

October 26, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

Dixon Technologies Ltd

Customer additions to drive growth; reiterate Neutral

Result Synopsis

Revenue growth has been marginally above expectation as Mobile phones and EMS business has seen continued strong recovery with new as well as existing customers increasing the volume off take. Dixon is in advance talks with two new customers which it is confident of getting onboard by Q4. Other key business-like lighting, television and home appliances is witnessing demand challenges resulting muted performance. Management has been able to navigate subdued demand environment by adding new customers/products in existing business verticals and focusing on the new segment. We believe that worst in terms of revenue performance is behind as company has been 1) able to add new customers on consistent basis; 2) New product category like refrigerator and IT hardware to start meaningful contribution from next fiscal; 3) Increasing ODM offering by providing new technologically advanced solutions and 4) tapping exports opportunities. On the margin front, company is looking to improve its margin by increasing scale, backward integration, and cost optimization initiatives. The company is also prudent in employing its capital and constantly endeavoring to improve its return ratios. We have increased our target multiple to 55x considering improved performance and confidence exuded by the management of getting new customers on board. We however remain Neutral on the Stock has priced all the positives and there is very limited room for upside from the current levels.

Dixon has been able to deliver better than expected revenue performance Going forward Dixon is expected to register improved performance given increasing order book, customer addition and capacities in place. We now build-in FY23-25E Revenue/EBITDA/PAT CAGR of 32%/35%/43%, we have increased our revenue estimates, while we maintained our margin estimates and arrive at a PT of Rs5,458 valuing the company at 55x. We however continue to remain Neutral on the stock as positives have been priced in and there is limited upside from current levels.

Result Highlights

- Quarter summary** – Dixon delivered better than expected growth as company has registered strong growth in its key category of mobile phones (+76.8%); while other segments have been subdued.
- Margin** – EBITDA margin have improved on yoy basis, while it is flattish on sequential basis. Higher operating leverage and backward integration has played a key role margin improvement.
- Guidance** – The company has refrained from giving any guidance; however, it is confident of strong growth rates continuing in coming quarters on new customer additions and improving order-book.
- New Client additions** -Company continues to add new clients and is in advance talks with two new global clients for its mobile phone as well as laptop vertical. It has also been able to get additional business from its existing clients.

Exhibit 1: Actual vs estimates

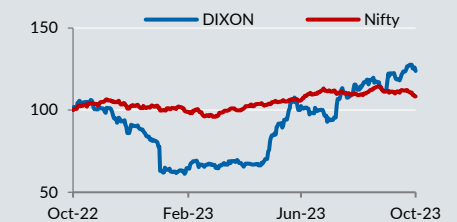
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	49,432	47,520	44,380	4.1	11.4	Strong performance of mobile phones has resulted in above estimate revenue growth
EBITDA	1,989	1,951	1,800	4.1	10.5	
EBITDA Margin (%)	4.0	4.1	4.1	-10 bps	-10 bps	
Adjusted PAT	1,084	1,096	1,010	-1.2	7.3	

Reco	: NEUTRAL
CMP	: Rs 5,341
Target Price	: Rs 5,458
Potential Return	: +2.2%

Stock data (as on Oct 25, 2023)

Nifty	18,857
52 Week h/l (Rs)	5607/2553
Market cap (Rs/USD mn)	324365/3902
Outstanding Shares (mn)	60
6m Avg t/o (Rs mn):	2182
Div yield (%)	0.1
Bloomberg code:	DIXON IN
NSE code:	DIXON

Stock performance



	1M	3M	1Y
Absolute return	5.0%	31%	23.8%

Shareholding pattern (As of Sep'23 end)

Promoter	33.8%
FII+DII	43.1%
Others	23.1%

Δ in stance

(1-Yr)	New	Old
Rating	Neutral	NEUTRAL
Target Price	5,458	4,319

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	64.6	99.2
EPS (Old)	63.7	86.4
% change	1.4%	14.8%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	140,039	182,432	243,506
YoY Growth	31%	30%	33%
EBIDTA	5,653	7,342	10,272
YoY Growth	49.1	29.9	39.9
PAT	2,892	3,835	5,889
YoY Growth	52%	33%	54%
ROE	25.4	26.3	30.5
EPS	48.7	64.6	99.2
P/E	109.6	82.7	53.8
BV	215.0	277.2	372.8
EV/EBITDA	57.0	43.8	31.1

