

# Dixon Technologies | BUY

## Backward integration is key focus along with customer addition

Dixon Technologies' 4QFY24 Revenue was at INR 46.5bn up 52% YoY and down 3% QoQ below JMFe by 2% and consensus by 8%. EBITDA at INR 1.8bn up 17% YoY and down 1% QoQ. PAT of INR 973mn up 21% YoY and flat QoQ. Revenue growth was driven by the Mobile phones & EMS segment while consumer electronics and lighting segments continue to remain weak. The mobile segment should continue to materially scale up led by incremental volumes coming from Xiaomi and new customer additions along with Ismartu. Dixon also continues to focus on new segment/business addition. We estimate EPS CAGR c.69% over FY24-26E along with strong return ratios (ROE of 24-35%) led by efficient capital/NWC management. Maintain Buy with revised price target of INR 8,620 (50x FY26 EPS).

- Mobile phone business impacted on QoQ:** Dixon Mobile Phones & EMS rev was down by 4% QoQ to INR 30bn (up 119% YoY) mainly due to slowdown in ramping up the Jio Bharat Phones. Management expects volumes ramp for Xiaomi to 0.3mn unit's p.m starting May,24 and expects overall smartphone mobile phone volumes of c.28-30mn in FY25 (Ex Samsung) and Samsung will be c.10mn units. Dixon already has c.Top 6 brands as its customer and is planning to add another large label in next 3-4 months. Expect new brands to be margin accretive. We expect rev of INR 29/40bn in FY25/FY26 and margin of 3.2%/3.3% respectively vs 3.3% in FY24.
- Consumer Business & Lighting business continue to impact:** Consumer electronics rev was down 9% YoY to INR 8.9bn mainly led by softness in demand. Lighting rev was down by 27% YoY to INR 2.7bn due to change in LED technology. However now Dixon is moving towards premium lights like – Ceiling lights, professional lights, street lights ,etc and has planned to exit battens from Q2.Also, in Lighting one large brand has shifted from in-house to outsourcing and Dixon will be anchor supplier to them.
- Backward Integration is the key focus:** In Mobile Phones, Dixon will do a capex of c.2.4bn in FY25 to manufacturer Display modules (10-11% of Mobile BOM) to create an capacity of 25mn units, technology tieups for the same have already been finalised.Also it is planning to do precision components and In LED TV focusing on developing new technologies like Google,etc along with developing interactive Flat display panels for larger brands for new growth. Expect overall capex below INR 5.5bn in FY25.
- Maintain BUY with TP of INR 8,620:** We expect a revenue/earning CAGR of 67%/69% over FY24-26E mainly led by (1) Dixon focusing on ramping up its mobile phone capacity, (2) new customer addition, (3) Backward integration to increase its wallet share amongst its key customers, (4) Ramping up its capacities in home appliances /laptops and (5) adding new product segment. All the above will help Dixon to generate strong OCF/FCF of INR 17.4bn/7.2bn over FY24-26E along with healthy ROE/ROCE of 35%/38% in FY26. Dixon trades a P/E of 58x/47x on FY25/26 EPS and we value it 50x on FY26 EPS to arrive at a TP of INR 8,620 which is up 6% from CMP hence we maintain BUY.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	8,620
Upside/(Downside)	6.4%
Previous Price Target	6,740
Change	27.9%

### Key Data – DIXON IN

Current Market Price	INR8,103
Market cap (bn)	INR484.7/US\$5.8
Free Float	53%
Shares in issue (mn)	59.6
Diluted share (mn)	59.6
3-mon avg daily val (mn)	INR2,701.4/US\$32.4
52-week range	8,657/2,858
Sensex/Nifty	72,987/22,201
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	6.2	54.2	175.8
Relative*	6.1	39.4	134.0

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,06,971	1,21,920	1,76,909	3,69,814	4,92,842
Sales Growth (%)	65.9	14.0	45.1	109.0	33.3
EBITDA	3,791	5,128	6,976	13,319	17,602
EBITDA Margin (%)	3.5	4.2	3.9	3.6	3.6
Adjusted Net Profit	1,902	2,555	3,589	8,262	10,263
Diluted EPS (INR)	32.5	42.9	60.3	138.7	172.3
Diluted EPS Growth (%)	19.0	32.1	40.5	130.2	24.2
ROIC (%)	27.2	27.5	28.4	41.0	43.2
ROE (%)	21.9	22.4	24.1	40.0	35.4
P/E (x)	249.5	188.9	134.4	58.4	47.0
P/B (x)	47.6	37.6	28.5	19.8	14.4
EV/EBITDA (x)	128.6	94.6	69.6	36.5	27.3
Dividend Yield (%)	0.0	0.0	0.1	0.2	0.2

