

BUY

TP: Rs 9,400 | ▲ 16%

DIXON TECHNOLOGIES

Consumer Durables

16 May 2024

Backward integration to fuel growth; maintain BUY

- Q4 revenue jumped 52% YoY, driven by mobile and EMS growth; EBITDA margin down 120bps on input cost hike
- Management upbeat about growth, especially in the mobile segment, comprising about half of total revenue
- FY25E/26E EPS up by 5%/18% to bake in strong FY24, and raise target P/E to 60x on strong return ratios; TP raised to Rs 9,400

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Sturdy quarter: In Q4FY24, Dixon witnessed robust 52% YoY growth in its topline, reaching Rs 46.5bn, driven by a 119% increase in the mobiles and EMS segment, which amounted to Rs 30.9bn. However, despite strong revenue growth, the EBITDA margin contracted by 120bps YoY to 3.9%, primarily due to increased input costs. Nonetheless, the company's PAT showed resilience, growing by 18% to reach Rs 952mn. Management remains optimistic about growth prospects across verticals, particularly the mobile segment, which contributes 50% to the topline. FY24 revenue grew 45% YoY to Rs 176.9bn.

Favourable performance: Dixon's ROE increased 280bps YoY to 25.2% and ROCE by 460bps to 38% in FY24. Anticipating the future, management expects to uphold these performance indicators through concentrated efforts to boost profitability, optimise working capital and augment asset turnover, especially in the mobile and IT hardware sectors.

Backward integration to enhance growth: In sync with its integration plan, Dixon maximises capacity and meets mold requirements. Amid rising demand, it is expanding its Noida facility and ramping up mass production for telecom, GPU, routers, and Android set-top boxes. Launching the pilot production for Airtel's 5G devices, it anticipates full-scale production by Jun-Jul. Securing a deal with Nokia further strengthens Dixon's position. Having met Production Linked Incentive (PLI) thresholds, Dixon targets growth, particularly in smartphones. Incremental investments drive expansion, prioritising enhanced manufacturing capabilities for global brands.

Promising prospects: Buoyed by the robust Q4FY24 performance and bolstered by more compelling guidance, we raise our EPS estimates by 5% for FY25 and by 18% for FY26. Anticipating widespread consensus upgrades, we increase our P/E to 60x (from 55x). We roll forward our valuations to Mar'26E, and raise our TP to Rs 9,400 (from Rs 6,900). Dixon emerges as the pre-eminent player in the EMS sector, reinforcing our recommendation to maintain a BUY rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DIXON IN/Rs 8,103
Market cap	US\$ 5.9bn
Free float	66%
3M ADV	US\$ 32.5mn
52wk high/low	Rs 8,655/Rs 2,906
Promoter/FPI/DII	34%/12%/24%

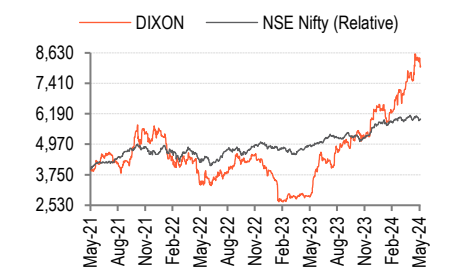
Source: NSE | Price as of 15 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	176,909	269,183	364,820
EBITDA (Rs mn)	6,976	11,454	15,576
Adj. net profit (Rs mn)	3,678	6,348	9,372
Adj. EPS (Rs)	61.8	106.6	157.4
Consensus EPS (Rs)	61.8	107.0	145.0
Adj. ROAE (%)	24.7	31.6	33.7
Adj. P/E (x)	131.2	76.0	51.5
EV/EBITDA (x)	69.2	42.1	31.0
Adj. EPS growth (%)	43.9	72.6	47.7

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	46,580	30,655	52.0	48,183	(3.3)	176,909	121,920	45.1
EBITDA	1,825	1,563	16.7	1,844	(1.1)	6,976	5,128	36.1
EBITDA Margin (%)	3.9	5.1	(120bps)	3.8	10bps	3.9	4.2	(30bps)
Depreciation	510	325		407		1,619	1,146	
Interest	214	151		222		747	606	
Other Income	167	18		23		226	56	
PBT	1,267	1,105	14.7	1,238	2.3	4,836	3,432	40.9
Tax	322	315		287		1,189	897	
Adjusted PAT	952	806	18.1	964	(1.3)	3,647	2,535	43.9
Exceptional item	-	-		0		0.0	0.0	
Reported PAT	952	806	18.1	964	(1.3)	3,678	2,555	43.9
Adj. PAT Margin (%)	2.0	2.6	(60bps)	2.0	0bps	2.1	2.1	0bps
EPS (Rs)	15.9	13.3	19.5	16.0	(0.7)	61.8	42.9	43.9