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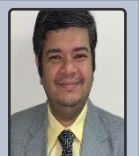


Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	38,668	24,047	30,655	32,715	49,432	27.8	51.1	82,147	67,218	22.2
EBITDA	1452	1112	1563	1319	1989	37.0	50.8	3,308	2,453	34.9
EBITDA Margin %	3.8	4.6	5.1	4.0	4.0			4.0	3.6	
Depreciation	291.1	290.1	324.6	337.1	364.4	25.2	8.1	702	532	31.9
EBIT	1161	821	1238	982	1625	40.0	65.5	2,606	1,921	35.7
EBIT Margin %	3.0	3.4	4.0	3.0	3.3			3.2	2.9	
Interest charges	158	152	151	140	171	8.1	22.3	311	303	2.8
Other Income	5.5	28.2	18.2	28.5	7.2	30.9	(74.7)	36	10	268.0
PBT	1008	698	1105	870	1461	44.9	67.9	2,331	1,628	43.1
Tax	231	186	315	229	352	52.4	54.0	580	396	46.5
Effective Tax Rate (%)	22.9	26.6	28.5	26.3	24.1			24.8	24.4	
PAT	771	519	775	672	1084	40.6	61.4	1,756	1,226	43.2
PAT Margin %	2.0	2.2	2.5	2.1	2.2			2.1	1.8	
EPS (Rs)	13.0	8.7	13.1	11.3	18.3	40.6	61.4	30	21	43.2

Source: Company, YES Sec

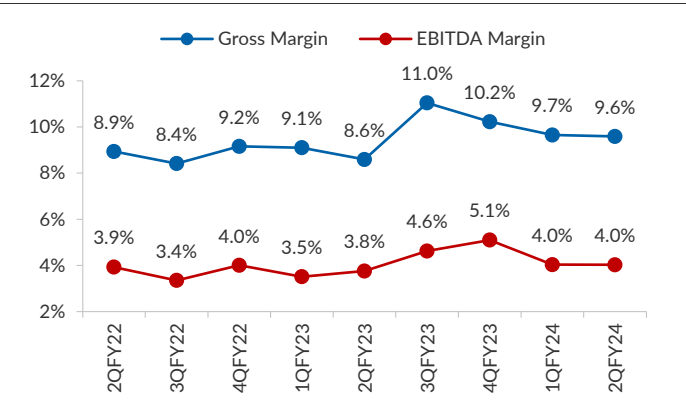
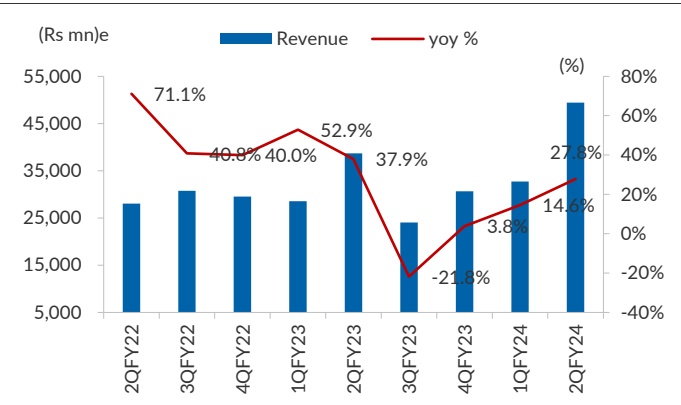
Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Consumer Electronics	15,007	8,640	9,810	8,820	14,400	(4.0)	63.3	23,220	24,329	(4.6)
Lighting Products	2,904	2,630	2,700	2,220	1,810	(37.7)	(18.5)	4,030	5,216	(22.7)
Home Appliances	3,629	2,440	2,810	2,590	3,640	0.3	40.5	6,230	6,185	0.7
Mobile Phones	15,944	9,150	14,100	17,950	28,190	76.8	57.0	46,140	28,993	59.1
Security Systems	1,183	1,184	1,240	1,140	1,400	18.3	22.8	2,540	2,494	1.8
Total Sales	38,667	24,044	30,660	32,720	49,440	27.9	51.1	82,160	67,218	22.2
EBITDA										
Consumer Electronics	428	260	370	300	490	14.5	63.3	790	676	16.8
EBITDA %	2.9	3.0	3.8	3.4	3.4			1.0	1.0	
Lighting Products	238	239	260	190	130	(45.4)	(31.6)	320	405	(20.9)
EBITDA %	8.2	9.1	9.6	8.6	7.2			0.4	0.6	
Home Appliances	327	250	310	280	420	28.4	50.0	700	534	31.2
EBITDA %	9.0	10.2	11.0	10.8	11.5			0.9	0.8	
Mobile Phones	423	330	590	530	930	119.9	75.5	1,460	751	94.5
EBITDA %	2.7	3.6	4.2	3.0	3.3			1.8	1.1	
Security Systems	36	20	36	15	20	(44.4)	33.3	35	88	(60.2)
EBITDA %	3.0	1.7	2.9	1.3	1.4			0.0	0.1	
Total EBITDA	1,452	1,099	1,566	1,315	1,990	37.1	51.3	3,305	2,453	34.7
EBITDA %	3.8	4.6	5.1	4.0	4.0			4.0	3.6	