Source: Company data, JM Financial. Note: Valuations as of 15/May/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Exhibit 1. . Change in estimates

Particulars	Revised estimates			Previous estimates			% chg		
	FY24A	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Sales	1,76,909	3,69,814	4,92,842	1,86,564	2,84,245	3,83,349	-5.2%	30.1%	28.6%
YoY (%)	45.1%	109.0%	33.3%	53.0%	52.4%	34.9%			
EBITDA	6,976	13,319	17,602	7,271	10,856	14,512	-4.1%	22.7%	21.3%
YoY (%)	36.0%	90.9%	32.2%	41.8%	49.3%	33.7%			
EBITDA Margin (%)	3.9%	3.6%	3.6%	3.9%	3.8%	3.8%	0bps	-20bps	-20bps
Adj PAT	3,589	8,262	10,263	3,851	6,430	8,922	-6.8%	28.5%	15.0%
YoY (%)	40.5%	130.2%	24.2%	50.7%	67.0%	38.8%			
Adj EPS (INR)	60.3	138.7	172.3	64.7	108.0	149.8	-6.8%	28.5%	15.0%
YoY (%)	40.5%	130.2%	24.2%	50.7%	67.0%	38.8%			

Source: JM Financial, Company

## Exhibit 2. Quarterly performance-Consolidated

Y/E March (INR mn)	3QFY23	4QFY24	YoY (%)	3QFY24	QoQ (%)	4QFY24E	Var (%)	12MFY23	12MFY24	YoY (%)
Net Sales	30,655	46,580	52.0	48,183	-3.3	47,624	-2.2	1,21,920	1,76,909	45.1
Expenditure	29,092	44,755	53.8	46,339	-3.4	45,746	-2.2	1,16,793	1,69,933	45.5
EBITDA	1,563	1,825	16.7	1,844	-1.1	1,878	-2.9	5,127	6,976	36.1
EBITDA (%)	5.1	3.9	-120bps	3.8	10bps	3.9	0bps	4.2	3.9	-30bps
Other income	18	167	816.5	23	619.0	41	308.9	56	226	302.3
Depreciation	325	510	57.2	407	25.4	408	25.1	1,146	1,619	41.2
EBIT	1,257	1,481	17.9	1,460	1.4	1,511	-2.0	4,037	5,583	38.3
Interest	151	214	41.3	222	-3.6	231	-7.4	606	747	23.4
PBT before Eol	1,105	1,267	14.7	1,238	2.3	1,280	-1.0	3,431	4,836	40.9
Share of Profit and loss from JV	16	28		19		26		16	102	
PBT	1,121	1,295	15.5	1,257	3.0	1,305	-0.8	3,448	4,938	43.2
Tax	315	322	2.4	287	12.3	333	-3.2	897	1,189	32.6
Tax rate (%)	28.5	25.4		23.2		26.0		26.1	24.6	
Adj PAT	806	973	20.7	971	0.2	973	0.0	2,551	3,749	47.0
Adj EPS (INR)	13.5	16.3	20.7	16.3	0.2	16.3	0.0	42.8	63.0	47.0

Source: JM Financial, Company

## Exhibit 3. Cost break up- Consolidated

Y/E March (INR mn)	3QFY23	4QFY24	YoY (%)	3QFY24	QoQ (%)	4QFY24E	Var (%)	12MFY23	12MFY24	YoY (%)
COGS	27,519	42,223	53.4	43,918	-3.9	43,781	-3.6	1,10,207	1,60,390	45.5
as a % of sales	89.8	90.6	90bps	91.1	-50bps	91.9	-130bps	90.4	90.7	30bps
Staff Cost	630	822	30.5	867	-5.2	788	4.4	2,517	3,327	32.2
as a % of sales	2.1	1.8	-30bps	1.8	0bps	1.7	10bps	2.1	1.9	-20bps
Other Expenditure	943	1,710	81.4	1,554	10.0	1,177	45.3	4,069	6,217	52.8
as a % of sales	3.1	3.7	60bps	3.2	40bps	2.5	120bps	3.3	3.5	20bps

