

RESEARCH

DIXON TECHNOLOGIES | TARGET: Rs 4,100 | +25% | BUY

In-line quarter; strong guidance reiterated

ZYDUS WELLNESS | TARGET: Rs 1,631 | +12% | HOLD

Price-led growth in Q4; HFD category a concern

SUMMARY

DIXON TECHNOLOGIES

- Q4 topline of Rs 30.7bn in line with our estimate while improved ODM contribution aided a margin beat
- Above-industry growth guided for FY24; mobile segment client addition continues
- FY24/FY25 EPS adjusted by +13%/-6%; on rollover, our TP stays at Rs 4,100 – maintain BUY

[Click here for the full report.](#)

ZYDUS WELLNESS

- Q4 revenue grew 11.4% YoY on the back of continuous price hikes; volume growth muted at 4%
- Gross margin flattish YoY at 50.8% but increased overheads weakened EBITDA margin
- Slowing HFD business to weigh on performance; we assume coverage with HOLD and a TP of Rs 1,631, based on 22.7x FY25E EPS

[Click here for the full report.](#)

Daily macro indicators

Ticker	19-May	22-May	Chg (%)
US 10Y yield (%)	3.67	3.71	4bps
India 10Y yield (%)	7.01	6.99	(2bps)
USD/INR	82.67	82.83	(0.2)
Brent Crude (US\$/bbl)	75.6	76.0	0.5
Dow	33,427	33,287	(0.4)
Hang Seng	19,451	19,678	1.2
Sensex	61,730	61,964	0.4
India FII (US\$ mn)	18-May	19-May	Chg (\$ mn)
FII-D	(20.6)	(36.9)	(16.3)
FII-E	218.8	91.0	(127.8)

Source: Bank of Baroda Economics Research



BUY
 TP: Rs 4,100 | ▲ 25%

DIXON TECHNOLOGIES | Consumer Durables | 23 May 2023

In-line quarter; strong guidance reiterated

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- Above-industry growth guided for FY24; mobile segment client addition continues
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Revenue in line, margin a surprise: Dixon’s Q4FY23 topline at Rs 30.7bn (+4% YoY) met our expectations while EBITDA margin at 5.1% (4.7% est.) came as a positive surprise due to a higher share of margin-accretive ODM-led business. EBIT margins expanded across verticals led by the home appliances segment at 11% (+310bps YoY). Adj. PAT at Rs 806mn (Rs 808mn est.) grew 28% YoY. Home appliances and mobiles aided topline growth while the consumer electronics and lighting divisions remained weak YoY.

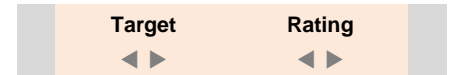
Upbeat growth guidance: Management remains optimistic on the opportunities in the electronics manufacturing space (EMS) and expects to deliver growth significantly ahead of the industry in FY24, backed by a strong order book, new client addition and resultant incremental capacity. EBITDA margin is guided to expand 30-40bps given an increasing contribution from ODM business and backward integration.

Mobiles business outlook promising: Though delayed client addition clouded the outlook for the mobiles business in Q3FY23, management has partly allayed concerns by announcing major orders from Jio and Nokia. Additionally, the company indicated that it is in final discussions to add two more significant clients that can generate Rs 40bn-50bn in revenue in FY24 itself.

Lighting and electronics performance to improve: Dixon expects a better performance in the lighting and electronics divisions for FY24 underpinned by concerted efforts towards product launches, client additions, ODM buildout and cost efficiency via backward integration, apart from higher export opportunities.

Maintain BUY: We adjust our FY24/FY25 EPS estimates by +13%/-6% to incorporate the growth guidance and FY23 print. We continue to value the stock at an unchanged P/E multiple of 55x – an 20% premium to the 5Y average on 2Y forward basis, accounting for Dixon’s better positioning in the EMS space than peers and growing ODM revenue share. On rollover of valuations to Mar’25E, our TP remains unchanged at Rs 4,100. BUY.

