FIRST LIGHT

27 October 2023

RESEARCH

DIXON TECHNOLOGIES | TARGET: Rs 6,300 | +18% | BUY

Strong quarter, even stronger outlook – upgrade to BUY

NESTLE INDIA | TARGET: Rs 28,260 | +20% | BUY

Analyst meet: Broader footprint lifting volume growth

SUMMARY

DIXON TECHNOLOGIES

- Q2 sales up 28% YoY led by a 77% upswing in mobiles & EMS business which offset slow lighting sales
- PLI, key customer additions, robust order book and more design-based content to propel medium-term growth
- Upgrade to BUY with a TP of Rs 6,300 (vs. Rs 4,300) as we raise FY24/ FY25 EPS by 1%/35% on a stronger outlook across segment

Click here for the full report.

NESTLE INDIA

- Innovation and market penetration-led volume growth remain strategic focus areas; growing emphasis on rural markets
- Creating capacities for future growth with capital investment of Rs 50bn committed over three years
- Primed for consistent and profitable growth; maintain BUY with unchanged TP of Rs 28,260

Click here for the full report.

Daily macro indicators

Indicator	24-Oct	25-Oct	Chg (%)
US 10Y yield (%)	4.82	4.95	13bps
India 10Y yield (%)	7.38	7.34	(4bps)
USD/INR	83.19	83.19	0.0
Brent Crude (US$/bbl)	88.1	90.1	2.3
Dow	33,141	33,036	(0.3)
Hang Seng	16,992	17,085	0.6
Sensex	64,572	64,049	(0.8)
India FII (US$ mn)	**20-Oct**	**23-Oct**	**Chg ($ mn)**
FII-D	79.7	(15.6)	(95.3)
FII-E	216.5	49.3	(167.3)

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 6,300 | ⮝ 18%

DIXON TECHNOLOGIES | Consumer Durables | 26 October 2023

Strong quarter, even stronger outlook – upgrade to BUY

- **Q2 sales up 28% YoY led by a 77% upswing in mobiles & EMS business which offset slow lighting sales**
- **PLI, key customer additions, robust order book and more design-based content to propel medium-term growth**
- **Upgrade to BUY with a TP of Rs 6,300 (vs. Rs 4,300) as we raise FY24/ FY25 EPS by 1%/35% on a stronger outlook across segments**

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Impressive quarter: Dixon's Q2FY24 topline grew 28% YoY to Rs 49.4bn backed by robust 77% growth in the mobiles & electronics manufacturing services (EMS) segment. Growth would have been higher but for a 38% YoY decline in lighting owing to a 25% price drop in LEDs. EBITDA margin expanded 30bps YoY to 4% and PAT grew 55% to Rs 1.2bn. Management remains bullish on growth across verticals, especially the mobiles segment which contributes 50% of the topline.

PLI and new customers to propel growth: Dixon is currently operating under various production-linked incentive (PLI) schemes and is in discussions with global brands for production under the IT hardware PLI scheme as well. New customers in FY24, such as Xiaomi (onboarded in Q1), Voltas Beko and Itel (both due to be added in H2), are likely to be key catalysts for growth.

Increasing design-based content: In its FY23 annual report, Dixon asserted that it was looking forward to designing its own products. The company has traditionally run a high-volume, low-margin model but is now looking at product categories that are high margin, such as electric vehicles, defence, drones, medical electronics and telecom infrastructure, which should aid profitability.

ROIC set to rise sharply: Dixon clocked ROIC of 19% in FY23. The company has frontloaded capex in FY24, spending Rs 3.3bn of its Rs 5bn target in H1 itself. We expect capital intensity to reduce, enabling an estimated ~700bps expansion in ROIC to 26% over FY23-FY25, which should lend continued support to valuations.

Upbeat outlook; upgrade to BUY: Following a strong Q2 and management's bullish outlook, we raise our FY24/FY25 EPS estimates by 1%/35%. Our estimate hike is backended in nature considering that the benefits of onboarding Xiaomi in the mobiles business and the impending addition of two large customers in H2FY24 will be fully visible in FY25. We expect consensus upgrades to follow and continue to value the stock at an unchanged P/E of 55x – a 20% premium to the 5Y average. On rolling valuations over to Sep'25E, we have a revised TP of Rs 6,300 (vs. Rs 4,300). Dixon looks best positioned in the EMS space – raise from HOLD to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	DIXON IN/Rs 5,341
Market cap	US$ 3.9bn
Free float	66%
3M ADV	US$ 35.4mn
52wk high/low	Rs 5,607/Rs 2,553
Promoter/FPI/DII	34%/12%/24%

