

BUY

TP: Rs 4,100 | ▲ 22%

DIXON TECHNOLOGIES

Consumer Durables

25 January 2023

Dull Q3 as mobiles business dials down

- Q3 topline down 22% YoY with weakness across key segments; however, EBITDA margin a beat at 4.6%
- FY23 revenue guidance dropped to Rs 122-127bn from Rs 150bn on delays in marquee client addition in mobiles division
- We cut FY23/FY24 EPS 26%/28% on reduced guidance; TP revised to Rs 4,100 (vs. Rs 5,200) post rollover – retain BUY

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Dismal Q3: Dixon reported below-par numbers for Q3FY23 amidst weakness in all its major business segments. The topline at Rs 24bn (-38% QoQ) was well below our estimate of Rs 39.6bn, primarily due to a dismal performance in the mobiles (-42% QoQ) and consumer electronics (-43% QoQ) divisions. However, EBITDA margin improved 130bps QoQ to 4.6% (vs. 3.8% expected) on the back of cost optimisation and improving original design manufacturing (ODM) capabilities.

Guidance lowered: Management dropped FY23 revenue guidance from Rs 150bn+ to Rs 122bn-127bn over weakness in the mobiles vertical and sluggish demand coupled with poor realisations in other key divisions. The mobiles business is now guided to close FY23 with revenue of Rs 3.8bn-4bn against Rs 4.5bn-5bn stated earlier. Management remains optimistic about FY24, guiding for an overall topline of Rs 190bn-210bn as it banks on an upswing in mobiles (to Rs 80bn in revenue premised on the addition of two marquee clients by end-FY23) and lighting.

Margins improving: The gradual shift towards ODM from OEM (original equipment manufacturing) is delivering benefits by way of EBITDA margin gains. Additionally, management has made a concerted effort to optimise costs and improve the product mix. Margins are guided to remain in a similar range for Q4 (4%+), indicating early signs of a shift towards margin-driven products from mass manufacturing.

Long-term outlook intact: Dixon has maintained leadership in electronics manufacturing services (EMS) over the years on account of rapid capacity expansion, prudent backward integration, and new large client additions. Portfolio diversification through entry into newer verticals with an ODM focus is an added positive. Though the near-term business outlook appears subdued, expected client additions and ramp-up of newer verticals buoys prospects for FY24.

Maintain BUY: We cut our FY23/FY24 EPS estimates by 26%/28% in light of the reduced guidance. This, coupled with rollover of valuations to Dec'24E, yields a lower TP of Rs 4,100 (vs. Rs 5,200). We value the stock at an unchanged P/E multiple of 55x – a 18% premium to the 5Y average on 2Y forward basis.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DIXON IN/Rs 3,364
Market cap	US\$ 2.4bn
Free float	66%
3M ADV	US\$ 7.9mn
52wk high/low	Rs 4,830/Rs 3,181
Promoter/FPI/DII	34%/17%/19%

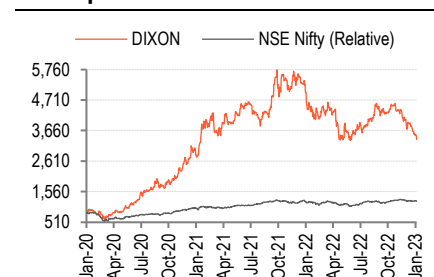
Source: NSE | Price as of 25 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	106,971	128,642	182,627
EBITDA (Rs mn)	3,791	5,137	7,161
Adj. net profit (Rs mn)	1,903	2,625	3,620
Adj. EPS (Rs)	32.1	44.2	61.0
Consensus EPS (Rs)	32.1	62.7	92.0
Adj. ROAE (%)	22.0	23.4	25.4
Adj. P/E (x)	104.9	76.0	55.1
EV/EBITDA (x)	52.7	38.9	27.9
Adj. EPS growth (%)	19.1	37.9	37.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	24,047	30,733	(21.8)	38,668	(37.8)	91,266	77,443	17.8
EBITDA	1,112	1,030	7.9	1,452	(23.4)	3,564	2,609	36.6
EBITDA Margin (%)	4.6	3.4	130bps	3.8	90bps	3.9	3.4	50bps
Depreciation	290	282	-	291	-	822	648	-
Interest	152	120	-	158	-	454	303	-
Other Income	28	7	-	6	-	38	20	-
PBT	698	635	9.9	1,008	(30.8)	2,326	1,678	38.6
Tax	186	171	-	231	-	582	406	-
Adjusted PAT	512	464	10.4	777	(34.1)	1,744	1,272	37.1
Exceptional item	-	-	-	0	-	0.0	0.0	-
Reported PAT	519	464	11.9	772	(32.8)	1,743	1,272	37.0
Adj. PAT Margin (%)	2.1	1.5	60bps	2.0	10bps	1.9	1.6	30bps
EPS (Rs)	8.6	7.8	10.4	13.1	(34.1)	29.4	21.4	37.1

