

BUY

TP: Rs 4,500 | ▲ 22%

DIXON TECHNOLOGIES

Consumer Durables

27 July 2022

Strong Q1 topline; remains the best PLI play

- **Mobiles segment drove Q1 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 could be next growth area**
- **Prime beneficiary of PLI scheme; maintain BUY with a revised TP of Rs 4,500 (vs. Rs 4,600) as we tweak estimates post Q1**

Vinod Chari | Tanay Rasal
research@bobcaps.in

Strong topline in a difficult environment: DIXON's Q1FY23 revenue increased 53% YoY to Rs 28.6bn on the back of strong sales from the mobiles/home appliances segments which grew 327%/262% YoY. Gross margin expanded by 170bps YoY to 9.1% (flat QoQ) due to calibrated pricing action and cost saving initiatives. EBITDA margin at 3.5% was down by 49bps QoQ owing to a forex loss of Rs 120mn. Adj. PAT increased 151% YoY to Rs 455mn.

Mobiles business to lead growth: DIXON recently added Motorola to its customer roster and expects business 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 65bn-70bn in FY23 as against Rs 27bn in FY22, with annual volumes from Motorola anticipated at 5-5.5mn.

Remains the best PLI play: DIXON is likely to be 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.

Maintain BUY, TP Rs 4,500: DIXON is a major player in contract manufacturing for consumer electronics and durable goods. Recent product additions and customer acquisitions are likely to sustain its growth prospects. Additionally, we expect the PLI scheme to benefit the company due to its ability to scale up manufacturing. We retain BUY and continue to value the stock at 55x FY24E EPS, a 20% premium over its 4Y average, while revising our TP to Rs 4,500 (vs 4,600) as we tweak estimates post Q1. Key risks include slower growth and inability to meet PLI targets.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DIXON IN/Rs 3,700
Market cap	US\$ 2.7bn
Free float	66%
3M ADV	US\$ 18.1mn
52wk high/low	Rs 6,244/Rs 3,181
Promoter/FPI/DII	34%/15%/8%

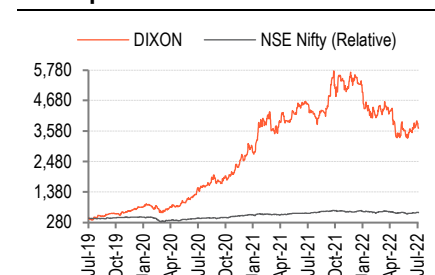
Source: NSE | Price as of 27 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,06,971	1,71,280	2,20,502
EBITDA (Rs mn)	3,791	6,507	8,473
Adj. net profit (Rs mn)	1,903	3,396	4,779
Adj. EPS (Rs)	32.1	57.2	80.5
Consensus EPS (Rs)	32.1	62.7	92.0
Adj. ROAE (%)	22.0	29.1	30.3
Adj. P/E (x)	115.4	64.7	45.9
EV/EBITDA (x)	57.9	33.7	25.9
Adj. EPS growth (%)	19.1	78.4	40.7

