

BUY**TP: Rs 4,600 | ▲ 21%****DIXON TECHNOLOGIES**

Consumer Durables

30 May 2022

A play on PLI

- **Mobiles segment drove 40% YoY Q4 topline growth; calibrated pricing action and cost-saving initiatives helped improve margins sequentially**
- **Strong order book from Motorola guided to nearly triple revenue from mobiles business in FY23; exports also remain the next big catalyst**
- **PLI story intact; recent sell-off provides opportunity to reenter – we assume coverage with BUY and TP of Rs 4,600**

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Strong topline in a difficult environment: DIXON's Q4FY22 revenue increased 40% YoY to Rs 29.5bn on the back of strong sales from the mobiles/home appliances segments which grew 346%/60%. Consumer electronics/ lighting products, however, declined by 14%/20% YoY. Gross margin contracted 100bps YoY to 9.2% but was up 75bps QoQ due to calibrated pricing actions and cost-saving initiatives. EBIT margin improved both YoY (+15bps) and QoQ (+90bps) to 3.4% due to operating leverage and an improved product mix. Net income increased 43% YoY to Rs 631mn.

Mobile business to lead growth: DIXON recently added Motorola to its customer roster and business is expected to ramp up this year, likely driving growth in FY23. The company expects the mobiles segment (excluding set top boxes and medical equipment) to generate revenue of Rs 70bn-75bn in FY23 as against Rs 27bn this year; of this, Rs 60bn-65bn is expected to come from Motorola alone.

PLI play continues: DIXON is a prime beneficiary of the government's production-linked incentive (PLI) scheme and of India's evolution into a major manufacturing hub for consumer electronics and durables. It has applied for five PLI schemes and, despite the current raw material shortage, was successful in meeting the threshold for two PLIs in the first year itself. It became the first company to meet the investment and ceiling revenue requirements for mobile phones; in laptops, it met the investment and minimum revenue threshold. The company expects to generate Rs 80mn-90mn in incentives from the two PLI schemes.

BUY, TP Rs 4,600: DIXON has emerged as a major player in contract manufacturing for consumer electronics and durable goods. Recent product additions and customer acquisitions have further enhanced its growth prospects. Additionally, we expect the PLI scheme to offer sizeable benefits to the company due to its low cost structure and ability to scale up manufacturing. We value the stock at 55x FY24E EPS, a 20% premium over its 4Y average, for a TP of Rs 4,600 – assume coverage with BUY.

Key changes

Target	Rating
▼	▲

Ticker/Price	DIXON IN/Rs 3,804
Market cap	US\$ 2.9bn
Free float	66%
3M ADV	US\$ 19.1mn
52wk high/low	Rs 6,244/Rs 3,181
Promoter/FPI/DII	34%/16%/8%

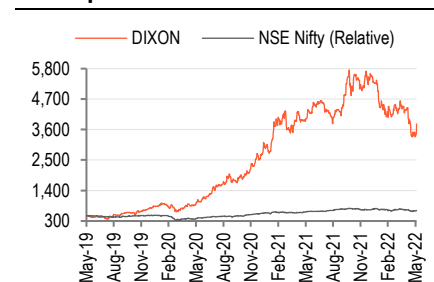
Source: NSE | Price as of 30 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,06,971	1,71,070	2,20,356
EBITDA (Rs mn)	3,842	6,418	8,430
Adj. net profit (Rs mn)	1,910	3,487	4,801
Adj. EPS (Rs)	32.6	59.5	81.9
Consensus EPS (Rs)	32.6	69.4	100.3
Adj. ROAE (%)	22.0	29.8	30.3
Adj. P/E (x)	116.7	63.9	46.4
EV/EBITDA (x)	58.4	35.3	27.1
Adj. EPS growth (%)	18.9	82.6	37.7