Source: Company, BOBCAPS Research

Fig 2 – Actual vs. Estimates

Particulars (Rs mn)	Actual	Estimate	Variance (%)
Revenue	24,047	39,638	(39.3)
EBITDA	1,112	1,506	(26.2)
EBITDA Margin (%)	4.6	3.8	80bps
Adj. PAT	512	819	(37.5)

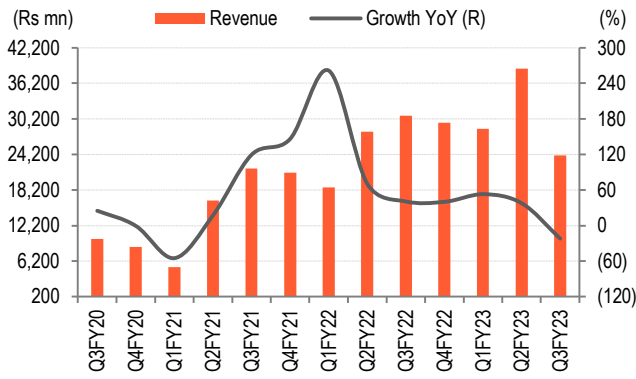
Source: Company, BOBCAPS Research

Fig 3 – Segment-wise performance

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue									
Consumer Electronics	13,643	11,786	12,623	14,865	14,104	10,104	9,322	15,007	8,640
Lighting Products	3,486	3,817	1,535	3,957	4,304	3,046	2,312	2,904	2,630
Home Appliances	1,152	1,465	706	2,240	1,801	2,341	2,556	3,629	2,440
Mobile & EMS	2,992	2,899	3,059	5,986	9,397	12,941	13,049	15,944	9,150
Security Systems	555	1,092	751	990	1,127	1,096	1,311	1,183	1,184
EBIT									
Consumer Electronics	394	282	297	318	303	284	248	428	260
EBIT margin (%)	2.9	2.4	2.4	2.1	2.1	2.8	2.7	2.9	3.0
Lighting Products	332	307	69	333	280	217	167	238	239
EBIT margin (%)	9.5	8.1	4.5	8.4	6.5	7.1	7.2	8.2	9.1
Home Appliances	118	103	44	199	121	186	207	327	250
EBIT margin (%)	10.2	7.0	6.3	8.9	6.7	7.9	8.1	9.0	10.2
Mobile & EMS	138	74	42	179	303	457	328	423	330
EBIT margin (%)	4.6	2.5	1.4	3.0	3.2	3.5	2.5	2.7	3.6
Security Systems	20	31	26	13	47	38	52	36	20
EBIT margin (%)	3.5	2.9	3.5	1.3	4.2	3.4	4.0	3.0	1.7

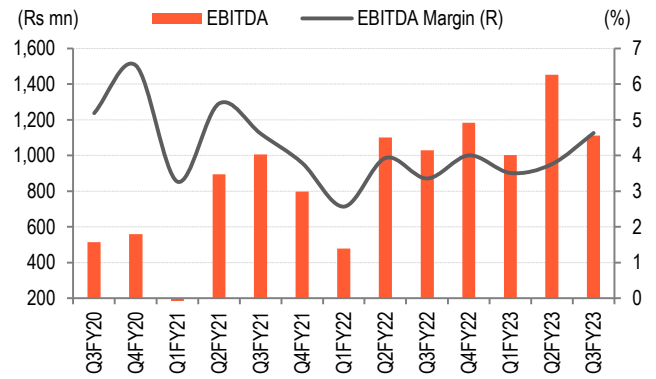
Source: Company, BOBCAPS Research

Fig 4 – Revenue disappointed...



