Thematic | August 2024

EMS Thematic

PLI and Components: Crafting precision in every circuit

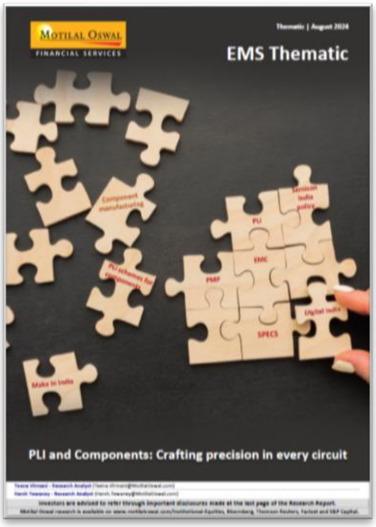
Teena Virmani - Research Analyst (Teena.Virmani@MotilalOswal.com)
Harsh Tewaney - Research Analyst (Harsh.Tewaney@MotilalOswal.com)

Content: PLI and Components: Crafting precision in every circuit

DIXON TECHNOLOGIES

AMBER ENTERPRISES

EMS



PLI and Components: Crafting precision in every circuit

PLI and component manufacturing

India has successfully established a manufacturing presence in sectors like mobile phones and consumer electronics, and the next objective is to boost value addition. The government has already initiated various measures, such as the Production Linked Incentive (PLI) schemes and the Semicon India program, to promote electronic manufacturing in India. Additionally, the government has reopened the window for the PLI Scheme for White Goods to attract more investments. To further enhance localization and value addition in India, additional initiatives will be necessary to stimulate component manufacturing, an area where the government is already engaged in developing various schemes. Significant announcements are already being made in larger components such as semiconductor chips, display screens, battery chargers, and mechanical parts. This trend offers substantial growth opportunities for companies focusing on PLI and electronic manufacturing. We initiate coverage on Dixon Technologies (BUY) and Amber Enterprises (BUY) as these companies have already achieved market leadership in their key domains and are now concentrating on expanding their presence across different segments and backward integration.

Electronic industry is benefitting from government measures

The government has implemented several initiatives such as PLI, PMP, SPECS, EMC, and Semicon India to boost investments in the electronics and EMS industries. With these measures, electronics production moved up from $48b in FY17 to $101b in FY23. India's electronic manufacturing capacity is projected to reach $500b (finished goods $350b and components $150b) by FY2030 which would imply significant investments in enhancing the component ecosystem too. Currently, country has significant presence and capabilities of assemblers and OEMs in the electronics value chain such as Foxconn, Dixon, Amber, Pegatron, Apple, Samsung, BoAt, Atomberg, particularly in mobile and consumer electronics segments but is heavily reliant on imports for components and design capabilities across all sectors. A progress on component manufacturing is being initiated by few companies which will evolve more in the coming years.

Initiatives needed from government for developing entire eco-system

Component manufacturing has not shown the same growth as it requires an upfront initial capex and has lower asset turnover ratios with a gestation period of 1-2 years from investment to production. Hence, industry is seeking more initiatives from government to boost component manufacturing in India. Niti Ayog has recommended several measures to boost component manufacturing and India's positioning in the global electronics manufacturing and country's integration into Global Value Chains (GVC). These include 1) fiscal incentives for component manufacturing, 2) Incentives for investing in R&D, 3) tariff simplification, 4) soft infrastructure initiatives, 5) Tech transfer enablement and 6) setting up of industrial infra zones.

Electronic manufacturing is poised for a long-term growth

Backed by these measures, the domestic EMS industry is likely to grow to INR6.0t in FY27 from INR1.46t in FY22. This is expected to benefit the companies operating in this segment, such as Dixon Technologies, Amber Enterprises, et al. We believe that these companies have already attained a significant scale and market leadership and

Valuation metrics

Cos.	Mcap (INR b)	TP INR	Upside (%)
Dixon	8.8	15,000	21.0
Amber	1.7	5,000	21.0
Kaynes Tech	3.5	5000	-1.5
Syrma SGS Tech.	0.9	540	31.1
Cyient DLM	0.7	880	12.1
Avalon Tech	0.4	560	14.5

are now poised for backward integration through component manufacturing. To further boost localization and value addition in India, additional initiatives will be necessary to promote component manufacturing in the country, where the government is already working on various schemes.

DIXON TECHNOLOGIES

Financials Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	333.8	434.8	525.3
EBITDA	13.1	17.5	21.7
EBITDA Margin (%)	3.9	4.0	4.1
PAT	6.6	9.7	12.8
EPS (INR)	111.2	162.8	213.8
EPS Growth (%)	80.8	46.4	31.3
BV/Share (INR)	391.6	551.4	762.2
Ratios			
Net D/E	-0.3	-0.5	-0.6
RoE (%)	32.9	34.5	32.5
RoCE (%)	37.7	38.3	35.8
Payout (%)	2.7	1.8	1.4
Valuations			
P/E (x)	111.2	75.9	57.8
P/BV (x)	31.6	22.4	16.2
EV/EBITDA (x)	55.8	41.3	32.8
Div Yield (%)	0.0	0.0	0.0

Dixon Technologies: Pioneering the future of manufacturing and electronics

Dixon Technologies (DIXON) has emerged as a fast-growing diversified player in the electronics manufacturing services (EMS) industry. DIXON is a key beneficiary of several production-linked incentive (PLI) schemes for mobile phones, IT hardware, white goods, lighting, and AC components. It has consistently increased its market share in different segments through new technology tie-ups or new client additions. Its recent partnerships with: 1) HKC Corp for manufacturing of displays for mobile phones, TVs, and automotive, and 2) Longcheer Group for mobile phones, along with stake purchase of Ismartu, and sub-licensing arrangement with Google for TVs last year will help the company maintain its market leadership position. We expect DIXON to continue focusing on new segments, backward integration, ODM mix improvement, and operational efficiencies to boost its margins despite the rising revenue contribution from the low-margin mobile segment.

Dixon Technologies: Financial outlook and view

We estimate a revenue/PAT CAGR of 44%/51% during FY24-27. We believe that an efficient working capital cycle, a focus on capital allocation, and higher asset turnover ratios should result in an RoE/ RoCE of 33%/36% by FY27E. We initiate coverage on the stock with a BUY rating and a DCF-based TP of INR15,000. Though valuations are on the higher side, strong industry growth drivers, presence in the fast-growing segments, possibility of adding more segments, and best-in-class RoIC will keep valuations higher.

Amber Enterprises: Moving beyond cyclicality

Amber Enterprises (Amber) is a leading player in ODM/OEM solutions for the Indian RAC industry. The company is one of the beneficiaries of PLI scheme with an early-mover advantage in PLI-led capex for RAC and AC components. With strategic diversification towards the high-growth electronics market (especially PCB manufacturing) and an increasing scope of work in the mobility segment, we expect Amber to benefit from margin improvement. We expect the company's transition from Amber 1.0 (AC-focused) to Amber 2.0 (electronics) and Amber 3.0 (mobility) to reduce business cyclicality and result in improved asset turnover and return ratios after the initial few years of capex.

AMBER ENTERPRISES

Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	84.6	102.2	119.4
EBITDA	6.3	8.4	9.9
EBITDA Margin (%)	7.4	8.2	8.3
PAT	2.3	3.5	4.6
EPS (INR)	68.1	105.1	135.7
EPS Growth (%)	69.6	54.3	29.1
BV/Share (INR)	680.8	785.8	921.5
Ratios			
Net D/E	0.4	0.3	0.1
RoE (%)	10.5	14.3	15.9
RoCE (%)	9.8	12.1	13.4
Valuations			
P/E (x)	60.7	39.3	30.4
P/BV (x)	6.1	5.3	4.5
EV/EBITDA (x)	24.0	17.8	14.7

Amber Enterprises: Financial outlook and view

We estimate a revenue/EBITDA/PAT CAGR of 21%/26%/50% over FY24-27, which is likely to be driven by mid-teens CAGR in the consumer durable segment, high growth in the electronics and mobility segments, and a 100bp margin improvement over FY24-27. We initiate coverage on Amber with a BUY rating and a DCF-based TP of INR5,000, implying 42x P/E on two-year forward EPS (Sep'26E).

Key risks and concerns

The sector is poised for high growth in the coming years. Key risks to this growth could arise from slower-than-expected growth in electronic manufacturing, a slowdown in user industries such as consumer durables, mobile phones, and air conditioners, supply chain issues affecting the import of raw materials, changes in the government's priorities for the PLI scheme or semiconductor manufacturing, and a global slowdown that could detrimentally impact exports.

STORY IN CHARTS

Depth of India's presence across value chain and future initiatives needed

Depth of India's presence in electronics across value chain

		HIGH	MEDIUM	LOW
SEGMENT	**PRODUCTS**	**FINAL ASSEMBLY/ SUB-ASSEMBLY**	**COMPONENT MFG**	**DESIGN**
Mobile	**Smartphones**	Assembly for mobile has taken off; ~2b cumulative shipments between 2014-22 Sub-assembly: Battery pack, Charger largely localized; Camera module, display assembly ~25% localization	Production of mechanical and composites (casing, cable and box content etc) E.g. Tata Electronics for iPhone casing (10-15% BoM)	Minimal to no presence
Consumer Electronics	**TV**	Multiple EMS (e.g. Dixon/Amber)/ OEMs (e.g. Samsung) do finished product assembly/sub-assembly - Display is the largest component, sub-assembled in India for TV	Open cells (~60% BoM) are primarily imported	Design capabilities are with only few players like Dixon
	Air conditioners		Through-hole components, electro-mechanical components are manufactured	Home-grown OEMs such as Blue Star, Godrej Appliances have established some design and engineering capabilities
	Refrigerator			
IT hardware	**Laptop**	>80% of laptops consumed domestically are imported	Primarily import dependent	Minimal presence (VVDN Technologies, CDAC)
	Server			
Telecom	**4G/5G RAN; Baseband unit (incl CU, DU), Antenna/RRU, xPON FTTH, Others**	>40% of total imports are from China	Primarily import dependent	Ongoing design efforts by a consortium led by TCS
Automotive	**Powertrain Body and Convenience Connectivity**	~65% import dependent, i.ie. Most OEMs import sub-assemblies	Low tech components such as wire harness and connectors are manufactured (~10% BoM)	Leading home-grown OEMs such as Tata Motors, M&M have established product design and engineering capabilities, but have limited capabilities in electronics
Hearables & Wearables	**Smart watch, headphone, wristband, glasses, ring, etc**	Largely Box-assembly (No PCBA today). E.g. Dixon for boAt	Primarily import dependent	Minimal to no presence

Source: ICEA, Company, MOFSL

STORY IN CHARTS

Current landscape of component manufacturing in mobile in India

KEY COMPONENTS	CURRENT LANDSCAPE	OUTLOOK
PCB	❖ Indian players can **manufacture up to 4-layer PCBs**, however, most phones require 8+ layer PCBs for which dependent on imports	❖ Import dependence to continue, will require tech transfer in high-quality PCBs (multi-layer, HDI, flex PCBs)
Display (glass, touch controller, display)	❖ Foreign players (e.g. Samsung, CSOT) started manufacturing **LCD displays**; premium smartphones use **hi-tech OLED/AMOLED**	❖ Samsung sub-assembling mobile displays in India; Vedanta - Twin Star - Innolux (TO) to start manufacturing displays; Optiemus & Corning partnership for glass manufacturing; Dixon setting up capex by tying up with HKC
Processor memory	❖ 100% imported as **no fabs/ ATMP** in India today	❖ Global players TSMC, MediaTek lead the market; **4 projects approved** (Tata Electronics - PSMC, Tata Electronics for ATMP, Micron and Renesas)
Passives	❖ SMT-grade passives for Smartphones are largely imported, small presnece of global players (e.g. TDK, Wurth)	❖ As local assembly achieves scale, companies could be expected to **backward integrate** and manufacture these
Camera module	❖ **Camera assembly** with few players operating at **limited scale**: high dependence on **imports for components** (lens, sensor, etc)	❖ Apple-Sunny Opotech, Syska-Biometric-Suyin partnerships, Holitech, Qtech engaged in camera module assembly in India; OEM-ODM-EMS partnerships to drive manufacturing of components in coming years
Battery module	❖ **Battery cells** are mostly **imported** from China/Korea; some domestic players engaged in battery assembly	❖ **CATL in talks to expand in India; Excide entered in agreement with SVOLT energy**; Cells expected to be produced in India in 3-5 years.
Mechanical composites & others	❖ **High localization** (>80%) in **Charger, USB Cable, Gift box Medium localization** (~20%) in **Die Cut Parts, Mechanics ~100% imports for Vibration Motor, Mic and Receiver**	❖ **Salcomp (charger) & Luxshare (cables)** to expand in India; Jabil & Tata Electronics to manufacture casing

Source: NITI Aayog, ICEA, Company, MOFSL

STORY IN CHARTS

Niti Ayog has recommended various fiscal and non-fiscal interventions to increase component manufacturing and share of electronics manufacturing in India by 2030

1

Fiscal incentives for components manufacturing
- Opex support for scaling manufacturing of low complexity/locally produced components (non-SMT grade, casing, glass, etc)
- Capex support for high-complexity components (Mechanics, capital goods, special components (SMD grade), Lithium-ion cells)
- Hybrid support for high-complexity components (SMD grade, 8 layer+ PCB, passives, etc)

2

Product/System Design Ecosystem
- Innovation scheme: To promote SMEs/R&D centres of Indian firms to invest in product design and R&D
- Scale up scheme: incentive to promote scale for electronics 'designed in India'

3

Scale up Industrial Infra
- Develop large-size scaled clusters
- Provision for localized regulations (e.g. labor laws) and cluster governance
- Each cluster to provision essential common facilities - waste treatment plans, industry grade utilities and connectivity (around airports)
- Improve the overall attractiveness of clusters through duty free imports (Free Trade Zones)
- Worker's housing facilities

4

Tariffs simplification and rationalization of taxes
- Rationalize tariffs/duties on inputs to improve competitiveness of Finished Goods for exports
- GST and income tax rationalization

5

Soft infrastructure/Skilling
- Attract overseas high-level talent for high precision manufacturing and design with top position and attractive pays
- Expedited visa approvals for training
- Foster collaboration between academia & industry for advanced manufacturing and high tech skills
- Supporting industries for skilling and setting up Electronics skills training hubs

6

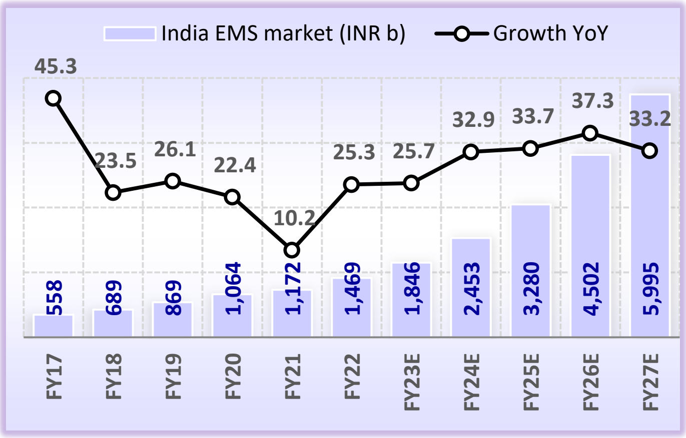
Tech Transfer and Business enablement
- Simplify the process of Tech Transfer and fast-track approvals (PN3) required for components manufacturing
- Rationalize permits for on-ground operations required across all levels of government
- Lowering compliance costs and streamlining regulations

Source: NitiAyog, MOFSL

STORY IN CHARTS

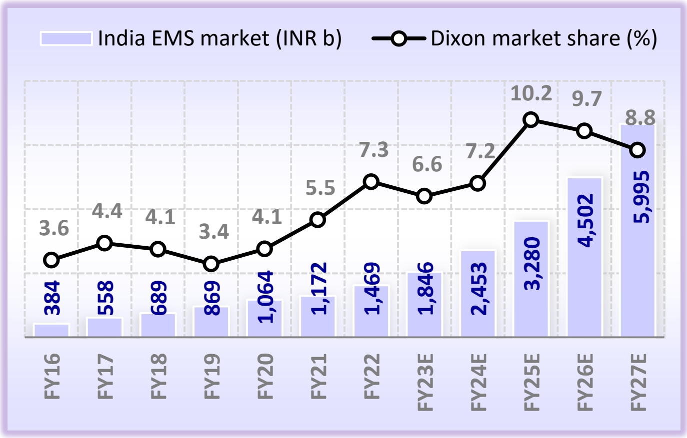
Government initiatives over last few years for electronic manufacturing

Domestic EMS market is expected to grow at a fast 32% CAGR over FY22-27



Source: F&S, MOFSL

Within this market, we expect Dixon to improve its market share with high growth in mobile, IT hardware



Source: F&S, MOFSL

Total PLI investment target for mobile, laptop, PCs, etc. set by the govt. from companies - (INR m)

PLI Scheme	Total expected incentive outlay	Total Incremental investment required by applicant	Base Year	Incremental Investment over base year required by applicant					
				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Large-scale electronics manufacturing	INR410b	INR10b	FY20	2,500	2,500	2,500	2,500	NA	NA
IT Hardware 2.0	INR169b	INR2.5b	FY23	250	500	500	500	500	250

PLI For Mobile - expected total incentive is INR410b for all companies

Segment	Proposed Incentive rate	Incremental Investment over base year	Incremental sales of manufactured goods over base year
Mobile Phones (Invoice value of INR15,000 and above)	Year 1: 6%	Cumulative INR10b over 4 years	Year 1: INR40b
	Year 2: 6%	Year 1: 2.5	Year 2: INR80b
	Year 3: 5%	Year 2: 5.0	Year 3: INR150b
	Year 4: 5%	Year 3: 7.5	Year 4: INR200b
	Year 5: 4%	Year 4: 10.0	Year 5: INR250b

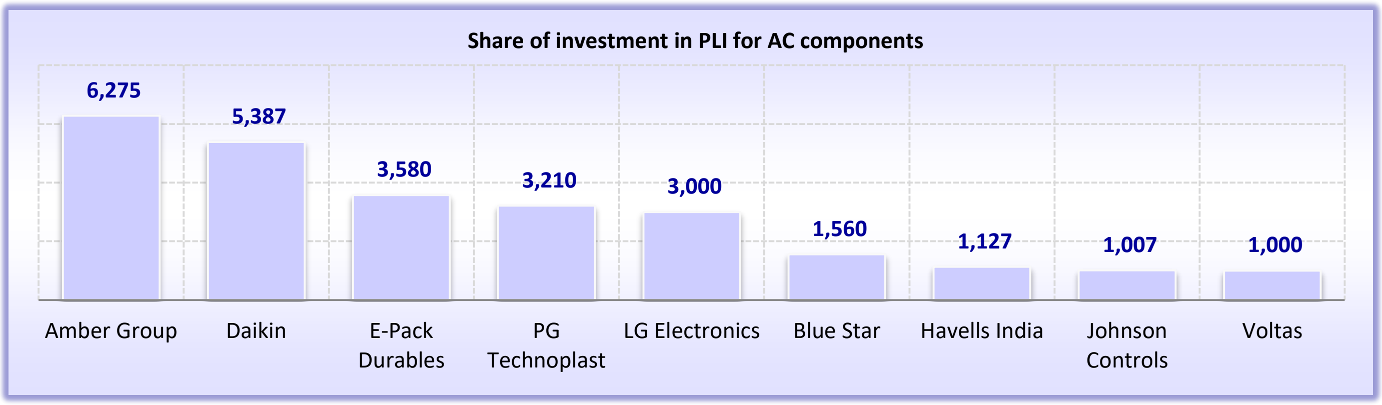
IT hardware PLI 2.0 - expected total incentive is INR170b for all companies

Category	Incremental Investment over base year	Incremental sales of manufactured goods over base year
Hybrid (Global/Domestic) companies 1) Laptops (Invoice value of INR 30,000 and above) 2) Tablets (Invoice value of INR 15,000 and above) 3) All-in-One PCs 4) Servers 5) Ultra Small Form Factor (USFF)	Cumulative INR2.5b over 6 years	
	Year 1: INR 0.25b	Year 1: INR5b
	Year 2: INR 0.75b	Year 2: INR12.5b
	Year 3: INR 1.25b	Year 3: INR25b
	Year 4: INR 1.75b	Year 4: INR50b
	Year 5: INR 2.25b	Year 5: INR60b
	Year 6: INR 2.50b	Year 6: INR75b

Source: MEITY, MOFSL

STORY IN CHARTS

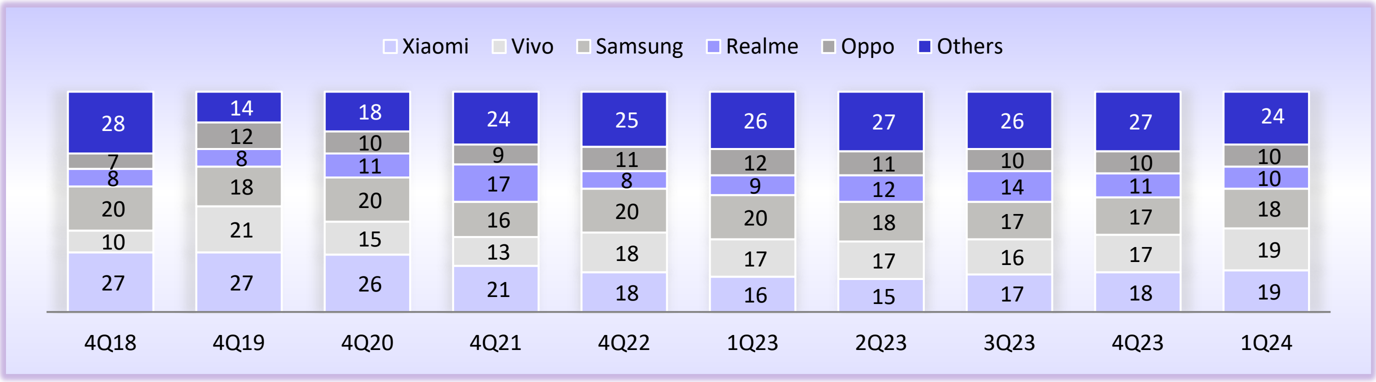
PLI investment committed by the RAC (ODM/OEM) players, where Amber is the highest contributor with INR6.2b



Source: Company, MOFSL

Sectoral growth drivers are strong

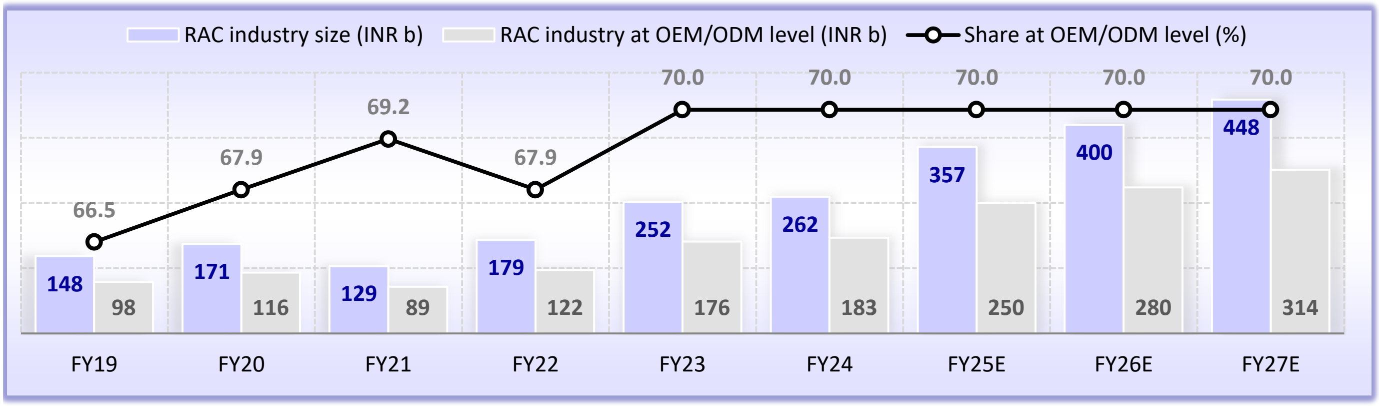
India smartphone market share (%)



	4Q18	4Q19	4Q20	4Q21	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Others	28	14	18	24	25	26	27	26	27	24
Oppo	7	12	10	9	11	12	11	10	10	10
Realme	8	8	11	17	8	9	12	14	11	10
Samsung	20	18	20	16	20	20	18	17	17	18
Vivo	10	21	15	13	18	17	17	16	17	19
Xiaomi	27	27	26	21	18	16	15	17	18	19

Source: Counterpoint, MOFSL

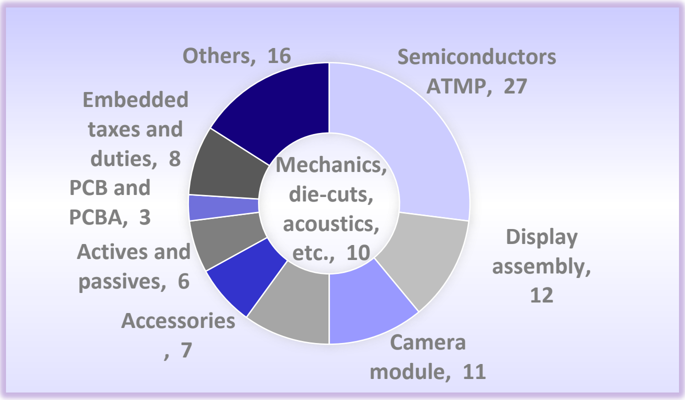
Share of RAC industry at OEM/ODM level stands around 70%



	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
RAC industry size (INR b)	148	171	129	179	252	262	357	400	448
RAC industry at OEM/ODM level (INR b)	98	116	89	122	176	183	250	280	314
Share at OEM/ODM level (%)	66.5	67.9	69.2	67.9	70.0	70.0	70.0	70.0	70.0

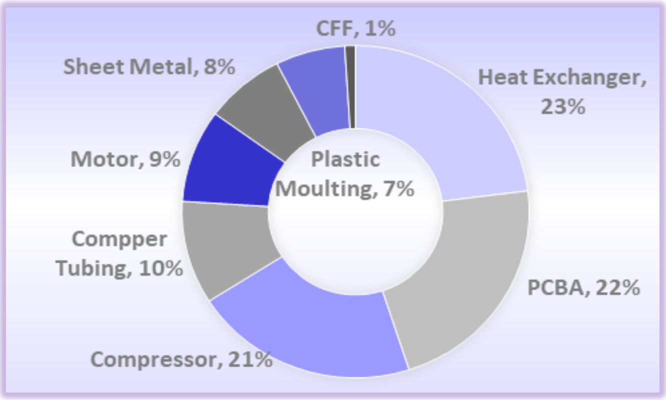
STORY IN CHARTS

BoM of smartphone across various components (%)



Source: Industry, MOFSL

BoM of RAC across various components (%)



Source: Industry, MOFSL

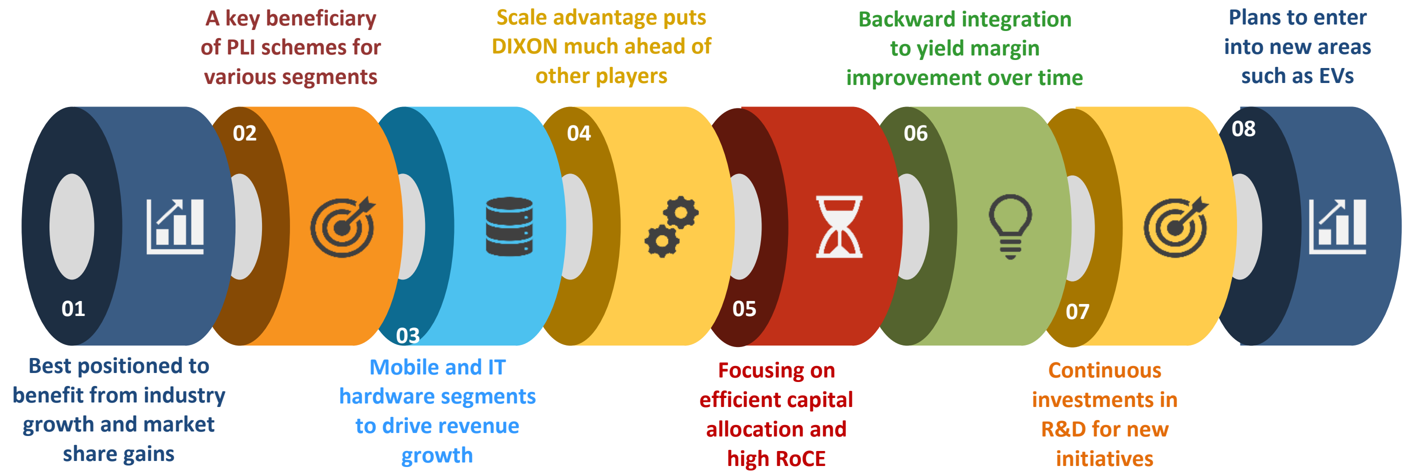
Relative valuations of companies versus sector

Comparison of growth in key financials of companies versus valuations

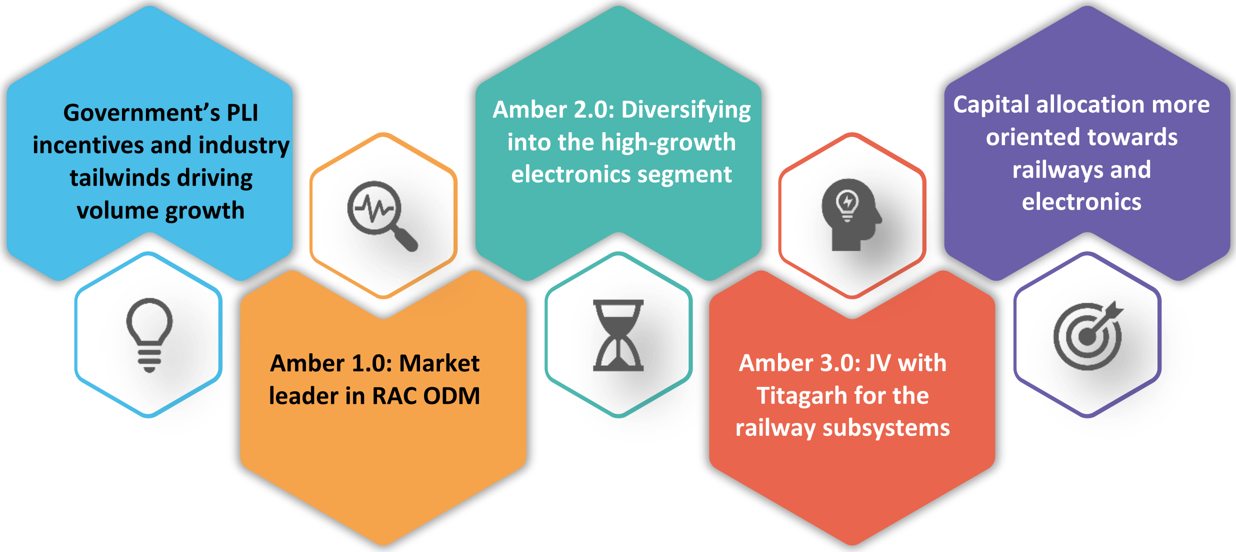
Company	Revenue (INR b)			Rev CAGR (FY24-26) %	EBIDTA Margin (%)			PAT (INR b)			PAT CAGR (FY24-26) %	FY26	
	FY24	FY25	FY26		FY24	FY25	FY26	FY24	FY25	FY26		PE	PEG
EMS companies													
Dixon	176.9	333.8	434.8	56.8	3.9	3.9	4.0	3.7	6.6	9.7	62.7	75.9	1.2
Amber	67.3	84.6	102.2	23.3	7.3	7.4	8.2	1.3	2.3	3.5	63.2	39.3	0.6
Avalon	8.7	10.3	13.4	24.3	7.2	7.7	11.0	0.3	0.4	0.9	81.6	34.7	0.4
Cyient DLM	11.9	15.9	21.2	33.4	9.3	10.7	11.8	0.6	1.2	1.7	68.6	35.8	0.5
Kaynes	18.0	30.5	47.3	61.9	14.1	15.2	15.8	1.8	3.5	5.8	77.7	56.0	0.7
Syrma	31.5	45.8	61.8	40.0	6.3	6.4	7.0	1.1	1.6	2.7	58.4	26.8	0.5
Consumer durable companies													
Havells India	185.9	211.0	242.1	14.1	9.9	10.8	11.3	12.7	16.2	19.7	24.4	59.8	2.5
Voltas	124.8	146.7	162.5	14.1	3.8	7.3	8.3	2.4	8.3	10.9	113.4	46.4	0.4
CG Consumer	73.1	83.0	94.2	13.5	9.8	10.9	11.6	4.4	5.9	7.5	30.5	37.8	1.2
Orient Electricals	27.7	31.3	35.2	12.6	5.2	6.6	7.6	0.8	1.0	1.5	40.9	38.6	0.9
Bajaj Electricals	46.2	52.4	59.5	13.5	5.6	8.8	9.9	1.3	1.9	3.0	51.2	36.3	0.7
V-Guard Industries	48.6	55.9	63.8	14.6	8.8	9.9	10.5	2.6	3.5	4.4	31.2	51.5	1.7
Blue Star	96.9	116.9	137.7	19.2	6.9	7.4	7.7	4.1	5.6	7.1	30.9	46.5	1.5

Source: Company, MOFSL, Bloomberg

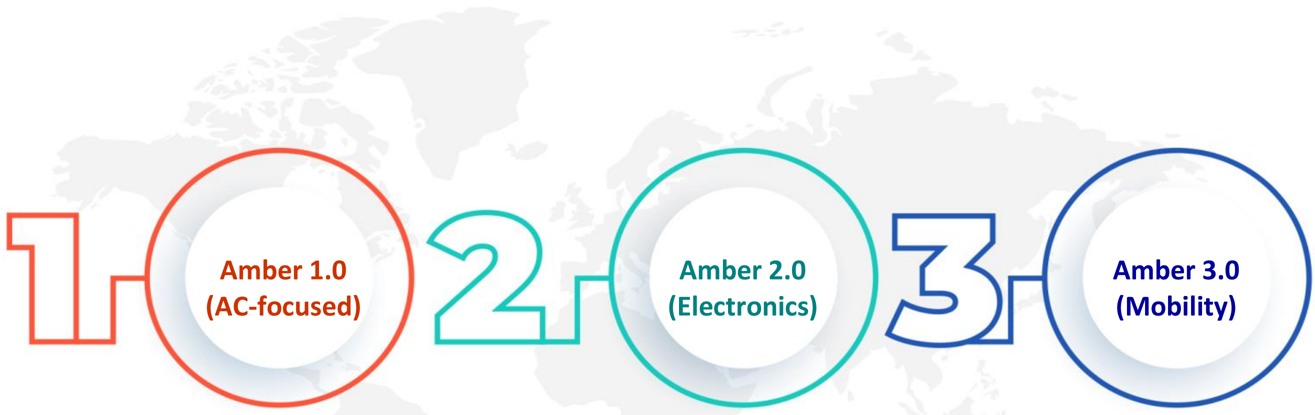
DIXON: KEY INVESTMENT ARGUMENT



AMBER: KEY INVESTMENT ARGUMENT



AMBER'S TRANSITION



We expect the company's transition to reduce business cyclicality, and result in improved asset turnover and return ratios after the initial few years of capex.