Source: Company, BOBCAPS Research

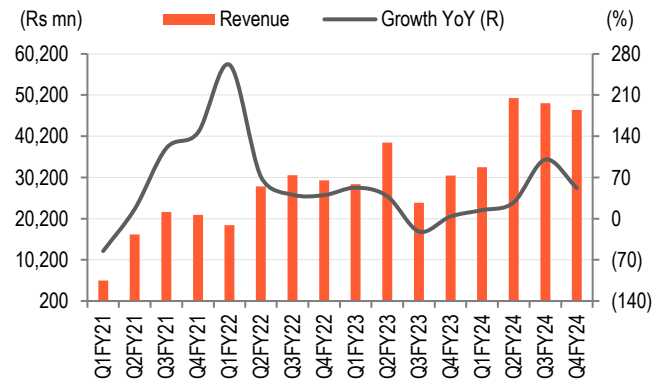
Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
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
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)
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
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)
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
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
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
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
Security systems	751	990	1,127	1,096	1,311	1,183	1,184	1,240	1,140	1,400	2,000	1,790
Growth YoY (%)	461.6	149.4	102.9	0.3	74.5	19.5	5.1	13.2	(13.1)	18.3	68.9	44.4
EBIT												
Consumer electronics	297	318	303	284	248	428	260	370	300	490	320	300
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
Lighting products	69	333	280	217	167	238	239	260	190	120	130	142
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
Home appliances	44	199	121	186	207	327	250	310	280	420	300	301
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
Mobile & EMS	42	179	303	457	328	423	330	590	530	930	1,040	1,050
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
Security systems	26	13	47	38	52	36	20	36	15	23	50	34
EBIT margin (%)	3.5	1.3	4.2	3.4	4.0	3.0	1.7	2.9	1.3	1.6	2.5	1.9

Source: Company, BOBCAPS Research

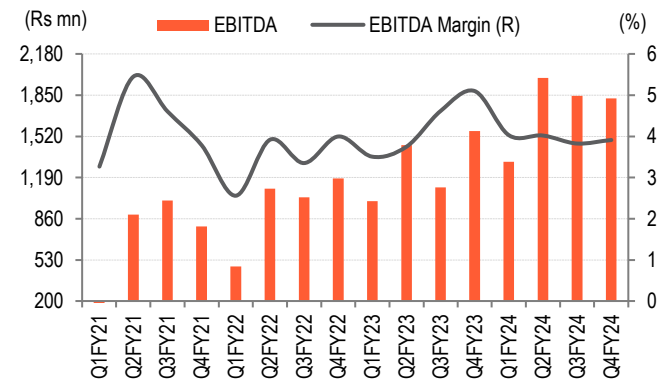
Key Metrics: Quarterly

Fig 3 – Revenue growth



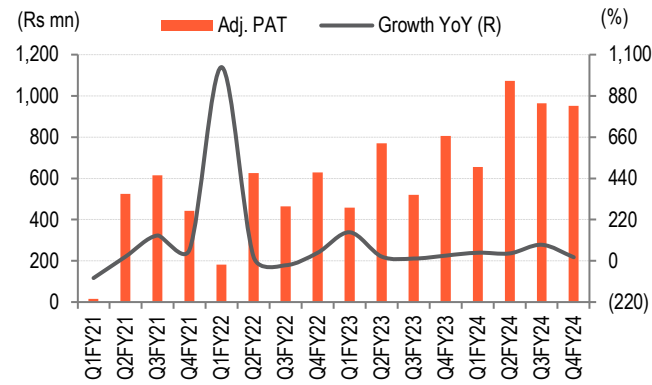
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



