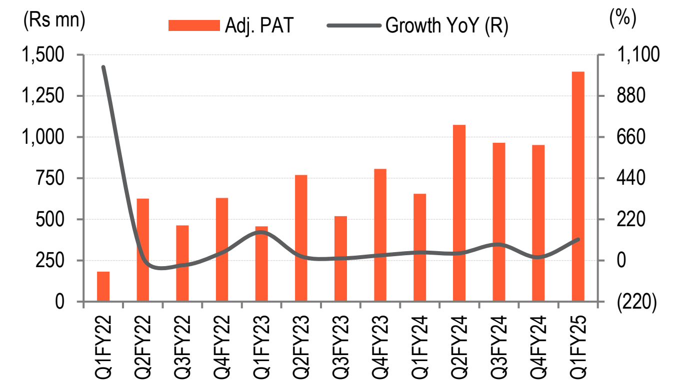
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



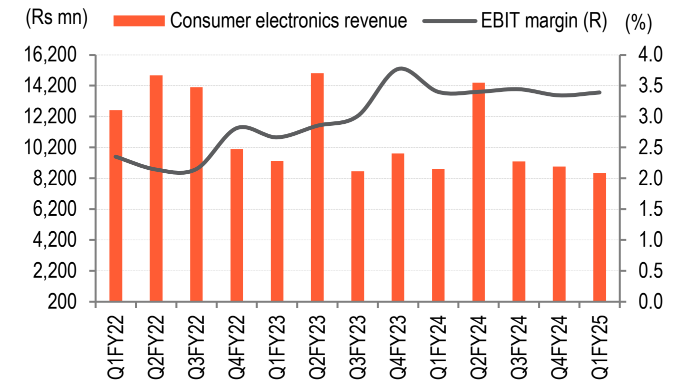
Source: Company, BOBCAPS Research

Fig 5 – PAT growth



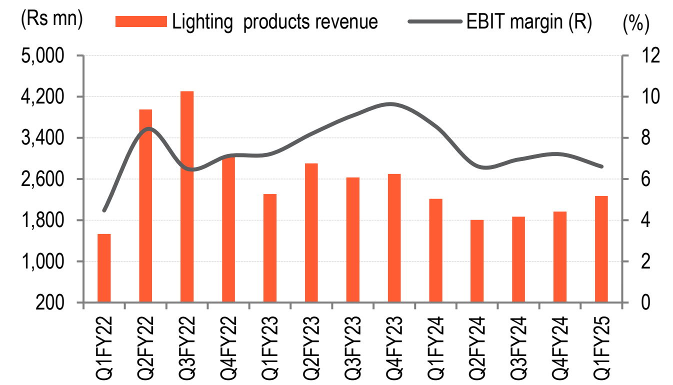
Source: Company, BOBCAPS Research

Fig 6 – Consumer electronics business growth



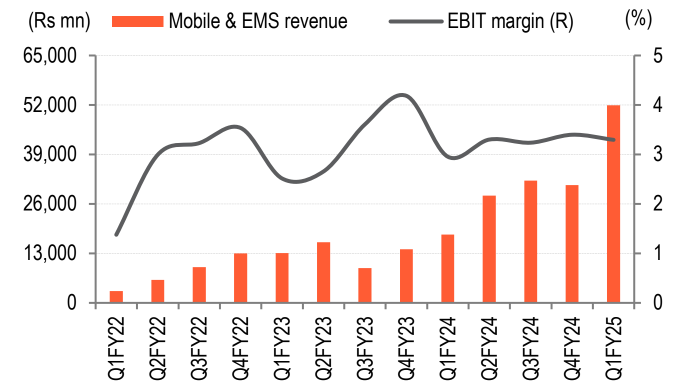
Source: Company, BOBCAPS Research

Fig 7 – Lighting business growth



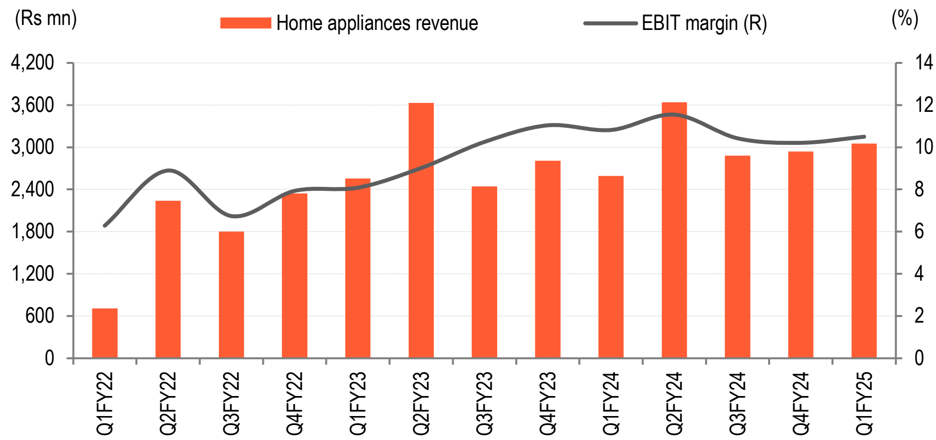
Source: Company, BOBCAPS Research

Fig 8 – Mobiles business growth



Source: Company, BOBCAPS Research

Fig 9 – Home appliances business growth



Source: Company, BOBCAPS Research

Earnings call highlights

Mobile and EMS division performance

- **Revenues and profit growth:** For the quarter, the Mobile and EMS division achieved revenue of Rs 51.92bn, reflecting a 189% YoY increase. Operating profit surged to Rs 17.1bn, marking 223% YoY growth, with an operating profit margin of 3.3%. ROCE expanded significantly to 69% as of Jun'24, up from 32% a year ago.

- **Capacity expansion and market share:** The division now boasts a production capacity of 45mn smartphones, with an additional 10mn to 12mn expected from the Ismartu acquisition, capturing 55%-60% of the market opportunity. Also, it has a capacity of 40mn feature phones, meeting 65%-70% of national demand. Notable growth was observed in Motorola smartphone volumes, with monthly orders ranging from 0.9mn to 1mn units, complemented by increasing export orders.

- **Partnerships and new ventures:** The division anticipates manufacturing for another Google brand by Sep'24 and is experiencing substantial growth with partners Longcheer, currently producing 0.4mn to 0.45mn units monthly, with expectations to reach 0.7mn units. The acquisition of Ismartu has been approved by the Competition Commission of India, and consolidation of these financials is expected within the next week.