COMPANIES COVERED

DIXON TECHNOLOGIES

AMBER ENTERPRISES

Dixon Technologies: Pioneering the future of manufacturing and electronics

Dixon Technologies has emerged as a fast-growing diversified player in the electronics manufacturing services (EMS) industry. DIXON is a key beneficiary of several production-linked incentive (PLI) schemes for mobile phones, IT hardware, white goods, lighting and AC components. It has consistently increased its market share in different segments with either new technology tie-ups or new client additions. Its recent tie-up with HKC Corp for manufacturing of displays for mobile phone, TVs and automotive, Longcheer Group for mobile phones, stake purchase of Ismartu and sub-licensing arrangement with Google done last year for TVs will help the company maintain its market leadership position. We expect DIXON to continue to keep focusing on new segments, backward integration, ODM mix improvement and operational efficiencies to boost its margin despite a rising revenue contribution of the low-margin mobile segment. We estimate a CAGR of 44%/51% in revenue/PAT during FY24-27. We believe that an efficient working capital cycle, focus on capital allocation and higher asset turnover ratios should result in RoE/RoCE of 33%/36% by FY27E. We initiate coverage with a BUY rating on the stock with a TP of INR15,000 based on DCF. Valuations are on the higher side but strong industry growth drivers, presence in fast growing segments, possibility of adding more segments and best in class RoICs will keep valuations higher.

Dixon Technologies

BSE SENSEX	S&P CNX
80,437	25,541

Dixon
The brand behind brands

Stock Info

Bloomberg	DIXON IN
Equity Shares (m)	60
M.Cap.(INRb)/(USDb)	740.5 / 8.8
52-Week Range (INR)	12879 / 4585
1, 6, 12 Rel. Per (%)	-1/83/134
12M Avg Val (INR M)	3569
Free float (%)	66.8

Financials Snapshot (INR b)

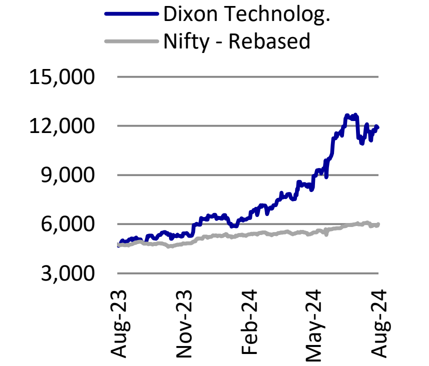
Y/E March	FY25E	FY26E	FY27E
Sales	333.8	434.8	525.3
EBITDA	13.1	17.5	21.7
EBITDA Margin (%)	3.9	4.0	4.1
PAT	6.6	9.7	12.8
EPS (INR)	111.2	162.8	213.8
EPS Growth (%)	80.8	46.4	31.3
BV/Share (INR)	391.6	551.4	762.2
Ratios			
Net D/E	-0.3	-0.5	-0.6
RoE (%)	32.9	34.5	32.5
RoCE (%)	37.7	38.3	35.8
Payout (%)	2.7	1.8	1.4
Valuations			
P/E (x)	111.2	75.9	57.8
P/BV (x)	31.6	22.4	16.2
EV/EBITDA (x)	55.8	41.3	32.8
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	33.2	33.4	34.0
DII	26.1	27.0	24.6
FII	19.3	17.8	15.0
Others	21.4	21.7	26.4

FII Includes depository receipts

Stock performance (one-year)



CMP: INR12,360 TP: INR15,000 (+21%) Buy

Pioneering the future of manufacturing and electronics

Dixon Technologies has emerged as a fast-growing diversified player in the electronics manufacturing services (EMS) industry. DIXON is a key beneficiary of several production-linked incentive (PLI) schemes for mobile phones, IT hardware, white goods, lighting and AC components. It has consistently increased its market share in different segments with either new technology tie-ups or new client additions. Its recent tie-up with HKC Corp for manufacturing of displays for mobile phone, TVs and automotive, Longcheer Group for mobile phones, stake purchase of Ismartu and sub-licensing arrangement with Google done last year for TVs will help the company maintain its market leadership position. We expect DIXON to continue to keep focusing on new segments, backward integration, ODM mix improvement and operational efficiencies to boost its margin despite a rising revenue contribution of the low-margin mobile segment. We estimate a CAGR of 44%/51% in revenue/PAT during FY24-27. We believe that an efficient working capital cycle, focus on capital allocation and higher asset turnover ratios should result in RoE/RoCE of 33%/36% by FY27E. We initiate coverage with a BUY rating on the stock with TP of INR15,000 based on DCF. Valuations are on the higher side but strong industry growth drivers, presence in fast growing segments, possibility of adding more segments and best in class RoICs will keep valuations higher.

Best positioned to benefit from industry growth and market share gains

The Indian EMS sector is estimated to grow from INR1.46t in FY22 to INR6t in FY27 at a CAGR of 32%, as per industry estimates. DIXON held a 7.3% market share in the EMS industry in FY22, and we expect it to grow at a faster CAGR of 37% during FY22-FY27, driven by a sharp ramp-up in mobile segment revenues, telecom and IT hardware, new client additions in consumer electronics, export opportunities in lighting and washing machines, growth in emerging categories like wearables and refrigerators, and PLI approvals for other segments. The company is also planning to enter into newer segments and component manufacturing, benefits of which will be seen in the coming years. We thus believe that growth in these key segments will help DIXON increase its market share in the EMS industry to nearly 9% by FY27E.

A key beneficiary of PLI schemes for various segments

DIXON is a key beneficiary of PLI schemes for mobile phones, white goods (including lighting and AC), telecom and networking products, and IT hardware 2.0. It has committed a total investment of INR4.7b in mobile phones and IT hardware 2.0 and INR1b in white goods. DIXON has tied up with Motorola, Xiaomi and Longcheer to scale up its mobile volumes under the PLI scheme and has tied up with Acer and Lenovo to achieve a desired revenue threshold for the IT hardware PLI scheme. It is working on a JV with Rexxam for inverter controller boards for ACs for a total investment of INR510m over five years. It is also adding clients in lighting. DIXON's JV with Bharti Enterprise is working on telecom hardware PLI. It has also tied up with Nokia to manufacture telecom equipment.

Mobile and IT hardware segments to drive revenue growth

Out of the 150m mobile smartphones sold in India, the outsourcing opportunity is almost 85m to 90m, and DIXON aims to capture 35-40% of this opportunity in a couple of years. The company is already working with Motorola, Xiaomi, Samsung, Realme, Nokia and Itel and plans to add more brands via its majority stake purchase in Ismartu, which operates three brands in India (Itel, Infinix and Techno), and its partnership with Longcheer, which manufactures for Oppo, Vivo, Oneplus and Realme. We expect revenues from mobile phones to increase to INR232b/INR296b in FY25/FY26 from INR92b in FY24. For IT hardware, DIXON is eligible for PLI 2.0 and has already tied up with Acer and Lenovo. We expect IT hardware revenues to grow to INR5b/INR25b in FY25/FY26 from INR1.4b in FY24.

Scale advantage puts DIXON much ahead of other players

DIXON has a scale advantage in most segments, which has resulted in leadership position, and competition is still limited to 2-3 large players in most segments. DIXON has achieved economies of scale in its key segments such as consumer electronics and lighting and aims to replicate the same in the mobile segment. As a result, the company has 50-70% wallet share of clients in segments like lighting, LED TV and mobile and has a strong base of sticky customers. With PLI approvals already in place for other segments, the scale benefits will start accruing in other segments too. This would make it easier for any foreign OEM brand to choose DIXON as an EMS partner.

Focusing on efficient capital allocation and high RoCE

DIXON operates in the high-volume low-margin (HVLM) segment of the EMS industry, which forms 89.5% of the domestic EMS market. Despite the low margin nature of this segment, DIXON has maintained high RoCE. The company emphasizes efficient capital allocation and a targeted payback period of four years. Efficiency in capital allocation is achieved by reducing the cost of capex, adopting a lease model for new facilities, minimizing working capital, and adding segments with a higher asset turnover. Consequently, even in segments with lower margins, the company achieves healthy RoCE and high asset turnover ratios.

Backward integration to yield margin improvement over time

The majority of high-value components for the mobile, TV, and IT hardware segments are currently imported, and transitioning the manufacturing of items like open cell, panel, screen, display, semiconductor, and camera modules entirely to India will require time. For mobiles, DIXON is planning to manufacture display modules (~10% of total cost of smartphone) and has already finalized a technology partner with a planned capex of USD30m (excluding land and building). It is also looking to foray into precision components, mechanicals, die cut, connectors etc. DIXON is also developing capabilities in PCB and battery chargers for mobiles to decrease reliance on imports. Additionally, the company is collaborating with global brands to enhance capabilities in TV and AC control boards, aiming to further reduce dependence on imports in these segments as well.

Continuous investments in R&D for new initiatives

The company has three state-of-the-art R&D facilities and has 49 trained employees in its R&D team. It is continuously working on new initiatives in the following areas: 1) design solutions & technology advancement for various TV components and also procuring a license for android technology in the LED TV vertical to move forward in ODM solutions; 2) new Advance Environmental Testing Chamber and NABL approved lab would be installed in its Dehradun R&D center for washing machines for research validations; 3) a global level R&D infrastructure for product testing and validation in smart lighting; 4) DIXON is also certified as a member for android product development for mobile phones.

Plans to enter into new areas such as industrial EMS, EVs

DIXON is exploring opportunities in the EV sector, mainly focusing on manufacturing components such as electronic modules, PCB assembly. Company is exploring entering into industrial EMS too and is in advanced discussion with large semiconductor brands for serving the requirement of PCB assembly.

Financial outlook

We expect a CAGR of 44%/46%/51% in revenue/EBITDA/PAT over FY24-27. Revenue growth would be mainly driven by EMS (including mobile, IT hardware), consumer electronics and new emerging segments such as refrigerator, wearables and hearables, and telecom networking products. We expect EBITDA margin of 3.9%/4%/4.1% for FY25-27, led by increased backward integration and improving share of high-margin segments. This results in a PAT CAGR of 51% over FY24-27. We expect working capital to remain comfortable at (-1) and expect a capex of INR5b every year over FY25-27. With efficient capital allocation, we expect RoIC to remain strong at 46.8%/56.4%/63.9% for FY25/FY26/FY27 vs. 30% in FY24.

Valuation and recommendation

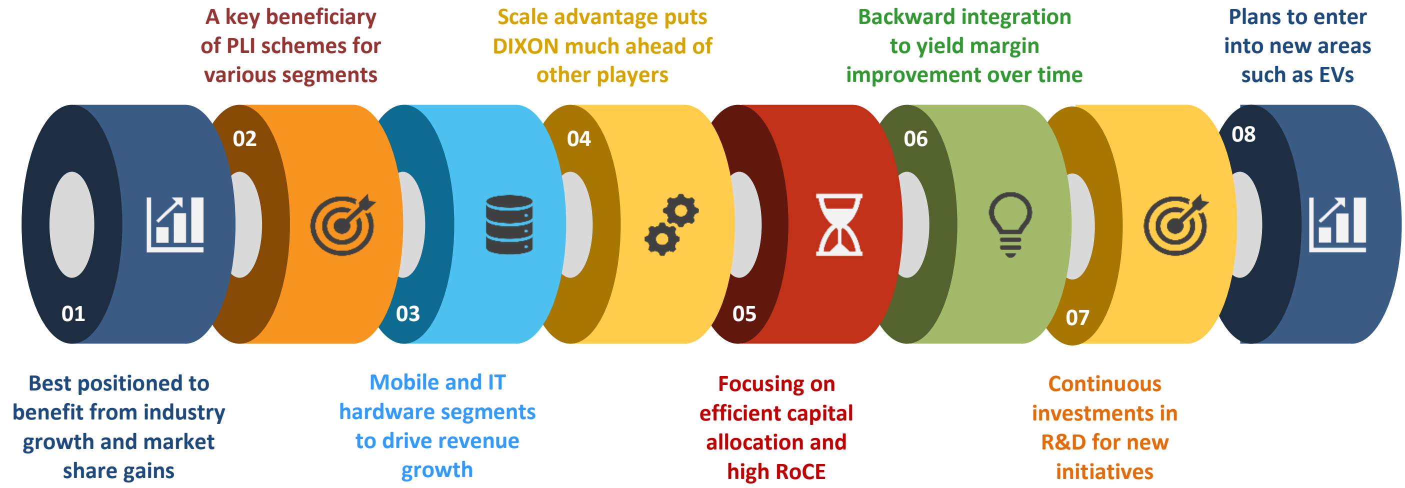
The stock is currently trading at 75.9x/57.8x P/E on FY25/26E earnings. We initiate coverage on DIXON with a **BUY** rating and a DCF-based TP of INR15,000 taking into account 20-year revenue CAGR of 17.8% and EBITDA CAGR of 18.6%, asset turnover of 13-14x over the same period. We bake in WACC of 10.7% and terminal growth rate of 6%. Valuations are on the higher side but strong industry growth drivers, presence in fast growing segments, possibility of adding more segments and best in class RoICs will keep valuations higher.

Key risks and concerns

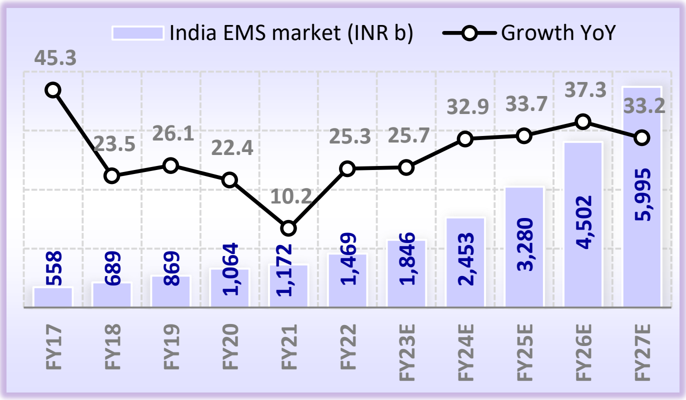
Key risks to our estimates and recommendation would come from lower than expected growth in the market opportunity, loss of relationship with key clients, increased competition, and limited bargaining power with clients.

STORY IN CHARTS

DIXON: KEY INVESTMENT ARGUMENT

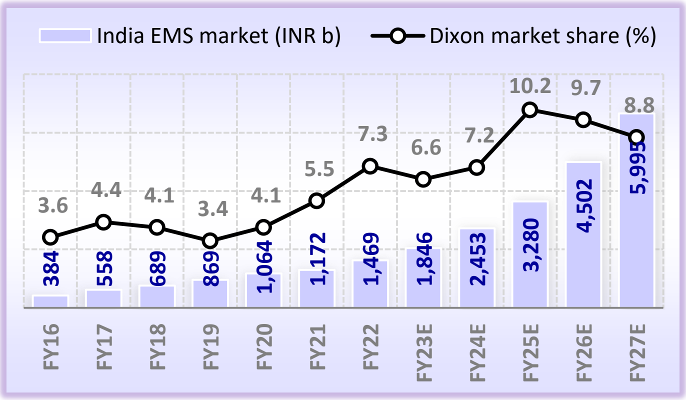


Domestic EMS market is expected to grow at a fast 32% CAGR over FY22-27



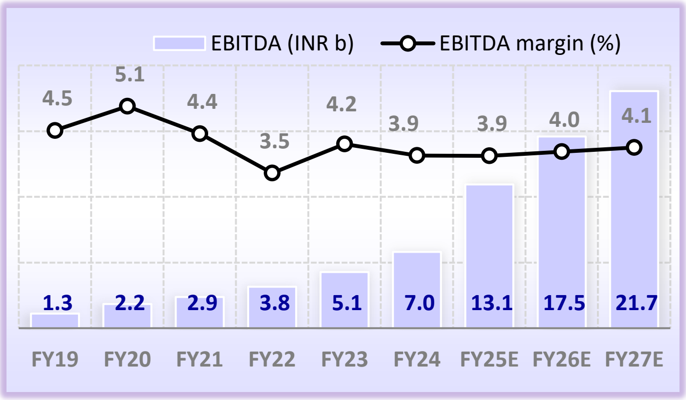
Source: F&S, MOFSL

Within this market, we expect Dixon to improve its market share with high growth in mobile, IT hardware



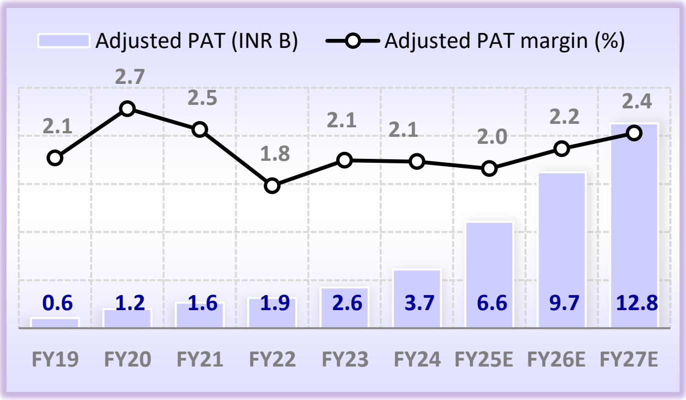
Source: F&S, MOFSL

We expect EBITDA margin to improve to 4.1% by FY27 on improved backward integration



Source: Company, MOFSL

This along with higher other income will also lead to overall PAT margin improvement



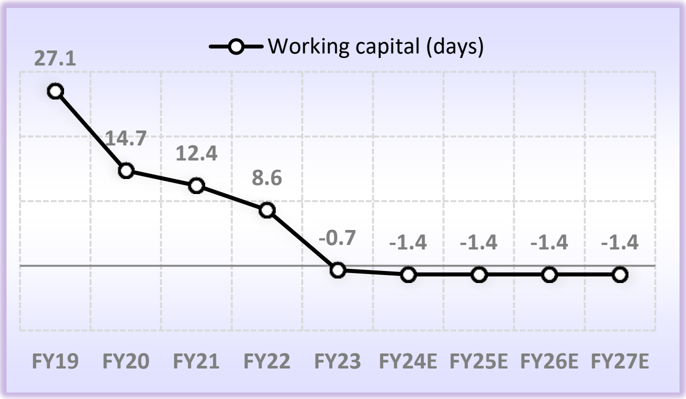
Source: Company, MOFSL

Segmental Financial outlook across segments for DIXON

INR m	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Consolidated										
Revenue	28,416	29,844	44,001	64,482	1,06,971	1,21,920	1,76,909	3,33,818	4,34,814	5,25,307
Growth YoY (%)	15.7	5.0	47.4	46.5	65.9	14.0	45.1	88.7	30.3	20.8
EBITDA	1,120	1,349	2,231	2,866	3,791	5,128	6,976	13,138	17,531	21,674
EBITDA margin (%)	3.9	4.5	5.1	4.4	3.5	4.2	3.9	3.9	4.0	4.1
RoCE	23.4	18.5	25.9	23.8	19.1	20.4	25.6	38.1	38.6	36.0
Consumer Electronics										
Revenue	10,735	11,937	20,952	38,426	51,695	42,780	41,480	43,800	47,515	51,558
Growth YoY (%)	27.1	11.2	75.5	83.4	34.5	-17.2	-3.0	5.6	8.5	8.5
EBITDA	222	252	503	1,028	1,246	1,306	1,410	1,620	1,900	2,165
EBITDA margin (%)	2.1	2.1	2.4	2.7	2.4	3.1	3.4	3.7	4.0	4.2
Lighting Products										
Revenue	7,742	9,194	11,397	11,037	12,841	10,546	7,870	8,670	9,550	10,521
Growth YoY (%)	40.6	18.8	24.0	-3.2	16.3	-17.9	-25.4	10.2	10.2	10.2
EBITDA	473	660	977	974	881	904	592	695	804	907
EBITDA margin (%)	6.1	7.2	8.6	8.8	6.9	8.6	7.5	8.0	8.4	8.6
Home Appliances										
Revenue	2,503	3,744	3,963	4,311	7,088	11,435	12,050	14,868	17,530	20,596
Growth YoY (%)	33.1	49.6	5.9	8.8	64.4	61.3	5.4	23.4	17.9	17.5
EBITDA	308	370	461	397	541	1,094	1,301	1,709	2,050	2,409
EBITDA margin (%)	12.3	9.9	11.6	9.2	7.6	9.6	10.8	11.5	11.7	11.7
Mobile Phone and EMS										
Revenue	6,698	3,549	5,369	8,395	31,383	52,243	1,09,190	2,61,481	3,51,719	4,30,632
Growth YoY (%)	-17.4	-47.0	51.3	56.4	273.8	66.5	109.0	139.5	34.5	22.4
EBITDA	65	74	191	394	971	1,671	3,550	8,763	12,139	15,293
EBITDA margin (%)	1.0	2.1	3.6	4.7	3.1	3.2	3.3	3.4	3.5	3.6
Security Surveillance Systems										
Revenue	5	963	2,164	2,178	3,964	4,918	6,330	0	0	0
Growth YoY (%)			124.7	0.7	82.0	24.1	28.7	NA	NA	NA
EBITDA		8	72	63	151	144	119	0	0	0
EBITDA margin (%)		0.8	3.3	2.9	3.8	2.9	1.9	NA	NA	NA
Refrigerator										
Revenue								5,000	8,500	12,000
Growth YoY (%)									70.0	41.2
EBITDA								350	638	900
EBITDA margin (%)								7.0	7.5	7.5

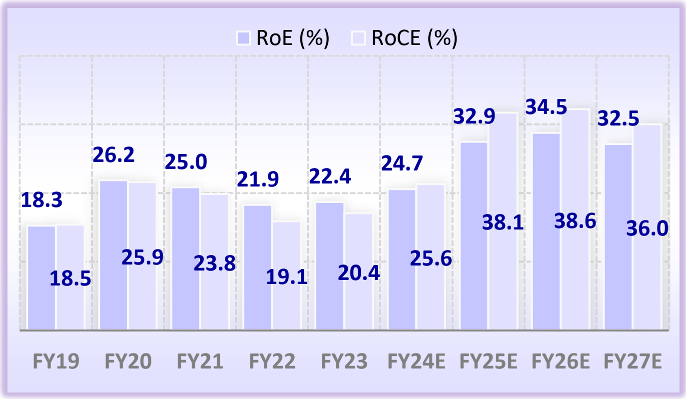
Source: Company, MOFSL

We expect the NWC cycle to remain negative for the company



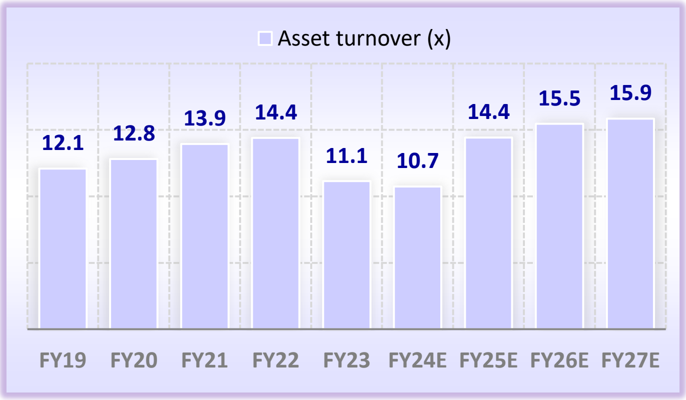
Source: Company, MOFSL

This will result in ROE and RoCE to remain at higher levels in coming years



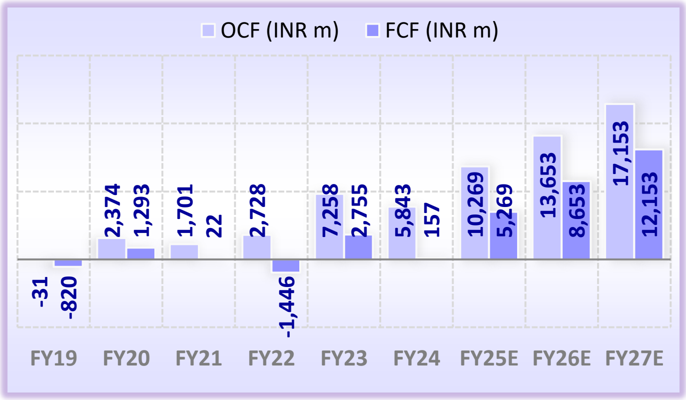
Source: Company, MOFSL

We expect asset turnover to remain high on higher share of mobile segment revenues



Source: Company, MOFSL

We expect FCF to improve from FY25 on OCF improvement with yearly capex of INR5b



Source: Company, MOFSL

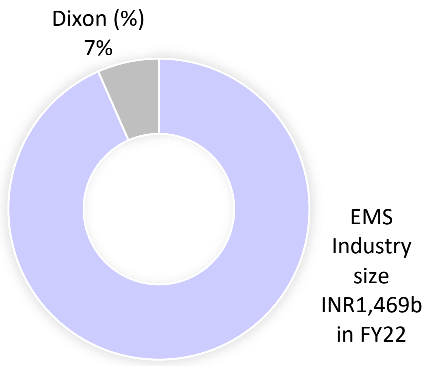
DIXON: Pioneering the future of manufacturing and electronics

DIXON has become a rapidly expanding diversified player in the EMS industry with a presence across a wide range of segments. The company has achieved a significant scale across its segments, and its ability to control costs sets it apart from competitors. The company has already achieved market leadership in consumer electronics, lighting, home appliances, and mobile phones with its offerings and strong client relationships and is ready to replicate this success in new emerging areas too. We expect the company's backward integration, enhanced ODM mix, and focus on high-margin segments to boost margins to 4.1% by FY27. We expect a CAGR of 44%/51% in revenue/PAT during FY24-FY27. With its efficient working capital cycle, focus on capital allocation, and high asset turnover ratios, we expect RoCE to improve to 39%/36% by FY26/FY27 from 25.4% in FY24.

1. Best positioned to benefit from industry and market share growth

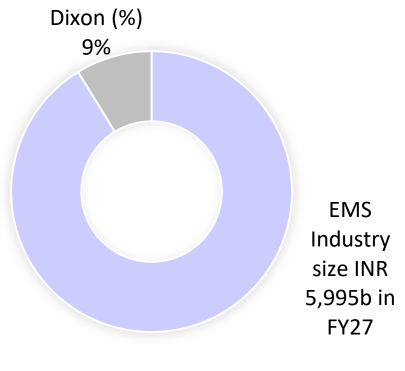
The government has implemented initiatives like PLI, PMP, SPECS, EMC and Semicon India to boost investment in the electronics and EMS industry. The domestic EMS industry is expected to grow from INR1.46t in FY22 to INR6t in FY27 at a CAGR of 32%, as per the F&S report. DIXON held a 7.3% market share in the EMS industry in FY22, and we expect it to grow at a faster CAGR of 37% during FY22-27, driven by a strong ramp-up in mobile segment revenues, telecom and IT hardware, new client additions in consumer electronics, export opportunities in lighting and washing machines, growth in emerging categories like wearables and refrigerators, and PLI approvals for other segments. The company also plans to enter into EV component manufacturing, benefits of which will be seen in the coming years. We believe that growth in these key segments should help DIXON increase its market share in the overall EMS industry to nearly 9% by FY27E.

Exhibit 1: EMS industry size and market share of DIXON in FY22



Source: Company, MOFSL

Exhibit 2: We expect it to improve to 9% in overall EMS industry by FY27



Source: Company, MOFSL

Exhibit 3: Diversified segments help DIXON capture a wider market

Business division	Consumer Electronics	Lighting Products	Home Appliances	Mobile Phones and EMS	Security Surveillance Systems
Product offerings	LED TV (24" to 98"), Smart TVs, Monitor, IFPD Commercial displays digital signage	LED Lamps, LED Battens, LED Downlighters, Drivers, Smart lighting LED panels, Strip and Rope lighting	Washing machine- Semi automatic (SA), Fully Automatic Top Load (FATL)	Feature & Smart phones, PCBA	Security Camera, DVR
Production capacity (FY23, units m p.a.)	LED TV - 6.0	LED Lamps - 300 LED Battens - 50 LED Downlighters - 18	SA - 2.4 FATL - 0.6	Smart Phones - 60 Feature Phones - 32	CCTV - 12.4 DVR - 2.4
Growth Strategies	- Strengthening ODM & JDM business with existing customers - Further penetration in smart TV segment - Backward Integration and range diversification	- Expansion of product portfolio to include strip and rope lighting and professional products - Strengthening leadership in smart lighting - Growing export business and increase in backward integration	- Acquire more clients for Fully Automatic washing machine - In-house manufacturing to cut down imports from China - Increased R&D investment to utilize technologies for meeting changing consumer preferences	- Focus on addition of more brands - Expansion of manufacturing capacities to cater rising demand - R&D to offer new and industry leading products	- Company is planning to sell its 50% stake in this business to Aditya Infotech and will get 6.5% stake in Aditya Infotech - Offering quality products at competitive rates
Customers	Xiaomi, Samsung, Hisense, VU, Nokia, Panasonic, TCL, Lloyd, Flipkart, Philips	Signify, Panasonic, Wipro, Bajaj, Syska, Orient, Polycab, Luminous, Crompton	Samsung, Bosch, Godrej, Voltas-Beko, Panasonic, Lloyd, Flipkart, Haier, Reliance	Samsung, Motorola, Nokia, ITEL, Jio , Karbonn, Acer	
Financial highlights (FY24)					
Revenues (INR m)	41,480	7,870	12,050	1,09,190	6,330
EBITDA (INR m)	1,410	592	1,301	3,550	119
EBITDA margin (%)	*3.4*	*7.5*	*10.8*	*3.3*	*1.9*
Revenue salience (%)	23	4	7	62	4
EBITDA salience (%)	20	8	19	51	2
RoCE (%)	54	23	34	59	20
Market share	35% market share via capacity	50% in mfg. share in LED lamps	30% mfg. share	15% mfg. share	25% mfg. share

Source: Company, MOFSL

2. Key beneficiary of PLI schemes for mobile, lighting, AC components and IT hardware

DIXON benefits from PLI for lighting, mobile, IT hardware 2.0, and air conditioners. The mobile & EMS segment accounts for a larger chunk of revenue under PLI schemes, with anchor clients such as Xiaomi, Samsung, Motorola, Ismartu, etc. in mobile phones and Acer and Lenovo in IT hardware. The company had also formed a JV with Rexxam for AC controller boards. DIXON aims to enter component manufacturing, particularly for lighting and ACs.

Exhibit 4: DIXON's committed investment of INR6,210m for PLI schemes across segments

Company	Committed Investment (INR m)	Products to be manufactured
Padget Electronics	2,000	❖ Mobile phones (under INR 15,000 per unit)
Padget Electronics	2,500	❖ Laptop, Tablets, PCs, Server
Dixon Technologies (India) Ltd	200	❖ Laptop, Tablets, PCs, Server
Dixon Devices Pvt. Ltd.	510	❖ Control Assemblies for IDU or ODU or Remotes
Dixon Technologies Solution Pvt. Ltd.	1,000	❖ LED Driver, LED engine, LED module, Mechanicals housing, Wire wound inductors, Led light management system

Source: Company, MOFSL

PLI for Mobile & EMS division – the key growth area for DIXON

- For mobile, it has committed an investment of INR2,000m under the large-scale electronics manufacturing scheme and has committed INR2,500m for laptops, tablets, PCs and servers under the IT hardware 2.0 scheme. In the mobile PLI scheme, it is one of the few companies to have achieved revenue and capex threshold targets, and it has already received incentives of ~INR170m in FY24.
- In the mobile segment, DIXON already caters to major clients like Motorola, Samsung, Xiaomi, Nokia, Itel, Compal, Jio, etc. Recently, it has announced the acquisition of a majority stake in Ismartu, which is the manufacturing arm of Transsion Holdings. Transsion's brand portfolio comprises leading mobile phone brands (including Tecno, Itel and Infinix), feature phone and smartphones. DIXON has also entered into a partnership with Longcheer for the production of smartphones, which should help DIXON gain a foothold with the BBK group (Oppo, Vivo, One Plus, Realme).
- The company is already working on IT hardware and has existing clients like Acer and Lenovo. Additionally, DIXON has finalized business with Lenovo for the manufacturing of tablets and notebooks and in discussions with ASUS, which will increase its share in tablets and notebooks further. Mass production for Lenovo will commence from 3QFY25. Two new customers for notebooks are in the process of signing agreements which will get added by Q1FY26. Hence, company will be catering to top 4 customers out of top 5 in the country. It will also commence new facility in 8-10 months.

