Dixon Technologies

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Annual Report Analysis

Annual Report 2018- The IPO year

Dixon Technologies came up with the IPO in FY18 and got a great response from investors with a 117x subscription. From its IPO proceed of ₹ 600mn, company spent ₹.220mn for loan repayment and ₹75mn for setting up the plant at Tirupati for LED TVs. There is security premium of ₹ 596mn raised from the IPO issue reflected in the reserves.

Increasing the ODM mix with high investment in R&D

To compete and making higher sustainable margins company is making efforts toward ODM supplies. ODM segment is expected to show a robust demand for the best value design. To strengthen it, company is making big investments in R&D team. In FY18 Dixon has 22% as ODM share in total revenues and 31 employees in R&D Team.

Key focus on new customers addition and backward integration

Company added new customers in last year in all its verticals, with big brands like Samsung, Flipkart, Crompton, Lloyds etc. as its customer. Dixon is confident about expanding margins. It will also be helped by more backward integration. It continues to talk to many big brands in TVs and mobile and expects to add more clients in FY19.

WC has increased marginally

Inventory level stood at ₹ 3,223mn in FY18 from ₹ 2,822mn, due to higher finished goods and raw material. Debtor days reduced at 38 and inventory days remained flat at 42, while creditor days went down to 65 days in FY18 from 74days in FY17. Working capital days increased to 21days v/s 15days in the last year.

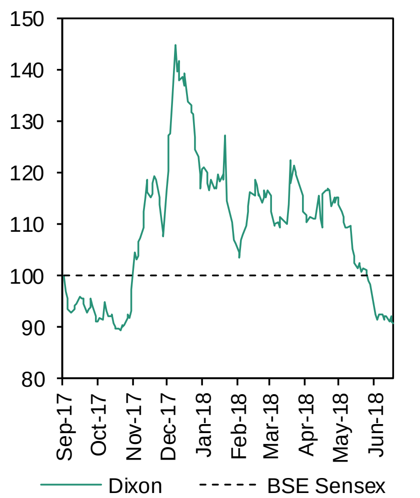
Operating cash flow improved stronger with higher WC

Company increased its cash to ₹ 441mn from ₹ 154mn following its IPO. Cash flow from operations was higher at ₹1,173mn compared to ₹ 827mn in last year. Company did major capex of ₹ 712mn for setting up its plant at Tirupati. Capex in FY17 was ₹ 261mn. Further capex of ₹.400mn is expected to be incurred in FY19 for Tirupati facility expansion. Company repaid debt of ₹ 220mn during the year.

View-We expect TV and washing machine volumes to drive growth for Dixon in FY19. We have an Accumulate rating for the stock with a TP of ₹ 3,430 valuing stock at 33x for FY20 EPS.

CMP	₹ 2,889
Target / Upside	₹ 3,430/18%
BSE Sensex	35,657
NSE Nifty	10,772
Scrip Details	
Equity / FV	₹ 113mn/₹10/-
Market Cap	₹ 32bn
	USD 0.5bn
52-week High/Low	₹ 4,490/2,510
Avg. Volume (no)	3,591
NSE Symbol	DIXON
Bloomberg Code	DIXON.IN
Shareholding Pattern Mar'18 (%)	
Promoters	38.9
MF/Banks/FIs	16.7
FIIs	9.1
Public / Others	35.4

Dixon Tech Relative to Sensex



FINANCIALS (₹ Mn)

Particulars	FY16	FY17	FY18	FY19E	FY20E
Net Sales	13,886	24,248	27,949	35,546	40,907
Growth (%)	15.61	74.6	15.3	27.2	15.1
EBITDA	587	913	1,127	1,564	1,964
OPM (%)	4.2	3.8	4.0	4.4	4.8
Net Profit (after MI)	426	476	609	915	1183
Growth (%)	211.7	11.8	27.9	50.2	29.3
EPS (₹)	37.6	42.0	53.8	81.1	104.8
Growth (%)	(99.1)	11.8	27.9	50.8	29.3
PER(x)	76.9	68.8	53.7	35.6	27.6
ROANW (%)	26.5	18.6	17.0	19.9	22.9
ROACE (%)	23.2	27.3	25.1	27.9	31.8

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DOLAT CAPITAL

July 06, 2018

Management Discussion and Analysis

An Overview about the Indian economy

Indian GDP grew by 40% to $2.6tn in FY18 from $1.8tn in FY13.In the year government empowered the job creation, and India became the first choice for foreign direct investors. there was a rise in total FDI inflows from $152 bn in 2010-14 to $222.75bn in 2014-18. India is ranked among top two emerging market performers. Mobile imports have also reduced in India by 50%.

Indian appliance and consumer electronics industry-

India is the world's third largest TV industry and is the fastest growing electronic market country. Indian electronics market is expected to grow at 41% CAGR between FY17-20 to reach US$ 400bn. OEM market in ES is estimated to grow at CAFR of 16.2% by FY20 to $216bn, this will be mainly driven by mobile phones and other electricals.

'Make in India' campaign should help EMS

Make in India promotes in house manufacturing and designing. This is increasing the scope for OEM and EMS. India has 150% lower wage rates than China, and Government's time to time steps to encourage in house manufacturing is driving the EMS industry.

Major initiatives taken by the government

- Modified Special Incentive Package Scheme (M-SIPS)- MSIPS launched to attract the EMS segment in India, in this scheme capital subsidy of 20% to SEZ and 25% to non-SEZ units is given for electronics manufacturing.
- Electronic Development Fund Policy- It provides risk capital to companies which are developing new technologies.
- National Policy on Electronics- helps the country to not only meet its requirements but also to export electronics products.