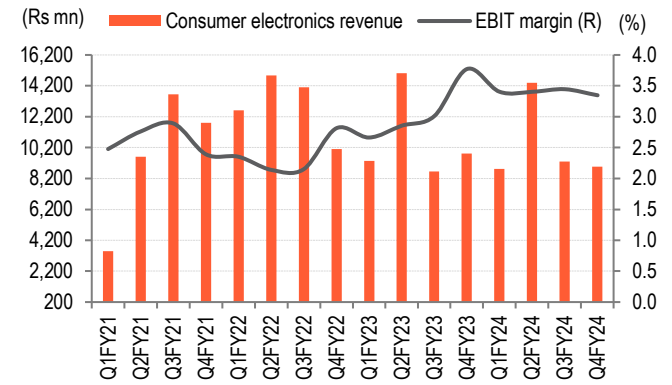
Source: Company, BOBCAPS Research

Fig 5 – PAT growth



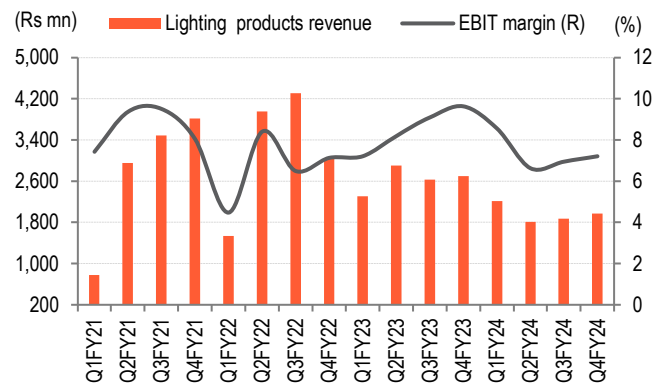
Source: Company, BOBCAPS Research

Fig 6 – Consumer electronics business growth



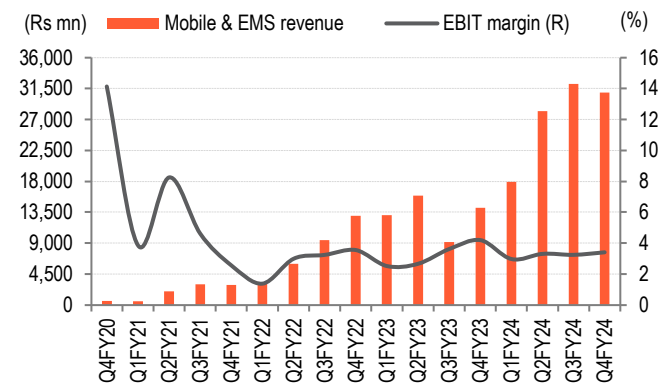
Source: Company, BOBCAPS Research

Fig 7 – Lighting business growth



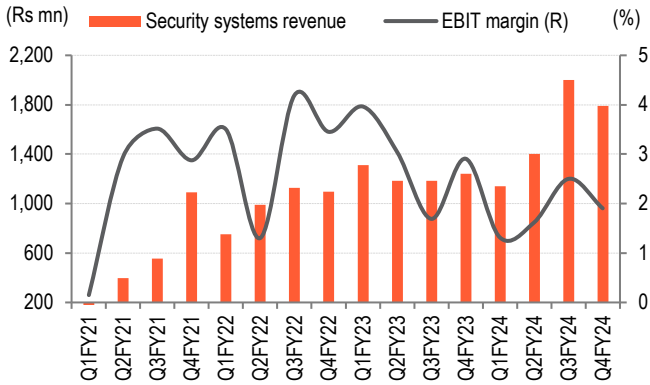
Source: Company, BOBCAPS Research

Fig 8 – Mobiles business growth



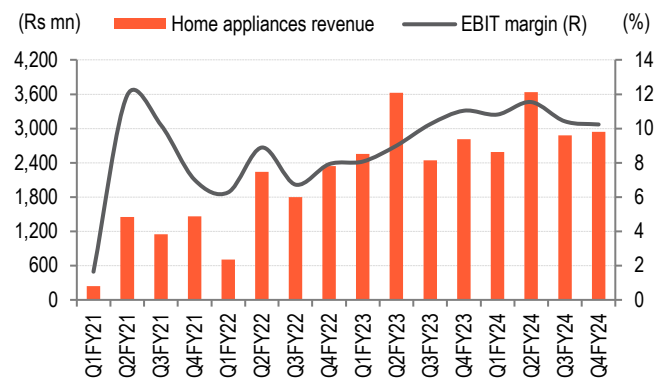
Source: Company, BOBCAPS Research

Fig 9 – Security systems business growth



Source: Company, BOBCAPS Research

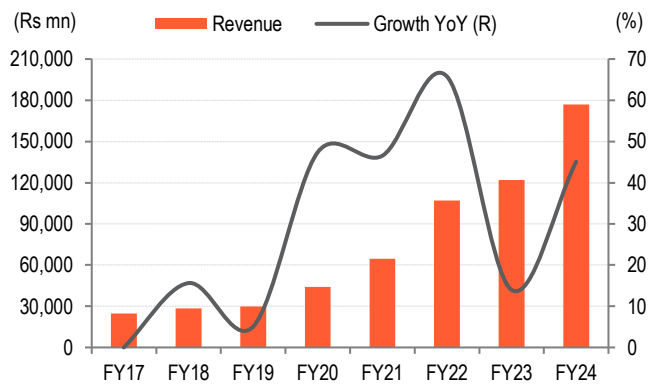
Fig 10 – Home appliances business growth