Exhibit 5: Total PLI investment target for mobile, laptop, PCs, etc. set by the govt. from companies - (INR m)

PLI Scheme	Total expected incentive outlay	Total Incremental investment required by applicant	Base Year	Incremental Investment over base year required by applicant					
				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Large-scale electronics manufacturing	INR410b	INR10b	FY20	2,500	2,500	2,500	2,500	NA	NA
IT Hardware 2.0	INR169b	INR2.5b	FY23	250	500	500	500	500	250

Exhibit 6: PLI For Mobile - expected total incentive is INR410b for all companies

Segment	Proposed Incentive rate	Incremental Investment over base year	Incremental sales of manufactured goods over base year
Mobile Phones (Invoice value of INR15,000 and above)	Year 1: 6%	Cumulative INR10b over 4 years	Year 1: INR40b
	Year 2: 6%	Year 1: 2.5	Year 2: INR80b
	Year 3: 5%	Year 2: 5.0	Year 3: INR150b
	Year 4: 5%	Year 3: 7.5	Year 4: INR200b
	Year 5: 4%	Year 4: 10.0	Year 5: INR250b

Players approved under the mobile PLI scheme are FoxConn Hon Hai, Pegatron, Rising Star (Bharat FIH), Samsung and Wistron for the category of INR15,000 and above and Bhagwati (Micromax), Lava, Optiemus Electronics and Padget Electronics (DIXON) for the categories below INR15,000.

Exhibit 7: IT hardware PLI 2.0 - expected total incentive is INR170b for all companies

Category	Incremental Investment over base year	Incremental sales of manufactured goods over base year
Hybrid (Global/Domestic) companies 1) Laptops (Invoice value of INR 30,000 and above) 2) Tablets (Invoice value of INR 15,000 and above) 3) All-in-One PCs 4) Servers 5) Ultra Small Form Factor (USFF)	Cumulative INR2.5b over 6 years	
	Year 1: INR 0.25b	Year 1: INR5b
	Year 2: INR 0.75b	Year 2: INR12.5b
	Year 3: INR 1.25b	Year 3: INR25b
	Year 4: INR 1.75b	Year 4: INR50b
	Year 5: INR 2.25b	Year 5: INR60b
	Year 6: INR 2.50b	Year 6: INR75b

Source: MEITY, MOFSL

List of approved companies for IT hardware 2.0 PLI scheme:

1) Dell International Services India Private Limited; 2) Rising Stars Hi-Tech Private Limited; 3) HP India Sales Private Limited; 4) Flextronics Technologies (India) Pvt Ltd; 5) **Padget Electronics Pvt Ltd (DIXON's subsidiary);** 6) Sojo Manufacturing Services AP PVT Ltd; 7) VVDN Technologies Private Limited; 8) Goodworth Electronics Private Limited; 9) Neolync Tele Communications Private Limited; 10) Syrma SGS Technology Ltd. 11) Bhagwati Products Ltd; 12) Netweb Technologies India Limited; 13) Genus electrotech Limited; 14) Sahasra Electronic Solutions Limited; 15) Hangshine Technosoft Private Limited; 16) Riot Labz Private Limited; 17) Smile Electronics Ltd; 18) Mega Networks Private Limited; 19) Plumage Solutions Private Limited; 20) HLBS Tech Pvt Ltd; 21) Panache Digilife Limited; 22) RDP Workstations Private Limited; 23) Kaynes Electronics Manufacturing Pvt Ltd; 24) INP Technologies Pvt Ltd; 25) Optiemus Telecommunication Private Limited; 26) ITI Limited; 27) Sancraft Industries Pvt Ltd

PLI for Lighting and AC components will increase backward integration for DIXON

- In the PLI scheme for white goods for the manufacturing of components and sub-assemblies of ACs and LED lights, 48 beneficiaries were selected, including 32 for AC manufacturing and 16 for LED lights manufacturing, with committed investments of INR48b and INR7.2b, respectively. With PLI approval for investment worth INR1b over the next five years in LED drivers, LED engines, LED modules, light management system, mechanics and inductors, the company has commenced investment and expects to increase backward integration.
- DIXON has also secured approval for AC components and established a JV with Rexxam for inverter controller boards, with a total investment of INR510m over five years, benefiting from PLI.

Future growth strategy beyond PLI

For growth beyond the PLI scheme tenure, DIXON is building a base for sustaining a higher growth trajectory. This will be achieved by (1) foraying into design manufacturing and increasing the share of ODM, (2) building R&D base for collaborative technology into newer areas, (3) focus on training, skill and automation as it has already tied up with Siemens for automation of systems, (4) strengthening manufacturing by increased backward integration as it is already setting up a component facility for various segments under PLI along with displays for mobile, (5) building a scale in emerging segments, (6) focus on entering into areas which have higher asset turnover ratios, (7) extreme focus on capital allocation and management of current assets to maintain higher RoCE.

3. Key high-growth segments

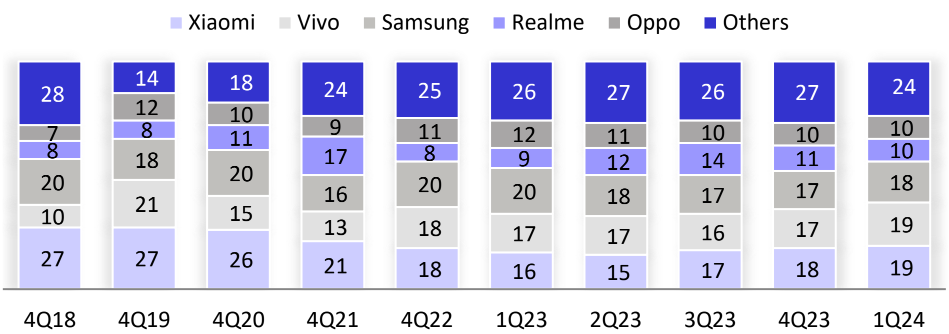
DIXON's Mobile & EMS and emerging business divisions will remain high-growth segments going forward and its **Consumer Electronics** division will witness margin improvement. In each segment in last few years, the management has entered into various strategic partnerships, increased wallet share with existing clients and added new clients in all business. We expect the mobile segment to benefit from new client additions and the company's efficient capital allocation; consumer electronics to benefit from backward integration and improved ODM mix; and emerging segments to grow from improved volumes and operational efficiencies.

Mobile and EMS

Growth recovering in Indian smartphone market

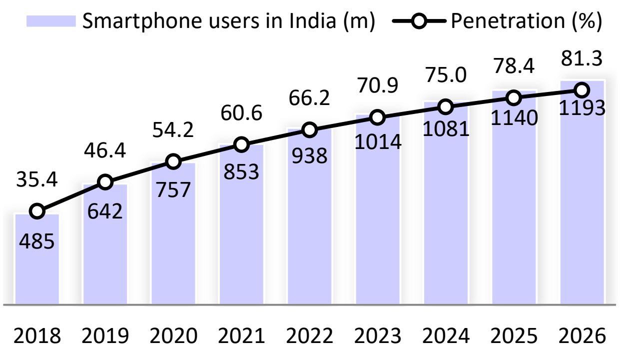
Growth in the Indian smartphone market has started recovering in 1QCY24 after remaining largely flat in FY22 and FY23. The smartphone market has seen changes, particularly after Covid years, in customer preferences toward premium products. With several government initiatives (i.e., PLI), the export of mobile phones from India has increased significantly, mainly led by Apple and Samsung, and domestic EMS companies have also seen a shift in customer's priorities.

Exhibit 8: India smartphone market share (CY ending quarters) (%)



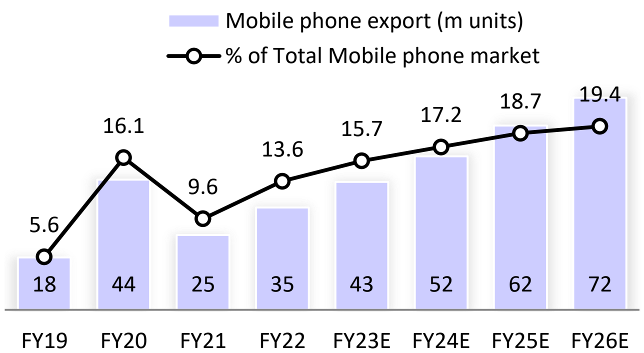
Source: Counterpoint, MOFSL

Exhibit 9: Number of smartphone users in India on a rise



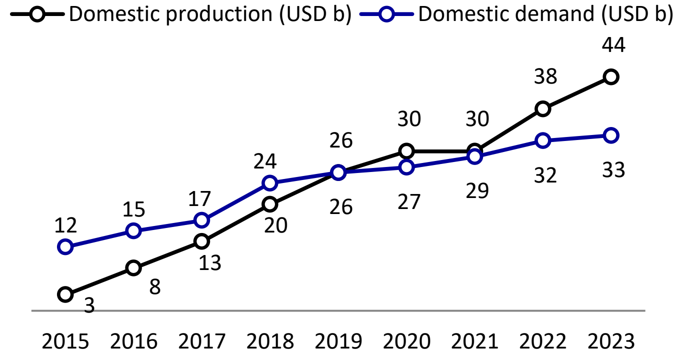
Source: Statista, MOFSL

Exhibit 10: Mobile phone exports from India



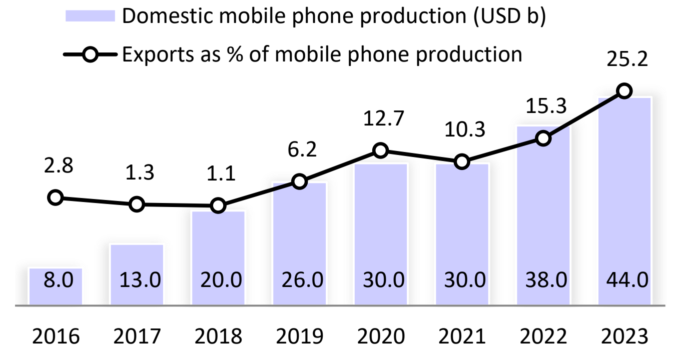
Source: Bharat FIH, MOFSL

Exhibit 11: Domestic production outpaced domestic demand post Covid



Source: Statista, MOFSL

Exhibit 12: Exports as % of domestic mobile phone production on a rise



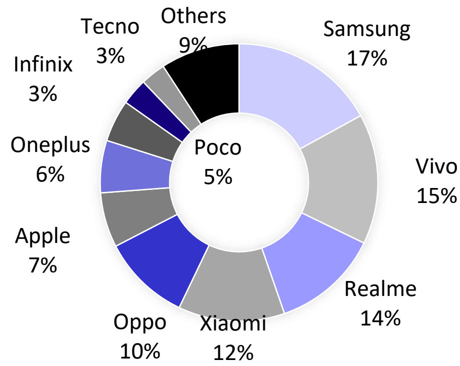
Source: Bharat FIH, MOFSL

Share of mobile segment revenue to grow sharply for DIXON

Over the last one year, DIXON's mobile segment has seen additions of various customers such as Xiaomi, Jio, Compal, acquisition of Ismartu and arrangement with Longcheer, which will boost its mobile segment revenue from FY25. It now has a diversified list of clients in the mobile segment, including Xiaomi, Samsung, Motorola, Nokia, Itel, Jio, and Karbonn. The company's acquisition of Ismartu will add brands such as Itel, Tecno and Infinix to its portfolio. Its recent partnership with Longcheer will help DIXON expand scope of work toward other entities (Oppo, Vivo, One Plus, Realme and iQOO). With these, DIXON would be able to cater to all major clients in the Indian mobile phone market as Xiaomi, Vivo, Samsung, Realme and Oppo together held a market share of 68% of overall shipments from India in 2023. DIXON has also been able to achieve PLI-led capex and revenue threshold limits on timely execution. Currently, the company has an order book of 28m mobiles, comprising volumes from Motorola, Xiaomi, Oppo (Realme), Ismartu and potential new brands.

While we expect feature phone revenues for DIXON to remain stable, smartphone revenues will see a sharp jump. We factor in improved volumes from Motorola, higher wallet share from Xiaomi and commencement of volumes from Realme, Compal, Itel, and potential new brands. We expect mobile segment revenues to grow from INR92b in FY24 to INR233b/INR296b in FY25/FY26.

Exhibit 13: Market share of major brands in Indian smart phone market indicates that DIXON caters to all major customers in India Smartphone market (Market share in 2023 %)



Source: IDC, MOFSL

Ismartu acquisition to add incremental revenues in smart and feature phones

- Ismartu India is the manufacturing arm of Transsion Holdings, a global leader in mobile phone manufacturing. Transsion Holdings ranks among the top-five smartphone makers worldwide. Ismartu India has established itself as a key player in India's electronics manufacturing sector, having a turnover of around INR62b in FY23. It operates under brand names of Itel, Infinix and Tecno, and has three manufacturing facilities in Noida. It is among the market leaders in feature phone categories in India. DIXON will pay INR2.4b in the first tranche for a 50.1% stake and has an option to increase the stake by 1.6-5.9% in the second tranche in FY27 for an aggregate consideration at a valuation of 20 times of profit after tax of Ismartu for FY26.
- After the CCI approval, we expect Ismartu's financials to be consolidated for nine months during FY25.

Partnership with Longcheer can add more brands to DIXON's portfolio

- DIXON's subsidiary, Padget Electronics, has entered into an agreement with Longcheer Mobile India for undertaking manufacturing and sale of smartphones for large global brands with Longcheer's design and technology.
- Longcheer has strong capabilities in product-level solution design, hardware innovation design, system-level software platform development, lean production, supply chain integration and quality control capabilities. The company offers integrated smart product services to leading global consumer electronics brands across multiple countries and regions. It has approximately 28% share of ODM at a worldwide level. Its key clients include Xiaomi, Samsung, Huawei, Lenovo, Honor, Oppo, Vivo and China Telecom.
- This tie-up is already helping DIXON bag a contract from Realme and the company is already scaling up production of Realme smartphones to 450k per month. We expect this tie-up to open up further opportunities for DIXON to target a larger wallet share from existing clients as well as tap new clients such as Oppo, Vivo, Oneplus and Realme.
- With this, DIXON's addressable market opens up across wider brands of Longcheer, which together form nearly 44-45% of the Indian smartphone market.

Exhibit 14: Market share trend of major brands in Indian smart phone market (%)

Brands	2022	2023
Samsung	18.1	17.0
Vivo	14.1	15.2
Realme	14.5	12.5
Xiaomi	17.8	12.4
Oppo	11.9	10.3
Apple	4.6	6.4
Oneplus	4.1	6.1
POCO	3.2	4.9
Infinix	2.3	3.1
Tecno	2.4	2.9
Others	7.0	9.2

Source: IDC, MOFSL

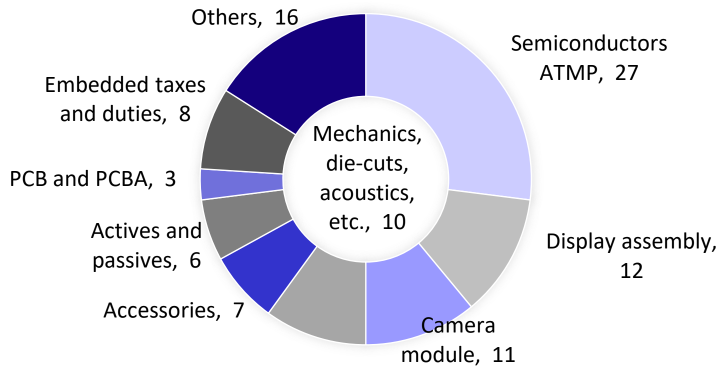
Wallet share and market share to improve

DIXON's growth trajectory will be driven by new client acquisitions domestically, despite overall market growth being largely flat. DIXON's mobile volumes from the Motorola plant have shown improvement, with 15-20% of total volumes earmarked for exports. With the addition of new clients in mobile such as Xiaomi, Ismartu, Compal and Oppo, we expect its overall market share in mobile segment to move up. We also foresee volume increases for Nokia and Itel across feature phones. Efforts are underway to enhance capabilities across various components and systems, display facility supported by the establishment of an R&D team and a lab of 70 engineers for 4G and 5G smartphone development. DIXON's immediate priority is to scale up volumes through these new partnerships. We expect volume market share to move up to 22% for smartphones by FY27 from 5% in FY24 and 29% for feature phone by FY27E. Overall, we expect DIXON's volume market share to move up to 27% in mobile market by FY27E.

Expanding scope of work via backward Integration

- Out of the entire bill of material for manufacturing a smartphone, nearly 50% of the total cost is spent on semiconductor, display assembly and camera module, which are currently imported. DIXON is building capabilities across PCBA, mechanics and battery chargers. The company also plans to manufacture display module (~10% of total cost of smartphone) and has already finalized a technology partner with a planned capex of USD30m (excluding land and building). It is also looking to foray into precision components and mechanicals.
- For display modules, DIXON has entered into a term sheet with HKC Corp. to form a Joint Venture for manufacturing of liquid crystal modules (LCM), thin film transistor liquid crystal display modules (TFT-LCD modules), assembly of end products like, smartphones, TVs, monitors and auto displays, and also selling HKC branded end products in India. This venture will give a boost to the company's aim of setting up an electronic component ecosystem and deepening value addition.

Exhibit 15: BoM of smartphone across various components (%)



Source: Company, MOFSL

Exhibit 16: India vs China localization of sub-assemblies of mobile phone indicates vast scope of indigenization which is required in key items of a mobile phone (%)

Description	India	China
PCBA	96	100
Display assembly	25	75
Camera module	25	95
Mechanics	20	100
Battery pack	95	100
Charger adapter	95	100
Connectors	5	100
Die cuts parts	15	100
Gift box	100	100
USB cable	80	100
Wired headset	60	100
Active	0	20
Passive	0	60
Memory and storage	0	20

Source: ICEA, MOFSL

Mobile segment demonstrates high return ratios due to increased asset utilization

In the mobile segment, DIXON fulfils orders through both job work and margin-based contracts. While DIXON earns 3% margins on EMS basis for both 2G and 4G phones, it undertakes certain contracts, where mobile volumes are not consolidated and the company opts for per-unit realizations at lower rates than normal feature phone, but achieves 30% margins. The company targets RoCE of 25-30% on both types of contracts. The company has incurred PLI scheme-driven capex of INR2.3-2.5b, potentially generating revenues of INR75-80b and achieving asset turns of more than 30x. This strategy yields significantly higher RoCE despite the segment's low margins.

Overall mobile segment outlook

DIXON has evolved its mobile business over the years as the segment contributed 62% to overall revenues in FY24 and reported a CAGR of 98% over FY19-24. The company has a diversified list of clients including Motorola, Xiaomi, Samsung, Oppo, Jio, Nokia, Itel and now the arrangement to acquire share in Ismartu and JV with Longcheer will further open doors for increased EMS opportunities in mobile segment for DIXON for both domestic and international markets. As per the management, new customer additions are margin-accretive to the segment, and blended realization per smartphone is ~INR8,000-9,000 per unit (net of GST).
We expect mobile segment revenues to grow to INR233b/INR296b/INR342b in FY25/FY26/FY27.

IT hardware 2.0

- In Oct'23, the government placed restrictions on specific IT hardware imports with the latest revision in guidelines, according to which importers can import hardware with only authorization specifying quantity and value. DGFT clarified that certain IT hardware like desktop computers can be imported without restrictions. However, laptops, tablets, all-in-one PCs, and ultra-small form factor computers still require import authorization.
- DIXON, through its subsidiary Padget Electronics, stands as a beneficiary under the IT Hardware PLI 2.0 scheme, with a committed investment of INR2.5b. Currently, DIXON has Acer as its anchor client in this business. Recently, the company finalized business with Lenovo for the manufacturing of tablets; NPI phase for tablets is completed and the company plans to start mass production in Sept'24. Additionally, DIXON is in discussions with ASUS, which will increase its share in tablets and notebooks. Revenues for this segment declined by 9% in FY24 to INR1.4b. We expect revenues to grow sharply to INR5b/INR25b/INR50b in FY25/26/27.

Exhibit 17: Market share trend of key players in IT hardware in India (%)

Company	2023 Shipments	2023 market share	2022 Shipments	2022 market share
HP Inc.	4,385	31.5%	4,499	30.2%
Lenovo	2,317	16.7%	2,818	18.9%
Dell	2,154	15.5%	2,854	19.2%
Acer	1,705	12.3%	1,469	9.9%
Asus	1,100	7.9%	1,013	6.8%
Others	2,254	16.2%	2,240	15.0%
Total	**13,915**	**100%**	**14,893**	**100%**

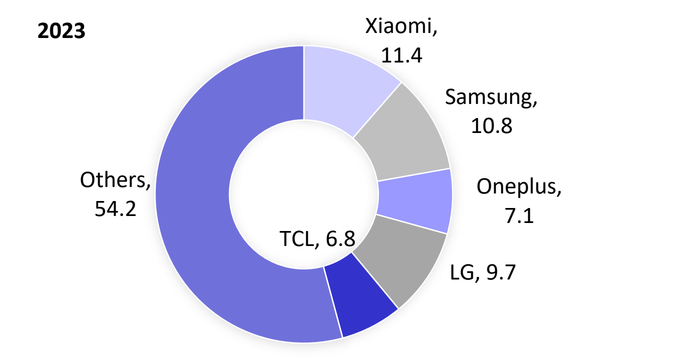
Source: IDC, MOFSL

Consumer Electronics

Industry overview and outlook

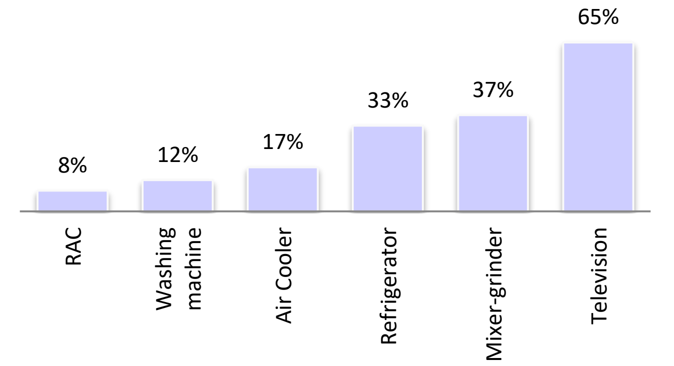
- TV penetration in India is ~65%, the highest among consumer electronics. However, growth in this industry over the last two years was impacted by a decline in demand as well as a sharp correction in open cell prices. Going ahead, the ODM industry in television is moving toward premiumization and value addition, which will drive growth as well as margin improvement.
- The share of smart TVs in total TV shipments in India reached 93% in 2023 from 67% in FY20. Within smart TVs, key players Samsung, Xiaomi, Oneplus, LG and TCL form nearly 46% of total market.

Exhibit 18: Smart TV market share in India (%)



Source: Company, MOFSL

Exhibit 19: TV penetration in consumer durables (%)

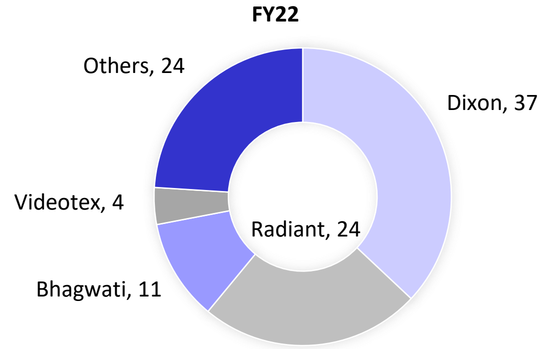


Source: Company, MOFSL

DIXON's position in the TV segment

DIXON with an annual capacity of 6.5m units takes care of nearly 30% of India's demand. Xiaomi, Samsung, Oneplus, LG and TCL are the major players in the smart TV market with a combined market share of 46%. Xiaomi and Samsung lead the pack with a market share of 11.4% and 10.8%, respectively, as of 2023. DIXON's key clients are Xiaomi, Samsung, Hisense, VU, Nokia, Panasonic, TCL and Lloyd. The management plans to increase its wallet share with existing as well as other clients by improving its product offerings. Additionally, DIXON secured ODM sub-licensing rights with Google for Android and Google TV platforms in FY23, a significant advancement as prevalence of these platforms is 60-65% in the Indian market. These initiatives will improve margins in the consumer electronics division. Beyond TV manufacturing, DIXON is also expanding its product range to include commercial displays and interactive boards, automotive boards and industrial displays, which are margin-accretive segments.

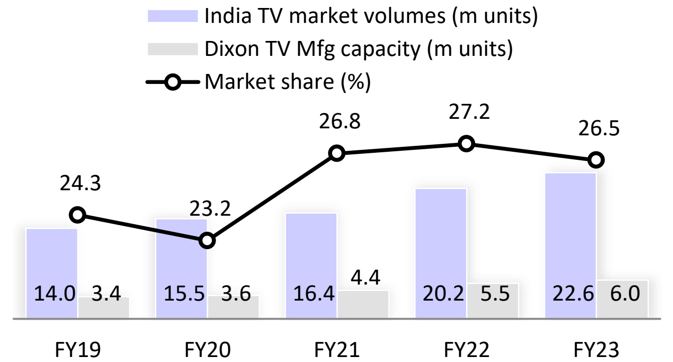
Exhibit 20: DIXON market share in TV segment among key ODM players (%)



Source: Company, MOFSL

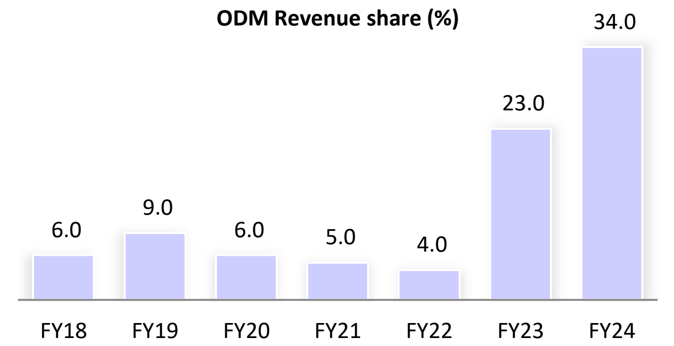
As per the management, an outsourcing opportunity in TV is 50-55%, which is not growing further. So, DIXON is focusing on backward integration with injection moulding and mechanicals, and it has also started manufacturing LED boards, which is margin accretive for DIXON. Partnership with Samsung for Tizen operating system is expected to roll out in 1QFY25 and manufacturing of digital signage solutions has commenced, alongside interactive flat display panels. A state-of-the-art R&D center has been established in Noida to drive further developments in this segment.

Exhibit 21: DIXON manufacturing capacity and market share trend over last few years



Source: Company, MOFSL

Exhibit 22: ODM contribution in consumer electronics for Dixon has been moving up (%)

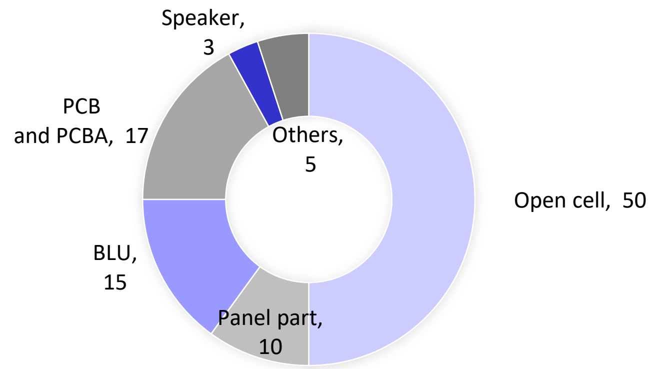


Source: Company, MOFSL

Expanding scope of work via backward Integration

In the bill of materials for LED TVs, about 60% of the total cost is allocated to open cell and panel components, which are presently imported. DIXON does not intend to enter open cell and panel manufacturing soon. However, it aims to reduce costs in other areas, such as injection moulding units and PCBA. To achieve this, the company has brought the injection moulding process in-house, expanded SMT lines for PCBs, and established an LED bar assembly line for TVs. Its ODM share in consumer electronics was 34% in FY23 (6% in FY18).

Exhibit 23: BoM for LED TV across components (%)



Source: Company, MOFSL

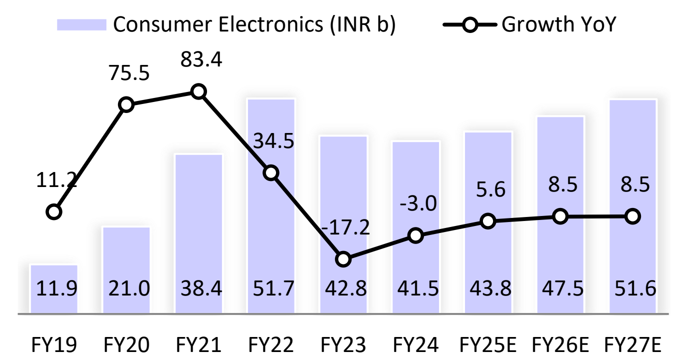
AC PCB and components

AC PCB and components are also part of the consumer electronics division. DIXON and Rexxam has formed a 40:60 joint venture to manufacture inverter controller boards for AC. Rexxam, a design and technology partner for Daikin, brings expertise in PCBA design. Currently, the market for these boards is dominated by imports or Chinese players with a base in India. The JV achieved a revenue of INR2.6b in FY24 with healthy operating margins and ROCE. The management plans to increase exports under this business by FY25.

Future growth & outlook

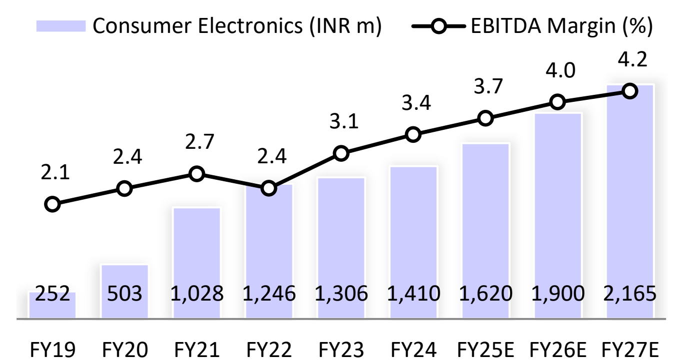
The consumer electronics segment's revenues posted a CAGR of 28% during FY19-FY24, contributing ~23% of total revenues in FY24. We expect consumer electronics revenues/EBITDA to clock a CAGR of 7.5%/15% during FY24-FY27, led by strong wallet share with existing clients, addition of new clients and increased ODM share.

Exhibit 24: Consumer Electronics Revenues



Source: Company, MOFSL

Exhibit 25: Consumer Electronics EBITDA



Source: Company, MOFSL

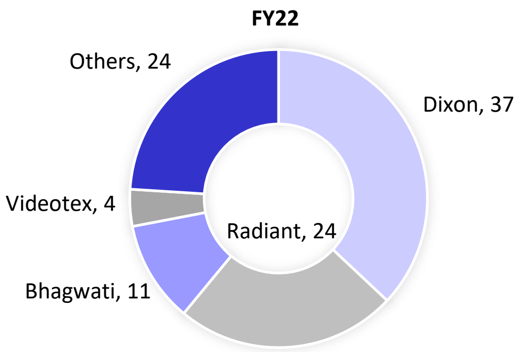
Emerging Business

- **Telecom & networking products:** In this segment, DIXON opened a new operational facility in Noida in Dec'22, which is now stable and scaling up production for various telecom products. Notably, mass production is underway for Telecom GPON-20, WiFi-5, and WiFi-6 routers, along with android set-top boxes, with a focus on fulfilling orders from Airtel and other major mobile service providers. The company has secured substantial orders from Airtel for 5G fixed wireless devices, currently in the NPI and trial phase, sourced from a leading global ODM solution provider in the FWA category. Additionally, the company has received large orders from India's largest telco for set-top boxes and 5G CPE devices, slated for product launches in 4QFY24. Revenues for this segment surged 120% in FY24 to INR6.8b. We expect a revenue CAGR of 40% over FY24-27.
- **Wearables and hearables:** The company clocked strong volumes of TWS and has a healthy order book. The majority of TWS production for BOAT is done by DIXON. Further, it will be adding smartwatches to its portfolio in the next couple of months. The company started doing SMT PCB in-house and plans to start manufacturing of battery packs, which will further increase its backward integration. Revenues for this segment jumped 149% in FY24 to INR7.5b and we expect a 30% revenue CAGR over FY24-27.
- **Refrigerator**: DIXON created a capacity of 1.2m direct cool refrigerators (~10% of domestic requirement) under various product categories of 190L-235L and commercial production has commenced in 4QF24. Additionally, the company has started developing two-door frost-free models and will introduce glass door models too. We expect the segment to achieve revenues of INR5b/INR8.5b in FY25/FY26, with EBITDAM in range of 7-7.5%.