- **Future plans and technological advancements:** Looking ahead, the company plans to deepen its manufacturing capabilities by partnering HTC for display module technology, with production anticipated to begin in the next fiscal year. Additionally, the division aims to expand into precision components and mechanical modules. The goal is to solidify its position in the mobile and IT products sector, leveraging financial and technical resources to establish a competitive edge.

Consumer Electronics division performance

- **Quarterly financials:** The Consumer Electronics division reported revenues of Rs 8.55bn for the quarter, with an operating profit of Rs 290mn and a margin of 3.4%.

- **New product launches and partnerships:** Manufacturing under partnership with Samsung for Tizen OS has commenced. Original design manufacturer-based

Google TV solutions ranging from 32 inches to 85 inches were launched in Q4 of the previous fiscal year, receiving positive customer feedback. The division has also introduced interactive flat panel displays and digital signage, ranging from 65 inches to 100 inches.

- **Order book and future plans:** The order books for these new product categories appear promising. The company is exploring additional partnerships for the manufacturing of industrial, institutional, and automotive displays to further diversify its product offerings.

Home appliances

- **Robust growth and enhanced capabilities:** In the latest quarter, the Home Appliances division achieved revenues of Rs 3.05bn, increasing 18% YoY. Operating profit rose to Rs 320mn, up 14% from the previous year. The division's backward integration strategy is progressing well, with the tool room now fully operational and producing most tools in-house. Infrastructure in Tirupati and Dehradun has received National Accreditation Board for Testing and Calibration Laboratories (NABL) compliance and accreditation, bolstering the company’s competence and reliability. This enhancement is expected to strengthen customer relationships and support significant double-digit growth targets.