Source: Company, BOBCAPS Research

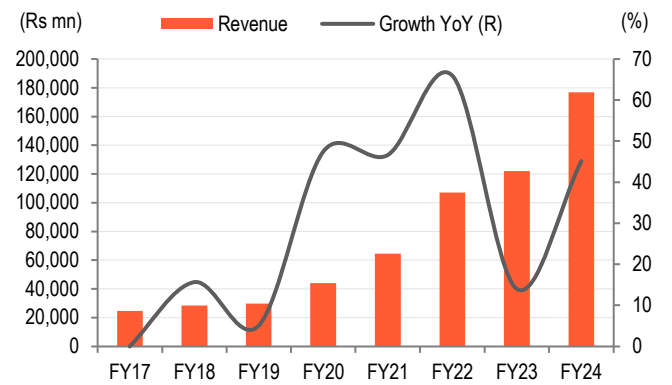
Key metrics: Yearly

Fig 11 – Revenue growth



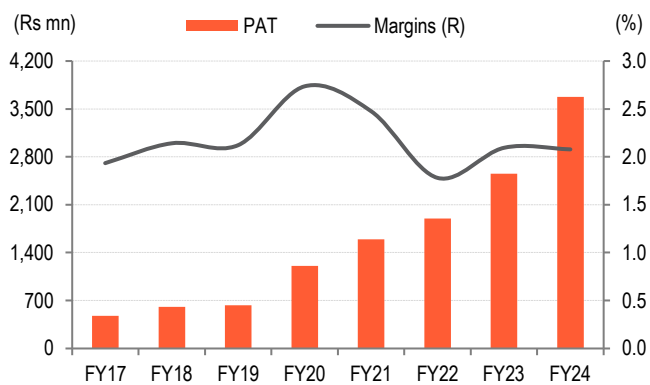
Source: Company, BOBCAPS Research

Fig 12 – EBITDA trend



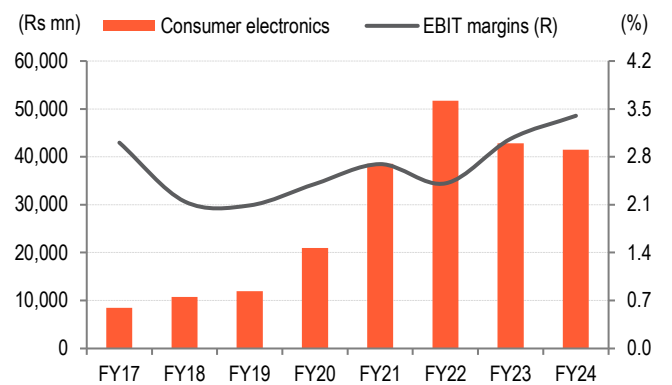
Source: Company, BOBCAPS Research

Fig 13 – PAT trend



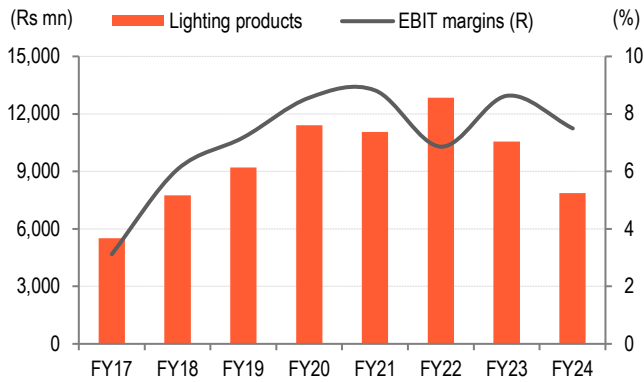
Source: Company, BOBCAPS Research

Fig 14 – Consumer electronics business growth



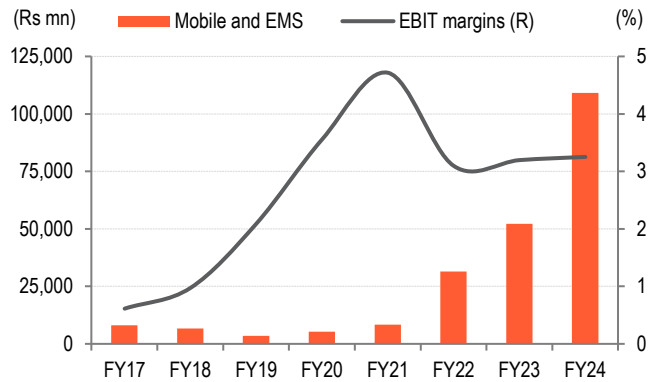
Source: Company, BOBCAPS Research

Fig 15 – Lighting business growth



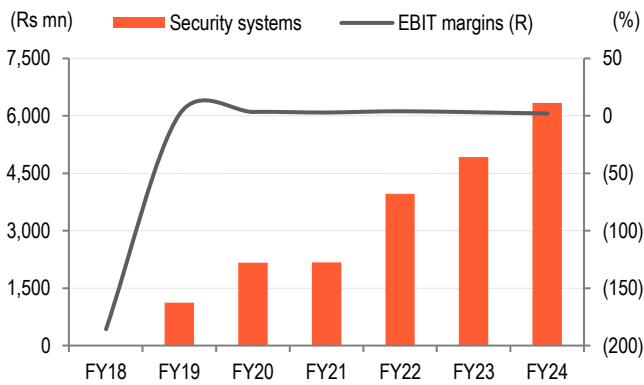
Source: Company, BOBCAPS Research

Fig 16 – Mobiles business growth



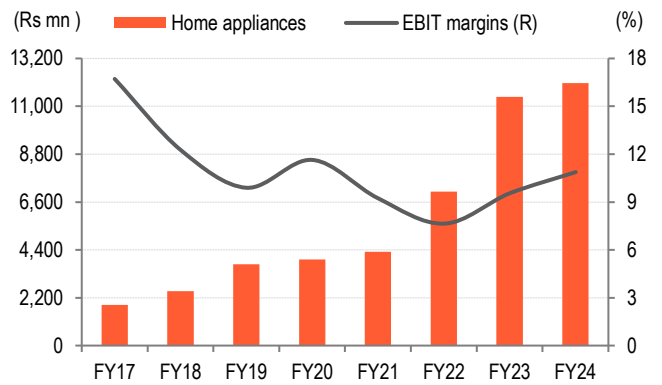
Source: Company, BOBCAPS Research

Fig 17 – Security systems business growth



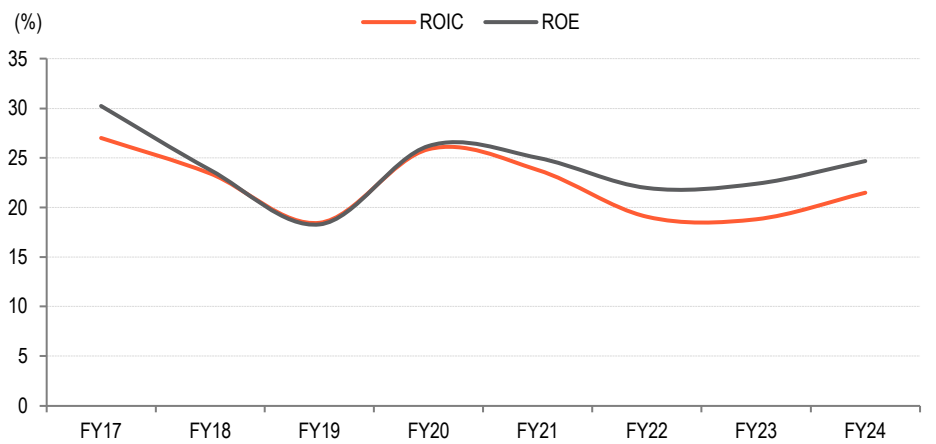
Source: Company, BOBCAPS Research

Fig 18 – Home appliances business growth



Source: Company, BOBCAPS Research

Fig 19 – Return ratios



Source: Company, Bloomberg, BOBCAPS Research

Earnings call highlights

Consumer electronics

- **Sturdy quarter:** Consumer electronics revenue for the quarter amounted to Rs 8.97bn, with an operating profit of Rs 300mn and margin of 3.3%. Annually, revenues soared to Rs 414.8bn, accompanied by operating profit of Rs 1.41bn and margin of 3.4%.
- **Achievement:** The company unveiled its inaugural ODM-based installations ranging from 32 inches to 85 inches this quarter, eliciting an encouraging response from customers.
- **Prospects:** Management anticipates in the current quarter the commencement of manufacturing and partnership with Samsung for the Tizen operating system. Moving beyond interactive flat display panels, the company has initiated the manufacture of digital signage solutions spanning 65 to 100 inches, with promising outlooks in both categories. To spearhead advancements in televisions, and signages, Dixon has established a state-of-the-art R&D centre in Noida. Also, the company is actively exploring the manufacture of industrial, institutional, and automotive displays.