4 DIXON has scale advantage across segments vs. competitors

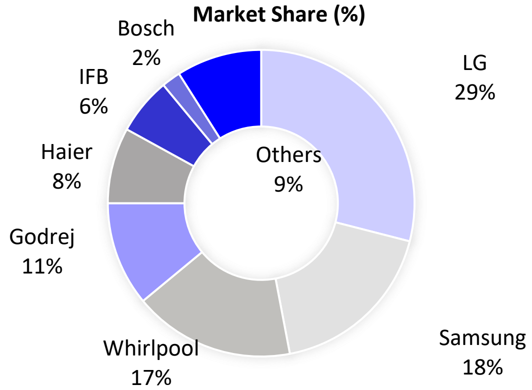
DIXON has a scale advantage in most segments, which has resulted in leadership position, and competition is still limited in most segments, with just two or three large players, along with smaller players. DIXON has achieved economies of scale across its key segments such, as consumer electronics and lighting, and expects to replicate the same in the mobile segment. As a result, the company has a 50-70% wallet share of clients in segments like lighting and LED TV and a strong base of sticky customers. With PLI approvals already in place for other segments, the scale benefits will start accruing in other segments too. This would make it easier for any foreign OEM brand to choose DIXON as an EMS partner.

Exhibit 26: Television market share by EMS companies in India (%, FY22)



Source: Company, MOFSL

Exhibit 27: Washing machine market share of key players in FY22 (%)



Source: Company, MOFSL

5. Efficient capital allocation key priority despite low-margin business

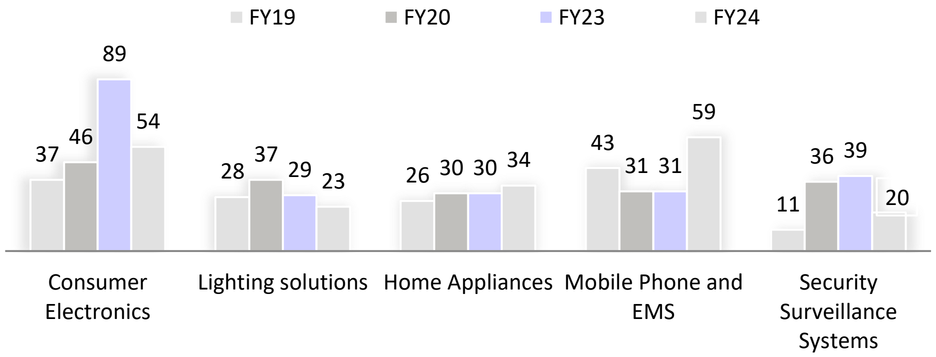
DIXON operates in the high-volume low-margin (HVLM) segment of the EMS industry, which forms 89.5% of the domestic EMS market. Despite the low margin nature of this segment, DIXON has maintained high RoCE. The company emphasizes efficient capital allocation, resulting in a significant reduction in working capital in recent years. Investments are guided by a payback period target of four years and a targeted pre-tax RoCE of over 30%. This strategy has led to high RoCE and asset turnover ratios in the consumer electronics and mobile division. Efficiency in capital allocation is achieved by reducing the cost of capex, adopting a lease model for new facilities, minimizing working capital, and adding segments with a higher asset turnover. Consequently, even in segments with lower margins, the company achieves healthy RoCE and high asset turnover ratios.

Exhibit 28: Mobile and consumer electronics enjoy high asset turnover ratios resulting in high RoCE for these businesses

	Mobile phone (existing)	Consumer Electronics
Capacity (m units)	8.4	1.0
Capex (INR m)	2,000	300
Capacity utilization (%)	71	60
Production (m units)	6.0	0.6
Realization (INR)	10,500	11,000
Revenue (INR m)	62,622	6,600
EBITDA (INR m)	1,879	198
EBITDA (%)	3.0	3.0
EBIT (INR m)	1,745	178
Post tax EBIT (INR m)	1,309	134
Working capital @ 5 days (INR m)	858	90
RoCE (%)	45.8	34.2
Asset turnover ratio (x)	31.3	22.0

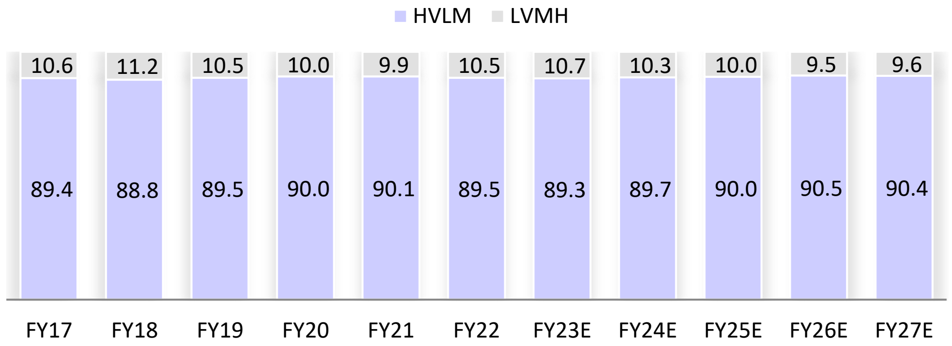
Source: Company, MOFSL

Exhibit 29: Segmental RoCE has remained strong across divisions with much higher RoCE for mobile and consumer electronics segment (%)



Source: Company, MOFSL

Exhibit 30: India EMS market segmentation by HVLM vs. LVHM (%)



Source: Company, MOFSL

6. Exports

An export opportunity is also gradually opening up for DIXON mainly for mobile, Lighting, Washing machine and Telecom products. In Mobiles segment, DIXON manufactures 100% of demand for Motorola's India business and ~15% volumes of what Motorola does globally. Management expects it share in total Motorola business to reach 18-20%, leading to ~22% of total volume manufactured by DIXON to be exported with almost 28-30% going to US market. Management expects export volumes for Motorola to reach ~2m in FY25 from current levels of ~1.5m in FY24. Additionally, recent tie-ups with Ismartu and Longcheer may also enhance current level of export opportunity for Mobile business. In Lighting, company is executing order for a new customer in UAE and working on a large RFQ for its own anchor customer in for US markets. Additionally, it has expanded its export business with new customer coming in from Germany and UK. In Washing machine segment, DIXON will soon be starting exports for a large Japanese customer- "Sharp" for fully automatic washing machine and further is in discussions with other brands for exports.

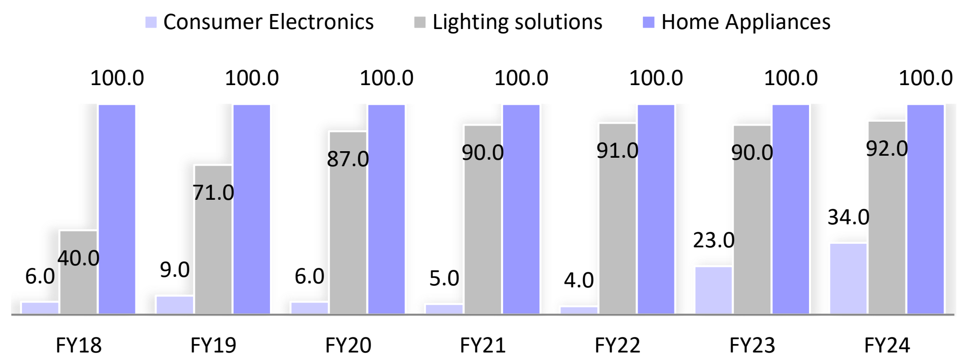
7. Backward Integration

The majority of high-value components for mobile, TV, and washing machine segments are currently imported, and transitioning the manufacturing of items like open cell, panel, screen, display, semiconductor, and camera modules entirely to India will require time. Nevertheless, DIXON is actively developing capabilities in displays, PCB, mechanics, and battery chargers for mobiles to decrease reliance on imports. Additionally, the company is collaborating with global brands to enhance capabilities in TV and AC control boards, aiming to reduce dependence on imports in these segments as well.

8. DIXON is scaling up R&D presence across segments

The company has three R&D centers for products spread across different segments. It provides 100% ODM solutions in lighting and washing machine to its clients and focuses on increasing ODM across different segments. DIXON expects to replicate the journey in lighting and washing machine to other segments like consumer electronics and mobile phones through increased R&D investments. In FY18, its ODM share in lighting was 40% and it moved up to 90% now with margins at 7.5% in FY24. Similarly, in consumer electronics, its ODM share has moved up from 6% in FY18 to 23% now and the company plans to scale it up to 30% as client additions will accelerate after the sub-licensing agreement with Google for ODM-based solutions for android-based TVs. However, we believe that the company would be required to invest more in R&D in the long term in order to build more capabilities across newer technologies. Global players have been continuously investing in R&D.

Exhibit 31: ODM share in revenue across segments (%)



Source: Company, MOFSL

Financial Outlook

Exhibit 32: Segmental Financial outlook across segments for DIXON

INR m	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Consolidated										
Revenue	28,416	29,844	44,001	64,482	1,06,971	1,21,920	1,76,909	3,33,818	4,34,814	5,25,307
Growth YoY (%)	15.7	5.0	47.4	46.5	65.9	14.0	45.1	88.7	30.3	20.8
EBITDA	1,120	1,349	2,231	2,866	3,791	5,128	6,976	13,138	17,531	21,674
EBITDA margin (%)	3.9	4.5	5.1	4.4	3.5	4.2	3.9	3.9	4.0	4.1
RoCE	23.4	18.5	25.9	23.8	19.1	20.4	25.6	38.1	38.6	36.0
Consumer Electronics										
Revenue	10,735	11,937	20,952	38,426	51,695	42,780	41,480	43,800	47,515	51,558
Growth YoY (%)	27.1	11.2	75.5	83.4	34.5	-17.2	-3.0	5.6	8.5	8.5
EBITDA	222	252	503	1,028	1,246	1,306	1,410	1,620	1,900	2,165
EBITDA margin (%)	2.1	2.1	2.4	2.7	2.4	3.1	3.4	3.7	4.0	4.2
Lighting Products										
Revenue	7,742	9,194	11,397	11,037	12,841	10,546	7,870	8,670	9,550	10,521
Growth YoY (%)	40.6	18.8	24.0	-3.2	16.3	-17.9	-25.4	10.2	10.2	10.2
EBITDA	473	660	977	974	881	904	592	695	804	907
EBITDA margin (%)	6.1	7.2	8.6	8.8	6.9	8.6	7.5	8.0	8.4	8.6
Home Appliances										
Revenue	2,503	3,744	3,963	4,311	7,088	11,435	12,050	14,868	17,530	20,596
Growth YoY (%)	33.1	49.6	5.9	8.8	64.4	61.3	5.4	23.4	17.9	17.5
EBITDA	308	370	461	397	541	1,094	1,301	1,709	2,050	2,409
EBITDA margin (%)	12.3	9.9	11.6	9.2	7.6	9.6	10.8	11.5	11.7	11.7
Mobile Phone and EMS										
Revenue	6,698	3,549	5,369	8,395	31,383	52,243	1,09,190	2,61,481	3,51,719	4,30,632
Growth YoY (%)	-17.4	-47.0	51.3	56.4	273.8	66.5	109.0	139.5	34.5	22.4
EBITDA	65	74	191	394	971	1,671	3,550	8,763	12,139	15,293
EBITDA margin (%)	1.0	2.1	3.6	4.7	3.1	3.2	3.3	3.4	3.5	3.6
Security Surveillance Systems										
Revenue	5	963	2,164	2,178	3,964	4,918	6,330	0	0	0
Growth YoY (%)			124.7	0.7	82.0	24.1	28.7	NA	NA	NA
EBITDA		8	72	63	151	144	119	0	0	0
EBITDA margin (%)		0.8	3.3	2.9	3.8	2.9	1.9	NA	NA	NA
Refrigerator										
Revenue								5,000	8,500	12,000
Growth YoY (%)									70.0	41.2
EBITDA								350	638	900
EBITDA margin (%)								7.0	7.5	7.5

Exhibit 33: We expect revenue to grow at a CAGR of 44% over FY24-27 led by mobile and new segments (INR m)

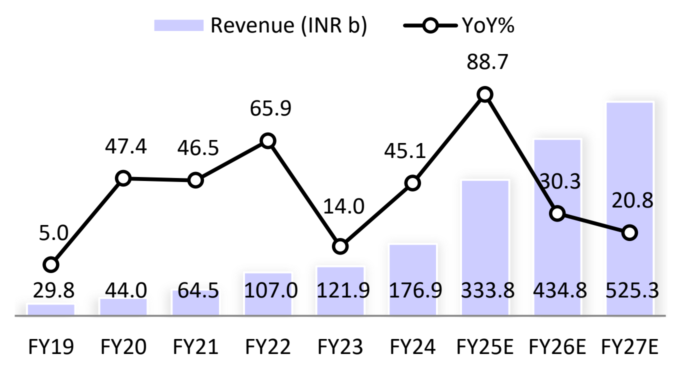


Exhibit 34: We expect EBITDA CAGR of 46% over FY24-27 on focus towards margin improvement (INR m)

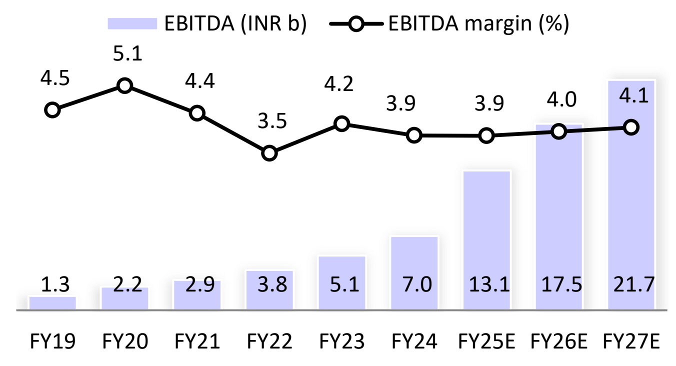


Exhibit 35: We expect PAT CAGR of 51% over FY24-27 led by strong revenue and EBITDA growth (INR m)

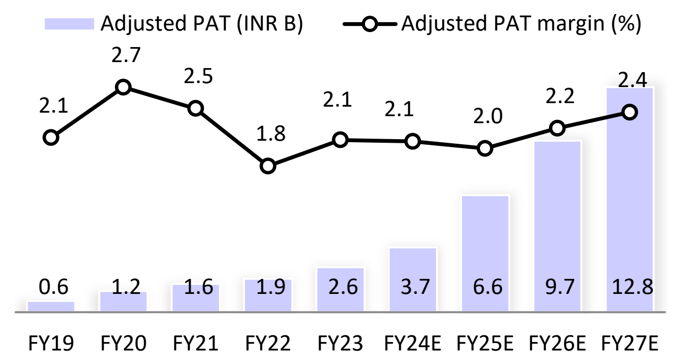


Exhibit 36: We expect OCF and FCF to remain strong as working capital cycle is lean for DIXON (INR m)

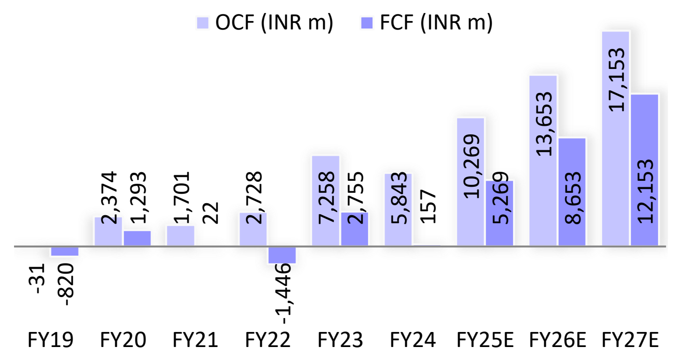


Exhibit 37: We expect NWC cycle to remain lean for DIXON (days)

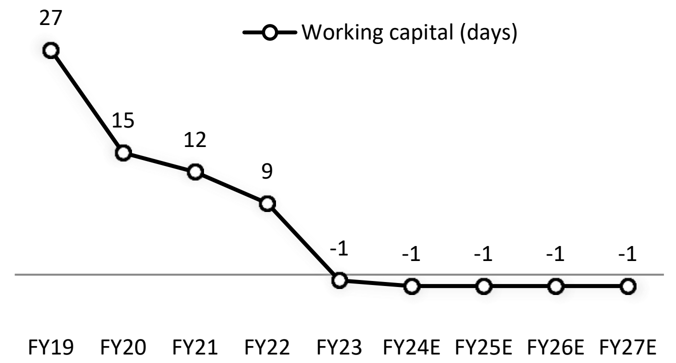


Exhibit 38: We expect RoE/RoCE to improve on continued focus on capital allocation and improved asset turnover (%)

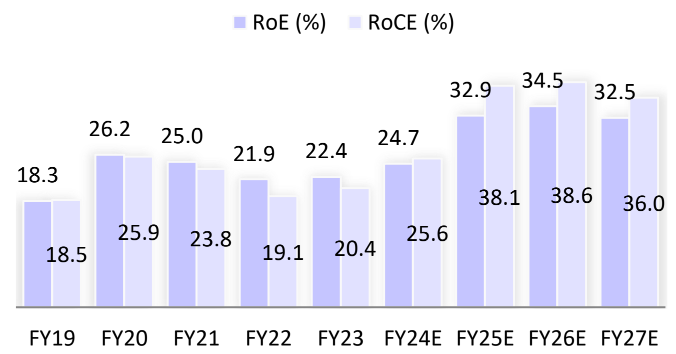


Exhibit 39: Asset turnover to improve on higher share of revenues from mobile and EMS segment (x)

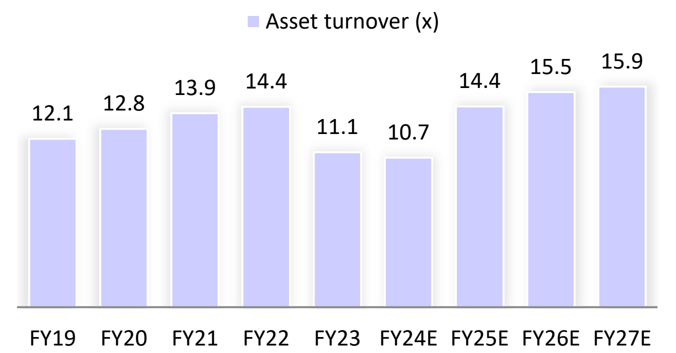
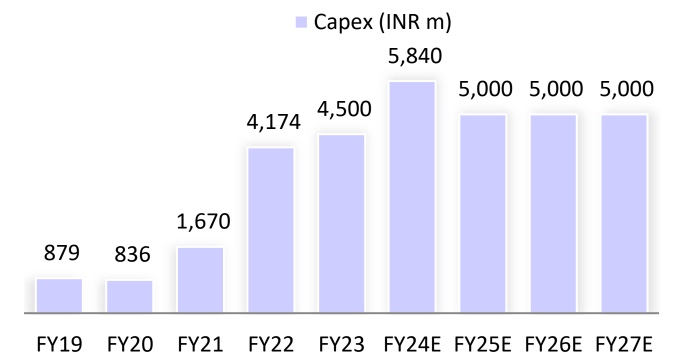


Exhibit 40: We expect company to keep investing in capex for mobile segment and backward integration (INR m)



Source: Company, MOFSL

Source: Company, MOFSL

Valuation and recommendation

The stock is currently trading at 75.9x/57.8x P/E on FY25/26E earnings. We initiate coverage on DIXON with a **BUY** rating and a DCF-based TP of INR15,000 taking into account 20-year revenue CAGR of 17.8% and EBITDA CAGR of 18.6%, asset turnover of 13-14x over the same period. We bake in WACC of 10.7% and terminal growth rate of 6%.

Exhibit 41: Bear /Base/ Bull case scenario

	Bear case	Base case	Bull case	Rationale
Assumptions	Higher WACC 11.1%, Terminal growth rate 3%	WACC of 10.7% and Terminal growth rate 6%	Lower WACC 10.3% Terminal growth rate 6.5%	❖ We take sensitivity in DCF assumptions
Target price	**10,677**	**15,000**	**18,186**	

Key risks: Demand slowdown and loss in key client relationships

DIXON's performance is subject to the following risks associated:

- **Slower industry growth.** Any slowdown in growth of the EMS industry and spending by OEMs, particularly in mobile, TV and consumer durables, can impact revenue growth of the company.
- **Lower wallet share from key clients.** Any loss of relationship with anchor clients can impact financials of the company. DIXON is dependent on a few key/anchor clients in each of its segments. However, DIXON has diversified over last few years across segments and across clients to tide over this risk.
- **Increased competition**. Many players have started entering segments like mobile, TV, washing machine, lighting and competition will increase over time in most EMS segments. Increased competition could result in significant price competition or lower margins or loss of market share. However, DIXON has over time increased its wallet share and has achieved scale benefits. Hence, company is better placed than other players.
- **Limited bargaining power with clients**. DIXON has large exposure to HVLM segments and operates at thin margins with limited bargaining power with clients. In order to hedge against the margin risk, it focuses on efficient capital allocation, which improves its RoCE despite lower margins.
- **Backward integration requires capex**. DIXON is focusing on investments across R&D, technology and backward integration in order to improve ODM share in different segments. This can impact the company's return profile in the near term.
- **Supply chain issues**. There is still dependence on imports of certain high-value items in its key segments such as open cell and displays in consumer electronics, PCB, displays, battery etc. in mobile, and chips in other segments. Supply chain issues related to chip unavailability and raw material shortage impacted margins in FY22. Any recurrence of these issues can lead to margin pressure.

SWOT analysis

Management Team

Mr. Sunil Vachani - Executive Chairman

Mr. Sunil Vachani is the promoter of the company and has been associated with DIXON since inception. He holds a degree of Associate of Applied Arts in business administration from the American College in London. He is responsible for the company's growth and business development. Mr. Vachani has over 28 years of experience in the EMS industry. He has held positions like Chairman of the Electronics and Computer Software Export Promotion Council of India and Co-Chair of the CII ICTE committee. He is currently the vice president of CEAMA.

Mr. Atul B Lall - Vice Chairman & Managing Director

Mr. Atul B Lall has been associated with the company since inception. He holds a master's degree in management studies from the Birla Institute of Technology and Science, Pilani. He is responsible for the company's overall business operations. He has nearly three decades of experience in the EMS industry. He has served as a member of the Technical Evaluation Committee for Electronics Manufacturing Services under M-SIPS constituted by the DeitY and served as a representative of ELCINA on the Committee for Reliability of Electronic and Electrical Components and Equipment (LITD. 02) of the BIS.

Mr. Saurabh Gupta - Chief Financial Officer (CFO)

Mr. Saurabh Gupta has an experience of over 15 years in the field of finance and strategy. He was last associated with cinema chain PVR as Vice President until Aug'17. He also worked with reputed companies like Gumberg India, Unitech, and McKinsey. He holds a bachelor’s degree in Commerce from Delhi University and MBA (Executive program) from MDI, Gurgaon. He is an associate of ICAI.

Mr. Abhijit Kotnis - President & COO -Consumer Electronics

Mr. Abhijit Kotnis has over 28 years of experience across manufacturing, technology, business development and sourcing fields. He holds an MBA in Marketing & Operations and BE in Electronics & Telecommunications from Marathwada University, Aurangabad. He has also completed his Post Graduate Program in Management (MEP) from IIM, Ahmedabad. Prior to joining DIXON, Mr. Kotnis was associated with Videocon Group for close to three decades in various roles and his last position was CMO/CTO.

Mr. Kamlesh Kumar Mishra - President- Mobile

Mr. Kamlesh Kumar Mishra is responsible for overseeing operations of mobile, CCTV and DVR divisions and working of executives in production, marketing, finance and quality. He holds a Bachelor's degree in Electronics and Telecomm from the Government College of Engineering, Aurangabad. In the past, he worked with Samsung India Electronics, Kushang and Videocon International. He has a total experience of close to three decades in lean manufacturing, plant engineering, manufacturing, shop floor operational excellence, production planning & control, productivity management, sub-contracting management, new product & part development and team management.

Mr. Rajeev Lonial - President & COO - Home Appliances

Mr. Rajeev Lonial is responsible for the washing machine vertical, along with backward integration and the overall manufacturing efficiency, quality, service and cost efficiency management of resources in the home appliances vertical. He holds a Post Graduate Diploma in Plastic Processing Technology from the Central Institute of Plastic Engineering & Tools. In the past, he worked with Dipty Lal Judge Mal, Noble Moulds, Evershine Moulding, Ever Shine Plastic Industries, Essen Fabrication & Engineering and Shree Keshav Lab. He has more than 30 years of experience in the field of plastics moulding.

Mr. Pankaj Sharma - President & COO -Security & Surveillance

Mr. Pankaj Sharma is the President and COO - Security Surveillance, responsible for overseeing operation of the verticals and working of executives in production, marketing, finance and quality. He holds a Bachelor's Degree in Arts from University of Delhi. In the past, he worked with Bigesto Foods, Satkar Exports, Bestavision Electronics, Samsung Co. Ltd, Jain Tube Company and Shirllon Co. Ltd. He has close to three decades of experience in factory operations, manufacturing, supply chain, global sourcing, and business development.

Mr. Nirupam Sahay - President & COO -Lighting business

Mr. Nirupam Sahay is President & COO - Lighting Solutions. He has a career spanning over 28 years in sales, marketing, operations and general management/P&L management across the industries of paints, consumer durables, financial services and lighting. He previously worked with Surya Roshni, Philips Lighting (now called Signify), and Philips Lighting Indian Subcontinent. He graduated in Economics Honours from St. Stephen's College, Delhi, completed his MBA from Narsee Monjee Institute of Management Studies (NMIMS), Mumbai, and completed an Advanced Management Program at the Warton School.

Mr. Sukhvinder Kumar - Business Head - Telecommunications

Mr. Sukhvinder Kumar is Business Head - Telecommunications. He has a vast experience of over 27 years in the field of electronics as well as managing various business operations. Mr. Kumar has completed his engineering degree in electronics and attained an advance management program certificate from IIM Bangalore.

Mr. Ashish Kumar - Chief Legal Counsel & Group CS

Mr. Ashish Kumar is Chief Legal Counsel and Group CS of the company. He leads the secretarial, compliance, legal, HR and CSR function of the company. He is a commerce graduate from the University of Delhi and has completed the Executive Program in Business Management from IIM, Calcutta. He is also a fellow member of ICSI and LLB degree holder. Prior to joining DIXON, he was associated with various organizations like DLF Universal, Damas International, Tecom Investments FZ LLC and Narayana Hrudayalaya. He has more than 19 years of experience in national and international regulatory and compliance.

Financials and valuations

Consolidated - Income Statement (INR m)

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	**44,001**	**64,482**	**1,06,971**	**1,21,920**	**1,76,909**	**3,33,818**	**4,34,814**	**5,25,307**
Change (%)	47.4	46.5	65.9	14.0	45.1	88.7	30.3	20.8
Raw Materials	38,602	57,697	97,792	1,10,207	1,60,390	3,02,647	3,94,212	4,76,255
Gross Profit	**5,399**	**6,785**	**9,178**	**11,713**	**16,520**	**31,171**	**40,602**	**49,052**
Employee Cost	1,180	1,371	1,978	2,517	3,327	6,891	8,976	10,843
Other Expenses	1,989	2,548	3,409	4,069	6,217	11,143	14,096	16,535
Total Expenditure	**41,771**	**61,616**	**1,03,180**	**1,16,793**	**1,69,933**	**3,20,680**	**4,17,283**	**5,03,633**
% of Sales	94.9	95.6	96.5	95.8	96.1	96.1	96.0	95.9
EBITDA	**2,231**	**2,866**	**3,791**	**5,128**	**6,976**	**13,138**	**17,531**	**21,674**
Margin (%)	5.1	4.4	3.5	4.2	3.9	3.9	4.0	4.1
Depreciation	365	437	840	1,146	1,619	2,285	2,744	3,207
EBIT	**1,865**	**2,429**	**2,952**	**3,981**	**5,357**	**10,853**	**14,787**	**18,467**
Int. and Finance Charges	350	274	442	606	747	745	794	823
Other Income	52	16	38	56	226	304	737	1,377
PBT bef. EO Exp.	**1,568**	**2,170**	**2,548**	**3,432**	**4,836**	**10,411**	**14,729**	**19,021**
PBT after EO Exp.	**1,568**	**2,170**	**2,548**	**3,432**	**4,836**	**10,411**	**14,729**	**19,021**
Total Tax	363	572	644	897	1,189	2,744	3,857	4,965
Tax Rate (%)	23.1	26.4	25.3	26.1	24.6	26.4	26.2	26.1
Profit share of asociates/JV	0.0	0.0	-0.6	16.2	102.4	307.2	337.9	371.7
Minority Interest	0	0	2	-4	72	1,325	1,475	1,645
Reported PAT	**1,205**	**1,598**	**1,902**	**2,555**	**3,677**	**6,649**	**9,734**	**12,783**
Adjusted PAT	**1,205**	**1,598**	**1,902**	**2,555**	**3,677**	**6,649**	**9,734**	**12,783**
Change (%)	90.2	32.6	19.0	34.4	43.9	80.8	46.4	31.3
Margin (%)	2.7	2.5	1.8	2.1	2.1	2.0	2.2	2.4

Consolidated - Balance Sheet (INR m)

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	116	117	119	119	120	120	120	120
Total Reserves	5,298	7,256	9,849	12,730	16,829	23,299	32,854	45,458
Net Worth	**5,413**	**7,373**	**9,968**	**12,849**	**16,949**	**23,419**	**32,974**	**45,578**
Minority Interest	0	0	6	-3	276	1,601	3,077	4,722
Total Loans	828	1,513	4,580	1,826	1,550	1,705	1,705	1,705
Deferred Tax Liabilities	148	184	201	224	240	240	240	240
Capital Employed	**6,389**	**9,070**	**14,754**	**14,897**	**19,015**	**26,965**	**37,995**	**52,244**
Gross Block	3,982	5,269	9,586	12,291	20,633	25,633	30,633	35,633
Less: Accum. Deprn.	825	1,170	1,815	2,641	3,958	5,947	8,367	11,216
Net Fixed Assets	**3,157**	**4,099**	**7,771**	**9,649**	**16,675**	**19,685**	**22,266**	**24,416**
Goodwill on Consolidation	82	82	303	303	303	303	303	303
Capital WIP	96	724	224	1,197	683	683	683	683
Total Investments	**0**	**953**	**1,410**	**442**	**200**	**200**	**200**	**200**
Curr. Assets, Loans & Adv.	**13,635**	**22,600**	**33,064**	**35,203**	**52,034**	**98,972**	**1,34,618**	**1,71,165**
Inventory	4,978	7,433	11,557	9,579	16,950	31,984	41,661	50,331
Account Receivables	5,151	10,891	13,564	17,155	23,179	43,737	56,970	68,826
Cash and Bank Balance	1,002	689	1,823	2,292	2,087	7,647	16,510	28,986
Loans and Advances	0	25	4	0	20	38	49	59
Other Current Asset	2,504	3,563	6,116	6,178	9,799	15,566	19,428	22,962
Curr. Liability & Prov.	**10,580**	**19,387**	**28,017**	**31,898**	**50,881**	**92,879**	**1,20,075**	**1,44,524**
Account Payables	9,391	17,097	23,137	24,519	40,652	76,708	99,916	1,20,711
Other Current Liabilities	1,081	2,146	4,664	7,121	9,952	15,647	19,478	22,991
Provisions	109	144	216	258	277	523	681	823
Net Current Assets	**3,054**	**3,213**	**5,047**	**3,306**	**1,153**	**6,093**	**14,543**	**26,641**
Appl. of Funds	**6,389**	**9,070**	**14,754**	**14,897**	**19,015**	**26,965**	**37,996**	**52,244**

Financials and valuations

Ratios

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**20.6**	**27.3**	**32.0**	**42.9**	**61.5**	**111.2**	**162.8**	**213.8**
Cash EPS	26.8	34.7	46.2	62.1	88.6	149.4	208.7	267.4
BV/Share	92.4	125.9	168.0	215.7	283.4	391.6	551.4	762.2
DPS	1.2	1.0	2.0	3.0	3.0	3.0	3.0	3.0
Payout (%)	5.7	3.7	6.3	7.0	4.9	2.7	1.8	1.4
Valuation (x)								
P/E	578.4	436.1	371.3	277.4	193.5	111.2	75.9	57.8
Cash P/E	443.8	342.5	257.6	191.5	134.4	82.7	59.2	46.2
P/BV	128.8	94.5	70.8	55.2	42.0	31.6	22.4	16.2
EV/Sales	15.8	10.8	6.6	5.8	4.0	2.2	1.7	1.4
EV/EBITDA	312.4	243.5	187.0	138.1	101.9	55.8	41.3	32.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	22.1	0.4	-24.4	46.3	2.6	88.1	144.7	203.2
Return Ratios (%)								
RoE	26.2	25.0	21.9	22.4	24.7	32.9	34.5	32.5
RoCE	25.9	23.8	19.1	20.4	25.4	37.7	38.3	35.8
RoIC	28.8	29.8	24.5	26.4	29.9	46.4	55.9	63.5
Working Capital Ratios								
Fixed Asset Turnover (x)	11.0	12.2	11.2	9.9	8.6	13.0	14.2	14.7
Asset Turnover (x)	6.9	7.1	7.3	8.2	9.3	12.4	11.4	10.1
Inventory (Days)	41	42	39	29	35	35	35	35
Debtor (Days)	43	62	46	51	48	48	48	48
Creditor (Days)	78	97	79	73	84	84	84	84
Leverage Ratio (x)								
Current Ratio	1.3	1.2	1.2	1.1	1.0	1.1	1.1	1.2
Interest Cover Ratio	5.3	8.9	6.7	6.6	7.2	14.6	18.6	22.4
Net Debt/Equity	0.0	0.0	0.1	-0.1	0.0	-0.3	-0.5	-0.6

Consolidated - Cashflow Statement (INR m)

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	1,568	2,170	2,546	3,452	4,867	9,393	13,591	17,748
Depreciation	365	437	840	1,146	1,619	2,285	2,744	3,207
Interest & Finance Charges	350	274	442	606	747	745	794	823
Direct Taxes Paid	-429	-549	-540	-820	-1,218	-2,744	-3,857	-4,965
(Inc)/Dec in WC	423	-743	-641	2,764	-88	589	379	340
CF from Operations	**2,277**	**1,590**	**2,646**	**7,148**	**5,927**	**10,269**	**13,653**	**17,153**
Others	97	111	81	109	-83	0	0	0
CF from Operating incl EO	**2,374**	**1,701**	**2,728**	**7,258**	**5,843**	**10,269**	**13,653**	**17,153**
(Inc)/Dec in FA	-1,081	-1,680	-4,174	-4,502	-5,686	-5,000	-5,000	-5,000
Free Cash Flow	**1,293**	**22**	**-1,446**	**2,755**	**157**	**5,269**	**8,653**	**12,153**
(Pur)/Sale of Investments	-118	-978	-446	992	346	0	0	0
Others	28	8	-25	-45	31	-50	-55	-61
CF from Investments	**-1,171**	**-2,649**	**-4,645**	**-3,556**	**-5,309**	**-5,050**	**-5,055**	**-5,061**
Issue of Shares	457	269	642	336	469	0	0	0
Inc/(Dec) in Debt	-570	688	3,026	-2,776	-276	155	0	0
Interest Paid	-378	-322	-567	-737	-494	-745	-794	-823
Dividend Paid	-83	0	-59	-119	-179	-179	-179	-179
Others	6	0	0	0	-220	1,325	1,475	1,645
CF from Fin. Activity	**-568**	**635**	**3,043**	**-3,296**	**-700**	**555**	**501**	**643**
Inc/Dec of Cash	**634**	**-313**	**1,126**	**406**	**-166**	**5,775**	**9,099**	**12,735**
Opening Balance	367	1,002	689	1,823	2,292	2,086	7,647	16,510
Other Bank Balances	0	0	8	63	-40	-214	-235	-259
Closing Balance	**1,002**	**689**	**1,823**	**2,292**	**2,086**	**7,647**	**16,510**	**28,986**

Amber Enterprises: Moving beyond cyclicality!