Source: JM Financial, Company

**Exhibit 4. Segmental performance**

Y/E March (INR mn)	3QFY23	4QFY24	YoY (%)	3QFY24	QoQ (%)
<b>Revenue</b>					
Consumer Electronics	9,810	8,970	-8.6	9,290	-3.4
% of net sales	32.0	19.3		19.3	
Lighting Products	2,700	1,970	-27.0	1,870	5.3
% of net sales	8.8	4.2		3.9	
Home appliances	2,810	2,940	4.6	2,880	2.1
% of net sales	9.2	6.3		6.0	
Mobile Phones	14,100	30,910	119.2	32,140	-3.8
% of net sales	46.0	66.4		66.7	
Security Systems	1,240	1,790	44.4	2,000	-10.5
% of net sales	4.0	3.8		4.2	
<b>EBITDA</b>					
Consumer Electronics	370	300	-18.9	320	-6.3
% EBITDA	3.8	3.3	-40bps	3.4	-10bps
Lighting Products	260	142	-45.4	130	9.2
% EBITDA	9.6	7.2	-240bps	7.0	30bps
Home appliances	310	301	-2.9	300	-10,433.3
% EBITDA	11.0	10.2	-80bps	10.4	-20bps
Mobile Phones	590	1,050	78.0	1,040	1.0
% EBITDA	4.2	3.4	-80bps	3.2	20bps
Security Systems	36	34	-5.6	50	-32.0
% EBITDA	2.9	1.9	-100bps	2.5	-60bps

Source: JM Financial, Company

**Exhibit 5. Share of ODM revenue**

Share of ODM revenue (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Consumer Electronics	7%	25%	24%	38%	29%	33%	35%	41%
Lighting Products	84%	93%	93%	90%	90%	90%	90%	94%

Source: JM Financial, Company

**Exhibit 6. Working capital position (in days)**

Working Capital days	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Inventory	44	31	38	27	32	29	29	29
Debtors	45	41	52	48	44	38	37	45
Creditors	92	72	89	77	81	72	73	82
<b>Cash conversion cycle</b>	<b>-3</b>	<b>0</b>	<b>1</b>	<b>-2</b>	<b>-5</b>	<b>-5</b>	<b>-7</b>	<b>-8</b>

Source: JM Financial, Company

## Q4FY24 Earning Call takeaways

### Mobile Phones

- Smartphone 15mn (8.6mn units for Samsung & 6.5 for other brands). Feature phone volumes were c.38mn units in FY24. Smartphone capacity increased to 45mn units and Feature phones c.40mn units' p.a.
- In May run rate was c.1.6mn Smartphones per month and another 0.8mn a month of Ismartu will be added from Q1FY25 which will take the overall monthly run rate to 2.3mn per month. Dixon will consolidate Ismartu from Q2FY25.
- Mobile manufacturing for Compact will start from Sept,24 and for Realme (Longcheer) it has already clocking 0.45mn units a month from May,24
- Mobile phone margins to improve on back of (1) operating leverage, (2) backward integration through display modules, (3) precision components + mechanicals and (4) addition of margin accretive customers.

### Consumer Electronics

- 42" inches TV were rolled out in Q1, also looking to manufacture TV in range of 65 -100 inches with latest technology. In FY24, it has sold c.3mn LED TV and for Q4FY24 was c.0.65mn units.
- Setup a facility at Noida, where it will now also look to manufacture interactive displays for industrials and other industries.

### Home Appliances

- Started manufacturing Semi-Automatic Washing Machine for BSH and Fully Automatic WM for Panasonic & Lloyd and trail production for Reliance will start soon.
- Sold c.1.7mn Semi-Automatic WM & 0.65mn Fully Automatic WM in FY24.

### Lighting

- New products rolled out in ceiling lights and professional lights. It has done backward integration – plastic moulding for Ceiling lights. It has planned to exit battens from Q2 in order to optimise cost and efficient working capital along with new focus on developing premium products.
- In FY24, done volumes of – LED Bulbs 94mn units, Battens- 20mn units, Down lighters- 2.5mn units and others lights at 17mn units.