Home appliances

- **Performance:** Home appliance revenues for the quarter totalled Rs 2.94bn, yielding an operating profit of Rs 300mn and an operating margin of 10.2%. Annual revenue reached Rs 12.05bn. Operating profit for the year jumped to Rs 1.31bn, growing 20% YoY.
- **Mass production begins:** Mass production is underway at the company's new Dehradun facility, boasting an annual capacity of 2.5mn units.
- **In-house manufacturing initiated:** Aligned with its backward integration strategy, the company's two plants are now operating at full capacity, effectively meeting the company's mold requirements. It has initiated in-house manufacturing for BSH in the semi-automatic category, as well as for Panasonic in the fully automatic category. Pilot productions for Reliance brands in both temperature and mass production categories are scheduled to begin this month.
- **Refrigerator:** With a capacity of 1.2mn refrigerators, the company has successfully met the PLI thresholds for FY24. The refrigerator plant is now fully operational.

Lighting

- **Revenue soft:** In the lighting segment, revenues for the quarter amounted to Rs 1.97bn, accompanied by operating profit of Rs 140mn. Annual revenues stood at Rs 7.87bn.
- **New launches:** With an operating corporate budget of Rs 590mn, the company launched professional floodlight products in key cities in Q4 of the last financial year. Further product expansions, including ceiling lights and an extension of the professional lighting range, are slated for Q2 and Q3.

- **Cost optimisation initiative:** The company's focus on backward integration for mechanicals, with injection molding for ceiling lights in Q1 and extrusion for backing in Q2, is aimed at cost optimisation. Simultaneously, efforts to expand the product portfolio by transitioning to high-value premium products are currently underway.

Telecom and network

- In the telecommunications and networking segment, revenues amounted to Rs 2.28bn for the quarter and Rs 6.85bn for the year.
- **Full-scale production underway:** In response to increased demand, Dixon is expanding its operations with the addition of a new facility in Noida. Mass production is currently underway for telecom, GPU, routers, and Android set-top boxes for Airtel, in collaboration with various local original design manufacturers (ODMs). Pilot production has commenced for Airtel's 5G fixed wireless devices, with mass production expected to commence in Jun-Jul. It has inked an agreement with Nokia for the manufacture of 5G fixed wireless devices, with a robust order book in this category. Also, it has successfully met the PLI investment and revenue thresholds for laptops, tablets, and IT hardware products.

Mobile and EMS

- **Strong growth:** In the mobile business, revenue jumped by 119% YoY, reaching Rs 30bn for the quarter, and operating profit rose 78% to Rs 10bn. For the year, revenues grew nearly 109% to Rs 109bn, while operating profit grew 112% YoY to Rs 35bn.
- **Strategy going forward:** Having achieved milestones in smartphone and feature phone manufacturing, with capacities now at 45mn pieces and 40mn respectively, the company is poised for further growth. Incremental investments are being made to meet increased orders, with expectations of significant growth in Motorola and Xiaomi smartphone volumes. Manufacturing for global brands, including Realme, is underway, with plans to add more local brands. The strategy now focuses on deepening manufacturing, with plans for display modules and precision components.
- **Increasing backward integration:** The company is exploring the manufacture of battery packs to deepen its involvement in surface mount technology (SMT) for printed circuit board assembly (PCBA).
- **Exports:** For an anchor customer in the North American market, the projected volume was around 1.25mn units in FY24. Looking ahead to FY25, the company is in the process of finalising export contracts, with expectations of achieving a growth rate of 60% to 70% from the current figures.
- **Laptop and tablet manufacturing:** Tablet production is still pending commercial commencement; trials have taken place. Furthermore, laptop production is slated to begin for a major client from September.

Balance sheet

- **Working capital:** Dixon has made strides in enhancing its working capital management, achieving a cash conversion cycle of -8 days in FY24 compared to -2 days in FY23. While ROCE has seen growth across segments, security systems,

constituting 3% of its revenue, witnessed no expansion. Notably, the company's ROE and ROCE reached 38% and 25.2% respectively in FY24, marking a significant expansion of 460bps and 280bps over FY23 respectively.