Amber Enterprises (Amber) is a leading player in ODM/OEM solutions for the Indian RAC industry. The company is one of the beneficiaries of PLI scheme with an early-mover advantage in PLI-led capex for RAC and AC components. With strategic diversification towards the high-growth electronics market (especially PCB manufacturing) and increasing scope of work in the mobility segment, we expect Amber to benefit from margin improvement. We expect the company's transition from Amber 1.0 (AC-focused) to Amber 2.0 (electronics) and Amber 3.0 (mobility) to reduce business cyclicality, and result in improved asset turnover and return ratios after the initial few years of capex. We expect a revenue/ EBITDA/PAT CAGR of 21%/26%/51% over FY24-27, which is likely to be driven by mid-teens CAGR in the consumer durable segment, high growth in the electronics and mobility segments, along with a 92bp margin improvement over FY24-27. We initiate coverage on Amber with a BUY rating and a DCF-based TP of INR5,000, implying 42x P/E on two-year forward EPS (Sep'26).

Amber Enterprises

BSE SENSEX	S&P CNX
80,437	24,541

CMP: INR4,130 TP: INR5,000 (+21%) Buy

Moving beyond cyclicality!

Amber Enterprises (Amber) is a leading player in ODM/OEM solutions for the Indian RAC industry. The company is one of the beneficiaries of PLI scheme with an early-mover advantage in PLI-led capex for RAC and AC components. With strategic diversification towards the high-growth electronics market (especially PCB manufacturing) and increasing scope of work in the mobility segment, we expect Amber to benefit from margin improvement. We expect the company's transition from Amber 1.0 (AC-focused) to Amber 2.0 (electronics) and Amber 3.0 (mobility) to reduce business cyclicality, and result in improved asset turnover and return ratios after the initial few years of capex. We expect a revenue/ EBITDA/PAT CAGR of 21%/26%/50% over FY24-27, which is likely to be driven by mid-teens CAGR in the consumer durable segment, high growth in the electronics and mobility segments, along with a 100bp margin improvement over FY24-27. We initiate coverage on Amber with a BUY rating and a DCF-based TP of INR5,000, implying 42x P/E on two-year forward EPS (Sep'26).

Key investment argument

Government's PLI incentives and industry tailwinds driving volume growth

We expect domestic RAC industry volumes to report a CAGR of 14% over FY24-27, mainly fueled by improved penetration and higher per capita income. AC penetration in India currently stands at nearly 8% vs. 100% for China and 90%/ 42% for the US/Global average. To cater to the improved demand of RAC and RAC components, several OEM/ODM players announced capex under the government's PLI scheme for white goods. Since the announcement of PLI scheme, the value addition in domestic RAC industry has moved up from 25% to 45% and we expect it to further move up to 60-70% by FY27, with indigenization of other AC components. Though we have witnessed insourcing from various OEM players, after the PLI-led capex, ODM players are catering to the growing RAC market by higher RAC components. With large capacities already coming from various players under the PLI scheme, we expect growth to be driven primarily by volumes while pricing gains will be limited.

Amber 1.0: Market leader in RAC ODM

Amber is a leading player in RAC ODM market with a 27% market share. It is one of the key beneficiaries of the PLI scheme for white goods and has up-fronted capex in the last two years on RAC and RAC components. Additionally, Amber has focused on backward integration into components. Amber is the only player that caters to 70% of BoM for RAC and non-RAC components in the industry through its various entities – ILJIN and EVER (PCBA), PICL, PR, and Pravartaka (motors, cross flow fans, injection molding, etc.). Amber's strategy to expand across the component business is helping the company maintain its market share even with reduced share of outsourcing from AC OEM players from 48-50% earlier to 30-35% currently for the ODM players. The company expects

Stock Info

Bloomberg	AMBER IN
Equity Shares (m)	34
M.Cap.(INRb)/(USDb)	139.8 / 1.7
52-Week Range (INR)	4888 / 2573
1, 6, 12 Rel. Per (%)	-9/-7/33
12M Avg Val (INR M)	698
Free float (%)	60.1

Financials Snapshot (INR b)

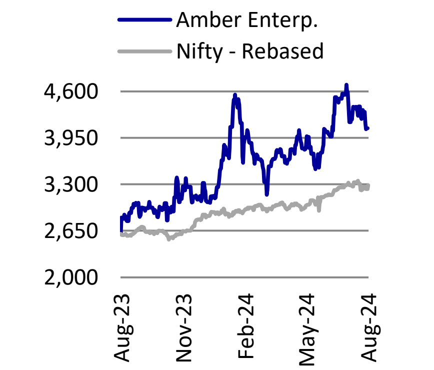
Y/E MARCH	FY25E	FY26E	FY27E
Sales	84.6	102.2	119.4
EBITDA	6.3	8.4	9.9
EBITDA Margin (%)	7.4	8.2	8.3
PAT	2.3	3.5	4.6
EPS (INR)	68.1	105.1	135.7
EPS Growth (%)	69.6	54.3	29.1
BV/Share (INR)	680.8	785.8	921.5
Ratios			
Net D/E	0.4	0.3	0.1
RoE (%)	10.5	14.3	15.9
RoCE (%)	9.8	12.1	13.4
Valuations			
P/E (x)	60.7	39.3	30.4
P/BV (x)	6.1	5.3	4.5
EV/EBITDA (x)	24.0	17.8	14.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	39.9	40.3	40.3
DII	15.7	15.8	12.7
FII	28.4	26.0	24.2
Others	16.0	17.9	22.8

FII Includes depository receipts

Stock performance (one-year)



to maintain its market share with its component offerings even if the share of outsourcing reduces further to 25% from OEM players. It has also formed a JV with Resojet to manufacture fully automatic top- and front-load washing machines, which is undergoing client approvals. We expect the overall consumer durables (RAC+ Components + Motor + Other segments) revenue to report a 17% CAGR over FY24-27.

Amber 2.0: Diversifying into the high-growth electronics segment

Amber is transitioning from a cyclical and low-margin business to a non-cyclical and high-margin business by increasing its presence across the RAC components and electronics industries. The company is expanding its presence from PCB assembly to manufacturing bare board PCB through acquisition of Ascent circuits, thereby catering to a wide range of market segments such as aerospace & defense, railways, industrial, telecom, automobile, healthcare, hearable & wearable, and consumer durables. Amber has also signed an MoU with Korea Circuits through Ascent Circuits to manufacture Flex, HDI, and Semiconductor substrate PCBs, thereby fortifying PCB manufacturing in India. We expect the electronics division's revenue to reflect the acquisition of Ascent Circuits from FY25 and expect its revenue to grow at a CAGR of 33% over FY24-27. Management targets to achieve a 7.5-8.0% EBITDA margin and expects around 45% growth in FY25 in the electronics segment.

Amber 3.0: JV with Titagarh for the railway subsystems

Amber entered into a JV with Titagarh Rail systems to provide comprehensive integrated solutions to rolling stock manufacturers for railway subsystems in India & overseas. This JV will invest EUR20m into Titagarh Firema SPA, Italy which in turn will give a preferred supplier status and right of first refusal for all their products to Sidwal (Amber acquired Sidwal in 2019 to expand its offerings in mobility AC solutions), Titagarh Rail and their JVs. The strategic partnership in Firema will facilitate Sidwal's entry into the European market/global play. This will also provide Sidwal with a preferred access to Firema's own demand. Domestically, this JV not only increases technical capabilities of Amber to address a larger portion of Bill of material (BoM) of a train coach but also enables its entry into subsystems for the fast-growing railway segment in India (particularly for upcoming Vande Bharat as well as metro trains). Sidwal now addresses INR11m per passenger car, expanding the addressable market. Sidwal has an order book of INR20b. We thus expect the mobility segment to grow at a much faster rate for Amber after its initial capex for expanding across subsystems is done. Order inflows in this segment were impacted in 1QFY25 by delayed ordering. We assume revenue for the mobility segment to report a CAGR 30% over FY24-27 with FY25 to be a weak year.

Capital allocation more oriented towards railways and electronics

Amber has already up fronted the capex for RAC components under the PLI scheme across its five plants during last two years. We expect a capex of INR4.0b in FY25 and INR3.5b for the next two years to take into account the capex for Sidwal and the electronics division. We expect the capex to be split at 60:40 ratio for railways and electronics. With incremental opportunities across both railways and electronics, we expect asset turnover ratios for Amber to improve from FY26 onwards along with margin improvement on better revenue mix. This will drive RoCE improvement for the company.

Financial outlook

We expect Amber's revenue to report a 21% CAGR over FY24-27 driven by 17%/ 33%/30% CAGR in consumer durables/electronics/mobility segments. We expect its gross margin to range around 18.3% and EBITDA margin to be 7.4%/8.2%/8.3% for FY25/FY26/FY27E, 100bp higher than the FY24 level, as we factor in improved revenue mix in favor of higher margin segments. We expect 50% PAT CAGR over the same period driven by improved revenue as well as margins. We model a capex of INR4b in FY25 and INR3.5b each for next two years as Amber is continuously investing across components, electronics, and railways to widen its scope of offerings. With improvement in margins and stable working capital, we project an OCF of INR2.2b/INR6.6b/INR7.9b for FY25/FY26/FY27. However, FCF may remain weak at INR(1.8b)/INR3.1b/INR4.3b due to higher capex over the next 2-3 years. We thus expect its RoE/RoCE to start moving up over the next 2-3 years.

Valuation and recommendation

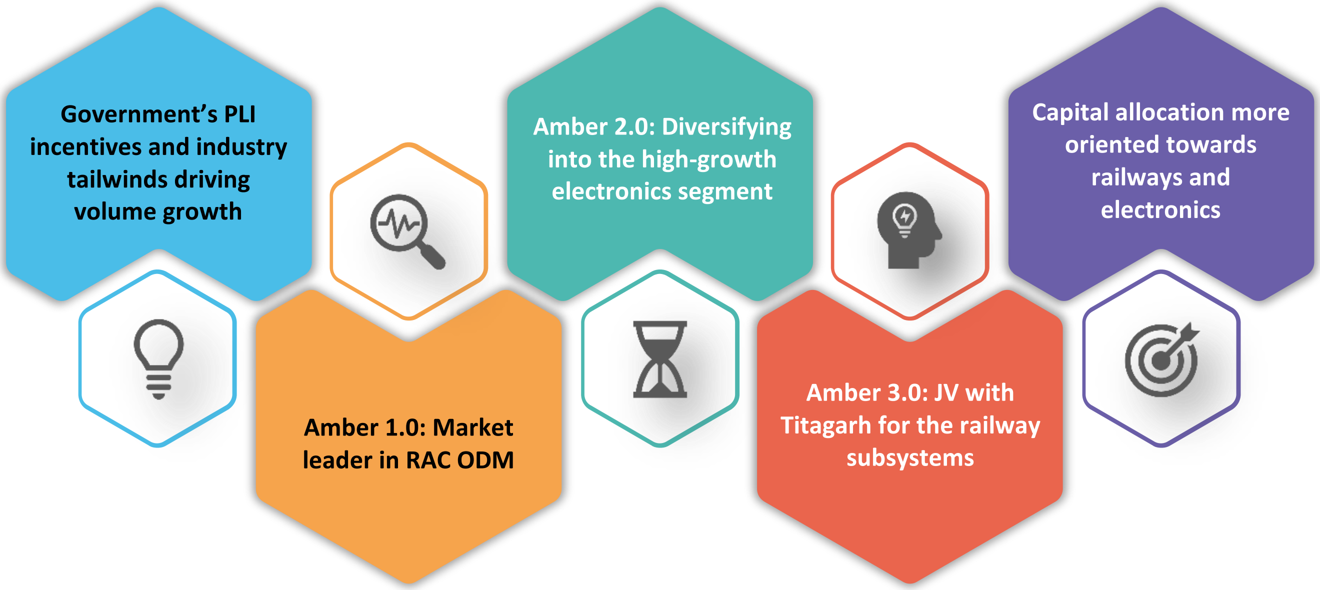
The stock is currently trading at 60.7x/39.3x/30.4x P/E on FY25/26/27E earnings. We initiate coverage on Amber with a BUY rating and a DCF-based TP of INR5,000 implying 42x P/E on a two-year forward EPS (Sep'26). Our assumptions take into account 20-year revenue CAGR of 12% and EBITDA CAGR of 13%, asset turnover of 3.5-4x over the same period. We bake in WACC of 10.6% and terminal growth rate of 5%.

Key risks and concerns

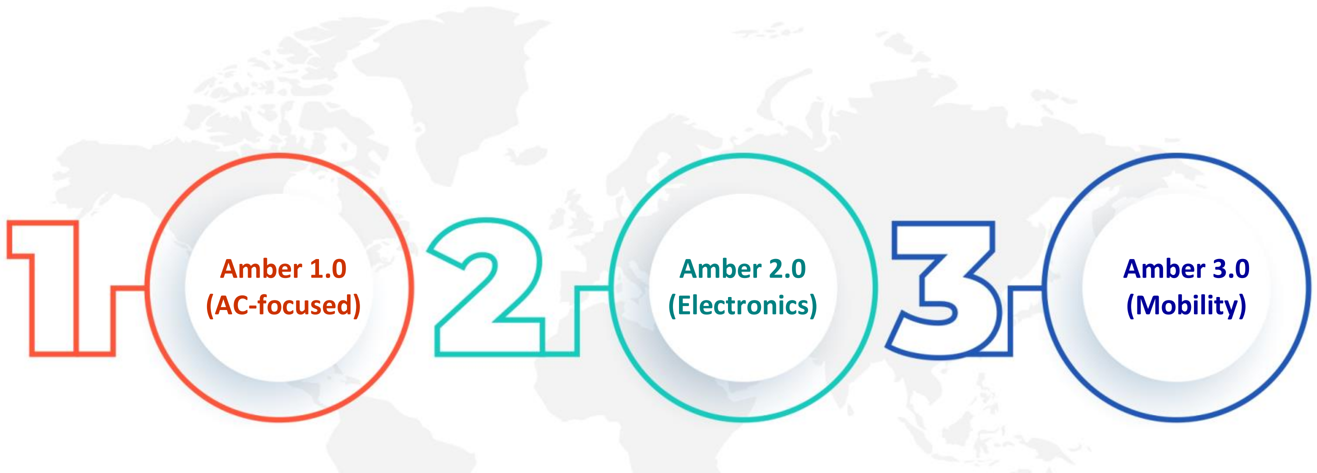
Lower-than-expected demand growth in the RAC industry, change in BEE norms making products costlier, and increased competition across RAC, mobility, and electronics segments.

STORY IN CHARTS

AMBER: KEY INVESTMENT ARGUMENT

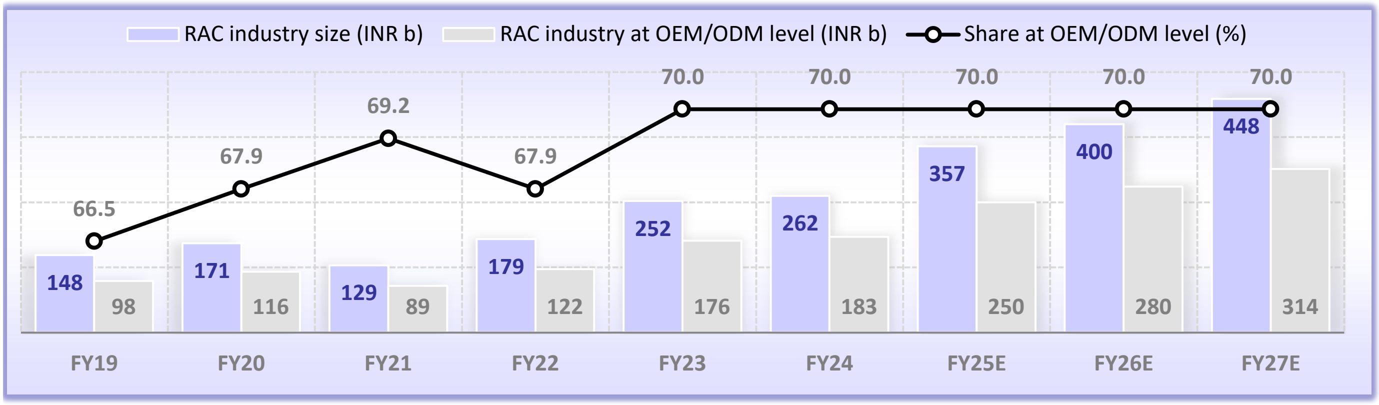


AMBER'S TRANSITION

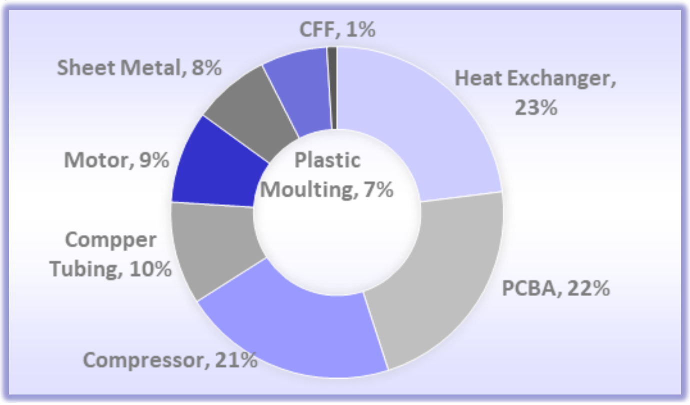


We expect the company's transition to reduce business cyclicality, and result in improved asset turnover and return ratios after the initial few years of capex.

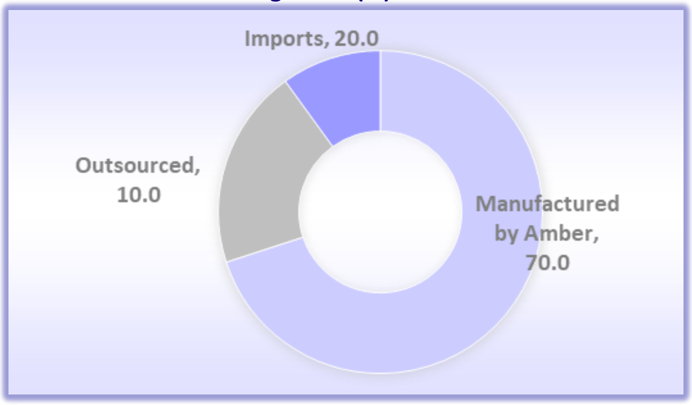
Share of RAC industry at OEM/ODM level stands around 70%



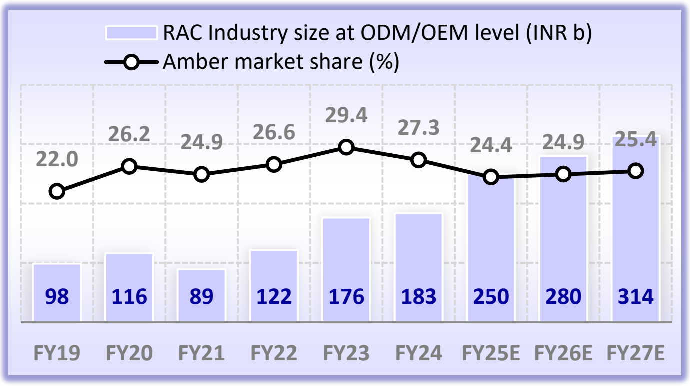
Heat exchanger, PCBA and compressor form major portion of RAC Bill of material (BoM) (%)



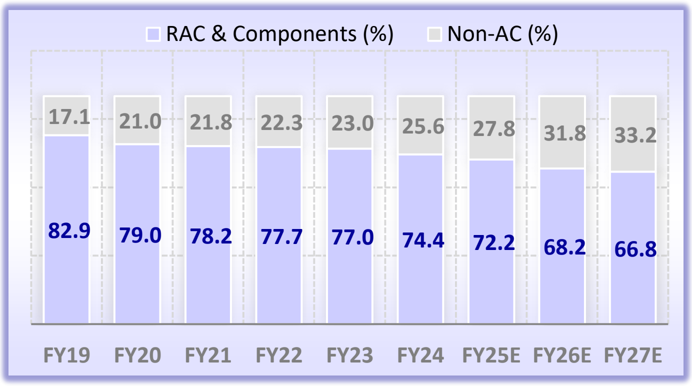
Amber can cater to nearly 70% of BoM through higher share of backward integration (%)



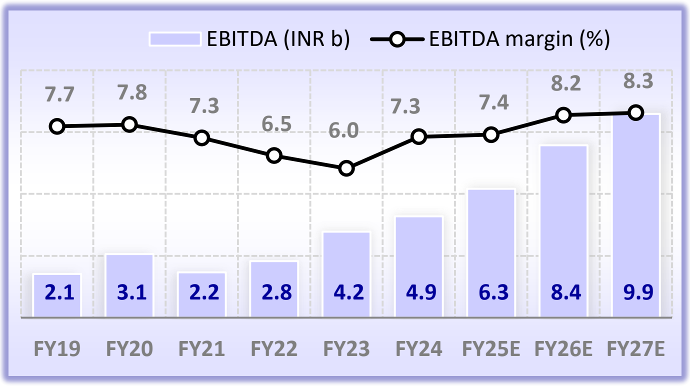
We expect Amber's market share to stabilize around 24-25% in RAC and RAC related components



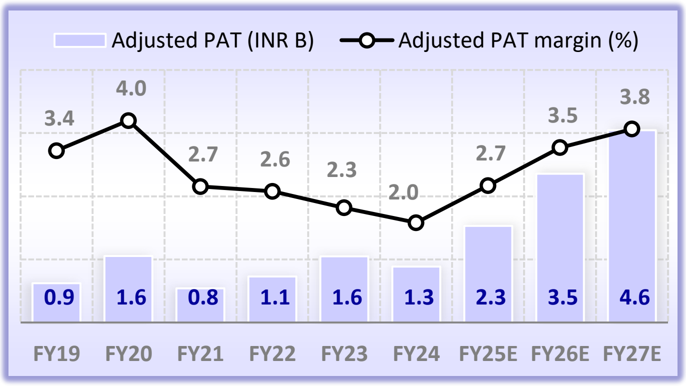
With increased focus in other segments, we expect revenue share from non-AC to improve (%)



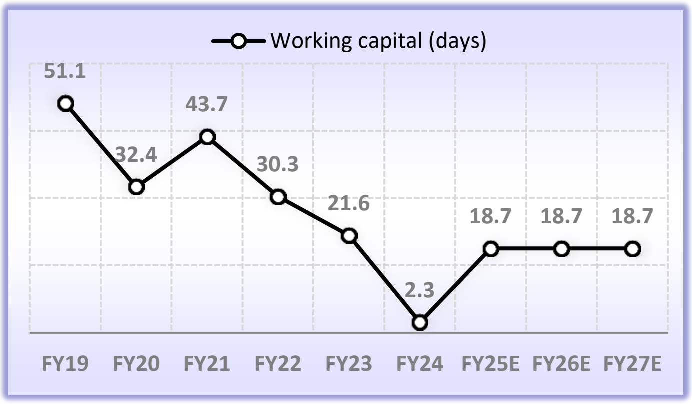
We expect EBITDA margin improvement to be led by improved product mix



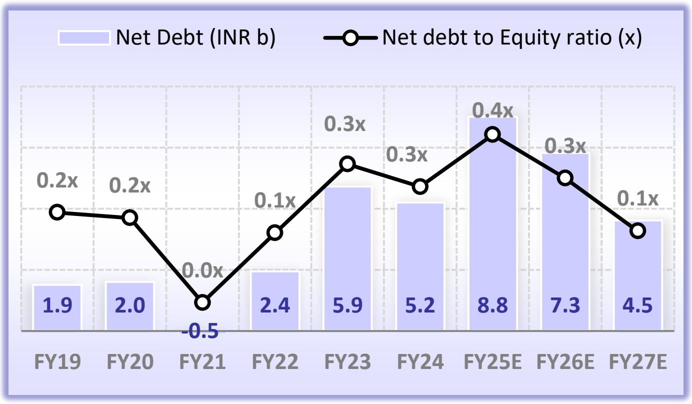
This will also lead to overall PAT margin improvement over FY25-27



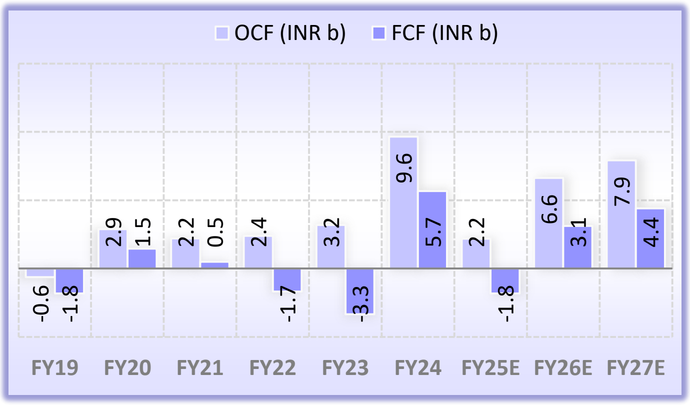
We expect the NWC cycle to remain comfortable at around 19 days



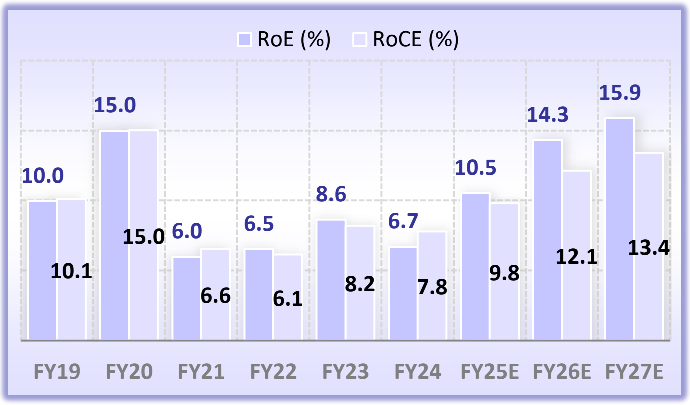
We expect net debt to remain high over next two years due to higher capex



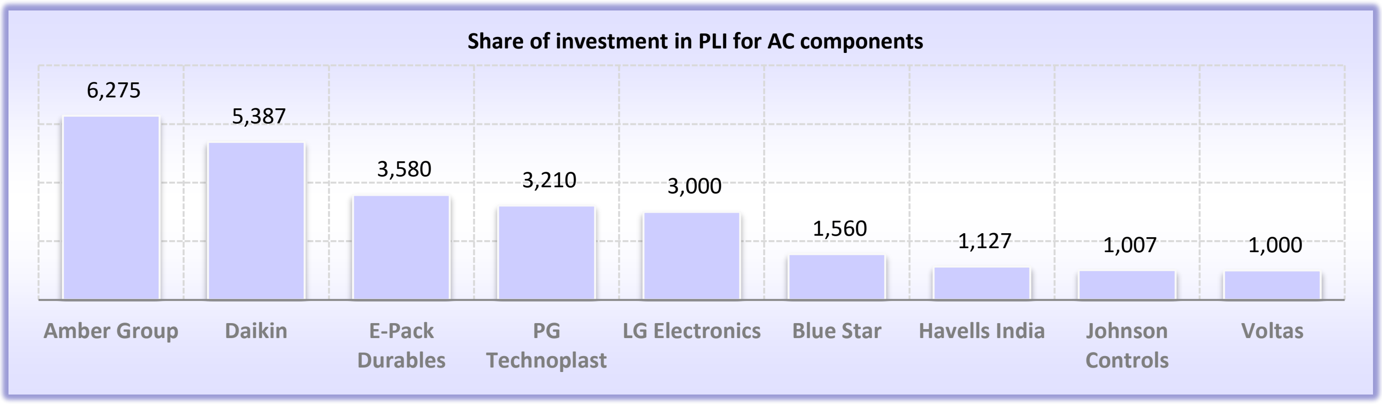
We expect FCF to gradually improve once capex starts reducing



This will result in ROE and RoCE to improve to double digit levels by FY26/27 (%)



PLI investment committed by the RAC (ODM/OEM) players, where Amber is the highest contributor with INR6.2b (INR m)



Source: Company, MOFSL

Amber 1.0 – RAC industry: Potential J-curve

The domestic RAC industry has witnessed a lot of initiatives over the past few years from the government side, such as the ban on fully-assembled AC imports with refrigerants, the PMP scheme, and PLI for AC components. These initiatives have opened up opportunities for domestic players. Driven by these measures, value addition in the domestic AC industry has already improved to ~48% from 25% at the time of PLI scheme. This is targeted to grow to 75% by FY27. We highlight below the key opportunities emerging from the RAC industry and how Amber is positioned in the ODM market.

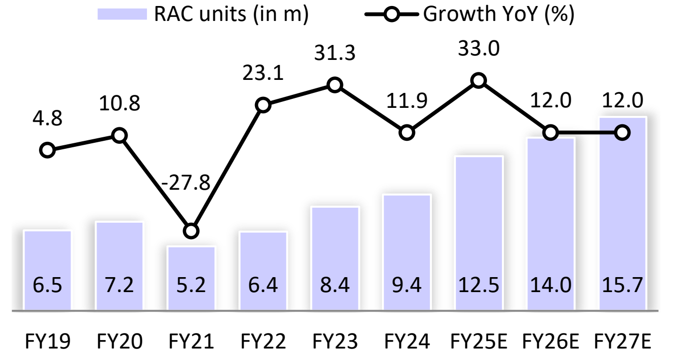
The volumes of the domestic RAC industry stood at ~9.4m units with an industry size of INR262b in FY24. We expect the AC industry to report a 19% volume CAGR and 20% value CAGR over the next three years, reaching 15.7m units and INR448b by FY27, respectively. The growth will be propelled by improved penetration and per capital income. The government's PLI scheme as well as the ban on imports of refrigerant-filled AC has helped the industry reduce import dependence at both OEM and ODM levels. The domestic AC industry is dominated by 6-7 OEM players (Voltas, Havells (Lloyd), Daikin, LG, Hitachi, and Blue Star) that are catering to the demand from insourcing and outsourcing to three ODM players (Amber, PG Electroplast, and EPACK Durable). Within the ODM market, Amber is a key beneficiary of the PLI scheme and has a market share of 27.3%. We expect it to benefit from the increased offerings across components despite higher insourcing from OEM players.

RAC industry growth and outlook

The split ACs accounted for 89% of the total AC industry volumes, while the rest comprised window ACs. By FY28, split AC penetration is estimated to rise to 92%, driven by heightened demand.

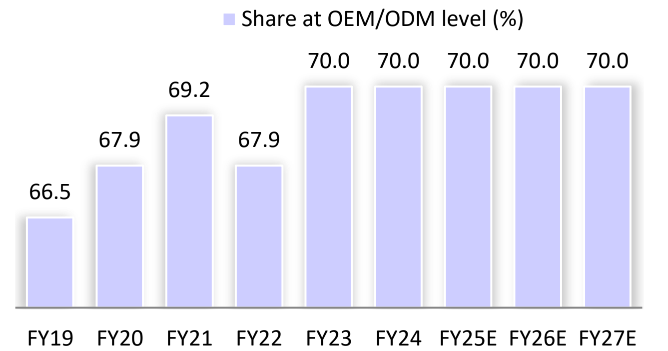
The ODM companies supplied 6.1m units (WAC + Split IDU + Split ODU Kits + Split ODU) to the RAC brands in FY23, of which 5.1m units were manufactured domestically and the rest were imported as kits and gas charging was done in India. This translated into an INR58-60b ODM/OEM market in FY23 – INR48-50b for domestically-manufactured units and rest for the gas-charged units. The Indian RAC ODM market is likely to witness a 13.3% volume CAGR to reach 11.4m units by FY28.