Source: Company, YES Sec

Exhibit 4: Revenue growth is on back of strong performance of mobile phones

Exhibit 5: Margins have been stable on sequential basis

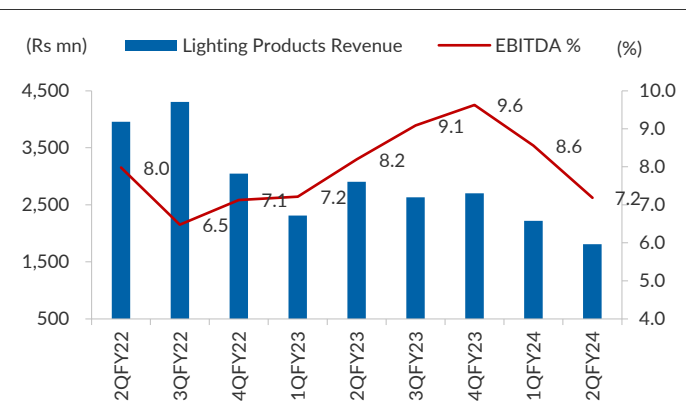
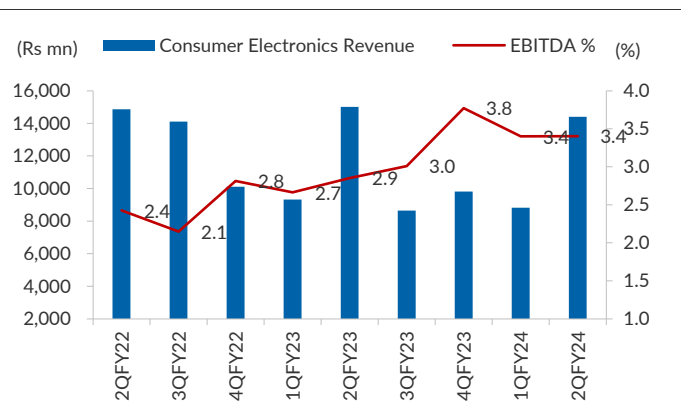


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 6: Shifting of festive season from Q2 to Q3 has resulted in muted performance

Exhibit 7: Decline in LED bulb volume and its realization on change in technology has resulted in sharp decline in revenue