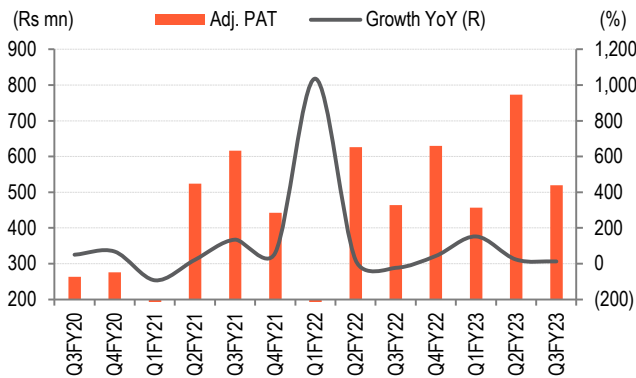
Source: Company, BOBCAPS Research

Fig 5 – ...while EBITDA margin improved



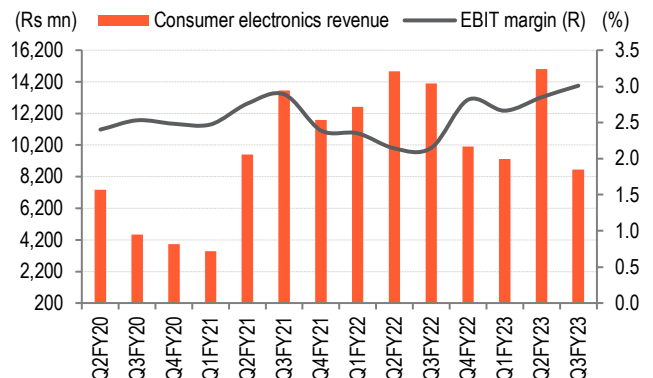
Source: Company, BOBCAPS Research

Fig 6 – Profitability remained weak



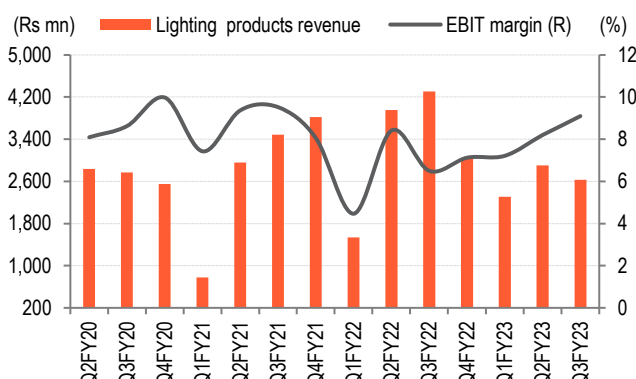
Source: Company, BOBCAPS Research

Fig 7 – Consumer electronics revenue declined



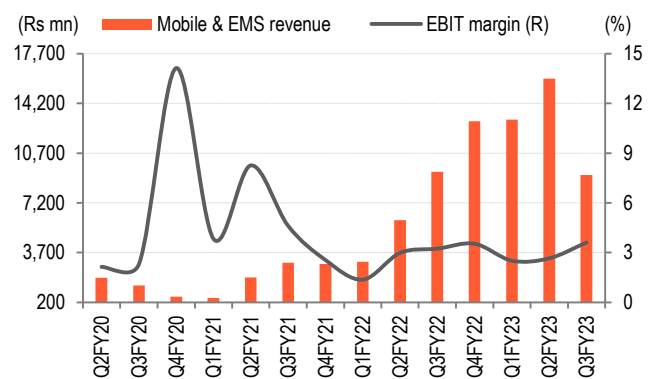
Source: Company, BOBCAPS Research

Fig 8 – Lighting under pressure in FY23 YTD



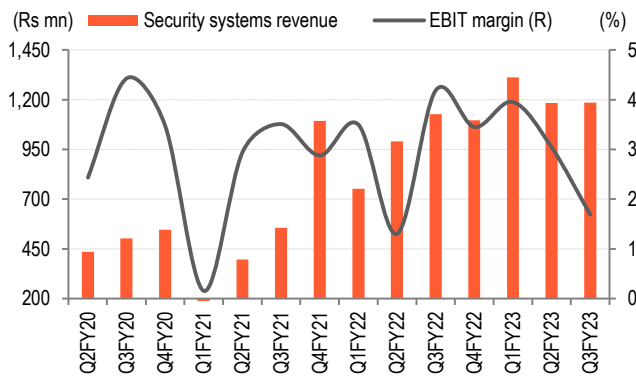
Source: Company, BOBCAPS Research

Fig 9 – Mobiles business a key laggard



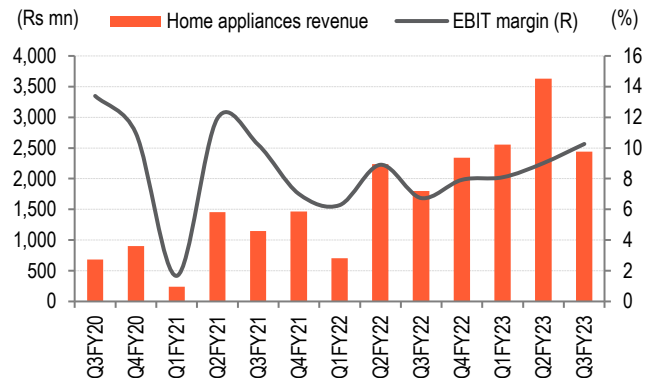
Source: Company, BOBCAPS Research

Fig 10 – Security systems saw margins plunge



Source: Company, BOBCAPS Research

Fig 11 – Home appliances remained weak



Source: Company, BOBCAPS Research

Earnings call takeaways

- **Guidance:** At the start of the year, Dixon had guided for revenue of Rs 170bn for FY23 which was later reduced in mid-December to Rs 150bn and has now been cut further to Rs 122bn-127bn. EBITDA margin is guided to remain stable in Q4 at 4%+. For FY24, the company expects a topline of Rs 190bn-210bn with a focus on the mobiles division and its new businesses of telecom and washing machines.
- **Outlook:** The LED TV segment has a strong order book and Dixon thus anticipates robust 18-20% growth next year, similar to the washing machine business where semiautomatic sales along with a good order book will drive growth. Lighting is currently facing a challenge but has rebounded in recent months. The company is adding new products such as strip lights that will aid growth. It has started business in the Middle East and expects repeat orders in FY24.

Security systems had a challenging quarter but volumes are now steady. For the new businesses of wearables and hearables, the company is catering to client boAT and expects strong growth in FY24. On account of large client Airtel and production-linked incentive (PLI) scheme benefits, the telecom division is expected to continue delivering growth.