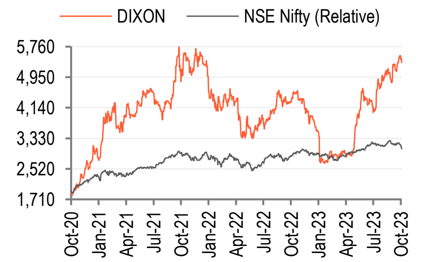
Source: NSE | Price as of 26 Oct 2023

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	7,601	10,501
Adj. net profit (Rs mn)	2,555	4,116	6,005
Adj. EPS (Rs)	42.9	69.1	100.8
Consensus EPS (Rs)	42.9	67.6	93.6
Adj. ROAE (%)	22.4	27.7	30.3
Adj. P/E (x)	124.5	77.3	53.0
EV/EBITDA (x)	62.0	41.8	30.3
Adj. EPS growth (%)	34.3	61.1	45.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 28,260 | ⮝ 20%

NESTLE INDIA | Consumer Staples | 26 October 2023

Analyst meet: Broader footprint lifting volume growth

- **Innovation and market penetration-led volume growth remain strategic focus areas; growing emphasis on rural markets**
- **Creating capacities for future growth with capital investment of Rs 50bn committed over three years**
- **Primed for consistent and profitable growth; maintain BUY with unchanged TP of Rs 28,260**

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Secular double-digit growth in 9MCY23: NEST has delivered strong revenue growth of 15% YoY in 9MCY23 led by innovation and market penetration. The company posted high-double-digit growth across its portfolio over Jan-Sep'23, with milk products and nutrition (40% of sales) growing 15% YoY, prepared dishes and cooking aids (32%) up 11%, confectionary (17%) up 21%, and powdered and liquid beverages (11%) rising 19%. To build capacities for future growth, NEST in its analyst meet today said it has committed Rs 50bn toward capex over CY23-CY25.

Volume slowdown temporary: NEST has clocked a ~7% volume CAGR for the last five years. Over the last nine months, however, volume growth has slowed to ~2% largely due to higher inflation and price hikes taken in low unit packs, which face added competition from regional players. Per management, the slowdown is a temporary blip and regional competition helps companies redefine strategies.

Pricing, grammage action taken to counter inflation: The company has taken price increases or grammage changes for ~50% of its products in the last year to mitigate the impact of high raw material cost inflation. Though key commodities have softened recently, no price hike rollbacks are on the cards. Management also indicated that milk and green coffee costs remain high.

Robust innovation and premiumisation trends: NEST has launched 125 products in the last seven years, with 10 more in the pipeline. The company reckons that innovation contributes 6%+ of its domestic sales, which is targeted to rise to 10% in coming years, and that premium product volumes are growing twice as fast as the rest of its portfolio.

Maintain BUY: NEST continues to deliver a robust performance supported by consumer engagement, launches, and uptrading to branded products in RURBAN markets. The stock is trading at 62.7x/54.2x CY24E/CY25E EPS. Our target 2Y forward P/E multiple remains at 65x on CY25E EPS for an unchanged TP of Rs 28,260. We retain BUY as we expect NEST to show sustained, profitable growth underpinned by investments in capacity creation, innovation, premiumisation, and direct reach expansion with a rural focus.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NEST IN/Rs 23,546
Market cap	US$ 27.6bn
Free float	37%
3M ADV	US$ 19.3mn
52wk high/low	Rs 24,745/Rs 17,880
Promoter/FPI/DII	63%/12%/25%

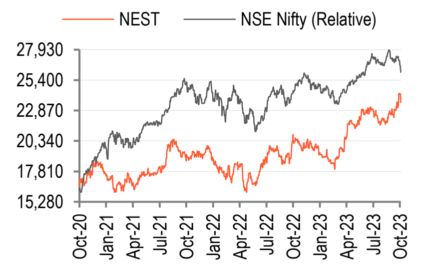
Source: NSE | Price as of 26 Oct 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	168,969	194,416	221,824
EBITDA (Rs mn)	37,125	46,097	55,879
Adj. net profit (Rs mn)	23,905	29,819	36,218
Adj. EPS (Rs)	247.9	309.3	375.6
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	105.3	103.9
Adj. P/E (x)	95.0	76.1	62.7
EV/EBITDA (x)	61.1	49.2	40.6
Adj. EPS growth (%)	1.5	24.7	21.5

Source: Company, Bloomberg, BOBCAPS Research

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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