Exhibit 1: RAC industry volumes are likely to post a CAGR of 12% over the next five years (m, %)



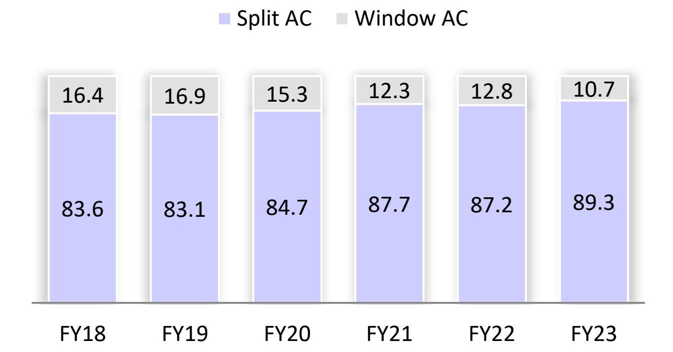
Source: Company, MOFSL

Exhibit 2: Share of RAC industry at OEM and ODM levels stands at 70% (%)



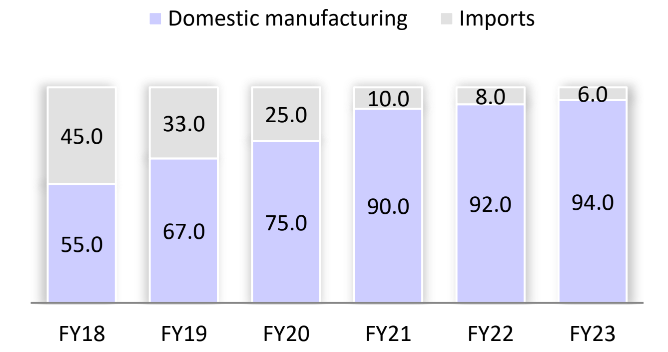
Source: Company, MOFSL

Exhibit 3: Split AC penetration growing YoY (%)



Source: Company, MOFSL

Exhibit 4: Import dependency reduced YoY (%)

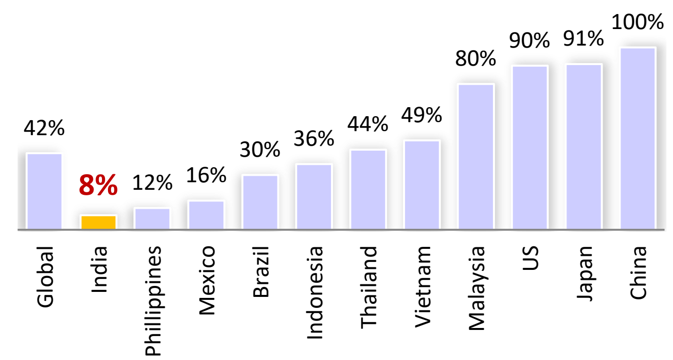


Source: Company, MOFSL

Penetration level of ACs is much lower in India vs. other nations

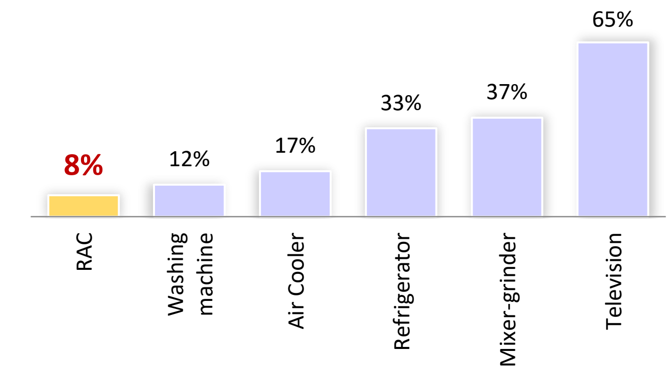
The penetration level of RACs is extremely low at 8% in India when compared to various developed economies. The level is only one-fifth of the global average (RAC) penetration. This indicates that there is a tremendous potential of growth in the domestic RAC market in the long term. Further, RAC penetration is the lowest among consumer durables vs. washing machines (12%), refrigerators (33%), and televisions (65%).

Exhibit 5: RAC penetration in India is the lowest among other countries…



Source: Company, MOFSL

Exhibit 6: …and it is also the lowest among other consumer durable categories



Source: Company, MOFSL

Government measures and PLI benefits

In a recent move, the application window for the PLI Scheme for White Goods (ACs and LED Lights) is being reopened for 90 days from 15th July, 24 to 12th Oct, 2024. This is based on the appetite of the Industry to invest more under the Scheme, which is an outcome of the growing market and confidence generated due to manufacturing of key components of ACs and LED Lights in India under the PLIWG Scheme.

The government's PLI scheme for White goods is intended to increase domestic manufacturing across high-value and low-value intermediaries. The govt. has envisaged significant investments and shortlisted key players, e.g., Voltas, Blue Star, Daikin, Johnson Controls, as well as other prominent ODM companies such as Amber, PG Electroplast, and EPACK Durable (including players focusing on component manufacturing) for PLI incentives. The govt. plans to spend INR48b over the next five years. Among ODM players, Amber, along with its subsidiary ILJIN, plans for a total capex of INR6.3b for PLI (the highest contribution into the scheme by any ODM), followed by EPACK Durable (INR3.5b) and PG Electroplast (INR3.2b).

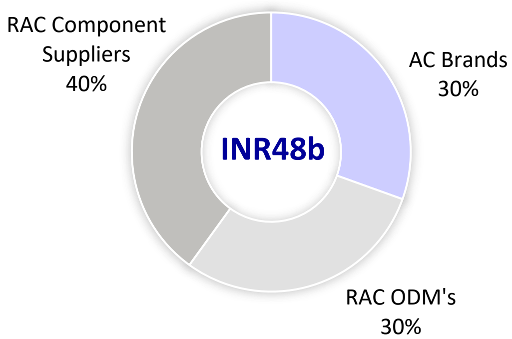
The import dependence is higher for key components of high-value intermediaries such as compressors, copper tubes, and aluminum stock, while production of low-value intermediaries such as control assemblies, display panels, motors, cross-flow fans, valves, brass components, heat exchangers, sheet metal, and plastic molding components has started ramping up domestically.

For high-value intermediaries such as compressors, increased investments are seen from GMCC, Highly, and Daikin, while other players will start adding up more.

- Voltas has revived its manufacturing plans in India through partnerships with firms from Japan or Korea, with investments worth INR13b for compressors and other AC components.
- Daikin has commenced its facility for AC (1.5m units) and compressors (3m units) in Sricity in FY24.

For copper tubes and aluminum stock, domestic players like Adani Copper Tubes, Hindalco, and Mettube are already incurring capex. For low-value intermediaries, Amber, EPACK Durable, and PG Electroplast dominate the investments followed by OEM players.

Exhibit 7: A larger share of PLI investments is coming from RAC ODMs and RAC component suppliers



Source: Company, MOFSL

Exhibit 8: Committed investments by industry players in White Goods PLI Scheme

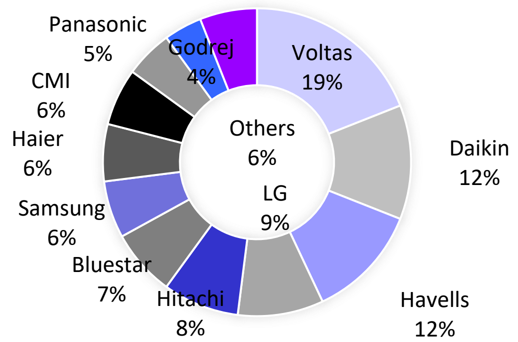
Applicant	Products to be manufactured											Committed Investment (INR m)
	Control assembly for IDU & ODU	Compressor	Motor	Heat Exchanger	Cross Flow Fan	Display Panel (LCD/ LED)	Sheet Metal Component	Plastic Molding Component	Valves & Brass Component	Copper Tube (plain and/or grooved)	Aluminum Stocks for Foils & Fins for Heat exchangers	
List of brands selected under PLI Scheme for White Goods (Air Conditioners)												
Daikin Airconditioning India Pvt Ltd	✓	✓	✓	✓	✓		✓	✓				5,387
LG Electronics India Pvt Ltd	✓	✓	✓	✓				✓				3,000
Blue Star Climatech Ltd				✓			✓					1,560
Havells India Ltd	✓			✓			✓	✓				1,127
Johnson Controls Hitachi AC India Ltd				✓	✓		✓	✓				1,007
Voltas Ltd				✓	✓			✓				1,000
IFB Industries Ltd			✓	✓			✓					570
Panasonic India Pvt Ltd	✓			✓			✓	✓				500
Mitsubishi Electric India Pvt Ltd	✓			✓	✓							500
Total												**14,651**
List of RAC ODMs selected under PLI Scheme for White Goods (Air Conditioners)												
Amber Enterprises India Ltd (+) IL Jin Electronics India Pvt Ltd	✓		✓	✓	✓		✓	✓				6,275
EPACK Durable Solutions Pvt Ltd (+) Epavo Electricals Pvt Ltd	✓		✓	✓	✓	✓	✓	✓				3,580
PG Technoplast Pvt Ltd	✓			✓	✓		✓	✓				3,210
Bhagwati Products Ltd	✓		✓	✓	✓		✓	✓	✓			610
Virtuoso Optoelectronics Ltd	✓			✓	✓		✓	✓	✓			505
Total												**14,180**
List of RAC Component suppliers selected under PLI Scheme for White Goods (Air Conditioners)												
Hindalco Industries Ltd	□									✓	✓	5,390
Adani Copper Tubes Ltd										✓		4,080
Mettube India Pvt Ltd										✓		3,002
Napino Auto and Electronics Ltd	✓											666
Lucas-TVS Ltd	✓		✓									540
Nidec India Pvt Ltd			✓									519
Dixon Devices Pvt Ltd	✓											510
Syrma Technology Pvt Ltd	✓											510
VVDN Technologies Pvt Ltd	✓		✓				✓	✓				510
East India Technologies Pvt Ltd	✓						✓	✓				500
Magnum MI Steel Pvt Ltd	✓		✓	✓			✓					500
Sun Home Appliances Pvt Ltd	✓		✓	✓	✓		✓	✓				500
Triton Valves Climatech Pvt Ltd									✓			500
Starion India Pvt Ltd	✓			✓	✓		✓	✓				501
Kaynes Technology India Ltd	✓					✓		✓				500
Swaminathan Enterprises Pvt Ltd			✓									500
Total												**19,228**
Grand Total												**48,059**

Source: Company, MOFSL

Competition to remain intense in the RAC industry, thus curbing realization growth

The RAC industry appears to be witnessing a phase of intense competition owing to rapid capacity expansion. The Indian RAC market is a fairly organized market with participation of prominent global and Indian brands with a wide range of products. Voltas, Havells (Lloyd), Daikin, LG, Hitachi, and Blue Star are the top 6 brands, accounting for 67% of RAC sales in FY23. Additionally, many OEMs have applied for the PLI scheme for AC components and are increasing their in-house capacities. A significant portion of their targeted capex is allocated to compressors. With higher capex and insourcing from AC OEMs, we expect realization growth to be limited in RAC industry. However, in this type of market, players like Amber are capturing higher wallet share through increased offerings on components. Hence, we expect the AC revenue growth momentum to sustain for Amber despite weak realization growth.

Exhibit 9: RAC industry's market share in FY23 (%)



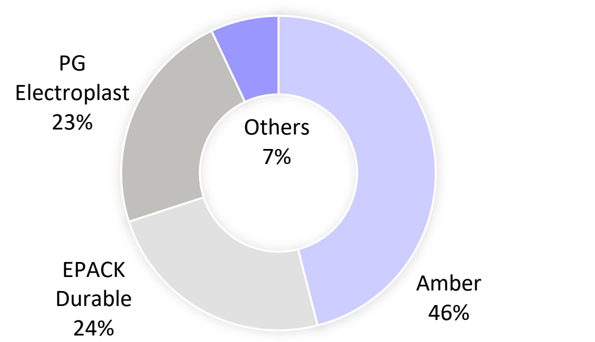
Source: Company, MOFSL

Exhibit 10: Capex/Capacity trend across players

INR m	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Near term capex plans
Amber	848	1,038	1,080		4,150	6,980	2,620	❖ Capex of INR 2-2.25b in Sidwal for product facility expansion between FY25-26
PG Electroplast		360	580	430	1,882	1,546	2,700	❖ Capex of INR 2.7b was done in FY24
EPACK				126	2,356	2,022	1,501	
Voltas	346	818	905	208	482	1,799	2,931	❖ Voltas is doubling production capacity for AC and commercial refrigeration categories in Chennai and Waghodia, alongwith development of components ecosystem in consumer durable sector. It is committing total capex outflow of INR4,500-5,000m which will be incurred over next 18-24 months
Blue Star							3,500	❖ Management is planning a capex in range of INR2.5-3.5b in coming two to three years
Havells (Lloyd)	15,559	2,701	321	910	784	4,044		❖ Management planned a total capex of INR 6b in FY24

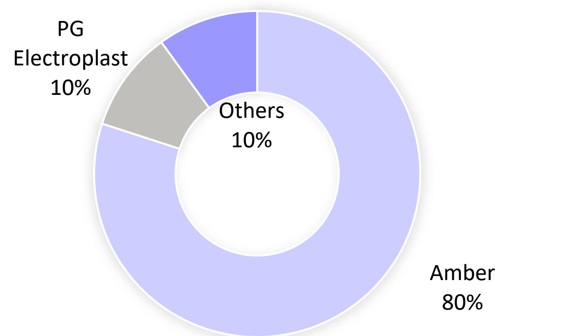
Source: Company, MOFSL

Exhibit 11: Amber dominates volume market share of ODM companies in FY23 for domestically manufactured units (%)



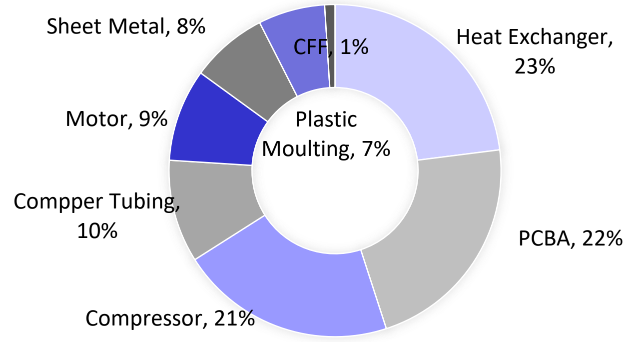
Source: Company, MOFSL

Exhibit 12: Amber also dominates volume market share of imported and gas charged units in FY23 (%)



Source: Company, MOFSL

Exhibit 13: Heat exchanges, PCBA, and compressors form a larger proportion of RAC BoM breakup (%)



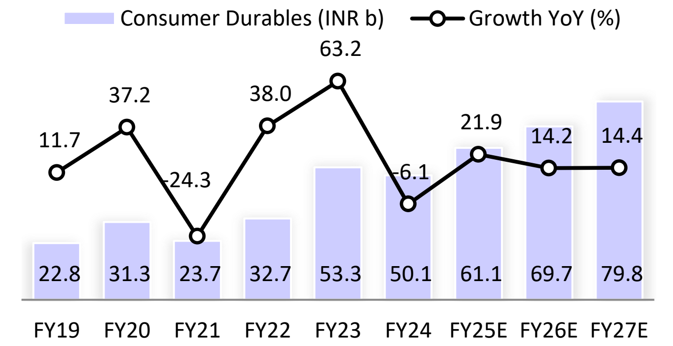
Source: Company, MOFSL

Key strategies of Amber to grow the consumer durable (RAC) division

Higher capex towards components as the industry witnesses higher insourcing

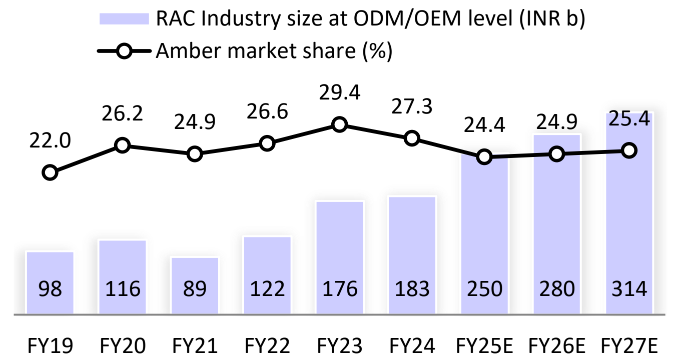
With significant capex planned by RAC players under the PLI scheme, the industry has experienced increased insourcing vs. outsourcing seen earlier. Most of the players already shifted to in-house manufacturing with two more major brands expected to start in 1Q-2Q of FY25. Amber, being a major player in the AC PLI scheme, shifted its focus towards supplying components to RAC customers with the goal of retaining a 29-30% business share. Amber supplies critical components to almost all of its major customers, with a capability of providing 70% of BoM of components (only player in the RAC ODM industry with a 70% BoM capability). Management expects that demand for components will be higher than RAC in future and hence, it has moved to supplying components to its existing customers, with a plan to add more customers in the other consumer durables division.

Exhibit 14: We expect the consumer durable segment revenue to post 17% CAGR over FY25-27



Source: Company, MOFSL

Exhibit 15: We expect Amber to maintain an ODM market share of ~24-25%



Source: Company, MOFSL

Amber's backward integration, capex, and strategically located manufacturing facilities

Amber has incurred a capex of INR14.9b over FY22-24, mainly towards backward integration of RAC and components under the PLI scheme. Amber has 28 state-of-the-art manufacturing facilities spread across strategic locations pan-India in proximity to the customers. These facilities ensure a quicker turnaround time. In

FY18, the company had 10 manufacturing facilities. Later, between FY18 and 1QFY23, it added 13 more facilities and in FY23, Amber expanded with five new manufacturing facilities for capacity expansion and backward integration.

Exhibit 16: Manufacturing facilities added in FY23 and FY24 under PLI-led capex

Manufacturing facility	Production commencement	Product manufactured
Pravartaka, Greater Noida	Jan, 2024	Injection moulding components
ILJIN, Noida	Jun, 2023	Wearable and hearable products
Sri City (Andhra Pradesh)	Jan, 2023	AC with backward integration of Sheet metal components, Moulding and Heat Exchangers
Supa (Maharashtra)	Dec, 2022	Heat exchangers, Press shop, Weld shop, TPP, IDU & ODU line and Moulding shop
Rudrapur (Uttarakhand)	Jan, 2023	Sheet metal components, Copper system tubing
Thiruvallur (Chennai)	Nov, 2022	PCBA for AC & other Consumer durable products
Kanchipuram, (Tamil Nadu)	Oct, 2022	Injection moulding components

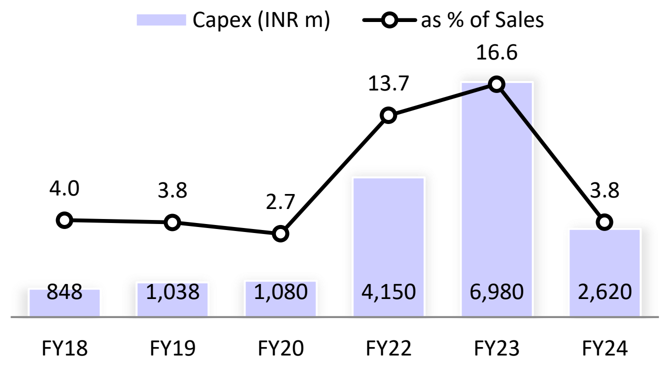
Source: Company, MOFSL

Exhibit 17: Manufacturing facilities

Business segment	Location
Consumer Durables – 23 Facilities	
RAC & Non-RAC Components	Dehradun, Jhajjar, Pune, Greater Noida, Rudrapur, Rajpura , Shahjanpur, Chennai, Sri City, Kadi & Manesar
RAC FG	Dehradun, Jhajjar, Pune & Sri City
Motors	Faridabad
Tooling	Noida
Electronics – 4 facilities	
PCBA's	Greater Noida, Pune & Chennai
Telecom	Greater Noida & Chennai
Wearables & Hearables	Noida
Railway Sub-systems & Mobility – 1 facility	
Railway Subsystems	Faridabad

Source: Company, MOFSL

Exhibit 18: Amber's capex has been dominated by PLI-led capex over the last two years



Source: Company, MOFSL

Exhibit 19: Amber's near-term capex plan includes large investments for railways and electronics

Segment	FY24 capex (INR m)	Management comments
Electronics	INR100-150m	❖ Capex would be for Noise JV in FY25
Railway Subsystems & Mobility division	INR2,000-2,250m over FY25-FY26	❖ Sidwal will be setting up a new Greenfield facility in Faridabad for capacity expansion of its existing product portfolio and two more facilities through the SPV route (one for interiors and the other for couplers, gear, pantograph and other subsystems)

Source: Company, MOFSL

Acquisitions and strategic tie-ups to expand the consumer durables segment

Amber has been able to widen its client base as well as sectors through a range of acquisitions done so far. With recent announcements of acquiring stakes in Resojet and Ascent circuits, the company will be able to expand further in segments such as washing machine, PCB manufacturing, etc. Company is already present in non-room air conditioner components such as telecom components, smart meter components, IT server components, refrigerator components, microwave, watching machine, water purifier and automobile components and is adding more clients in front load and top load washing machine. This will further support the growth of the consumer durable segment, which currently forms a larger share of revenue from the RAC segment.

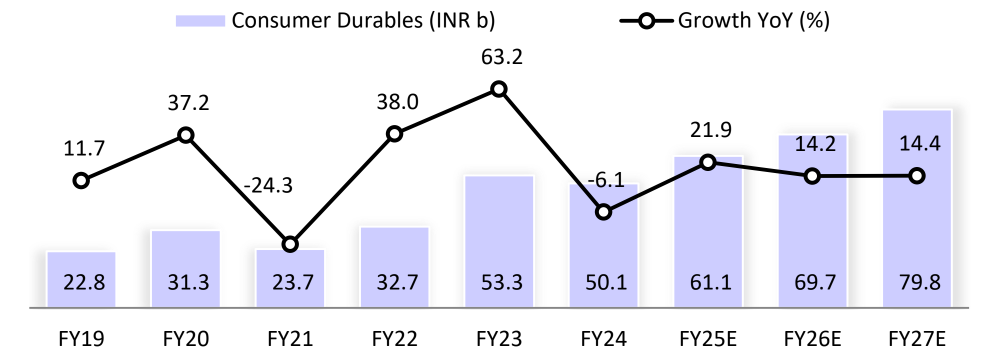
Exhibit 20: Amber – acquisitions done over past few years to expand presence

Date	Acquirer company	Acquiree company	Industry of acquisition	Acquiree company financials	Stake acquired	Amount Invested (INR m)	Implied valuation (INR m)	Implied valuation (trailing EV/Sales)	About acquire company
21-Mar-24	Amber Enterprises	Resojet Private Limited	Consumer durable	Company incorporated on 18th Apr'22. No turnover in F23	50%	350	700	NA	❖ Business of manufacturing the fully automatic top-loading and front-loading washing machine(s) and its components
22-Feb-24	Shivaliks Mercantile Pvt. Ltd (Sidwal's JV-SPV)	Titagarh Firema SpA (an associate company of Titagarh Rail)	Mobility Application	Total turnover: FY23 – EUR50.28m FY22 – EUR72.28m FY21 – EUR67.79m Total income: FY23 – EUR(19.56)m FY22 – EUR(9.77)m FY21 – EUR(7.97)m	35%	EUR20.21m	58	1.15x	❖ Titagarh Firema SpA, a company based in Italy, is engaged in designing & manufacturing high-tech rail vehicles, viz. passenger vehicles in the category of subways, trains, intercity trains, and freight vehicles in Italy.
02-Feb-24	IL JIN Electronics (India) Private Limited	Ascent Circuits Private Limited	EMS	F23 Revenue: INR 2,790m	60%	3,110	5,183	1.86x	❖ South India based home-grown leading player engaged in the manufacturing of PCB
01-Feb-22	Amber Enterprises	Pravartaka Tooling Services Private Limited	Components (Injection molding)		60%				❖ Pravartaka is one of the leading injection molding tool market and injection molding components maker for consumer durable, automotive, and electronics industries.
02-Dec-21	Amber Enterprises	AmberPR Technoplast India Pvt Ltd (erstwhile Pasio India Pvt Ltd)	CFF and its plastic parts		73%				❖ Engaged in the businesses of (i) CFF and its plastic parts, (ii) fans and fan guard for ODU of RAC, (iii) plastic parts for water dispenser and refrigeration applications (other than the automobile industry) and (iv) plastic parts for seats of trucks, tractors and buses

Source: Company, MOFSL

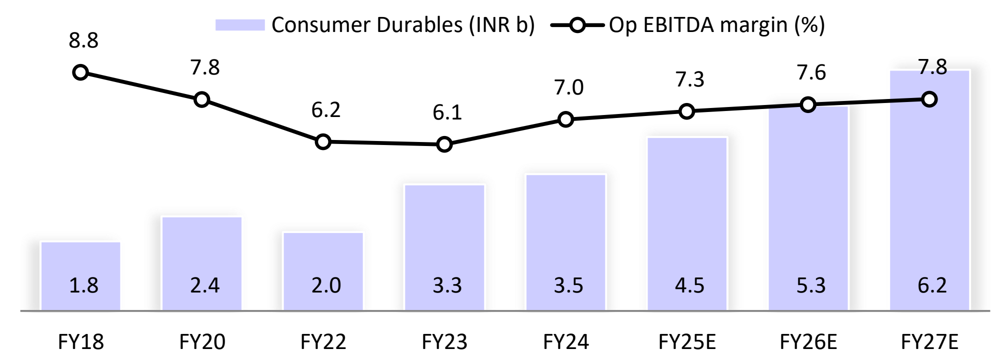
We thus expect the consumer durable division (comprising RAC & Components)'s revenue to report a CAGR of 17% over FY24-27 with EBITDA margin improving to 7.8% by FY27E from 7.0% in FY24.

Exhibit 21: Consumer durables' revenue growth would be largely driven by RAC & non-RAC components in near term



Source: Company; MOFSL

Exhibit 22: We expect consumer durables' operating EBITDA to reach 7.8% by FY27



Source: Company; MOFSL

Amber 2.0 – Focusing on the high-growth electronics business

Amber's electronics division has undergone significant expansion, diversifying its portfolio beyond consumer durables through strategic acquisitions such as Ascent. This strategy enabled its entry into telecom, hearable & wearable, and EV space applications.

Amber, though its subsidiaries, is a market leader in manufacturing PCBAs for the consumer durable sector, providing 25% of total market demand. It has a proven track record and extensive experience in providing solutions for home appliances, RAC market, and the telecom sector. In FY23, it expanded its customer base in electronics division and ventured into manufacturing cutting-edge applications such as smart wearables and hearables. Additionally, it introduced new products for telecom equipment like ONT and RRH. With the electronics market evolving towards smarter products, the demand for PCBAs is expected to surge, thus strengthening the division's position further.

Key strategies to grow the electronics division

JV with Noise for hearables and wearables

During 2QFY24, Amber entered into a JV with Nexxbase Marketing Private Limited, having its brand 'Noise', to undertake the manufacturing, assembling, and designing of wearables and other smart electronic products. The company is setting up a plant in Noida for manufacturing the wearables and electronics products. The plant is set to commence from 1QFY25. ILJIN was already present in wearables. In FY23, ILJIN's revenue stood at INR8,804m, reporting a CAGR of 21% over FY18-23.

Entry into PCB manufacturing via Ascent acquisition and MoU with Korea Circuit

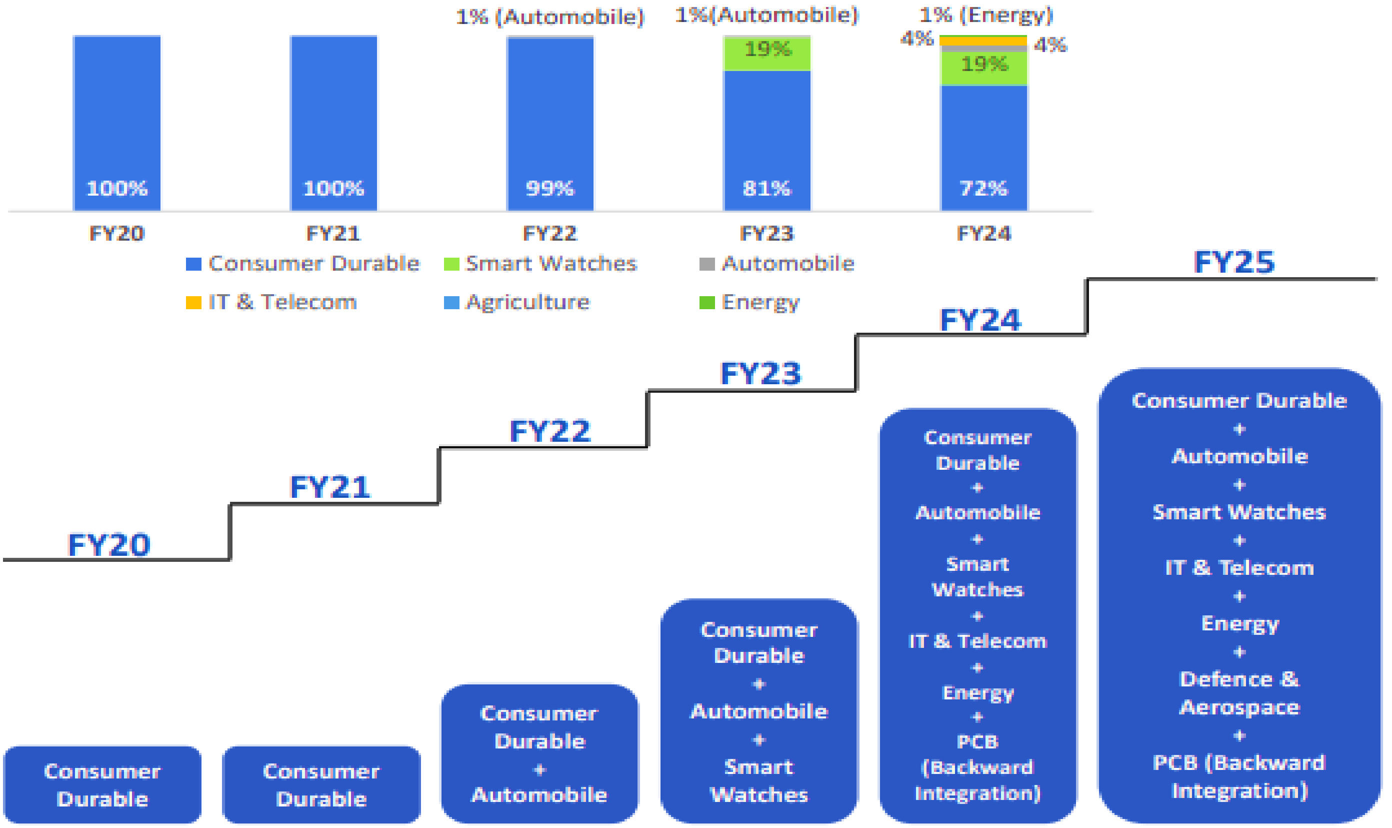
Amber is expanding its presence from PCB assembly to manufacturing bare board PCB through acquisition of Ascent Circuits, thereby catering to a wide range of market segments such as aerospace & defense, railways, industrials, telecom, automobile, healthcare, hearables & wearables, and consumer durables. Amber's growth strategy extends beyond revenue diversification, with plans for backward integration into component manufacturing, particularly in the electronics PCBA space. It has also signed an MoU with Korea Circuits through Ascent Circuits to manufacture Flex, HDI, and Semiconductor substrate PCBs, thereby fortifying PCB manufacturing in India. Ascent Circuits generates high double-digit margin, has NWC days of 100, and enjoys mid-teens RoE/RoCE. The integration of Ascent Circuits will result in improved margins for Amber. We thus expect the electronics division revenue to clock a CAGR of 33% over FY24-27, with EBITDA margin improving to 8.2% by FY27E from 5.6% in FY24.

Outlook for the electronics business

Amber aims to achieve a more balanced revenue mix in the electronics business, with increased penetration in smart watches, automobiles, IT & Telecom, Agriculture, and Energy segments (28% contribution in FY24) vs. Consumer Durable (72% contribution in FY24). By FY25, the company is also targeting to enter into the defense & aerospace segment.

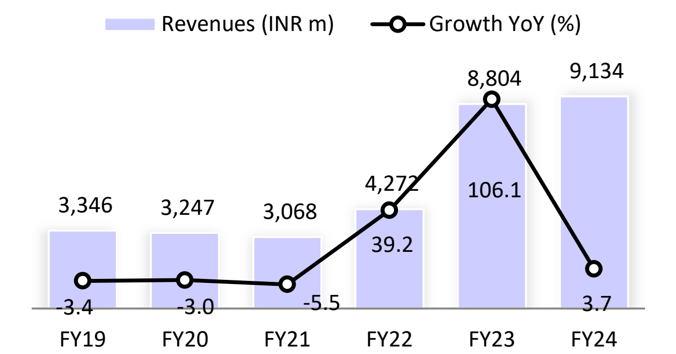
Going forward, we expect growth in the electronics business to emerge from increased focus on: 1) margin-accretive sectors – aerospace & defense, railways, industrials, telecom, automobiles, healthcare, hearables & wearables, and consumer durables, 2) improved penetration in EV electronics and telecom hardware, and 3) increased backward integration in the PCB business.