- **Mobiles:** Demand in the mobiles business has remained subdued which impacted Dixon's Q3 topline. Volumes for Motorola (domestic volumes stable but exports down) and Xiaomi remained under pressure during the quarter, which impacted Dixon's business. Samsung, however, saw 18-20% YoY volume growth. Management expects to add a new marquee client in the next fortnight, which it estimates can yield sales of Rs 10bn-12bn in FY24 (production to start from Q2FY24). Another major customer acquisition is on the cards with Dixon confident of onboarding the same in Q4 (revenue potential of Rs 20bn-25bn).

The company has cut its FY23 revenue guidance for the mobiles business to Rs 40bn from Rs 50bn but projects a sharp recovery in FY24 to Rs 80bn post finalisation of the two key clients. Margins are likely to be higher than current levels.

- **IT & Hardware:** The company has availed of benefits of an earlier PLI scheme and is anticipating a new scheme rollout in the next two months. It currently has Acer as a major client.

- **Televisions:** Revenues declined in Q3 on a high base due to lower realisations and a festive season impact (last year Diwali was a month earlier, thus contributing more to Q3 sales). There has been a significant pricing decline in televisions (Rs 11.5k vs. ~Rs 15k earlier per TV on average basis). Dixon expects volumes of 3.5mn-3.6mn for FY23 and 4.2mn-4.3mn for FY24. Margins are guided to improve on the back of a gradual shift towards ODM in the business.
- **Exports:** The company expects exports in the range of Rs 1.1bn-1.2bn for FY23 (Rs 0.7bn-0.8bn in 9MFY23) and Rs 2.3bn-2.7bn for FY24. Motorola and small lighting orders are the only contributors to exports.
- **Capex:** 9MFY23 spends totalled Rs 2.8bn with another Rs 800mn-900mn due in Q4 for a refrigerator facility. Management expects capex to be lower in FY24, in the range of Rs 2.5bn-2.8bn.