- **Capital expenditure:** Management allocated Rs 5.6bn rupees in capex for FY24. Anticipating a reduction in capex intensity for FY25, it foresees improved return ratios as operating leverage comes into play.
- **Cash flow:** Dixon reported a free cash flow of Rs 150mn for FY24, significantly decreasing from Rs 2.76bn in FY23. The substantial free cash flow in FY23 was primarily attributed to its strong performance in the lighting business.

Other highlights

- **Volumes:** Volumes reached about 3mn for LED bulbs, 94mn for patterns, 2.5mn for downlights, and 79mn for other lighting products. Additionally, semi-automatic washing machines totalled 1.7mn units, while fully automatic washing machines accounted for 0.16mn units. Excluding Samsung, smartphone sales amounted to around 6.5mn units.

Valuation methodology

Dixon continues to stand out in the Electronics Manufacturing Services (EMS) sector, boasting superior asset turnover and a best-in-class Return on Capital Employed (ROCE) of 38% in FY24. The company maintains a robust order book across various sectors, indicating sustained demand momentum. Its growth initiatives are well-supported by robust liquidity, as evidenced by the generation of Rs 150mn in free cash flow during FY24. We believe these factors underscore Dixon's strong position in the EMS space and affirm its potential for continued growth and value creation in the foreseeable future.

Following the strong Q4FY24 result and even stronger guidance, we raise our FY25/ FY26 EPS estimates by 5%/18%. We expect consensus upgrades to follow and raise our P/E to 60x (from 55x) and our TP to Rs 9,400 (from Rs 6,900). We roll over valuations to Mar'26E. Dixon looks best positioned in the EMS space – Maintain BUY.

Fig 20 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	269,183	364,820	255,453	298,618	5.4	22.2
EBITDA	11,454	15,576	10,505	13,284	9.0	17.3
PAT	6,348	9,372	6,031	7,965	5.3	17.7
EPS (Rs)	106.6	157.4	101.3	133.8	5.3	17.7
EBITDA Margin (%)	4.3	4.3	4.1	4.3	10bps	0bps

Source: Company

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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,791	3,200	SELL
Dixon Technologies	DIXON IN	5.9	8,103	9,400	BUY
Havells India	HAVL IN	13.4	1,754	1,780	HOLD
Orient Electric	ORIENTEL IN	0.6	216	230	HOLD
Syrma SGS	SYRMA IN	0.9	399	420	HOLD
Voltas	VOLT IN	5.2	1,303	1,260	HOLD

Source: BOBCAPS Research, NSE | Price as of 15 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	106,971	121,920	176,909	269,183	364,820
EBITDA	3,791	5,128	6,976	11,454	15,576
Depreciation	840	1,146	1,619	2,619	2,680
EBIT	2,952	3,981	5,358	8,835	12,896
Net interest inc./(exp.)	(442)	(606)	(747)	(598)	(639)
Other inc./(exp.)	38	56	226	248	273
Exceptional items	0	0	0	0	0
EBT	2,548	3,432	4,836	8,486	12,530
Income taxes	644	897	1,189	2,138	3,158
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	16	102	0	0
Reported net profit	1,903	2,555	3,678	6,348	9,372
Adjustments	0	0	0	0	0
Adjusted net profit	1,903	2,555	3,678	6,348	9,372

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	23,137	24,519	40,598	58,262	78,961
Other current liabilities	2,615	4,341	6,075	9,243	12,527
Provisions	0	0	0	0	0
Debt funds	4,580	4,531	4,890	4,980	5,328
Other liabilities	2,472	555	1,404	1,992	2,602
Equity capital	119	119	120	120	120
Reserves & surplus	9,849	12,730	16,829	23,057	32,311
Shareholders' fund	9,968	12,849	16,949	23,177	32,430
Total liab. and equities	42,772	46,794	69,915	97,654	131,848
Cash and cash eq.	3,174	2,592	2,087	5,518	13,210
Accounts receivables	13,564	17,155	23,179	36,572	48,682
Inventories	11,557	9,579	16,950	23,470	33,381
Other current assets	3,176	2,068	6,147	9,354	12,677
Investments	0	0	0	0	0
Net fixed assets	9,542	9,425	16,367	16,749	17,069
CWIP	220	1,197	643	978	1,325
Intangible assets	494	3,012	3,635	3,635	3,635
Deferred tax assets, net	0	0	0	0	0
Other assets	1,045	1,768	906	1,378	1,868
Total assets	42,772	46,794	69,914	97,653	131,848