Source: Company, Bloomberg, BOBCAPS Research

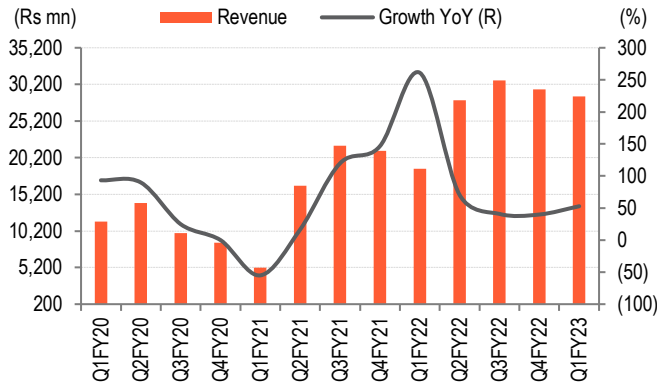
Stock performance



Source: NSE

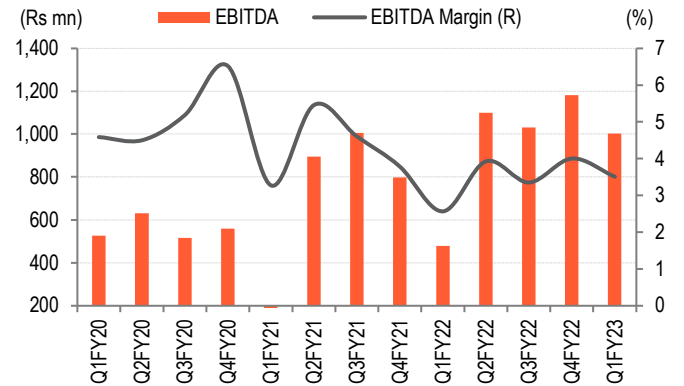


Fig 1 – Revenue growth



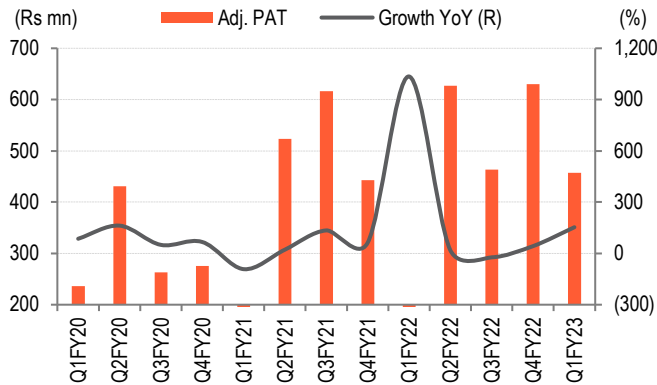
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth



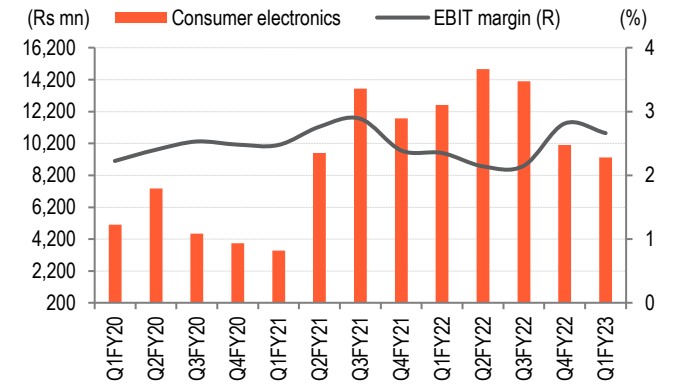
Source: Company, BOBCAPS Research

Fig 3 – PAT growth



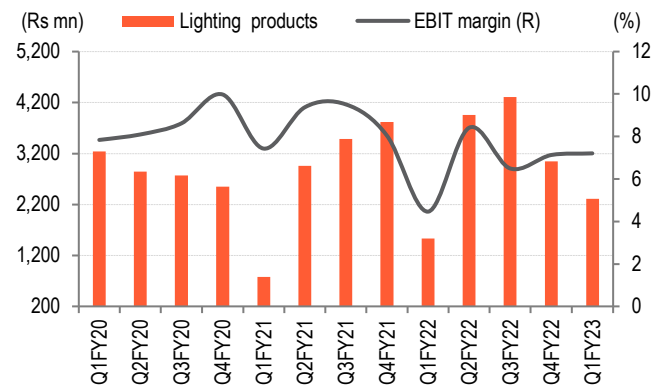
Source: Company, BOBCAPS Research

Fig 4 – Consumer electronics growth



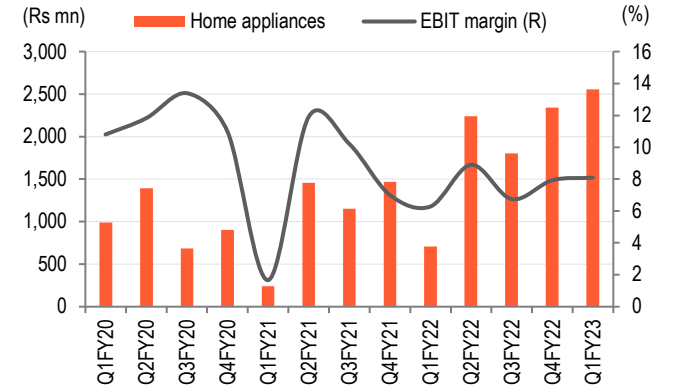
Source: Company, BOBCAPS Research

Fig 5 – Lighting products growth



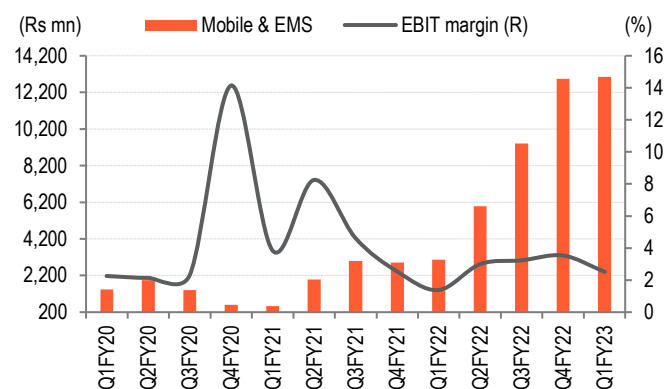
Source: Company, BOBCAPS Research

Fig 6 – Home appliances growth



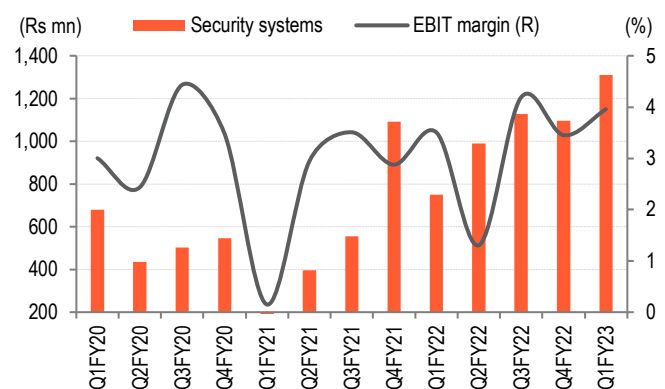
Source: Company, BOBCAPS Research

Fig 7 – Mobile & EMS



Source: Company, BOBCAPS Research

Fig 8 – Security systems



Source: Company, BOBCAPS Research

Fig 9 – Quarterly performance

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	28,551	18,673	52.9	29,528	(3.3)
EBITDA	1,001	479	109.1	1,181	(15.3)
EBITDA margin (%)	3.5	2.6	94bps	4.0	(49bps)
Depreciation	241	150	-	191	-
Interest	144	91	-	139	-
Other Income	4	4	-	18	-
PBT	621	241	157.5	869	(28.6)
Tax	165	59	-	238	-
Adjusted PAT	455	182	150.6	631	(27.9)
Exceptional item	-	-	-	0	-
Reported PAT	457	182	151.7	630	(27.4)
Adj. PAT margin (%)	1.6	1.0	62bps	2.1	(54bps)
EPS (Rs)	7.7	3.1	150.6	10.6	(27.9)

Source: Company, BOBCAPS Research

Fig 10 – Actual vs. Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	28,551	28,222	1.2
EBITDA	1,001	1,055	(5.1)
EBITDA margin (%)	3.5	3.7	(23bps)
Adj. PAT	455	533	(14.7)

Source: Company, BOBCAPS Research

Fig 11 – Segment performance

Particulars (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue													
Consumer electronics	5,098	7,382	4,543	3,930	3,487	9,605	13,643	11,786	12,623	14,865	14,104	10,104	9,322
Lighting products	3,243	2,839	2,767	2,548	777	2,957	3,486	3,817	1,535	3,957	4,304	3,046	2,312
Home appliances	988	1,391	684	900	241	1,454	1,152	1,465	706	2,240	1,801	2,341	2,556
Mobile & EMS	1,437	1,934	1,395	603	531	1,974	2,992	2,899	3,059	5,986	9,397	12,941	13,049
Security systems	679	435	503	546	134	397	555	1,092	751	990	1,127	1,096	1,311
EBIT													
Consumer electronics	114	177	115	98	86	265	394	282	297	318	303	284	248
EBIT margin (%)	2.2	2.4	2.5	2.5	2.5	2.8	2.9	2.4	2.4	2.1	2.1	2.8	2.7
Lighting products	254	230	239	254	58	277	332	307	69	333	280	217	167
EBIT margin (%)	7.8	8.1	8.6	10.0	7.4	9.4	9.5	8.1	4.5	8.4	6.5	7.1	7.2
Home appliances	107	164	92	99	4	173	118	103	44	199	121	186	207
EBIT margin (%)	10.8	11.8	13.4	11.0	1.7	11.9	10.2	7.0	6.3	8.9	6.7	7.9	8.1
Mobile & EMS	32	41	32	85	20	163	138	74	42	179	303	457	328
EBIT margin (%)	2.2	2.1	2.3	14.1	3.8	8.2	4.6	2.5	1.4	3.0	3.2	3.5	2.5
Security systems	20	11	22	19	0	12	20	31	26	13	47	38	52
EBIT margin (%)	3.0	2.4	4.4	3.5	0.1	2.9	3.5	2.9	3.5	1.3	4.2	3.4	4.0

Source: Company, BOBCAPS Research

Valuation methodology

DIXON is a major player in contract manufacturing for consumer electronics and durable goods. Recent product additions and customer acquisitions are likely to sustain its growth prospects. Additionally, we expect the PLI scheme to benefit the company due to its ability to scale up manufacturing. We retain BUY and continue to value the stock at 55x FY24E EPS, a 20% premium over its four-year average, while revising our TP to Rs 4,500 (vs. Rs 4,600) as we tweak estimates post Q1.