Valuation methodology

Dixon has maintained leadership in EMS over the years on account of rapid capacity expansion, prudent backward integration, and new large client additions. Portfolio diversification through entry into newer verticals with an ODM focus is an added positive. Though the near-term business outlook appears subdued, expected client additions and ramp-up of newer verticals buoys prospects for FY24.

We cut our FY23/FY24 EPS estimates by 26%/28% in light of the reduced guidance. This, coupled with rollover of valuations to Dec'24E, yields a lower TP of Rs 4,100 (vs. Rs 5,200). We value the stock at an unchanged P/E multiple of 55x – a 20% discount to the three-year average on a two-year forward basis. Maintain BUY.

Fig 12 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	128,642	182,627	217,905	171,280	220,502	263,130	(24.9)	(17.2)	(17.2)
EBITDA	5,137	7,161	8,806	6,625	8,841	10,640	(22.5)	(19.0)	(17.2)
PAT	2,625	3,620	4,702	3,556	5,044	6,160	(26.2)	(28.2)	(23.7)
EPS (Rs)	44.2	61.0	79.2	59.9	85.0	103.8	(26.2)	(28.2)	(23.7)
EBITDA Margin (%)	4.0	3.9	4.0	3.9	4.0	4.0	10bps	(10bps)	0bps

Source Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- prolonged delays in marquee client addition in the mobiles vertical,
- demand slowdown in key verticals, and
- intense competition in newly added verticals.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	2,023	2,100	HOLD
Blue Star	BLSTR IN	1.5	1,249	1,350	HOLD
Crompton Greaves	CROMPTON IN	2.5	328	500	BUY
Dixon Technologies	DIXON IN	2.4	3,364	4,100	BUY
Havells India	HAVL IN	9.1	1,181	1,500	BUY
KEI Industries	KEII IN	1.7	1,551	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	262	280	HOLD
Polycab India	POLYCAB IN	5.2	2,818	3,300	BUY
Syrma SGS	SYRMA IN	0.6	262	390	BUY
V-Guard Industries	VGRD IN	1.3	251	250	HOLD
Voltas	VOLT IN	3.1	757	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 25 Jan 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	64,482	106,971	128,642	182,627	217,905
EBITDA	2,866	3,791	5,137	7,161	8,806
Depreciation	437	840	1,145	1,800	2,032
EBIT	2,429	2,952	3,992	5,362	6,775
Net interest inc./(exp.)	(274)	(442)	(532)	(577)	(548)
Other inc./(exp.)	16	38	50	54	60
Exceptional items	0	0	0	0	0
EBT	2,170	2,548	3,510	4,840	6,286
Income taxes	572	644	884	1,220	1,584
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,598	1,903	2,625	3,620	4,702
Adjustments	0	0	0	0	0
Adjusted net profit	1,598	1,903	2,625	3,620	4,702

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	17,097	23,137	27,843	39,527	47,163
Other current liabilities	898	2,615	3,145	4,464	5,326
Provisions	0	0	0	0	0
Debt funds	1,513	4,580	4,432	5,243	5,773
Other liabilities	1,576	2,472	2,971	4,216	5,029
Equity capital	117	119	119	119	119
Reserves & surplus	7,256	9,849	12,356	15,857	20,440
Shareholders' fund	7,373	9,968	12,475	15,976	20,559
Total liab. and equities	28,457	42,772	50,866	69,427	83,851
Cash and cash eq.	1,641	3,174	1,313	4,693	8,054
Accounts receivables	10,891	13,564	17,622	24,087	29,295
Inventories	7,432	11,557	14,098	19,872	23,796
Other current assets	1,946	3,176	3,819	5,422	6,470
Investments	0	0	0	0	0
Net fixed assets	5,403	9,542	11,997	12,698	13,166
CWIP	724	220	265	376	448
Intangible assets	122	494	494	494	494
Deferred tax assets, net	0	0	0	0	0
Other assets	297	1,045	1,257	1,784	2,129
Total assets	28,457	42,772	50,866	69,427	83,851

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	1,701	2,728	1,763	4,582	5,053
Capital expenditures	(1,680)	(4,174)	(3,600)	(2,500)	(2,500)
Change in investments	(949)	(452)	0	0	0
Other investing cash flows	(26)	(19)	243	606	396
Cash flow from investing	(2,654)	(4,645)	(3,357)	(1,894)	(2,104)
Equities issued/Others	269	642	0	0	0
Debt raised/repaid	688	2,174	(148)	811	530
Interest expenses	0	0	0	0	0
Dividends paid	(322)	228	(119)	(119)	(119)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	635	3,043	(266)	692	411
Chg in cash & cash eq.	(318)	1,126	(1,860)	3,380	3,360
Closing cash & cash eq.	1,641	3,174	1,313	4,693	8,054