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	2,728	7,258	7,061	6,680	10,690
Capital expenditures	(4,174)	(4,502)	(5,686)	(3,000)	(3,000)
Change in investments	(452)	984	344	0	0
Other investing cash flows	(19)	(38)	33	(219)	(227)
Cash flow from investing	(4,645)	(3,556)	(5,309)	(3,219)	(3,227)
Equities issued/Others	642	336	469	0	0
Debt raised/repaid	2,174	(2,776)	(276)	90	348
Interest expenses	0	0	0	0	0
Dividends paid	228	(856)	(893)	(119)	(119)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,043	(3,296)	(700)	(29)	229
Chg in cash & cash eq.	1,126	406	1,052	3,431	7,692
Closing cash & cash eq.	3,174	2,592	2,087	5,518	13,210

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	32.0	42.9	61.8	106.6	157.4
Adjusted EPS	32.0	42.9	61.8	106.6	157.4
Dividend per share	2.0	3.0	2.0	2.0	2.0
Book value per share	167.4	215.8	284.6	389.2	544.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.5	4.0	2.7	1.8	1.3
EV/EBITDA	127.3	94.1	69.2	42.1	31.0
Adjusted P/E	253.5	188.8	131.2	76.0	51.5
P/BV	48.4	37.6	28.5	20.8	14.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.7	74.5	76.0	74.8	74.8
Interest burden (PBT/EBIT)	86.3	86.2	90.3	96.0	97.2
EBIT margin (EBIT/Revenue)	2.8	3.3	3.0	3.3	3.5
Asset turnover (Rev./Avg TA)	11.2	12.9	10.8	16.1	21.4
Leverage (Avg TA/Avg Equity)	1.1	0.8	1.1	0.8	0.6
Adjusted ROAE	22.0	22.4	24.7	31.6	33.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	65.9	14.0	45.1	52.2	35.5
EBITDA	32.3	35.3	36.1	64.2	36.0
Adjusted EPS	19.1	34.3	43.9	72.6	47.7
Profitability & Return ratios (%)					
EBITDA margin	3.5	4.2	3.9	4.3	4.3
EBIT margin	2.8	3.3	3.0	3.3	3.5
Adjusted profit margin	1.8	2.1	2.1	2.4	2.6
Adjusted ROAE	22.0	22.4	24.7	31.6	33.7
ROCE	19.1	18.8	21.5	26.9	29.6
Working capital days (days)					
Receivables	46	51	48	50	49
Inventory	39	29	35	32	33
Payables	79	73	84	79	79
Ratios (x)					
Gross asset turnover	11.8	10.1	10.5	11.9	14.2
Current ratio	1.2	1.1	1.0	1.1	1.2
Net interest coverage ratio	6.7	6.6	7.2	14.8	20.2
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%

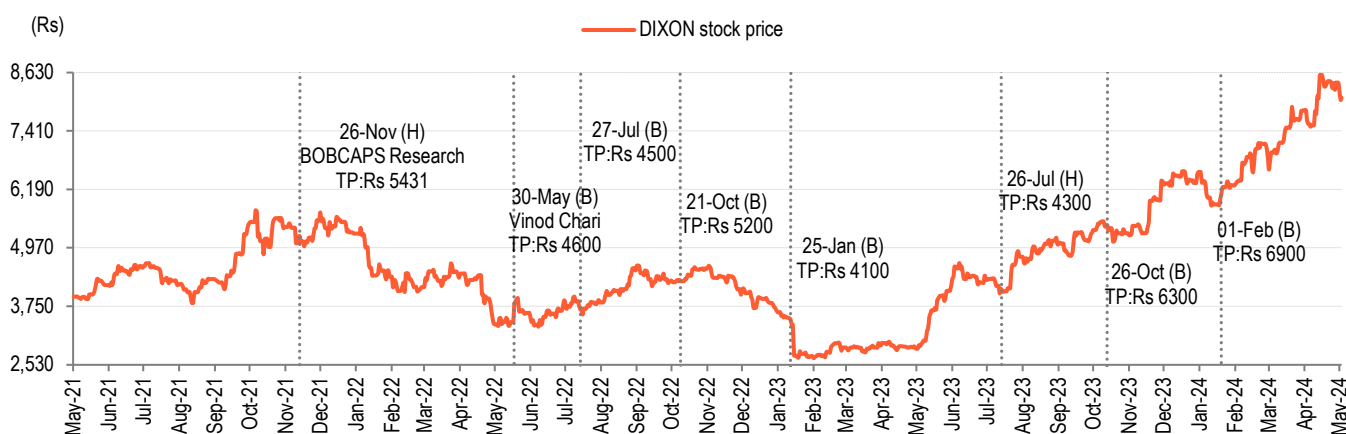
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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