Key changes



Ticker/Price	DIXON IN/Rs 3,276
Market cap	US\$ 2.4bn
Free float	66%
3M ADV	US\$ 12.8mn
52wk high/low	Rs 4,670/Rs 2,553
Promoter/FPI/DII	34%/12%/24%

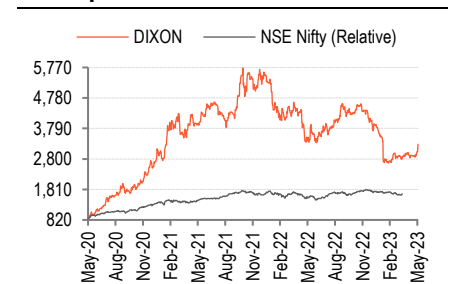
Source: NSE | Price as of 23 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	121,920	176,886	209,182
EBITDA (Rs mn)	5,128	7,556	8,409
Adj. net profit (Rs mn)	2,555	4,086	4,460
Adj. EPS (Rs)	42.9	68.6	74.9
Consensus EPS (Rs)	42.9	69.9	92.0
Adj. ROAE (%)	22.4	27.5	23.5
Adj. P/E (x)	76.3	47.7	43.7
EV/EBITDA (x)	38.0	25.8	23.2
Adj. EPS growth (%)	34.3	59.9	9.2

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

Stock performance



Source: NSE



HOLD

TP: Rs 1,631 | ▲ 12%

ZYDUS WELLNESS

Consumer Staples

23 May 2023

Price-led growth in Q4; HFD category a concern

- Q4 revenue grew 11.4% YoY on the back of continuous price hikes; volume growth muted at 4%
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Vikrant Kashyap

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Steady growth with gross margin recovery: ZYWL reported sales growth of 11.4% YoY (3Y CAGR of 13.5%) during Q4FY23, driven by price hikes where as volume growth for the quarter stood at 4%. The company maintained its segmental leadership in five of six categories during the year. Adequate pricing and an improved product mix maintain gross margin at 50.8% in Q4, but EBITDA margin contracted 180bps to 20.3% due to a spike in other expenses (though close to half the increase was one-time in nature). Adj. PAT grew 14% YoY (3Y CAGR of 28.5%).

Market share gains across most categories: The company continues to strengthen its market leadership in most categories. *Glucon-D* remains the #1 brand in the energy drink category and reached market share of 60.1%, up 159bps YoY. ZYWL maintained market share in *Sugar Free* at 96% and improved share in *Nycil* prickly heat powder/*Everyuth* scrub/*Everyuth* peel-off by 157bps/ 68bps/7bps YoY. However, the company lost ground by 50bps YoY in *Complan* to 4.5% as the health food drink (HFD) category continued to witness a slowdown, dipping 1.1%.

International expansion remains a focus area: ZYWL continues to expand its global presence and is now present in 25 countries, with the top 5 contributing ~80% of revenue. During the year, the company operationalised a subsidiary in Bangladesh to expand its presence in the Indian subcontinent. The company aims for robust growth in international markets, where the sugar-free franchise and Complan constitute ~90% of the business.

HOLD, TP Rs 1,631: ZYWL has taken multiple price hikes which resulted in double-digit growth and market share gains during FY23. We expect softening of key raw material prices and further pricing action to result in gross margin recovery, but higher advertisement and other expenses to impact EBITDA margin going ahead. Market share loss and declining volumes in HFD could hurt the company's performance going forward. The stock is trading at 22.3x/20.2x FY24E/FY25E EPS. We assume coverage on ZYWL with HOLD and value the stock at 22.7x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 1,631.

Key changes

Target	Rating
▼	▼

Ticker/Price	ZYWL IN/Rs 1,451
Market cap	US\$ 1.1bn
Free float	23%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 1,791/Rs 1,370
Promoter/FPI/DII	66%/4%/30%

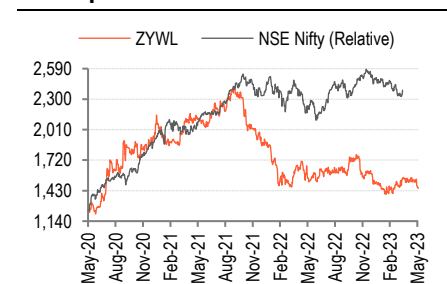
Source: NSE | Price as of 22 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	22,549	25,242	28,288
EBITDA (Rs mn)	3,373	4,531	5,007
Adj. net profit (Rs mn)	3,205	4,135	4,573
Adj. EPS (Rs)	50.4	65.0	71.9
Consensus EPS (Rs)	50.4	66.2	69.9
Adj. ROAE (%)	6.1	7.6	7.9
Adj. P/E (x)	28.8	22.3	20.2
EV/EBITDA (x)	27.4	20.4	18.4
Adj. EPS growth (%)	0.5	33.2	10.6

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

Stock performance



Source: NSE



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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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