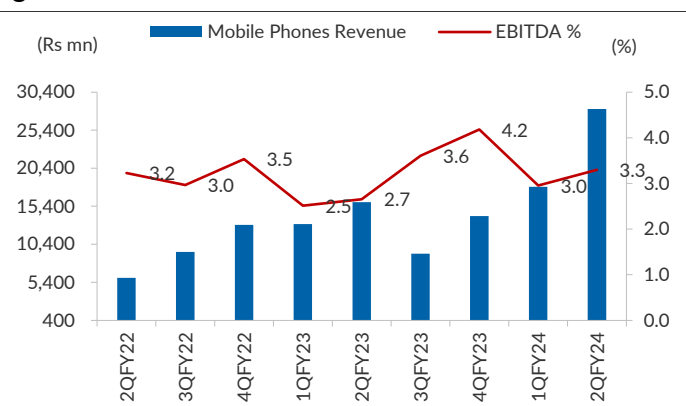
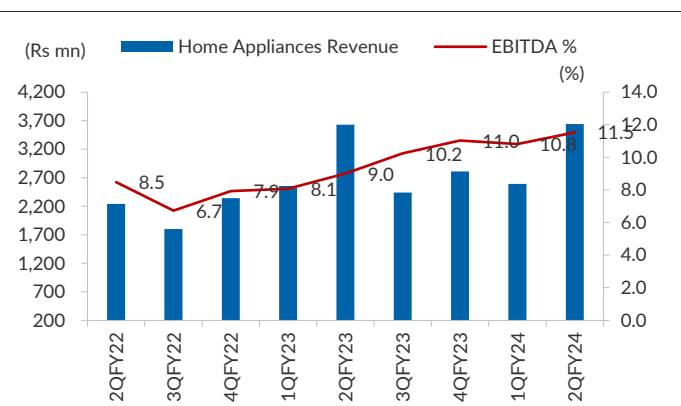


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 8: Washing machine revenue has been flattish

Exhibit 9: Mobile phones business has seen strong growth on back of new customer addition



Source: Company, YES Sec

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Margin** – EBITDA margin is higher on yoy basis as operating leverage, cost optimization and strategic price hikes in ODM solutions has resulted in ~60bps margin expansion.
- **Consumer Electronics** – Operating margin improvement of 50bps is on account of backward integration, operating leverage. Lower revenue is on account of spill over some revenue in Q3 on account of shifting of the festival season. Company has rolled out its google powered Android solution and is getting good response from the customers. The company has also started provided taizen operated TV for Samsung. Injection molding has started and company is now exploring commercial displays. **Company expects volume of 3.6-3.7mn units in FY24 vs 3.5mn in FY23.**
- **TV volumes** – Television volumes have been 17.9 lakh units in 1H vs 14.4 lakh units in 1HFY23. Q2 volumes have been 11.6 lakhs vs 12.8 lakhs
- **Lighting** – There has been reduction in prices on account of migration of technology in LED bulbs from driver base to driver on board. This has resulted in value of LED bulbs going down by 20-25%. This has resulted in revenue decline for the company, as Dixon has high proportion of LED bulbs in revenue mix of lighting. Company is on track to launch new products by Q4. Company has acquired new customer from in Germany and UK which will give boost to exports.
- **Home Appliances** – Company has started manufacturing semi-automatic washing machine and fully automatic washing machine for its anchor customer Bosch. It has also started manufactured fully automatic washing machine for Voltas- Beko which ahs been the large customer in semi-automatic washing machine. Company has developed new models for Lloyd, Reliance and Panasonic. Volumes has growth by 14% in semi-automatic washing machines. Company has internally budgeted 1.7mn vs previous year of 1.4mn units. Customer preference has shifted to high capacity models.
- **Mobile phones** – The company has started manufacturing for Jio-Bharat phone from the month of the September and has got strong growth of 15mn units of which company has manufactured 5mn units. Company is manufacturing 1mn units/month manufacturing for Nokia. Xiaomi production has started and company has reached volume of 0.3mn units/month and is expected to reach 0.5mn units/month by Q4. Company is in discussion with the two large global customers and is expected to close the deal by Q4. Company is currently working ramp up plan for itel.
- **Volume** – The company has done volume of 12mn feature phones and 2.5mn smart phones in 1H excluding Samsung. For Samsung the company has manufactured 4.2mn smart phones. The company has capacity of 2.5mn smart phones/month and 5.5-6mn smart phones/month.
- **Telecom/networking products** – Company has started to manufacture set-top box for Airtel and is in discussion for large global brands. Set-top box revenue stood at Rs540mn
- **Lap-top** – Revenue stood at Rs520mn. Company is in advance discussion with large brands. The company has applied for PLI scheme in IT hardware with an investment outlay of Rs500mn/year and expect to get PLI soon. Company is confident of matching the cost that China offers and first company will focus on domestic market and then it will look for exports.
- **Wearables & Hearables** – Revenue from wearables and hearables stood at Rs3850mn with healthy operating margin. Company will be adding smart watches in next fiscal. Company is also planning in-house PCBA assembly.
- **Security systems** – Under absorption of the capacity has resulted in margin moderation. Capacity has been expanded to 14mn units vs 10mn units.
- **Rexon JV** – AC PCB revenue is Rs740mn. Revenue potential is huge given the large opportunities. Currently company supply to Daikin.