Exhibit 23: Electronics segment's diversification across the margin-accretive businesses



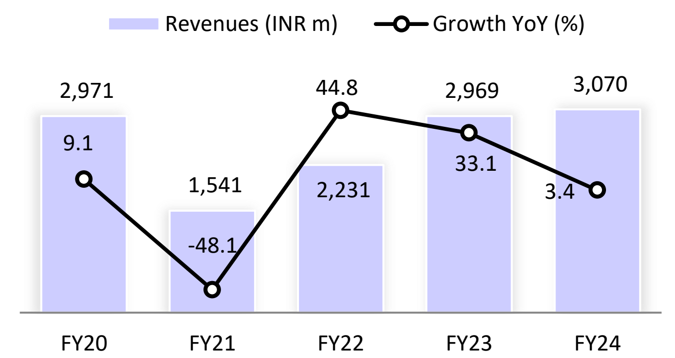
Source: Company, MOFSL

Exhibit 24: ILJIN – revenue trend



Source: Company; MOFSL

Exhibit 25: EVER – revenue trend



Source: Company; MOFSL

Exhibit 26: ILJIN – profit margin is weak currently

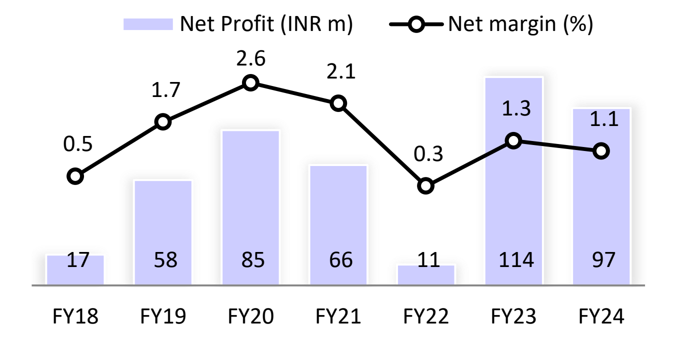


Exhibit 27: EVER – profit margin is around 3.2%

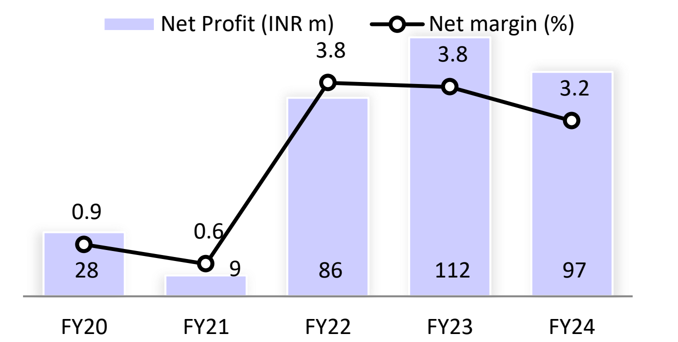


Exhibit 28: Ascent – revenue clocked a 11% CAGR over FY19-24

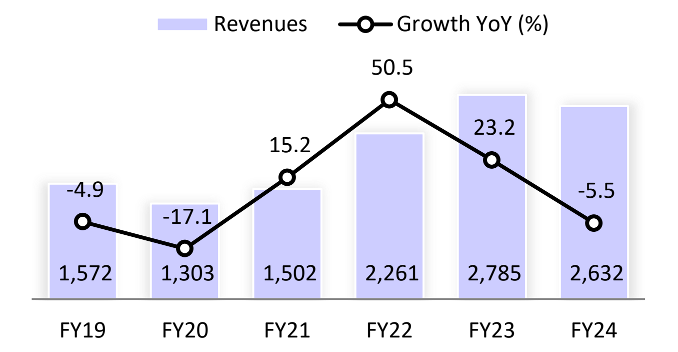


Exhibit 29: Ascent – EBITDA margin in mid-teens and hence, can provide a margin boost to Amber

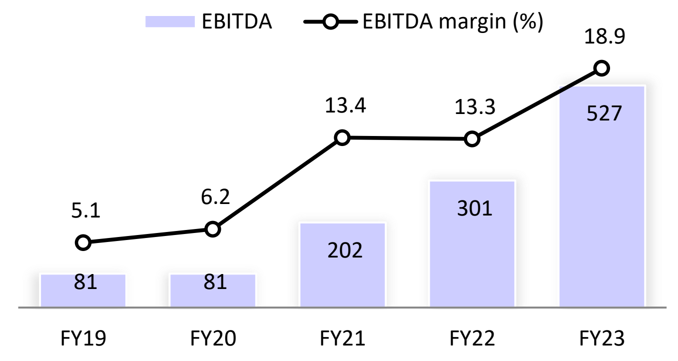


Exhibit 30: Ascent RoE/RoCE improved in last two years (%)

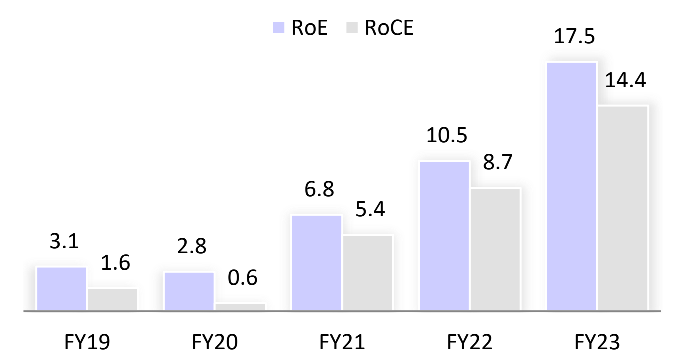


Exhibit 31: Ascent – Asset turnover ratio improving (x)

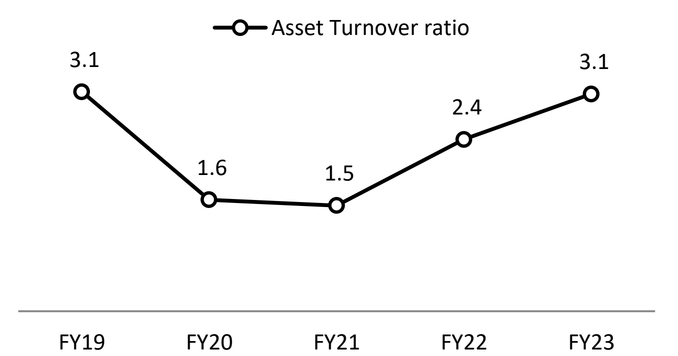
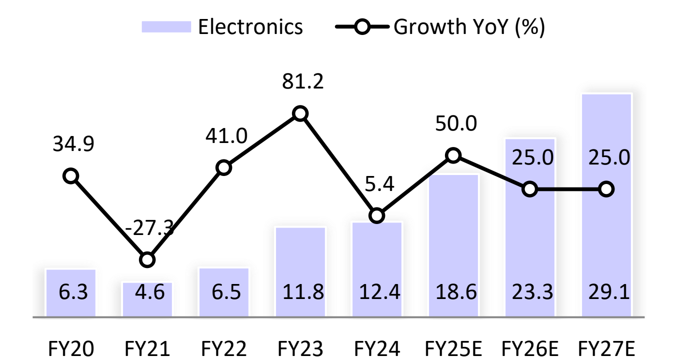
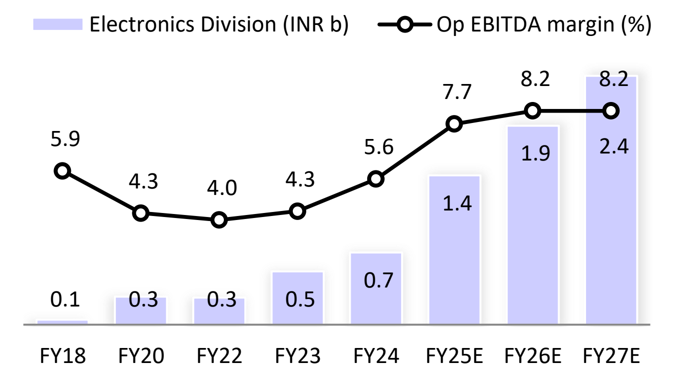


Exhibit 32: Electronics segment revenue to improve (INRb)



Source: Company; MOFSL

Exhibit 33: Electronics segment EBITDA improving



Source: Company; MOFSL

Amber 3.0 – Anticipating growth from the Railways and Mobility businesses

Amber acquired Sidwal in 2019 to expand its offerings in mobility AC solutions. Sidwal is the largest supplier of roof-mounted package unit ACs. It caters to the segments like Railways, Bus, Metro, Defense, and Telecom & IT. Its key clients include Indian Railways, BEML, Siemens, DMRC, CAF, et al. The company offers a diverse range of mobility products, including roof-mounted ACs for Mainline Coaches, AC & refrigeration solutions for railways, roof-mounted loco drivers' cab AC, metros, and other HVAC products.

Key strategies to grow the mobility division

Targeting wider offerings in railways

Sidwal is now targeting to capture a larger wallet share in the railways segment. It is aiming to garner 18-20% of the overall cost of a coach with its entry into newer areas. According to industry sources, nearly 35% of the overall costing of Vande Bharat coaches comes from ancillaries such as turnkey systems, seats, gangways, vacuum evacuation systems, and miscellaneous items. Besides, as per Indian Railways plan, the awarding is yet to happen for 100 aluminum train-sets with distributed power system and 100 aluminum train-sets with concentrated power system. These will also be followed by more tenders for Vande Bharat trains. Currently, due to changes in government strategies in Indian Railways, certain metro and Vande bharat related projects are delayed thereby impacting performance of this segment for Amber.

Exhibit 34: BoM breakup for a Vande Bharat train with key players present in each category

Component	Basic unit rate (INR m)	Quantity	Total (INR m)	Key players
Propulsion system including traction converters, brake chopper resistors, traction motor, transformers, auxiliary converters, pantographs, RMPU's, lighting, assembled bogies	500.0	1	500	❖ Medha, Alstom, Siemens, BHEL, Titagarh, CG Power
Complete shell kit per coach	3.5	16	56	❖ DTL, Pennar, Airflow, Universal, Chennai Radha, EC Blades
Turnkey furnishing	5.0	16	80	❖ BFG, MSL, HFL, Kineco, Airflow
Seat - Economy class	5.0	14	70	❖ Ster, Tata, Airflow, Advanced Silicones
Seat - Executive class	6.0	2	12	❖ Ster, Tata, Airflow, Advanced Silicones
Vacuum evacuation system	2.5	16	40	❖ EVAC, Glova, Oasis
Brake system	5.0	16	80	❖ Knorr Bremse, Wabtec
Nose Cone	1.0	2	2	❖ BFG, MSL, HFL, Kineco, Airflow
Gangway	2.0	2	4	❖ Hubner, Dellner
Misc- Mechanical	2.0	16	32	❖ Several players
Misc - Electrical	2.5	16	40	❖ Several players
Total			**916**	

Source: Company, MOFSL

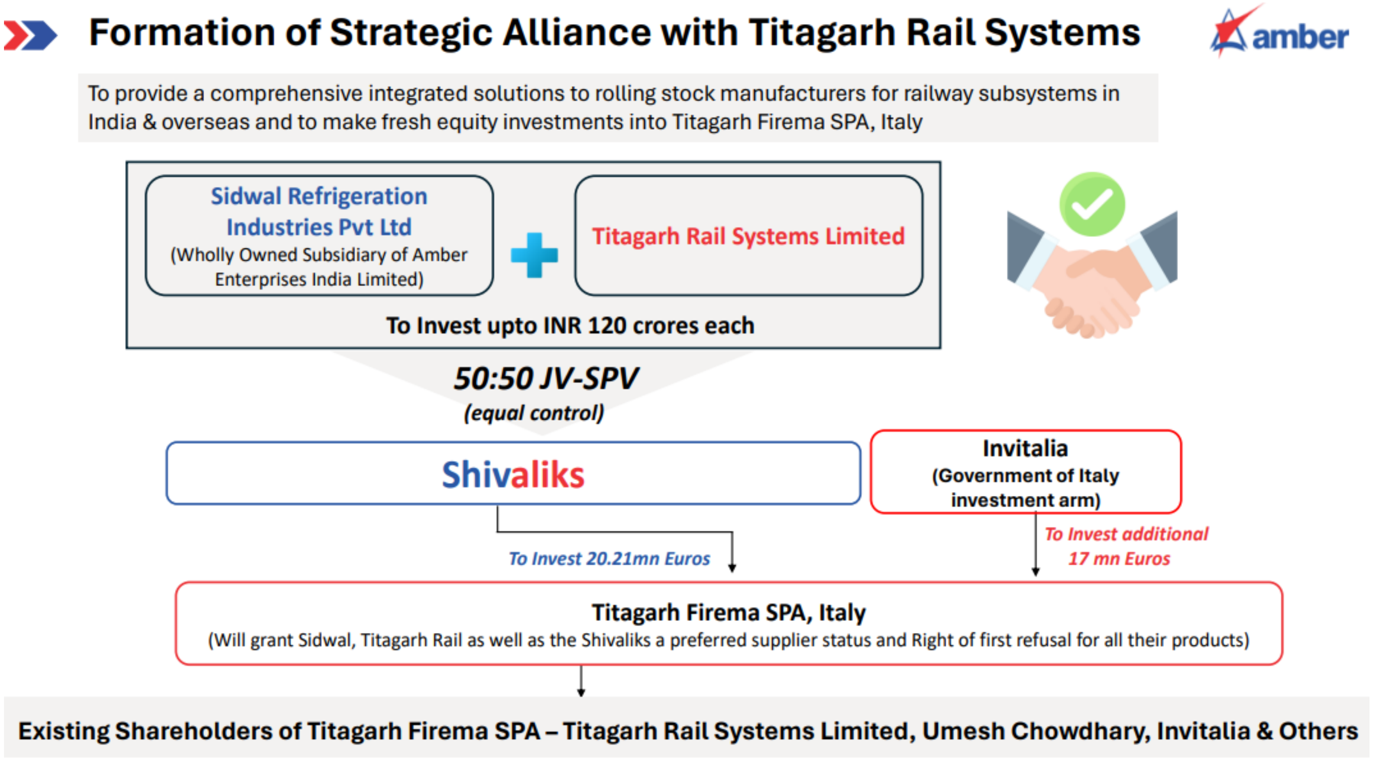
Technology tie ups by Sidwal for automatic door systems

Sidwal inked Technology License Agreements for Inter-Car Gangways Systems and Door Systems with Ultimate Group and Rail Systems Limited. Ultimate Group is a global leader in railway vehicle systems and operates multiple facilities worldwide. SIDWAL also partnered for Automatic Door Systems, targeting transit.

JV with Titagarh Rail systems

Amber entered into a JV with Titagarh Rail systems to provide comprehensive integrated solutions to rolling stock manufacturers for railway subsystems in India & overseas. This JV will invest EUR20m into Titagarh Firema SPA, Italy which in turn will give a preferred supplier status and right of first refusal for all their products to Sidwal, Titagarh Rail and their JVs. The strategic partnership in Firema will facilitate Sidwal's entry into the European market/global play. This will also provide Sidwal with a preferred access to Firema's own demand. Domestically, this JV not only increases technical capabilities of Amber to address a larger portion of BoM of a train coach but also enables its entry into subsystems for the fast-growing railway segment in India (particularly for upcoming Vande Bharat as well as metro trains). The alliance with Titagarh aims to boost Sidwal's wallet share per coach to INR20m, covering 30% of BoM in the next two to three years, and expanding offerings to interiors, gangways, seats, and more. SIDWAL is set to supply components for projects such as Vande Bharat Express and metro coaches, serving customers like BEML, Alstom, CRRC, and Titagarh.

Exhibit 35: Titagarh and Sidwal tie-up



Source: Company, MOFSL

Key developments for the railway division in FY24

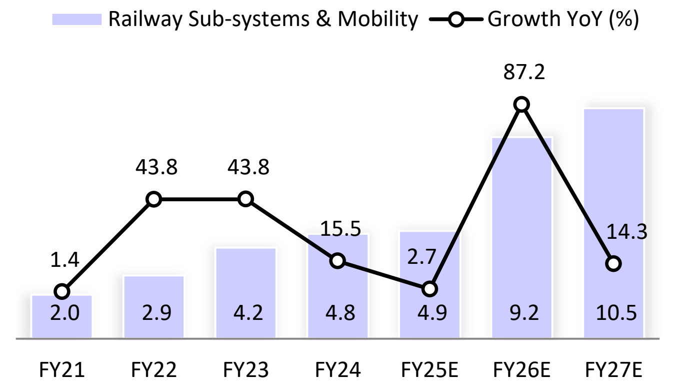
- In FY24, the division received its first order for doors and gangways from three new customers. The order value was INR5.15b, with total order book at INR20b in FY24. Sidwal plans to assemble new products in Phase 1 and commence complete manufacturing from 1QFY26 for new customer orders.
- The company's defense portfolio is gaining momentum, with double-digit growth in the order book in FY24 (to INR500-600m from INR200-225m earlier). It plans to expand its product portfolio for specialized terrain vehicles and slip-on AC units.
- For the new product business, the company expects higher growth and margins, with clearances and approvals anticipated in FY26, and production expected to commence by 4QFY26. According to management, Sidwal now addresses INR11m per passenger car, thereby expanding its addressable market.
- Management projects FY25 to be a year of execution and customer approvals for new products, with real ramp-up starting from 2HFY26. This coincides with the rolling out of new Vande Bharat trains (sleeper class with 24 coaches in each train). Management anticipates healthy growth outlook for Sidwal, with expectations of increased train rollouts from FY26, and FY27 projected as the peak year for trains. We expect FY25 to remain weak due to delays in certain orders from Indian Railways.
- The company expect margins to remain in the 20% range, with HVAC margins being consistent, doors and gangways at 18%, and couplers at 18-19%.

Capex for the mobility segment

Sidwal plans to incur a capex of INR2.0-2.25b over the next two years, particularly, for expanding in railways subsystems across a greenfield facility in Faridabad and two facilities in an SPV.

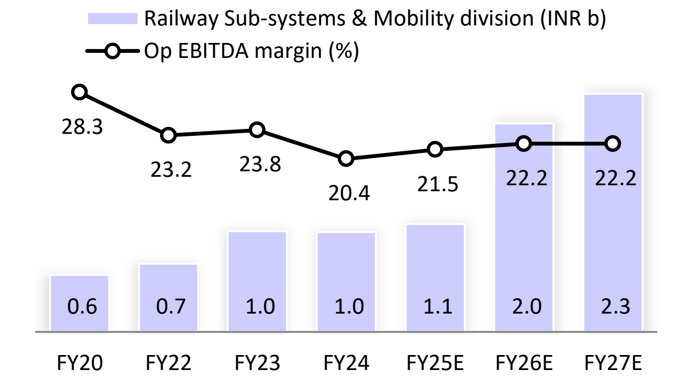
We thus expect the mobility segment to start growing post FY25 for Amber after its initial capex for expanding across subsystems. We expect revenue for mobility segment to record a CAGR of 30% over FY24-27, respectively.

Exhibit 36: Railway & Mobility segment revenue



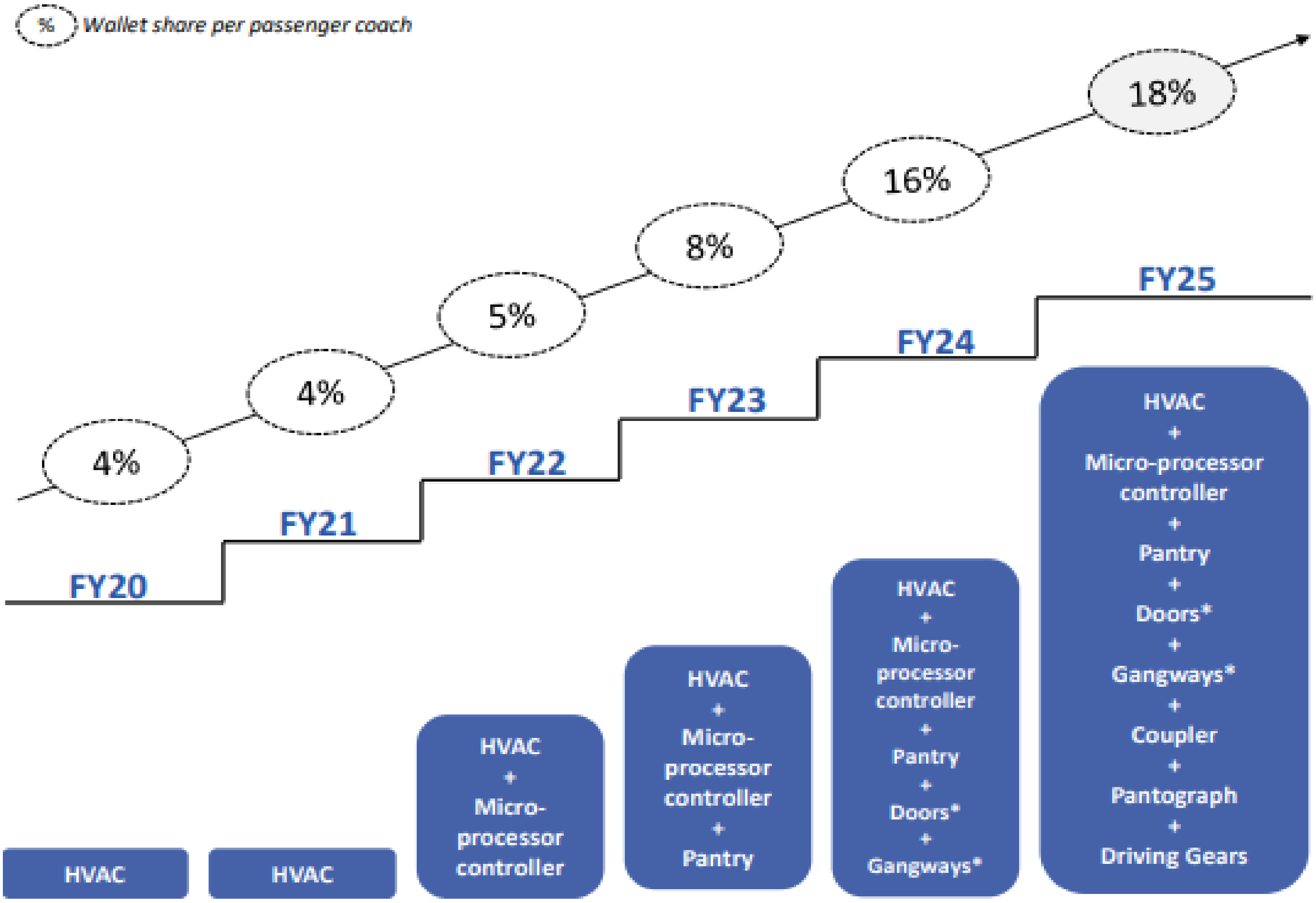
Source: Company; MOFSL

Exhibit 37: Railway & Mobility segment operating EBITDA



Source: Company; MOFSL

Exhibit 38: Sidwal's share strategically increasing across the railway business



Source: Company, MOFSL

Financial outlook

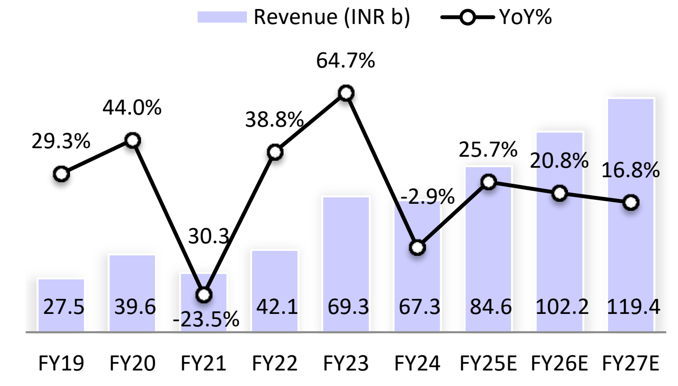
We expect Amber's revenue/EBITDA/adj. PAT to clock a CAGR of 21%/25%/51% over FY24-27. We project its revenue mix to start improving for the other segments, such as electronics and mobility, over the next few years as the company enters into newer segments. We will continue to monitor the continuous investments from Amber to expand the electronic segment as well as railways. Over the last two years, Amber invested in capex to build the component ecosystem for RAC division. It will be investing in electronics and railways divisions. We expect margins in the near term to remain weak due to large capacity additions by OEM and ODM players in the AC segment. However, with improving non-AC component volumes and Sidwal's revenue, we expect a gradual uptick in margins. We expect the return ratios to be affected in the near term due to incremental capex, but anticipate its RoE/RoCE to improve from FY26 onwards.

Exhibit 39: Segmental revenue and EBITDA

Y/E March (INR m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Segmental revenue						
Consumer Durables Division	32,680	53,339	50,083	61,074	69,730	79,762
Growth YoY (%)	*38.0*	*63.2*	*-6.1*	*21.9*	*14.2*	*14.4*
Electronics Division	6,500	11,776	12,410	18,615	23,269	29,086
Growth YoY (%)	*41.0*	*81.2*	*5.4*	*50.0*	*25.0*	*25.0*
Railway Sub-systems & Mobility division	2,890	4,156	4,800	4,928	9,227	10,542
Growth YoY (%)	*43.8*	*43.8*	*15.5*	*2.7*	*87.2*	*14.3*
Total Revenues	**42,070**	**69,271**	**67,293**	**84,618**	**1,02,226**	**1,19,390**
Growth YoY (%)	*38.8*	*64.7*	*-2.9*	*25.7*	*20.8*	*16.8*
Operating EBITDA						
Consumer Durables Division	2,030	3,260	3,520	4,476	5,284	6,204
Margin (%)	*6.2*	*6.1*	*7.0*	*7.3*	*7.6*	*7.8*
Electronics Division	260	510	690	1,426	1,899	2,373
Margin (%)	*4.0*	*4.3*	*5.6*	*7.7*	*8.2*	*8.2*
Railway Sub-systems & Mobility division	670	990	980	1,060	2,050	2,342
Margin (%)	*23.2*	*23.8*	*20.4*	*21.5*	*22.2*	*22.2*
Total Operating EBITDA	**2,960**	**4,760**	**5,190**	**6,962**	**9,233**	**10,920**
Margin (%)	*7.0*	*6.9*	*7.7*	*8.2*	*9.0*	*9.1*
Other adjustments	206	581	271	702	867	1,031
EBITDA	**2,754**	**4,179**	**4,919**	**6,260**	**8,366**	**9,889**
Margin (%)	*6.5*	*6.0*	*7.3*	*7.4*	*8.2*	*8.3*

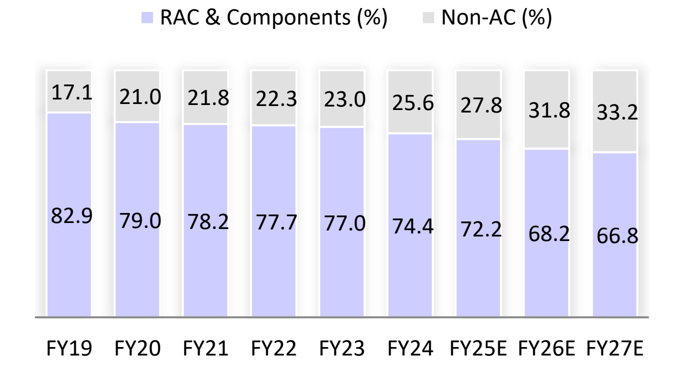
Source: Company, MOFSL

Exhibit 40: We expect Amber's revenue to post a CAGR of 21% over FY24-27



Source: Company; MOFSL

Exhibit 41: We expect the share of non-AC revenue to move up from the current levels



Source: Company; MOFSL

Exhibit 42: Amber's EBITDA margin to inch up on improved revenue from higher-margin segments

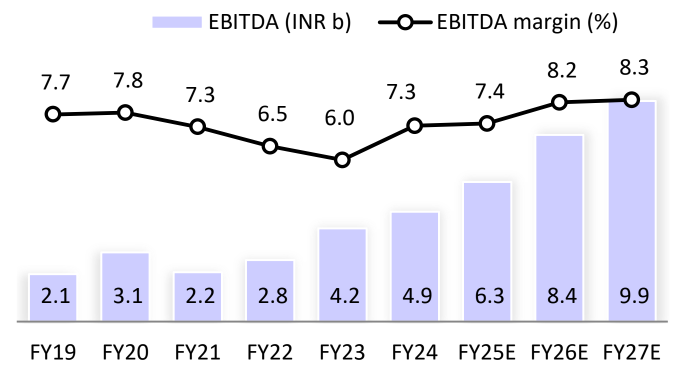


Exhibit 43: We expect its PAT to clock a CAGR of 51% over FY24-27

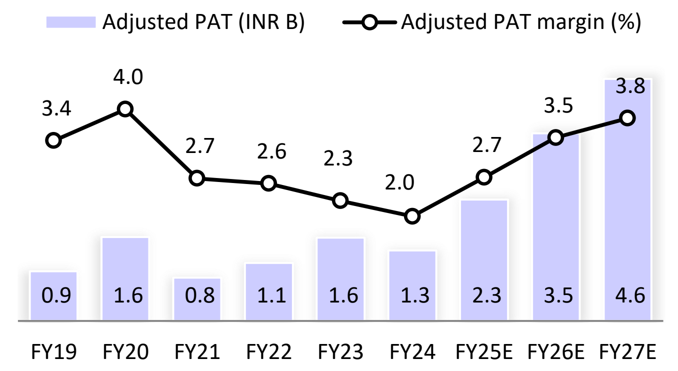


Exhibit 44: We expect net debt to remain high over the next two years on increased capex

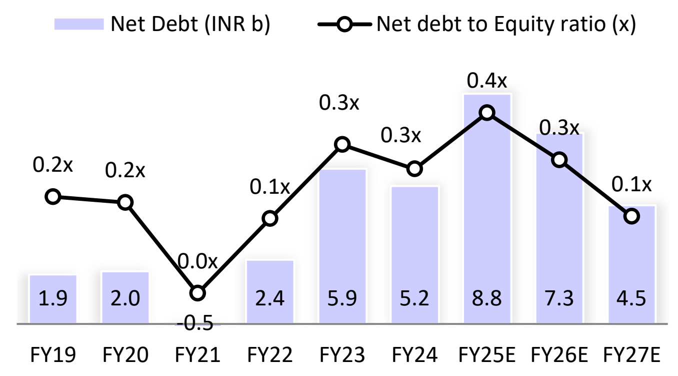


Exhibit 45: We expect RoE & RoCE to reach double-digit levels from FY26 onwards

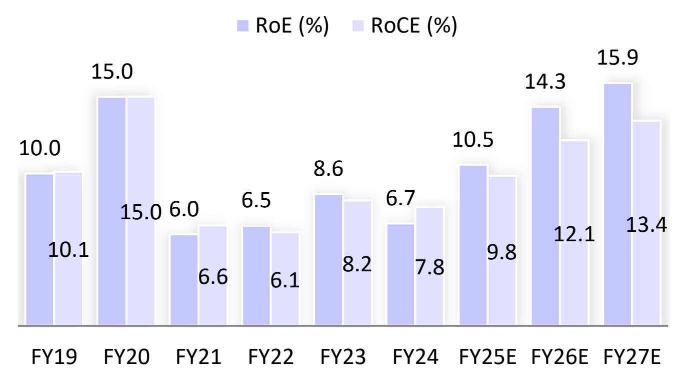


Exhibit 46: We expect FCF to improve from FY25 as capex moderates

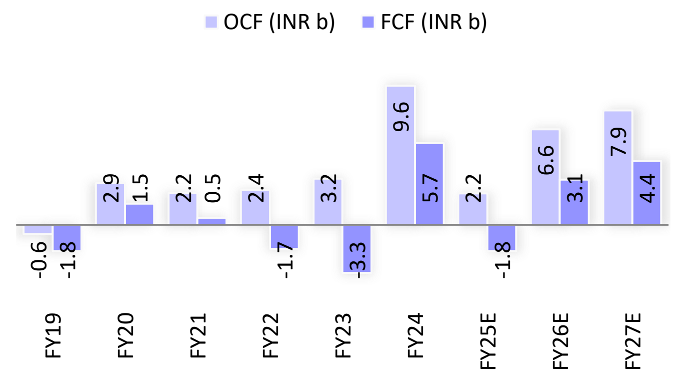


Exhibit 47: NWC cycle has remained comfortable for the company and we expect similar trend in future

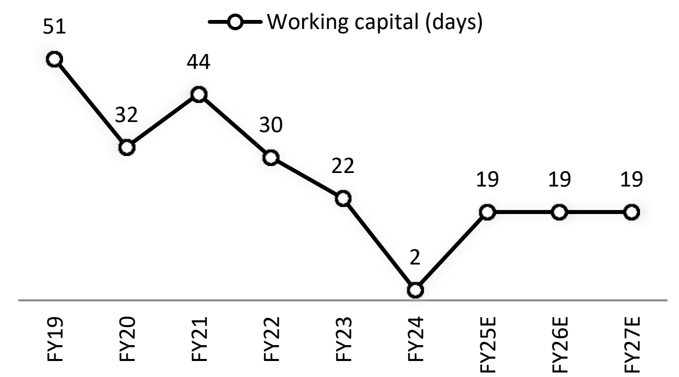
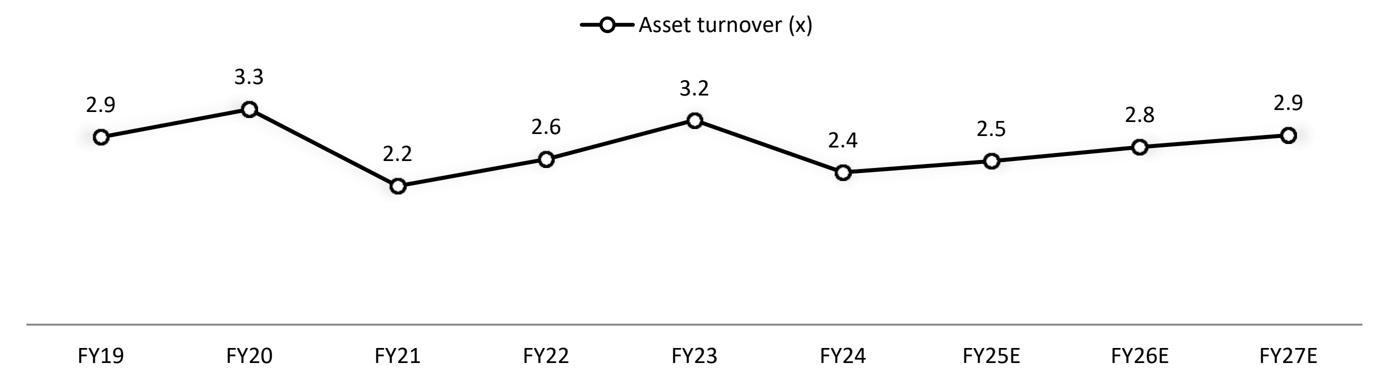


Exhibit 48: With improved product mix, we expect asset turnover ratio to improve



Source: Company; MOFSL

Valuation and recommendation

The stock is currently trading at 60.7x/39.3x P/E on FY25/26E earnings. We initiate coverage on Amber with a **BUY** rating and a DCF-based TP of INR5,000 implying 42x P/E on a two-year forward EPS (Sep'26). Our assumptions take into account 20-year revenue CAGR of 12% and EBITDA CAGR of 13%, asset turnover of 3.5-4x over the same period. We bake in WACC of 10.6% and terminal growth rate of 5%.