Lighting

- **Positive growth:** The Lighting division achieved revenues of Rs 2.27bn and an operating profit of Rs 150mn for the quarter, with both metrics showing QoQ growth. Despite ongoing pricing pressures and fluctuating consumer demand, the division anticipates continued momentum and improvement.

- **Strategic initiatives and future plans:** Following the launch of the professional series last quarter, the division expanded its product range to include Driven-on-board (DOB) floodlights and streetlights expected to launch by Q2. The division is initiating backward integration with plans for injection molding and extrusion processes in the coming quarters to optimise costs and enhance competitive strength. Additionally, efforts are underway to broaden the product portfolio with high-value premium items such as high-voltage battens and chip on board (COB) downlighters.

Telecom and Networking Products

- **Revenue and capacity expansion:** The Telecom and Networking Products segment reported revenues of Rs 4.18bn for the quarter, with notable growth throughout the year. To meet rising customer demand, the company is expanding its facilities in Hyderabad.

- **5G and networking devices:** The company has commenced mass production of 5G fixed wireless access devices, including both Outdoor units and Indoor units, for Nokia in the domestic market. Additionally, production of access points, G-PON ONTs (optical network terminal) and internet shadow boxes has begun, with a strong order book supporting these initiatives

- **Laptops and IT hardware:** Contracts have been finalised with Lenovo and Acer, with manufacturing for Acer already underway. The company has initiated the New

Product Introduction (NPI) process for Lenovo notebooks, with mass production set to begin in Q3 of the fiscal year. Two new global notebook brands are in the process of signing agreements, with production anticipated to start in Q1 of the next fiscal year.

- **New facility and growth prospects:** A new campus in Chennai is planned to further support growth. The site has been identified and resources secured. The facility is expected to commence operations in the next eight to ten months, bolstering the company's expansion in the IT products sector. The company aims to replicate its success in the mobile sector within its IT products division.

Wearables segment performance

- **Revenue and margins:** The Wearables segment achieved revenues of Rs 1.43bn for the quarter, maintaining a robust operating margin and high ROCE. The segment boasts a solid order book.

Security Surveillance System update

- **Strategic stake sale:** The company has sold a 50% stake in its security surveillance system joint venture with AI and Dixon to its partner, Aditya Infotech. In return, the company will acquire a 6.5% stake in Aditya Infotech.

- **Future focus and value creation:** The partnership with Aditya Infotech will enhance backward integration and design capabilities.

Rexxam Dixon Electronics partnership

- **Joint venture performance**: Rexxam Dixon Electronics, a 40:60 joint venture with the Japanese company Rexxam, reported revenues of Rs 1.14bn for the quarter. The joint venture, which manufactures inverters, controllers, and fire conditioners, shows strong operating margins and a very high ROCE. The business also maintains a robust order book.

Investment opportunities in PLI scheme

- **Exploring new investments:** The company is considering additional investments under the recently revised Production-Linked Incentive (PLI) scheme for white goods.

Refrigerators production and capacity

- **Strong production and order book:** The refrigerators segment achieved impressive results, with production reaching 80,000 refrigerators per month, utilising 80%-85% of its capacity. The order book remains exceptionally healthy.

- **Expansion plans:** Due to a significant increase in orders, the company is planning a capacity extension. Additionally, the portfolio will be expanded to include a 100-litre category.

- **Investment in technology:** The company is investing in backward integration and induction molding to enhance production processes and explore options for fast refuelling.

Valuation methodology

DIXON remains a leader in the Electronics Manufacturing Services (EMS) sector, with a robust asset turnover and ROCE of 38.4% in Q1FY25. The company boasts a substantial order book across sectors, reflecting strong and ongoing demand. Supported by solid liquidity and well-executed growth strategies, DIXON is positioned to leverage its competitive advantages. These strengths highlight DIXON's prominent status in the EMS industry and reinforce its potential for sustained growth and value creation in the foreseeable future.