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	26.9	32.1	44.2	61.0	79.2
Adjusted EPS	26.9	32.1	44.2	61.0	79.2
Dividend per share	1.0	2.0	2.0	2.0	2.0
Book value per share	124.2	168.0	210.2	269.2	346.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.1	1.9	1.6	1.1	0.9
EV/EBITDA	69.7	52.7	38.9	27.9	22.7
Adjusted P/E	124.9	104.9	76.0	55.1	42.5
P/BV	27.1	20.0	16.0	12.5	9.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	73.6	74.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	89.4	86.3	87.9	90.3	92.8
EBIT margin (EBIT/Revenue)	3.8	2.8	3.1	2.9	3.1
Asset turnover (Rev./Avg TA)	11.9	11.2	10.7	14.4	16.6
Leverage (Avg TA/Avg Equity)	0.8	1.1	1.1	0.9	0.7
Adjusted ROAE	25.0	22.0	23.4	25.4	25.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	46.5	65.9	20.3	42.0	19.3
EBITDA	28.5	32.3	35.5	39.4	23.0
Adjusted EPS	32.6	19.1	37.9	37.9	29.9
Profitability & Return ratios (%)					
EBITDA margin	4.4	3.5	4.0	3.9	4.0
EBIT margin	3.8	2.8	3.1	2.9	3.1
Adjusted profit margin	2.5	1.8	2.0	2.0	2.2
Adjusted ROAE	25.0	22.0	23.4	25.4	25.7
ROCE	23.8	19.1	19.2	21.2	21.5
Working capital days (days)					
Receivables	62	46	50	48	49
Inventory	42	39	40	40	40
Payables	97	79	79	79	79
Ratios (x)					
Gross asset turnover	11.3	11.8	9.6	11.1	11.5
Current ratio	1.2	1.2	1.1	1.2	1.2
Net interest coverage ratio	8.9	6.7	7.5	9.3	12.4
Adjusted debt/equity	0.2	0.5	0.4	0.3	0.3

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

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

BUY – Expected return >+15%

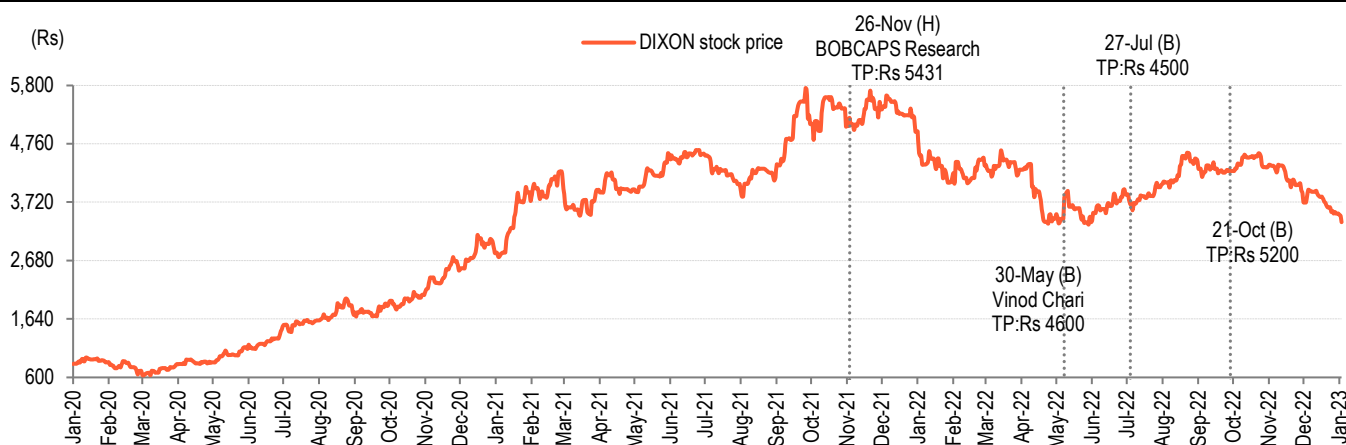
HOLD – Expected return from -6% to +15%

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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