Fig 12 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	1,71,280	2,20,502	1,71,070	2,20,356	0.1	0.1
EBITDA	6,507	8,473	6,418	8,430	1.4	0.5
PAT	3,396	4,779	3,487	4,801	(2.6)	(0.5)
EPS	57.2	80.5	58.8	80.9	(2.6)	(0.5)
EBITDA margin (%)	3.8	3.8	3.8	3.8	4.7 bps	1.7 bps

Source: Company, BOBCAPS Research

Fig 13 – Peer comparison

Company	Rating	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)		
						FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
AMBER	HOLD	79	2,356	3,500	49	42	58	74	33	2.7	4.4	5.8	46	6.5	7.5	7.9

Source: Company, BOBCAPS Research

Fig 14 – Peer comparison (contd.)

Companies	PAT (Rs bn)				EPS (Rs)				RoE (%)			PE (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E
AMBER	1.0	1.9	2.9	71	30.1	57.9	87.7	71	5.8	10.4	13.9	78	41	27

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slower growth, and
- inability to meet PLI targets.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,370	3,500	HOLD
Blue Star	BLSTR IN	1.2	989	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.0	381	500	BUY
Dixon Technologies	DIXON IN	2.7	3,700	4,500	BUY
Havells India	HAVL IN	9.6	1,221	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	270	310	HOLD
Polycab India	POLYCAB IN	4.2	2,223	3,000	BUY
V-Guard Industries	VGRD IN	1.2	225	250	HOLD
Voltas	VOLT IN	4.0	969	1,250	BUY

Source: BOBCAPS Research, NSE | Price as of 27 Jul 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	44,001	64,482	1,06,971	1,71,280	2,20,502
EBITDA	2,231	2,866	3,791	6,507	8,473
Depreciation	365	437	840	1,527	1,577
EBIT	1,865	2,429	2,952	4,980	6,895
Net interest inc./(exp.)	(350)	(274)	(442)	(482)	(552)
Other inc./(exp.)	52	16	38	42	46
Exceptional items	0	0	0	0	0
EBT	1,568	2,170	2,548	4,540	6,389
Income taxes	363	572	644	1,144	1,610
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,205	1,598	1,903	3,396	4,779
Adjustments	0	0	0	0	0
Adjusted net profit	1,205	1,598	1,903	3,396	4,779

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	9,391	17,097	23,137	37,072	47,725
Other current liabilities	231	898	2,615	4,187	5,390
Provisions	0	0	0	0	0
Debt funds	828	1,513	4,580	5,073	5,812
Other liabilities	1,109	1,576	2,472	3,955	5,089
Equity capital	116	117	119	119	119
Reserves & surplus	5,298	7,256	9,849	13,243	18,020
Shareholders' fund	5,413	7,373	9,968	13,362	18,139
Total liab. and equities	16,972	28,457	42,772	63,647	82,155
Cash and cash eq.	1,002	1,641	3,174	3,293	7,992
Accounts receivables	5,151	10,891	13,564	23,463	29,082
Inventories	4,978	7,432	11,557	18,770	23,994
Other current assets	1,331	1,946	3,176	5,085	6,547
Investments	0	0	0	0	0
Net fixed assets	4,040	5,403	9,542	10,516	11,438
CWIP	96	724	220	352	454
Intangible assets	125	122	494	494	494
Deferred tax assets, net	0	0	0	0	0
Other assets	249	297	1,045	1,673	2,154
Total assets	16,972	28,457	42,772	63,647	82,155

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	2,373	1,701	2,728	1,406	5,909
Capital expenditures	(1,081)	(1,680)	(4,174)	(2,500)	(2,500)
Change in investments	(118)	(949)	(452)	0	0
Other investing cash flows	211	(26)	(19)	722	553
Cash flow from investing	(988)	(2,654)	(4,645)	(1,778)	(1,947)
Equities issued/Others	457	269	642	0	0
Debt raised/repaid	(570)	688	2,174	493	739
Interest expenses	0	0	0	0	0
Dividends paid	(461)	(322)	228	(2)	(2)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(574)	635	3,043	491	737
Chg in cash & cash eq.	812	(318)	1,126	119	4,699
Closing cash & cash eq.	1,002	1,641	3,174	3,293	7,992