Exhibit 49: Bear /Base/ Bull case scenario

	Bear case	Base case	Bull case	Rationale
Assumptions	Higher WACC 11%, Terminal growth rate 3%	WACC of 10.6% and Terminal growth rate 5%	Lower WACC 10.2% Terminal growth rate 6%	❖ We take sensitivity in DCF assumptions
Target price	**3,850**	**5,000**	**6,400**	

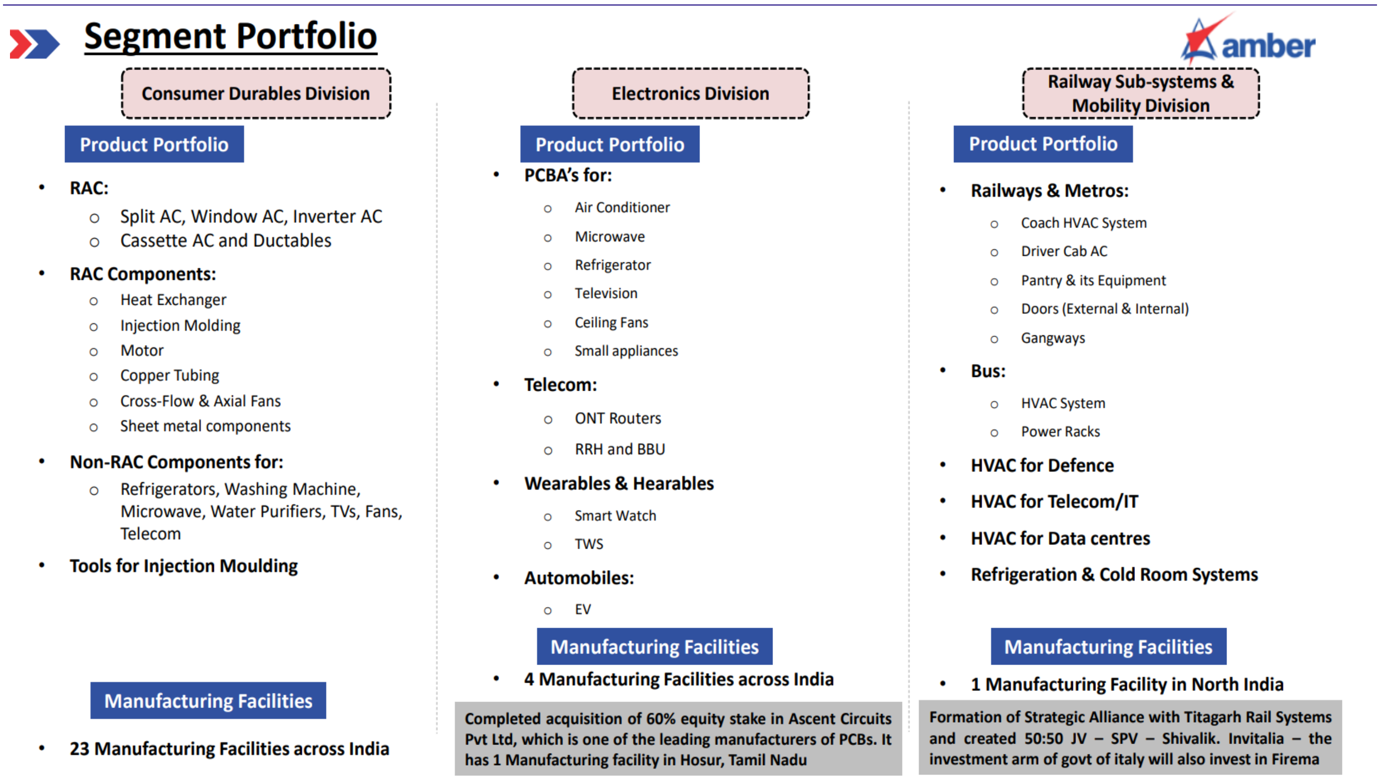
Company profile

Established in 1990, Amber is a leading backward-integrated player in India's RAC industry, commanding a significant market share. The company operates across components and FG segments in the HVAC industry, offering a diverse product portfolio, which includes RACs, critical components, and mobility applications for various sectors such as railways, metros, buses, and defense. With 27 modern manufacturing facilities strategically located across India, Amber ensures quick turnaround time for its customers. Its strong backward integration and robust R&D capabilities position it favorably in the ODM sector. Amber has continuously added capabilities across segments via either capex or inorganic acquisitions over the years to capture the larger value chain.

Segment and product portfolios

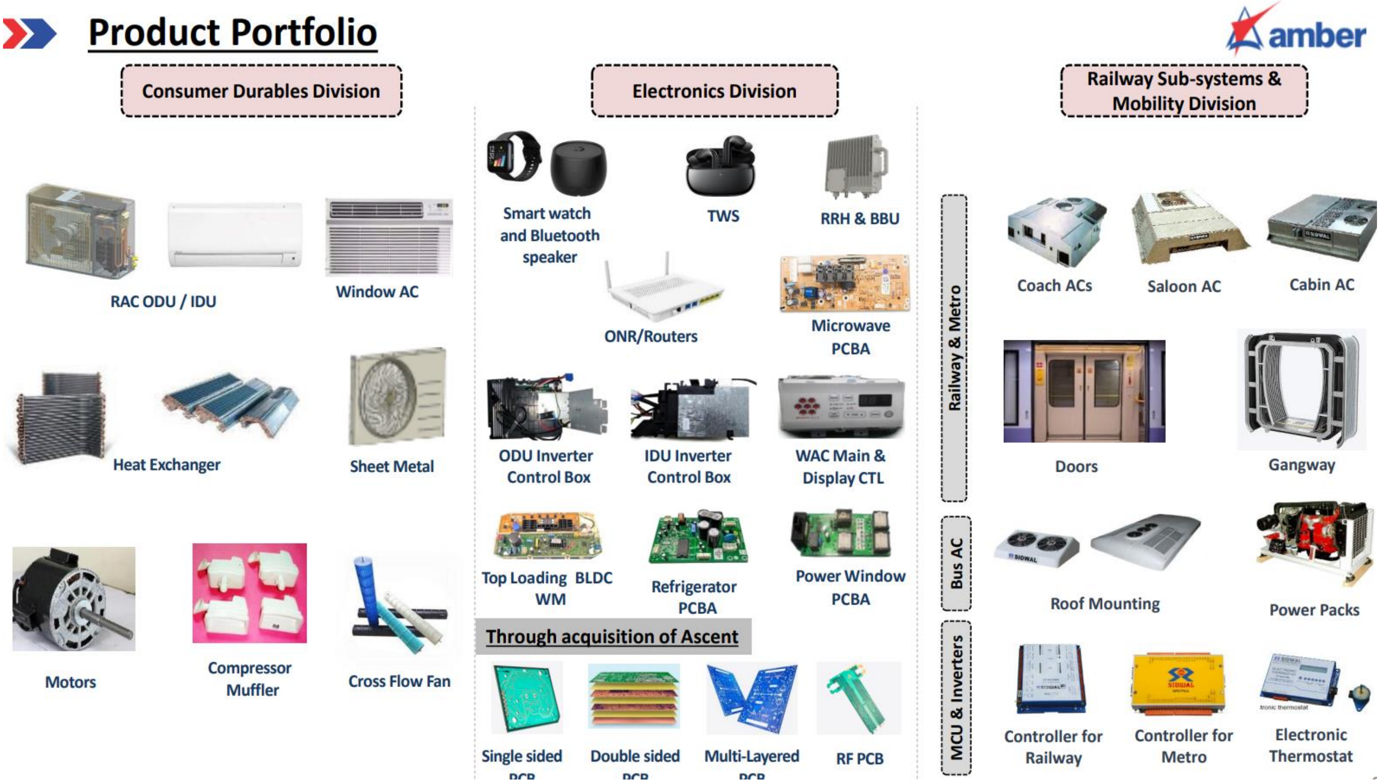
Over time, Amber has broadened its business scope through backward integration and acquisitions, extending its product range across multiple segments. Its RAC division contributed 72% of revenue in 2018, which decreased to 38% by 3QF24. This decline mirrors the company's expansion into electronics, railway subsystems, and the mobility divisions.

Exhibit 50: Segment portfolio



Source: Company, MOFSL

Exhibit 51: Product portfolio



Source: Company, MOFSL

Key business segments:

RAC & Components: Amber specializes in designing and manufacturing Room Air Conditioner (RAC) systems, including Indoor Units (IDU), Window ACs (WDU), and Outdoor Units (ODU) for Split ACs ranging from 0.75 ton to 2.0 ton. The company's product range includes various energy ratings and refrigerant types, offering fixed speed and Inverter AC models. In FY23, Amber expanded its customer base and product portfolio by introducing commercial ductable and cassette ACs, thus enhancing its ability to meet diverse customer needs in the commercial RAC segment. Amber's manufacturing expertise extends to functional components for ACs such as heat exchangers, motors, controllers, fans, and condensers, as well as sheet metal components, copper tubing components, and injection molding parts. Additionally, the company manufactures components for consumer durable goods and automobiles, covering multiple product categories. Currently, Amber covers 70% of the total value chain of IDU and ODU for Inverter SACs.

Electronics (ILJIN, EVER & Ascent): Amber, through its subsidiaries, is a market leader in manufacturing PCBAs for the consumer durable sector, with a proven track record and extensive experience in home appliances, RAC, and Telecom sectors. In FY23, it expanded its customer base in this division and ventured into manufacturing Smart Wearables and Hearables products. Additionally, it introduced new products for telecom equipment such as ONT and RRH. With the electronics market moving towards smarter products, the demand for PCBAs is expected to improve, further solidifying the division's position.

Railway Subsystems & Mobility division: Amber acquired Sidwal in 2019 to expand its offerings in mobility AC solutions. Sidwal is the largest supplier of roof-mounted package unit ACs. It caters to the segments like Railways, Bus, Metro, Defense, and Telecom & IT. Its key clients include Indian Railways, BEML, Siemens, DMRC, CAF, et al. The company offers a diverse range of mobility products, including roof-mounted ACs for Mainline Coaches, AC & refrigeration solutions for railways, roof-mounted loco drivers' cab AC, metros, and other HVAC products. Additionally, the company has carried out new product innovations across industries and provided Air Conditioning solutions to Metro Line Coaches. It has also secured significant contracts for metro AC projects.

Key risks: Slowdown in the industry, input price volatility

Amber's performance is subject to the following risks associated with:

- **Shifting of in-house production by OEMs:** The OEM players are shifting towards in-house production and assembly in the RAC industry, which could adversely affect ODM players (like Amber).
- **Competitive intensity**: The RAC industry faces intense competition owing to rapid capacity expansion by all players led by PLI incentives, which could lead to demand-supply mismatch. This could eventually result in loss of market share for Amber.
- **Seasonal variations**: Demand for ACs is highly seasonal, with peak demand visible during the summer months. The manufacturers and retailers may face challenges in managing inventories and cash flows during off-peak seasons.
- **Market demand fluctuations**: Changes in consumer preferences, economic conditions, and/or technological advancements can lead to fluctuations in demand for RAC units, PCBA, and railway subsystems. The fluctuations pose a risk of overstocking or understocking, thereby adversely impacting profitability.
- **Volatility in raw material prices**: Persistent high commodity prices present enduring obstacles for the company's ODM business, necessitating careful management of raw material procurement risks.
- **Environmental concerns**: Growing awareness of environmental issues may lead to a shift in consumer preferences towards more energy-efficient and environmentally friendly air conditioning solutions. Companies that fail to adapt to these changing preferences may face declining sales.

SWOT analysis

Management Team

Mr. Jasbir Singh (Chairman & CEO)

Mr. Jasbir Singh has more than 19 years of experience in the RAC manufacturing sector. He has been serving the Board of Amber since 1st Oct'04. He was appointed as the Chairman and CEO of the Company w.e.f. 25th Aug'17. He is also the member of the Audit Committee and Corporate Social Responsibility Committee of Amber. He holds a Bachelor's degree in Production Engineering (Industrial Production) from Karnataka University and Master's degree in Business Administration from the University of Hull, UK.

Mr. Daljit Singh (Managing Director)

Mr. Daljit Singh is serving the Board of Amber since 1st Jan'08 and appointed as the Managing Director w.e.f. 25th Aug'17. He is also the member of the Stakeholder Relationship Committee and Corporate Social Responsibility Committee of Amber. He has 17 years' experience in finance services and 10 years of experience in the RAC manufacturing sector. He holds a Bachelor's degree in Electronic Engineering from Nagpur University and Master's degree in Information Technology from the Rochester Institute of Technology.

Mr. Sanjay Arora (CEO – Electronics division)

Mr. Sanjay Arora is the CEO of Electronics Division of Amber. He has been associated with the company since 23rd Jul'12 and has more than 37 years of experience in the manufacturing industry. He is responsible for the Electronics Division of Amber (currently comprising ILJIN Electronics and EVER Electronics). He is also responsible for innovation, security, and legal matters of the company. He holds a degree in Electrical Engineering with specialization in Electronics and Television Technology from the YMCA Institute of Engineering, Faridabad.

Mr. Udaiveer Singh (CEO – Mobility Division)

Mr. Udaiveer Singh has been associated with the company since 15th Dec'03 and has over 26 years of experience in the manufacturing industry. He is also serving as the Managing Director of Sidwal Refrigeration Industries Private Limited, a wholly owned subsidiary of Amber. He is responsible for the planning and operations of the RAC manufacturing facilities of Amber. He holds a Diploma in Mechanical Engineering from the Board of Technical Education U.P.

Mr. Sachin Gupta (CEO – RAC & CAC Division)

Mr. Sachin Gupta has been associated with the company since 1st Nov'14 and has over 17 years of experience in the manufacturing industry. He is responsible for business development in Amber. He holds a Bachelor's degree in Electrical Engineering from Punjab Technical University and a Master's degree in Business Administration from All India Institute of Management Studies, Chennai.

Mr. Sudhir Goyal (Chief Financial Officer)

Mr. Sudhir Goyal has been associated with the company since 23rd Oct'12 and has over 17 years of experience in the finance function within the manufacturing sector. He is the head of the finance & accounts department of Amber. He holds a Bachelor's degree in Commerce (Hons.) from the University of Delhi. He is an associate member of the Institute of Chartered Accountants of India.

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E Mar	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Total Income from Operations	**39,628**	**30,305**	**42,064**	**69,271**	**67,293**	**84,618**	**1,02,226**	**1,19,390**
Change (%)	44.0	-23.5	38.8	64.7	-2.9	25.7	20.8	16.8
Raw Materials	33,017	25,135	35,297	58,678	54,999	69,159	83,551	97,579
Gross Profit	**6,611**	**5,170**	**6,767**	**10,593**	**12,293**	**15,458**	**18,675**	**21,811**
Employee Cost	1,063	1,021	1,500	2,116	2,572	2,508	3,029	3,538
Other Expenses	2,455	1,947	2,514	4,298	4,802	6,691	7,280	8,383
Total Expenditure	**36,535**	**28,102**	**39,310**	**65,092**	**62,374**	**78,358**	**93,860**	**1,09,501**
% of Sales	92.2	92.7	93.5	94.0	92.7	92.6	91.8	91.7
EBITDA	**3,093**	**2,203**	**2,754**	**4,179**	**4,919**	**6,260**	**8,366**	**9,889**
Margin (%)	7.8	7.3	6.5	6.0	7.3	7.4	8.2	8.3
Depreciation	848	923	1,079	1,391	1,865	2,162	2,405	2,632
EBIT	**2,245**	**1,280**	**1,675**	**2,788**	**3,054**	**4,098**	**5,961**	**7,257**
Int. and Finance Charges	419	410	464	1,118	1,670	1,584	1,505	1,512
Other Income	82	331	332	527	553	667	409	518
PBT bef. EO Exp.	**1,907**	**1,201**	**1,543**	**2,197**	**1,937**	**3,181**	**4,865**	**6,263**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**1,907**	**1,201**	**1,543**	**2,197**	**1,937**	**3,181**	**4,865**	**6,263**
Total Tax	266	369	429	559	519	814	1,245	1,603
Tax Rate (%)	13.9	30.7	27.8	25.4	26.8	25.6	25.6	25.6
Minority Interest	57	17	21	66	66	72	80	88
Reported PAT	**1,584**	**816**	**1,092**	**1,572**	**1,352**	**2,294**	**3,540**	**4,572**
Adjusted PAT	**1,584**	**816**	**1,092**	**1,572**	**1,352**	**2,294**	**3,540**	**4,572**
Change (%)	69.1	-48.5	33.8	44.0	-14.0	69.6	54.3	29.1
Margin (%)	4.0	2.7	2.6	2.3	2.0	2.7	3.5	3.8

Consolidated - Balance Sheet								(INR m)
Y/E Mar	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	314	337	337	337	337	337	337	337
Total Reserves	10,970	15,704	17,005	18,751	20,307	22,601	26,140	30,712
Net Worth	**11,284**	**16,041**	**17,342**	**19,088**	**20,644**	**22,938**	**26,477**	**31,049**
Minority Interest	348	365	387	452	518	591	670	758
Total Loans	3,205	3,495	10,318	13,437	14,332	14,332	14,332	14,332
Deferred Tax Liabilities	678	769	954	947	1,348	1,348	1,348	1,348
Capital Employed	**15,515**	**20,670**	**29,001**	**33,924**	**36,841**	**39,208**	**42,827**	**47,487**
Gross Block	13,465	14,683	18,037	25,621	31,309	35,309	38,809	42,309
Less: Accum. Deprn.	3,630	4,466	5,335	6,556	8,333	10,398	12,696	15,210
Net Fixed Assets	**9,836**	**10,218**	**12,702**	**19,065**	**22,977**	**24,911**	**26,114**	**27,099**
Goodwill on Consolidation	1,223	1,223	1,457	1,425	3,609	3,609	3,609	3,609
Capital WIP	118	433	1,282	503	908	908	908	908
Total Investments	**0**	**1,081**	**2,254**	**1,934**	**2,173**	**2,173**	**2,173**	**2,173**
Curr. Assets, Loans&Adv.	**17,813**	**22,892**	**31,401**	**39,475**	**36,236**	**44,427**	**53,913**	**64,504**
Inventory	6,557	7,163	8,408	10,913	8,408	13,331	16,104	18,808
Account Receivables	8,542	10,690	13,149	17,631	15,693	20,865	25,206	29,439
Cash and Bank Balance	1,203	2,899	5,626	5,594	6,913	3,395	4,882	7,643
Loans and Advances	293	321	18	39	49	48	58	68
Other Current Asset	1,218	1,818	4,200	5,297	5,173	6,788	7,663	8,546
Curr. Liability & Prov.	**13,474**	**15,175**	**20,095**	**28,478**	**29,060**	**36,820**	**43,889**	**50,806**
Account Payables	11,058	13,169	17,021	23,039	21,671	28,143	33,999	39,708
Other Current Liabilities	2,288	1,864	2,888	5,216	7,090	8,404	9,560	10,713
Provisions	128	141	186	223	300	273	330	385
Net Current Assets	**4,339**	**7,717**	**11,306**	**10,997**	**7,175**	**7,607**	**10,024**	**13,698**
Appl. of Funds	**15,515**	**20,670**	**29,001**	**33,924**	**36,841**	**39,208**	**42,827**	**47,486**

Financials and valuations

Ratios

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**50.4**	**24.2**	**32.4**	**46.7**	**40.1**	**68.1**	**105.1**	**135.7**
Cash EPS	77.3	51.6	64.4	87.9	95.5	132.3	176.4	213.8
BV/Share	358.8	476.1	514.7	566.5	612.7	680.8	785.8	921.5
DPS	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	80.8	168.1	125.6	87.2	101.4	60.7	39.3	30.4
Cash P/E	52.6	78.9	63.2	46.3	42.6	31.2	23.4	19.3
P/BV	11.3	8.5	7.9	7.2	6.6	6.1	5.3	4.5
EV/Sales	3.3	4.5	3.4	2.1	2.1	1.8	1.5	1.2
EV/EBITDA	42.0	62.5	51.5	34.7	29.4	24.0	17.8	14.7
Dividend Yield (%)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	46.8	14.8	-49.6	-98.8	168.3	-53.8	92.8	131.3
Return Ratios (%)								
RoE	15.0	6.0	6.5	8.6	6.8	10.5	14.3	15.9
RoCE	15.0	6.6	6.1	8.2	7.8	9.8	12.1	13.4
RoIC	14.7	5.8	6.7	9.1	8.5	10.2	13.1	15.1
Working Capital Ratios								
Fixed Asset Turnover (x)	2.9	2.1	2.3	2.7	2.1	2.4	2.6	2.8
Asset Turnover (x)	2.6	1.5	1.5	2.0	1.8	2.2	2.4	2.5
Inventory (Days)	60	86	73	58	46	58	58	58
Debtor (Days)	79	129	114	93	85	90	90	90
Creditor (Days)	102	159	148	121	118	121	121	121
Leverage Ratio (x)								
Current Ratio	1.3	1.5	1.6	1.4	1.2	1.2	1.2	1.3
Interest Cover Ratio	5.4	3.1	3.6	2.5	1.8	2.6	4.0	4.8
Net Debt/Equity	0.2	0.0	0.1	0.3	0.3	0.4	0.3	0.1

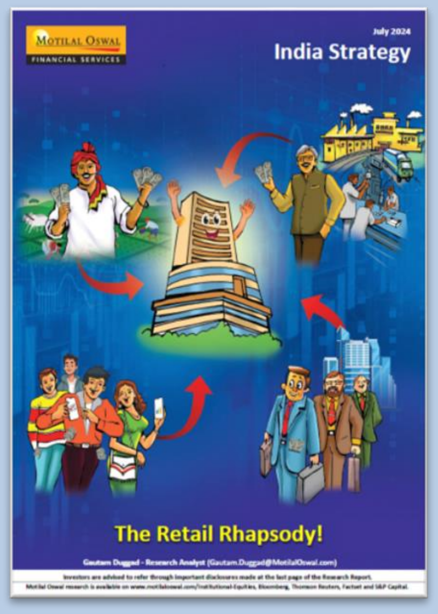
Consolidated - Cashflow Statement

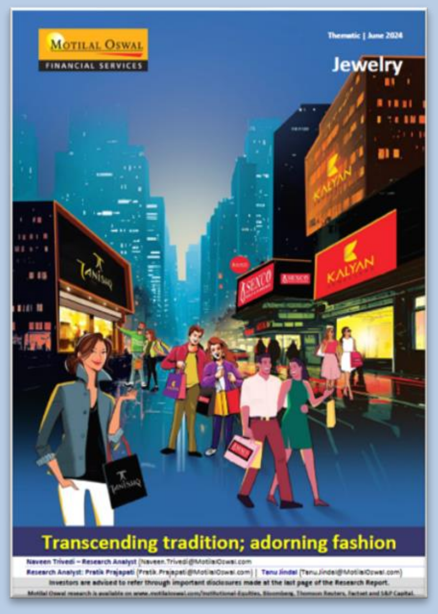
(INR m)

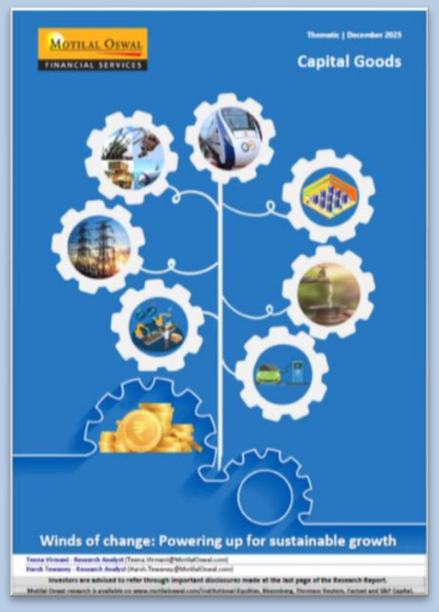
Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	1,907	1,201	1,543	2,197	1,913	3,181	4,865	6,263
Depreciation	848	923	1,079	1,391	1,865	2,162	2,405	2,632
Interest & Finance Charges	419	406	464	1,118	1,670	1,584	1,505	1,512
Direct Taxes Paid	-488	-79	-539	-539	-461	-814	-1,245	-1,603
(Inc)/Dec in WC	44	-80	-62	-582	5,032	-3,926	-904	-881
CF from Operations	**2,731**	**2,371**	**2,485**	**3,585**	**10,019**	**2,187**	**6,625**	**7,923**
Others	151	-162	-77	-379	-371	0	0	0
CF from Operating incl EO	**2,882**	**2,210**	**2,407**	**3,206**	**9,648**	**2,187**	**6,625**	**7,923**
(Inc)/Dec in FA	-1,411	-1,711	-4,077	-6,535	-3,977	-4,000	-3,500	-3,500
Free Cash Flow	**1,471**	**499**	**-1,670**	**-3,329**	**5,671**	**-1,813**	**3,125**	**4,423**
(Pur)/Sale of Investments	-1,672	-1,568	-1,542	210	788	0	0	0
Others	-183	-1,531	-1,277	1,437	-7,156	-23	-27	-32
CF from Investments	**-3,266**	**-4,810**	**-6,896**	**-4,888**	**-10,345**	**-4,023**	**-3,527**	**-3,532**
Issue of Shares	0	3,936	0	0	0	0	0	0
Inc/(Dec) in Debt	1,209	161	6,031	3,120	589	0	0	0
Interest Paid	-430	-372	-430	-1,097	-1,567	-1,584	-1,505	-1,512
Dividend Paid	-121	0	0	0	0	0	0	0
Others	-23	-24	-46	-96	-238	0	0	0
CF from Fin. Activity	**634**	**3,700**	**5,555**	**1,928**	**-1,216**	**-1,584**	**-1,505**	**-1,512**
Inc/Dec of Cash	**250**	**1,099**	**1,066**	**246**	**-1,913**	**-3,420**	**1,593**	**2,879**
Opening Balance	450	700	1,920	2,986	3,232	6,913	3,395	4,882
Other Bank Balances	503	1,100	2,640	2,363	5,594	-97	-107	-118
Closing Balance	**1,203**	**2,899**	**5,626**	**5,594**	**6,913**	**3,395**	**4,882**	**7,643**

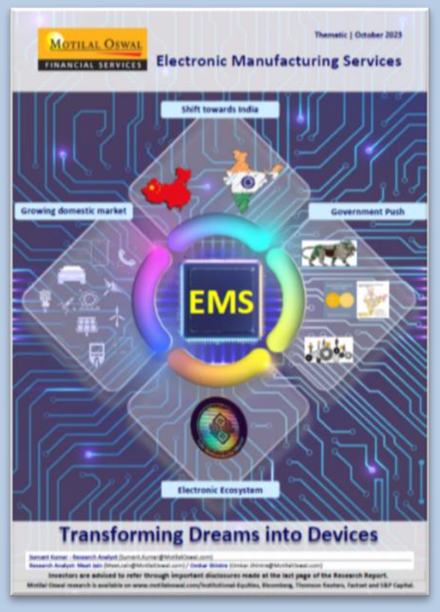
REPORT GALLERY

RECENT STRATEGY/THEMATIC REPORTS

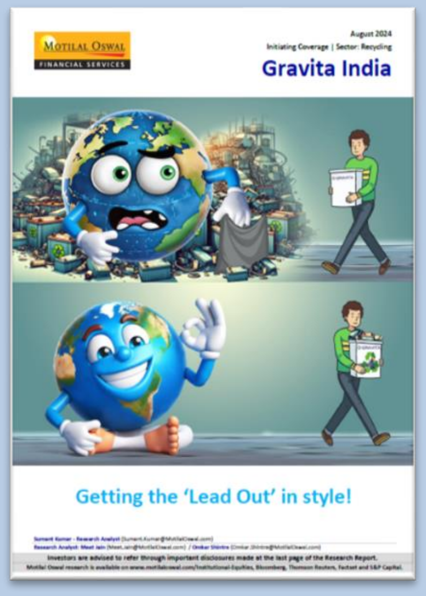


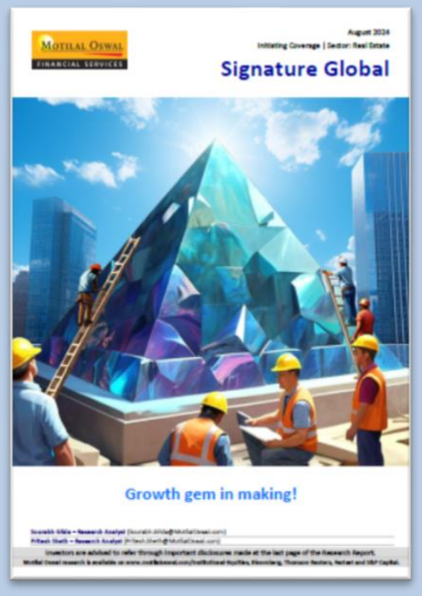


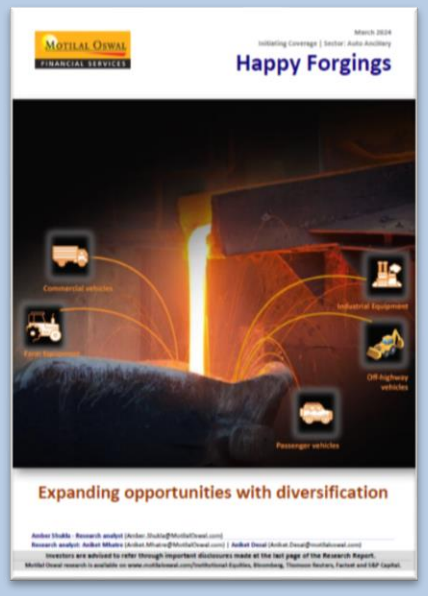


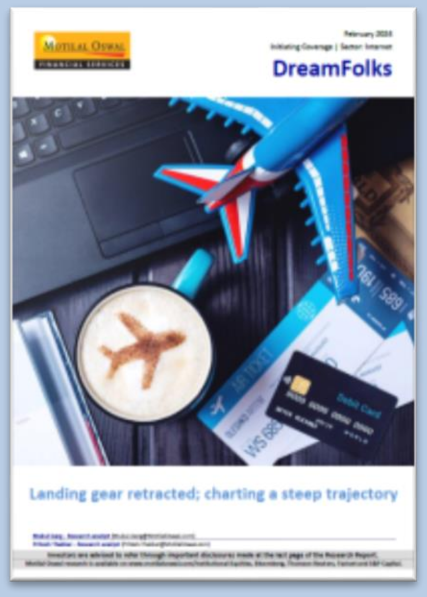


RECENT INITIATING COVERAGE REPORTS









Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg. No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets (Singapore) Pte. Ltd. ("MOCMSPL") (UEN 201129401Z), which is a holder of a capital markets services license and an exempt financial adviser in Singapore.This report is distributed solely to persons who (a) qualify as "institutional investors" as defined in section 4A(1)(c) of the Securities and Futures Act of Singapore ("SFA") or (b) are considered "accredited investors" as defined in section 2(1) of the Financial Advisers Regulations of Singapore read with section 4A(1)(a) of the SFA. Accordingly, if a recipient is neither an "institutional investor" nor an "accredited investor", they must immediately discontinue any use of this Report and inform MOCMSPL .

In respect of any matter arising from or in connection with the research you could contact the following representatives of MOCMSPL. In case of grievances for any of the services rendered by MOCMSPL write to grievances@motilaloswal.com.

Nainesh Rajani
Email: nainesh.rajani@motilaloswal.com
Contact: (+65) 8328 0276

Specific Disclosures

1 MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
2 MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
3 MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
4 MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
5 Research Analyst has not served as director/officer/employee in the subject company
6 MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
7 MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
8 MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
9 MOFSL has not received any compensation or other benefits from third party in connection with the research report
10 MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report or date of the public appearance.
- received compensation/other benefits from the subject company in the past 12 months
- any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months

- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.
- Served subject company as its clients during twelve months preceding the date of distribution of the research report.

The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report
Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.
This report is meant for the clients of Motilal Oswal only.
Investment in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.
Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263; www.motilaloswal.com.
Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.
Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN .: 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.
Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.