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

Stock performance



Source: NSE



Fig 1 – Quarterly and annual performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue (post indirect taxes)	29,528	21,097	40.0	30,733	(3.9)	1,06,971	64,482	65.9
Cost of Revenue	(26,823)	(18,960)	41.5	(28,147)	(4.7)	(97,792)	(57,697)	69.5
Gross Profit	2,705	2,137	26.6	2,586	4.6	9,178	6,785	35.3
Gross Margin (%)	9.2	10.1	(97bps)	8.4	75bps	8.6	10.5	(194bps)
Employee Benefits Expense	(537)	(437)	22.8	(533)	0.7	(1,978)	(1,371)	44.3
Other Expense	(986)	(902)	9.3	(1,023)	(3.6)	(3,409)	(2,548)	33.8
Other Income	0	0	-	0	-	0	0	-
EBITDA	1,182	798	48.1	1,030	14.8	3,791	2,866	32.3
EBITDA margin (%)	4.0	3.8	22bps	3.4	65.2bps	3.5	4.4	(90bps)
Depreciation & Amortization	(191)	(123)	55.7	(282)	(32.1)	(840)	(437)	92.1
EBIT	991	675	46.7	748	32.4	2,951	2,429	21.5
EBIT margin (%)	3.4	3.2	15bps	2.4	92bps	2.8	3.8	(101bps)
Interest Income	18	10	85.7	7	171.6	38	16	141.8
Interest Expense	(139)	(71)	95.5	(120)	16.3	(442)	(274)	61.0
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	0	0	-	0	-	0	0	-
Forex	0	0	-	0	-	0	0	-
Total Financials	(121)	(62)	97.1	(113)	7.1	(404)	(259)	56.1
Income after financial items	869	614	41.7	635	37.0	2,548	2,170	17.4
Margin (%)	2.9	2.9	4bps	2.1	88bps	2.4	3.4	(98bps)
Associate Income	(1)	0	-	0	-	(1)	0	-
Pretax income	869	614	41.6	635	36.9	2,547	2,170	17.4
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	869	614	41.6	635	36.9	2,547	2,170	17.4
Taxation	0	0	-	0	-	0	0	-
Total	(238)	(171)	38.9	(171)	38.9	(644)	(572)	12.6
% of pretax income before Associates	27	28	(2.0)	27	0.0	101	105	0.0
Net income before minorities	631	443	42.6	464	36.1	1,903	1,598	19.1
Minorities	0	0	-	0	-	0	0	-
Net income after minorities	631	443	42.6	464	36.1	1,903	1,598	19.1
Tax on non-core	0	0	-	0	-	0	0	-
Core net income	631	443	42.6	464	36.1	1,903	1,598	19.1
Net margin (%)	2.1	2.1	4bps	1.5	63bps	1.8	2.5	(70bps)

Source: Company, BOBCAPS Research

Fig 2 – Segment performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue								
Consumer Electronics	10,104	11,786	(14.3)	14,104	(28.4)	51,695	38,521	34.2
Lighting Products	3,046	3,817	(20.2)	4,304	(29.2)	12,841	11,037	16.3
Home Appliances	2,341	1,465	59.8	1,801	30.0	7,088	4,311	64.4
Mobile & EMS	12,941	2,899	346.4	9,397	37.7	31,383	8,395	273.8
Security System	1,096	1,092	0.3	1,127	(2.8)	3,964	2,178	82.0
EBIT								
Consumer Electronics	284	282	0.8	303	(6.3)	1,246	1,037	20.2
Lighting Products	217	307	(29.4)	280	(22.4)	881	974	(9.5)
Home Appliances	186	103	80.9	121	53.0	541	394	37.4
Mobile & EMS	457	74	521.5	74	521.5	766	394	94.3
Security System	38	31	20.4	47	(19.9)	152	63	141.9
EBIT Margin (%)								
Consumer Electronics	2.8	2.4	42bps	2.1	66bps	2.4	2.7	(28bps)
Lighting Products	7.1	8.1	(93bps)	6.5	62bps	6.9	8.8	(196bps)
Home Appliances	7.9	7.0	92bps	6.7	119bps	7.6	9.1	(150bps)
Mobile & EMS	3.5	2.5	100bps	0.8	275bps	2.4	4.7	(226bps)
Security System	3.4	2.9	57bps	4.2	(74bps)	3.8	2.9	95bps

Source: Company, BOBCAPS Research

Valuation methodology

DIXON has posted a good set of numbers in Q4FY22 despite a challenging macro environment. The company has focussed on ramping up its manufacturing capabilities and also entered into newer product categories such as refrigerators, top-loading automatic washing machines, PCBs for air conditioners, and wearables (via a JV with BoAT that also aims to foray into Bluetooth speakers and smart watches). Further, DIXON continues to be a major beneficiary of PLI schemes and has reached the investment and revenue threshold for two schemes in the first year itself.