- **Refrigerator project** – Trial is underway and the capacity will be 1.2mn of direct cool refrigerator ranging from 190-235lts. Q4 should see start of mass production. The company will further add high capacity models going forward.
- **Capex** – Company has incurred capex of Rs3.31bn and most of the capex has been front ended. Company expects FY24 capex to be around Rs5bn. Capex for FY25 is expected to be lower than the current fiscal.
- **Guidance** – Company is expected to see aggressive growth in next few years.
- **Incentives** – Company has booked Rs170mn of PLI in 1H. Q2 company has booked Rs118mn of Rs170mn PLI

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	117	119	119	119	119
Reserves	7,256	9,855	12,640	16,335	22,009
Net worth	7,373	9,973	12,759	16,454	22,127
Debt	1,513	4,580	6,080	6,080	6,080
Deferred tax liab (net)	184	201	201	201	201
Other non current liabilities	1,393	2,265	2,401	2,530	2,717
Total liabilities	10,462	17,020	21,441	25,265	31,125
Fixed Asset	4,904	8,298	10,580	11,747	12,698
Investments	953	1,350	1,350	1,350	1,350
Other Non-current Assets	1,641	3,004	3,924	4,895	6,009
Net Working Capital	2,326	2,603	4,479	5,831	7,907
Inventories	7,433	11,557	16,421	21,392	28,554
Sundry debtors	10,891	13,564	19,337	25,191	33,624
Loans and Advances	0	0	0	0	0
Sundry creditors	17,097	23,137	32,093	41,814	55,692
Other current liabilities	841	2,542	3,301	4,275	5,677
Cash & equivalents	638	1,765	1,108	1,442	3,161
Total Assets	10,462	17,019	21,441	25,265	31,125

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	64,482	106,971	140,039	182,432	243,506
Operating profit	2,866	3,791	5,653	7,342	10,272
Depreciation	437	840	1,133	1,348	1,564
Interest expense	274	442	730	1,094	1,094
Other income	16	38	74	227	257
Profit before tax	2,170	2,548	3,864	5,125	7,870
Taxes	572	644	973	1,290	1,981
Minorities and other	-	-	-	-	-
Adj. profit	1,598	1,904	2,892	3,835	5,889
Exceptional items	-	1	-	-	-
Net profit	1,598	1,903	2,892	3,835	5,889

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	2,445	2,990	4,594	6,220	8,965
Depreciation	437	840	1,133	1,348	1,564
Tax paid	(572)	(644)	(973)	(1,290)	(1,981)
Working capital Δ	(1,356)	(675)	(1,876)	(1,353)	(2,076)
Other operating items					
Operating cashflow	953	2,510	2,878	4,926	6,472
Capital expenditure	(2,007)	(4,233)	(3,415)	(2,515)	(2,515)
Free cash flow	(1,053)	(1,723)	(537)	2,411	3,957
Equity raised	420	767	0	(0)	0
Investments	-	-	-	-	-
Debt financing/disposal	646	3,067	1,500	-	-
Interest paid	(274)	(442)	(730)	(1,094)	(1,094)
Dividends paid	(59)	(70)	(106)	(141)	(216)
Net Δ in cash	(318)	1,126	(657)	334	1,720