Following DIXON's impressive performance in Q1FY25 and its optimistic guidance, we raise our EPS estimates for FY25 and FY26 by 7% each. This upward revision is supported by several factors: a 30% beat on our estimates, encouraging management forecasts, and a robust order book indicating sustained demand. We anticipate that these developments will lead to consensus upgrades, and we maintain our target P/E of 60x. Consequently, we increase our TP to Rs 13,800 from Rs 9,400. With its leading position in the EMS sector, DIXON is positioned for continued success, in our view. We reaffirm our BUY rating on the stock.

Fig 10 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	274,643	372,627	487,463	269,183	364,820	NA	2.0	2.1	NA
EBITDA	11,930	16,352	21,222	11,454	15,576	NA	4.2	5.0	NA
PAT	6,814	10,074	13,674	6,348	9,372	NA	7.4	7.5	NA
EPS (Rs)	114.4	169.2	229.6	106.6	157.4	NA	7.4	7.5	NA
EBITDA Margin (%)	4.3	4.4	4.4	4.3	4.3	NA	10bps	10bps	NA

Source: Company, BOBCAPS Research

Key risks

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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Total revenue	**121,920**	**176,909**	**274,643**	**372,627**	**487,463**
EBITDA	5,128	6,976	11,930	16,352	21,222
Depreciation	1,146	1,619	2,619	2,680	2,731
EBIT	3,981	5,358	9,311	13,672	18,491
Net interest inc./(exp.)	(606)	(747)	(600)	(643)	(693)
Other inc./(exp.)	56	226	248	273	300
Exceptional items	0	0	0	0	0
EBT	3,432	4,836	8,959	13,302	18,098
Income taxes	897	1,189	2,258	3,352	4,561
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	16	102	113	124	136
Reported net profit	**2,555**	**3,678**	**6,814**	**10,074**	**13,674**
Adjustments	0	0	0	0	0
Adjusted net profit	**2,555**	**3,678**	**6,814**	**10,074**	**13,674**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	24,519	40,598	59,443	80,651	105,506
Other current liabilities	4,341	6,075	9,431	12,795	16,739
Provisions	0	0	0	0	0
Debt funds	4,531	4,890	5,000	5,356	5,774
Other liabilities	555	1,403	1,914	2,376	3,108
Equity capital	119	120	120	120	120
Reserves & surplus	12,730	16,829	23,524	33,479	47,033
Shareholders' fund	12,849	16,949	23,644	33,599	47,153
Total liab. and equities	**46,794**	**69,914**	**99,431**	**134,777**	**178,279**
Cash and cash eq.	2,592	2,087	5,840	14,043	26,910
Accounts receivables	17,155	23,179	37,313	49,724	65,638
Inventories	9,579	16,950	23,946	34,096	43,552
Other current assets	2,068	6,147	9,544	12,948	16,939
Investments	0	0	0	0	0
Net fixed assets	9,425	16,367	16,749	17,069	17,338
CWIP	1,197	643	998	1,354	1,771
Intangible assets	3,012	3,635	3,635	3,635	3,635
Deferred tax assets, net	0	0	0	0	0
Other assets	1,768	906	1,406	1,908	2,496
Total assets	**46,794**	**69,914**	**99,431**	**134,777**	**178,279**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Cash flow from operations	**7,258**	**7,061**	**6,996**	**11,237**	**15,706**
Capital expenditures	(4,502)	(5,686)	(3,000)	(3,000)	(3,000)
Change in investments	984	344	0	0	0
Other investing cash flows	(38)	33	(232)	(233)	(273)
Cash flow from investing	**(3,556)**	**(5,309)**	**(3,232)**	**(3,233)**	**(3,273)**
Equities issued/Others	336	469	0	0	0
Debt raised/repaid	(2,776)	(276)	110	357	418
Interest expenses	0	0	0	0	0
Dividends paid	(856)	(893)	(119)	(119)	(119)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(3,296)**	**(700)**	**(9)**	**238**	**299**
Chg in cash & cash eq.	**406**	**1,052**	**3,754**	**8,242**	**12,731**
Closing cash & cash eq.	**2,592**	**2,087**	**5,840**	**14,043**	**26,910**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	42.9	61.8	114.4	169.2	229.6
Adjusted EPS	42.9	61.8	114.4	169.2	229.6
Dividend per share	3.0	2.0	2.0	2.0	2.0
Book value per share	215.8	284.6	397.0	564.2	791.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	5.9	4.0	2.6	1.9	1.5
EV/EBITDA	139.1	102.2	59.8	43.6	33.6
Adjusted P/E	279.1	194.0	104.7	70.8	52.2
P/BV	55.5	42.1	30.2	21.2	15.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.5	76.0	76.1	75.7	75.6
Interest burden (PBT/EBIT)	86.2	90.3	96.2	97.3	97.9
EBIT margin (EBIT/Revenue)	3.3	3.0	3.4	3.7	3.8
Asset turnover (Rev./Avg TA)	12.9	10.8	16.4	21.8	28.1
Leverage (Avg TA/Avg Equity)	0.8	1.1	0.8	0.6	0.4
Adjusted ROAE	22.4	24.7	33.6	35.2	33.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	14.0	45.1	55.2	35.7	30.8
EBITDA	35.3	36.1	71.0	37.1	29.8
Adjusted EPS	34.3	43.9	85.3	47.8	35.7
Profitability & Return ratios (%)					
EBITDA margin	4.2	3.9	4.3	4.4	4.4
EBIT margin	3.3	3.0	3.4	3.7	3.8
Adjusted profit margin	2.1	2.1	2.5	2.7	2.8
Adjusted ROAE	22.4	24.7	33.6	35.2	33.9
ROCE	18.8	21.5	28.5	31.2	30.9
Working capital days (days)					
Receivables	51	48	50	49	49
Inventory	29	35	32	33	33
Payables	73	84	79	79	79
Ratios (x)					
Gross asset turnover	10.1	10.5	12.1	14.5	17.0
Current ratio	1.1	1.0	1.1	1.2	1.2
Net interest coverage ratio	6.6	7.2	15.5	21.3	26.7
Adjusted debt/equity	0.4	0.3	0.2	0.2	0.1