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	20.3	26.9	32.1	57.2	80.5
Adjusted EPS	20.3	26.9	32.1	57.2	80.5
Dividend per share	46.3	58.6	59.3	118.7	118.7
Book value per share	91.2	124.2	168.0	225.2	305.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	5.0	3.4	2.1	1.3	1.0
EV/EBITDA	98.4	76.6	57.9	33.7	25.9
Adjusted P/E	182.2	137.4	115.4	64.7	45.9
P/BV	40.6	29.8	22.0	16.4	12.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	76.9	73.6	74.7	74.8	74.8
Interest burden (PBT/EBIT)	84.0	89.4	86.3	91.2	92.7
EBIT margin (EBIT/Revenue)	4.2	3.8	2.8	2.9	3.1
Asset turnover (Rev./Avg TA)	10.9	11.9	11.2	16.3	19.3
Leverage (Avg TA/Avg Equity)	0.9	0.8	1.1	0.9	0.7
Adjusted ROAE	26.2	25.0	22.0	29.1	30.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	47.4	46.5	65.9	60.1	28.7
EBITDA	65.4	28.5	32.3	71.6	30.2
Adjusted EPS	90.2	32.6	19.1	78.4	40.7
Profitability & Return ratios (%)					
EBITDA margin	5.1	4.4	3.5	3.8	3.8
EBIT margin	4.2	3.8	2.8	2.9	3.1
Adjusted profit margin	2.7	2.5	1.8	2.0	2.2
Adjusted ROAE	26.2	25.0	22.0	29.1	30.3
ROCE	25.9	23.8	19.1	22.8	24.5
Working capital days (days)					
Receivables	43	62	46	50	48
Inventory	41	42	39	40	40
Payables	78	97	79	79	79
Ratios (x)					
Gross asset turnover	9.5	11.3	11.8	13.4	14.4
Current ratio	1.2	1.2	1.2	1.2	1.2
Net interest coverage ratio	5.3	8.9	6.7	10.3	12.5
Adjusted debt/equity	0.2	0.2	0.5	0.4	0.3

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

Disclaimer

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

BUY – Expected return >+15%

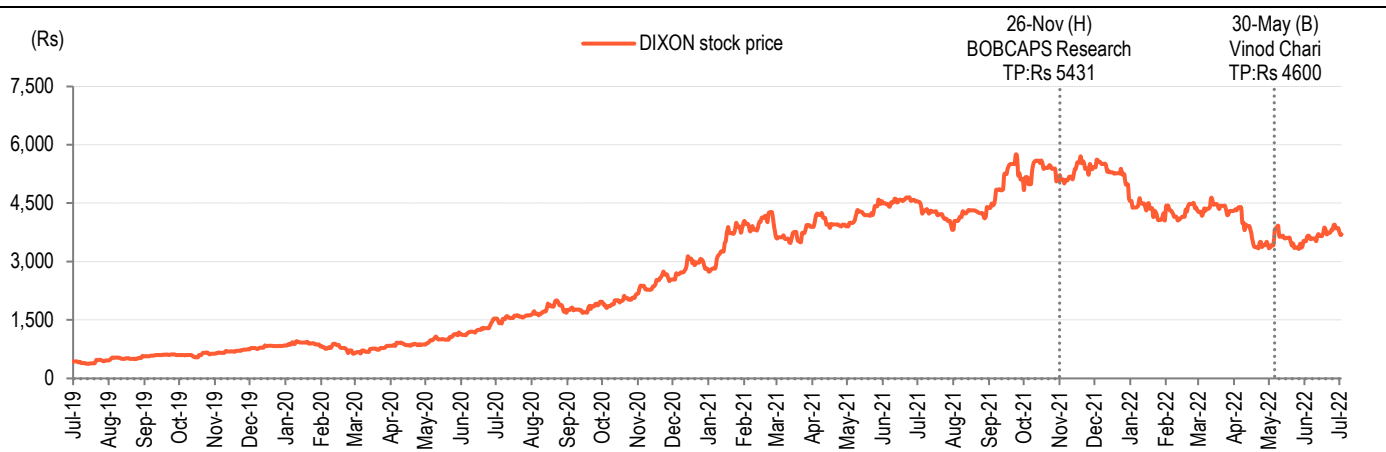
HOLD – Expected return from -6% to +15%

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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