### Others

- Padgets is beneficiary in IT Hardware PLI 2.0 and it has contract with Acer for which operations will start from Sept,24.
- It created Refrigerator capacity of c.1.2mn of DC refrigerators for (175L – 235L) capacities which is almost 10% of the industry requirement. It will produce c.60k Ref for Voltas and other customers in Q1FY25.
- Total PLI was in FY24 was c.710mn vs INR 100mn in FY23. Mobile PLI in FY24 was c.INR 520mn.
- In FY23, INR 2.75bn saved due to good work done at lighting business and pure cash was c.INR 4.5bn.

## Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	1,06,971	1,21,920	1,76,909	3,69,814	4,92,842	
Sales Growth	65.9%	14.0%	45.1%	109.0%	33.3%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>1,06,971</b>	<b>1,21,920</b>	<b>1,76,909</b>	<b>3,69,814</b>	<b>4,92,842</b>	
Cost of Goods Sold/Op. Exp	97,792	1,10,207	1,60,390	3,35,283	4,46,822	
Personnel Cost	1,978	2,517	3,327	6,657	8,871	
Other Expenses	3,410	4,069	6,217	14,557	19,547	
<b>EBITDA</b>	<b>3,791</b>	<b>5,128</b>	<b>6,976</b>	<b>13,319</b>	<b>17,602</b>	
EBITDA Margin	3.5%	4.2%	3.9%	3.6%	3.6%	
EBITDA Growth	32.3%	35.3%	36.0%	90.9%	32.2%	
Depn. & Amort.	840	1,146	1,778	2,127	2,582	
EBIT	2,951	3,981	5,198	11,192	15,020	
Other Income	38	56	226	326	426	
Finance Cost	442	606	747	531	513	
PBT before Excep. & Forex	2,547	3,432	4,676	10,987	14,933	
Excep. & Forex Inc./Loss(-)	-2	20	102	117	132	
PBT	2,546	3,452	4,778	11,105	15,065	
Taxes	644	897	1,189	2,843	3,531	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,902	2,555	3,589	8,262	11,534	
<b>Adjusted Net Profit</b>	<b>1,902</b>	<b>2,555</b>	<b>3,589</b>	<b>8,262</b>	<b>10,263</b>	
Net Margin	1.8%	2.1%	2.0%	2.2%	2.1%	
Diluted Share Cap. (mn)	58.6	59.6	59.6	59.6	59.6	
<b>Diluted EPS (INR)</b>	<b>32.5</b>	<b>42.9</b>	<b>60.3</b>	<b>138.7</b>	<b>172.3</b>	
Diluted EPS Growth	19.0%	32.1%	40.5%	130.2%	24.2%	
Total Dividend + Tax	59	119	287	826	1,026	
Dividend Per Share (INR)	1.0	2.0	4.8	13.9	17.2	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,547	3,432	4,836	10,987	14,933	
Depn. & Amort.	840	1,146	1,619	2,127	2,582	
Net Interest Exp. / Inc. (-)	435	593	638	205	87	
Inc (-) / Dec in WCcap.	-641	2,764	-86	-6,221	-664	
Others	87	143	0	-259	0	
Taxes Paid	-540	-820	-1,218	-2,843	-3,531	
<b>Operating Cash Flow</b>	<b>2,728</b>	<b>7,258</b>	<b>5,789</b>	<b>3,996</b>	<b>13,406</b>	
Capex	-4,206	-4,502	-5,686	-4,282	-5,872	
Free Cash Flow	-1,479	2,756	103	-286	7,534	
Inc (-) / Dec in Investments	-438	947	377	0	0	
Others	0	0	0	0	0	
<b>Investing Cash Flow</b>	<b>-4,645</b>	<b>-3,556</b>	<b>-5,309</b>	<b>-4,282</b>	<b>-5,872</b>	
Inc / Dec (-) in Capital	642	336	677	0	0	
Dividend + Tax thereon	-59	-119	-179	-826	-1,026	
Inc / Dec (-) in Loans	3,026	-2,776	-276	-200	-200	
Others	-558	-737	-922	-100	23	
<b>Financing Cash Flow</b>	<b>3,052</b>	<b>-3,296</b>	<b>-700</b>	<b>-1,126</b>	<b>-1,203</b>	
<b>Inc / Dec (-) in Cash</b>	<b>1,135</b>	<b>406</b>	<b>-220</b>	<b>-1,412</b>	<b>6,331</b>	
Opening Cash Balance	689	1,823	2,292	2,087	687	
Closing Cash Balance	1,823	2,292	2,072	675	7,018	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	9,967	12,849	16,949	24,384	33,621	
Share Capital	119	119	120	120	120	
Reserves & Surplus	9,849	12,730	16,829	24,265	33,501	
Preference Share Capital	0	0	0	0	0	
Minority Interest	7	-3	0	0	0	
Total Loans	4,580	1,826	1,550	1,350	1,150	
Def. Tax Liab. / Assets (-)	201	224	240	-19	-19	
<b>Total - Equity &amp; Liab.</b>	<b>14,755</b>	<b>14,897</b>	<b>18,739</b>	<b>25,715</b>	<b>34,752</b>	
Net Fixed Assets	10,253	13,633	20,646	22,801	26,091	
Gross Fixed Assets	11,848	15,307	22,833	27,798	33,670	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,815	2,870	2,870	4,997	7,579	
Capital WIP	220	1,197	683	0	0	
Investments	1,410	442	200	200	200	
Current Assets	31,110	32,719	48,784	99,980	1,38,084	
Inventories	11,557	9,579	16,950	36,475	48,609	
Sundry Debtors	13,564	17,155	23,179	52,686	70,213	
Cash & Bank Balances	1,823	2,292	2,087	687	5,760	
Loans & Advances	1,945	1,257	20	10,132	13,503	
Other Current Assets	2,221	2,438	6,549	0	0	
Current Liab. & Prov.	28,017	31,898	50,892	97,266	1,29,624	
Current Liabilities	23,137	24,519	40,652	75,989	1,01,269	
Provisions & Others	4,880	7,379	10,240	21,277	28,355	
Net Current Assets	3,093	822	-2,108	2,714	8,460	
<b>Total - Assets</b>	<b>14,755</b>	<b>14,896</b>	<b>18,739</b>	<b>25,715</b>	<b>34,752</b>	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	1.8%	2.1%	2.0%	2.2%	2.1%
Asset Turnover (x)	8.8	8.1	10.3	16.2	15.7
Leverage Factor (x)	1.4	1.3	1.1	1.1	1.1
RoE	21.9%	22.4%	24.1%	40.0%	35.4%