Source: Company, YES Sec

Exhibit 13: Du-pont analysis

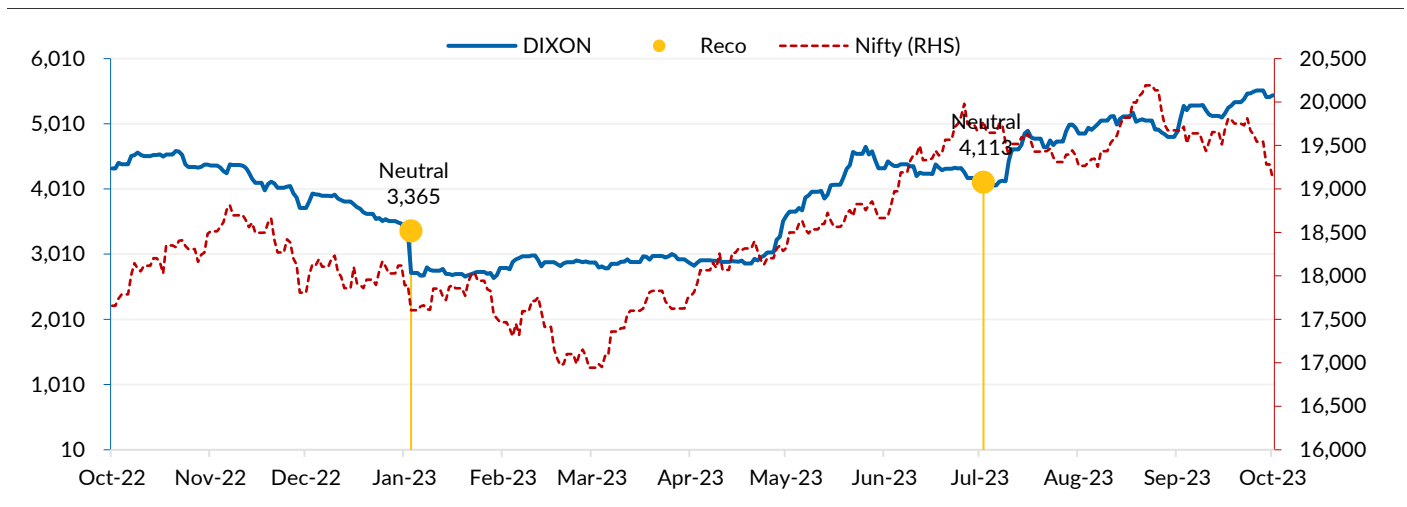
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.74	0.75	0.75	0.75	0.75
Interest burden (x)	0.89	0.85	0.84	0.82	0.88
EBIT margin (x)	0.04	0.03	0.03	0.03	0.04
Asset turnover (x)	2.84	3.00	2.81	2.84	2.97
Financial leverage (x)	3.55	4.11	4.39	4.40	4.25
RoE (%)	25.0	22.0	25.4	26.3	30.5

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	46.5	65.9	30.9	30.3	33.5
Op profit growth	28.5	32.3	49.1	29.9	39.9
EBIT growth	27.5	22.3	53.7	35.4	44.1
Net profit growth	32.6	19.1	51.9	32.6	53.6
Profitability ratios (%)					
OPM	4.4	3.5	4.0	4.0	4.2
EBIT margin	3.8	2.8	3.3	3.4	3.7
Net profit margin	2.5	1.8	2.1	2.1	2.4
RoCE	32.2	25.5	27.5	30.1	35.3
RoNW	25.0	22.0	25.4	26.3	30.5

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoA	7.0	5.3	5.8	6.0	7.2
Per share ratios					
EPS	27.3	32.1	48.7	64.6	99.2
Dividend per share	1.0	1.2	1.8	2.4	3.6
Cash EPS	34.8	46.2	67.8	87.3	125.6
Book value per share	125.9	168.0	215.0	277.2	372.8
Valuation ratios					
P/E	150.7	128.3	84.4	64.6	47.6
P/CEPS	96.8	72.8	55.7	33.6	27.1
P/B	26.7	20.0	16.2	11.9	8.9
EV/EBIDTA	84.3	65.1	44.1	34.2	26.7
Payout (%)					
Dividend payout	3.7	3.7	3.7	3.7	3.7
Tax payout	26.4	25.3	25.2	25.2	25.2
Liquidity ratios					
Debtor days	61.6	46.3	50.4	50.4	50.4
Inventory days	42.1	39.4	42.8	42.8	42.8
Creditor days	96.8	78.9	83.6	83.7	83.5

Recommendation Tracker



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The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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