In our view, the recent sell-off in the stock provides a good entry point. We assume coverage on DXON with a BUY rating and a TP of Rs 4,600, valuing the stock at 55x FY24E EPS, a 20% premium to its four-year average.

Fig 3 – Estimates Vs. Consensus

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	171.1	220.4	175.4	229.6	(2.4)	(4.0)
EBITDA	6.4	8.4	7.0	9.6	(7.7)	(11.9)
EBIT	5.3	6.9	5.9	8.0	(10.0)	(13.0)
Pretax Income	4.8	6.6	5.4	7.9	(11.4)	(16.5)
Net Income	3.5	4.8	4.1	5.9	(14.1)	(18.8)
EPS (Rs)	59.5	81.9	69.2	101.5	(14.0)	(19.3)

Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- drop in domestic demand in key segments of televisions and mobiles due to an economic downturn,
- inability to meet PLI targets,
- loss of customers or slower-than-expected customer addition, and
- failure to ramp up manufacturing facilities or delays in production due to supply chain disruptions.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.1	2,630	3,500	HOLD
Blue Star	BLSTR IN	1.2	1,004	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.8	352	500	BUY
Dixon Technologies	DIXON IN	2.9	3,804	4,600	BUY
Havells India	HAVL IN	9.8	1,218	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	275	350	HOLD
Polycab India	POLYCAB IN	4.7	2,434	3,000	BUY
V-Guard Industries	VGRD IN	1.3	235	250	HOLD
Voltas	VOLT IN	4.4	1,039	1,250	BUY
Whirlpool India	WHIRL IN	2.7	1,647	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 30 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	44,001	64,482	1,06,971	1,71,070	2,20,356
EBITDA	2,231	2,866	3,842	6,418	8,430
Depreciation	(365)	(437)	(891)	(1,141)	(1,492)
EBIT	1,865	2,429	2,952	5,277	6,938
Net interest inc./(exp.)	(322)	(270)	(437)	(499)	(390)
Other inc./(exp.)	28	13	34	40	40
Exceptional items	(3)	(3)	0	0	0
EBT	1,568	2,168	2,547	4,818	6,588
Income taxes	(363)	(572)	(644)	(1,202)	(1,644)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	(1)	(128)	(143)
Reported net profit	1,205	1,596	1,903	3,487	4,801
Adjustments	21	10	7	0	0
Adjusted net profit	1,226	1,606	1,910	3,487	4,801

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	9,391	17,097	23,137	42,182	54,334
Other current liabilities	9,434	17,153	23,211	42,256	54,408
Provisions	65	88	143	143	143
Debt funds	1,756	2,897	6,669	7,178	3,852
Other liabilities	225	281	499	627	769
Equity capital	116	117	119	119	119
Reserves & surplus	5,298	7,256	9,849	13,337	18,138
Shareholders' fund	5,413	7,373	9,968	13,455	18,256
Total liab. and equities	16,972	28,457	42,772	65,941	79,711
Cash and cash eq.	1,002	689	1,823	1,702	2,204
Accounts receivables	5,151	10,891	13,564	28,121	33,204
Inventories	4,978	7,433	11,557	18,747	24,149
Other current assets	1,331	2,899	4,526	4,526	4,526
Investments	0	0	0	0	0
Net fixed assets	4,015	5,381	9,542	11,076	13,860
CWIP	0	0	0	0	0
Intangible assets	44	40	191	191	191
Deferred tax assets, net	3	0	0	0	0
Other assets	449	1,125	1,568	1,576	1,577
Total assets	16,972	28,457	42,772	65,941	79,711

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	2,374	1,701	2,728	2,512	8,454
Capital expenditures	(1,097)	(1,682)	(4,206)	(2,674)	(4,277)
Change in investments	0	0	0	0	0
Other investing cash flows	76	(972)	(438)	0	0
Cash flow from investing	(1,021)	(2,654)	(4,645)	(2,674)	(4,277)
Equities issued/Others	457	269	642	0	0
Debt raised/repaid	0	0	0	509	(3,326)
Interest expenses	0	0	0	(554)	(441)
Dividends paid	(69)	0	0	0	0
Other financing cash flows	(1,350)	98	1,759	45	3,767
Cash flow from financing	(962)	366	2,401	0	0
Chg in cash & cash eq.	807	(318)	1,126	(113)	501
Closing cash & cash eq.	1,002	689	1,815	1,702	2,204