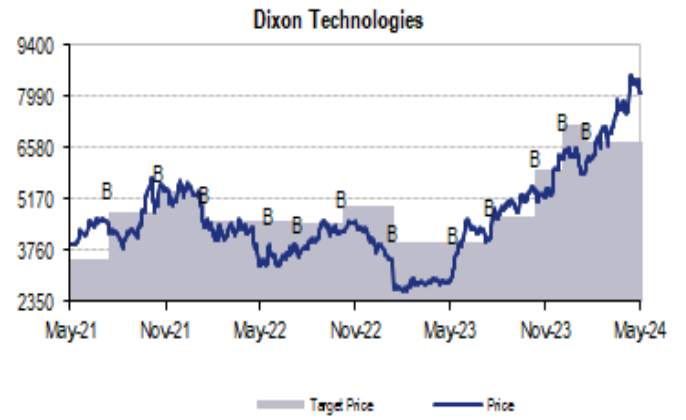
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	170.2	215.8	284.6	409.5	564.6
ROIC	27.2%	27.5%	28.4%	41.0%	43.2%
ROE	21.9%	22.4%	24.1%	40.0%	35.4%
Net Debt/Equity (x)	0.1	-0.1	0.0	0.0	-0.1
P/E (x)	249.5	188.9	134.4	58.4	47.0
P/B (x)	47.6	37.6	28.5	19.8	14.4
EV/EBITDA (x)	128.6	94.6	69.6	36.5	27.3
EV/Sales (x)	4.6	4.0	2.7	1.3	1.0
Debtor days	46	51	48	52	52
Inventory days	39	29	35	36	36
Creditor days	82	77	87	78	78

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Dec-20	Buy	2,700	
2-Feb-21	Buy	3,500	29.6
27-Jul-21	Buy	4,800	37.1
31-Oct-21	Buy	5,400	12.5
29-Jan-22	Buy	4,600	-14.8
30-May-22	Buy	4,600	0.0
28-Jul-22	Buy	4,500	-2.2
20-Oct-22	Buy	5,000	11.1
26-Jan-23	Buy	4,000	-20.0
23-May-23	Buy	4,000	0.0
30-Jul-23	Buy	4,700	17.5
27-Oct-23	Buy	5,975	27.1
19-Dec-23	Buy	7,215	20.8
1-Feb-24	Buy	6,740	-6.6

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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