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

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Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
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%

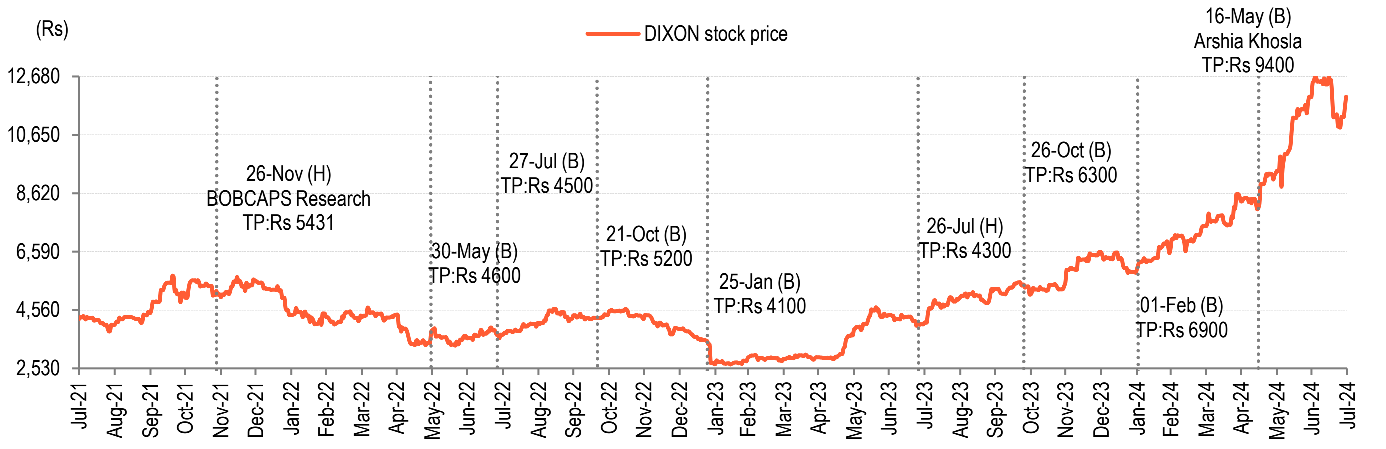
HOLD – Expected return from -6% to +15%

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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