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	20.8	27.2	32.5	59.5	81.9
Adjusted EPS	21.2	27.4	32.6	59.5	81.9
Dividend per share	4.0	1.0	2.0	3.0	4.1
Book value per share	93.5	125.8	170.1	229.6	311.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	5.1	3.5	2.1	1.3	1.0
EV/EBITDA	100.1	78.1	58.4	35.3	27.1
Adjusted P/E	179.7	138.8	116.7	63.9	46.4
P/BV	40.7	30.2	22.4	16.6	12.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	78.0	74.0	75.0	72.4	72.9
Interest burden (PBT/EBIT)	84.2	89.4	86.3	91.3	95.0
EBIT margin (EBIT/Revenue)	4.2	3.8	2.8	3.1	3.1
Asset turnover (Rev./Avg TA)	275.9	283.9	300.4	314.7	302.6
Leverage (Avg TA/Avg Equity)	3.5	3.6	4.1	4.6	4.6
Adjusted ROAE	26.7	25.1	22.0	29.8	30.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	47.4	46.5	65.9	59.9	28.8
EBITDA	65.4	28.5	34.1	67.0	31.4
Adjusted EPS	85.9	29.5	18.9	82.6	37.7

Profitability & Return ratios (%)

EBITDA margin	5.1	4.4	3.6	3.8	3.8
EBIT margin	4.2	3.8	2.8	3.1	3.1
Adjusted profit margin	2.8	2.5	1.8	2.0	2.2
Adjusted ROAE	26.7	25.1	22.0	29.8	30.3
ROCE	30.4	29.7	23.5	30.3	33.6

Working capital days (days)

Receivables	43	62	46	60	55
Inventory	41	42	39	40	40
Payables	78	97	79	90	90

Ratios (x)

Gross asset turnover	13.0	14.1	14.7	15.9	15.5
Current ratio	1.2	1.2	1.2	1.1	1.1
Net interest coverage ratio	5.8	9.0	6.7	10.6	17.8
Adjusted debt/equity	0.3	0.4	0.7	0.5	0.2

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

Disclaimer

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

BUY – Expected return >+15%

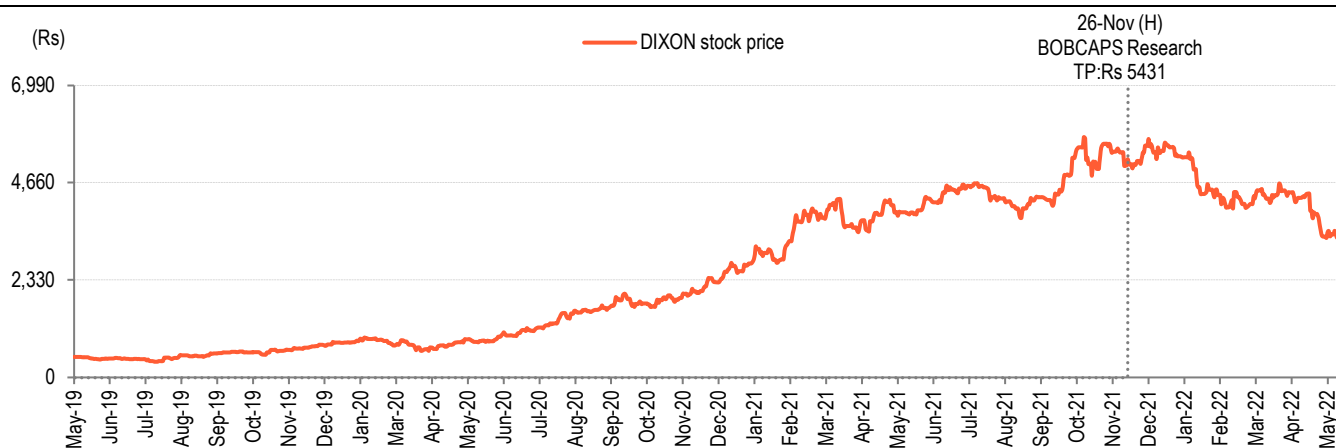
HOLD – Expected return from -6% to +15%

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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