Segment performance during the year

Consumer Electronics (TVs)

TV is the largest contributor in consumer electronics and India is the world's largest TV industry. It is expected to grow at 14.7% CAGR over FY16-21. Demand for smart TVs is estimated to grow faster due to higher internet penetration. Company is currently manufacturing DVDs, LED, LCDs and home theaters. It has started the production of TVs at Tirupati facility.

Washing Machine

With Semi-automatic WM, fully automatic WM are also seeing growth due to increasing disposable income of people and reducing prices of WMs. Better opportunities are there in Tier 2 and Tier 3 cities because of low penetration. Dixon started WM manufacturing in 2010 and currently making SAWMs. It will soon start manufacturing WM at Tirupati with its own designs for OEs based in south.

Lighting products

The Indian LED market, which was Rs200bn in FY16, is expected to grow at a CAGR of 10-12% to reach at Rs300bn by FY20. The old conventional lights will be fully replaced by 2019 with LED lights. Company started making lights in 2008 with CFL. It exports CFL and LEDs and is a leading ODM player in lighting segment in India.

Mobile Phones

India is the second largest consumer for smart phones in the world. China is the vendor for 49% of the total demand in India. Mobile phone production in India has reached at a Rs900bn. Dixon started its business in Mobiles in 2016 with a JV. Company is planning to set up a separate plant for PCBs at Noida, and PCBs are the major component for a mobile, contributes 50% of the total value.

Reverse Logistics

With the increasing production cost in China helping Indian EMS industry to grow. The company entered in this business in 2008, in which it provides repair and refurbishment of the products. The company is focusing more on B2B business.

Security system

Indian security system is developing, and it has showed a growth of 25% over last 5 years. The CCTV market is expected to grow 12% in between FY18-23. Various governments making it a mandate to install CCTV cameras in their states. The Company entered manufacturing of CCTV cameras with its subsidiary All Dixon Tech for CP Plus

Developments during the year

- Company commenced the production, of security system including CCTV'S & DVR's from the facility at Tirupati.
- Commenced production of Liquid Crystal Module line at Tirupati facility which will be the India's largest facility for LED TV panel manufacturing.
- Entered into contracts with some of the big brands like Samsung, Flipkart, Lloyd, Crompton and CP Plus.

Financial Analysis

Profit and Loss Statement

Revenue- The company reported revenue at ₹ 27,949mn in FY18 at growth of 15% YoY. Out of which highest revenue recorded in WM and TVs. Revenue from top three customers of the company came at ₹20,455mn. (Previous year Rs18480mn). Revenue share from OEM was 78% and from ODM it was 22%.

Material and other cost- Bought out material constituted more than 80% of total material cost at ₹ 25,656mn. Manufacturing expenses and power & fuel cost significantly increased by 56% and 32% respectively during the year. Company almost doubled its selling and distribution exp from ₹ 67mn to 105mn.On R&D, the company incurred ₹ 35mn for revenue exp and ₹ 8mn towards capital exp.

EBITDA- EBITDA in FY18 stood at ₹ 1127mn v/s ₹ 913mn in FY17.

Effective tax rate- The effective tax rate came up to 31% in FY18 from 28% in FY17, due to increase in current tax to ₹ 241mn in FY18 from ₹ 160mn in FY17.

PAT- Company reported PAT at ₹ 609mn at a strong growth of 28% YoY in the year ended on the back of higher other income and lower interest cost incurred during the year.

EPS- EPS has been computed on an equity base of 11.3mn shares as on March 31st, 2018. EPS stood at Rs54 in FY18 v/s ₹ 42 in FY17.

Balance sheet analysis

Gross Block- The company incurred capital expenditure on R&D for ₹ 8mn. capital expenditure incurred by the company during the year was ₹ 712mn compared to ₹ 261mn in last year. The Company will get incentive for capex done for manufacturing of electrical appliances. 25% of total capex and 100% of excise paid is available as the incentive.

Cash and Cash equivalents- The company witnessed an increase in cash position to ₹ 441mn from ₹ 154mn. The cash per share for the company stood at ₹ 30 in FY18.

Inventory- Inventory level stood at ₹ 3,223mn in FY18 from ₹ 2,822mn in FY17, due to higher finished goods and raw material share in it.

Other current liabilities- Other current liabilities significantly increased to ₹ 684mn in FY18 from ₹127mn in preceding year, due to higher advances received from customers by the company.

Dividend- Dividend payout ratio was 4% during the year. Company paid a dividend of ₹ 2 per share.

Cash Flow Analysis

Cash flow from Operations- Cash flow from operations increased by 42% YoY to ₹ 1173mn during the year. Working capital changes in the year was ₹ 347mn v/s ₹ 100mn in FY17. company paid direct taxes at ₹ 273mn.

Cash flow from Investments-There was no changes in company's investments.

Cash flow from financing- Dixon issued 339750 shares in IPO offer, adding to its already issued and subscribed equity shares at 10985341. At FV of ₹ 10 for each share company has issued and subscribed capital of Rs113mn. Company repaid the debts by ₹ 23mn in FY18.

Ratio Analysis

Margins Ratios- EBITDA margins for the company improved by 30bps to 4% during the year, on the back of better operational efficiency. PBT margins upturned by 50bps from 2.7% to 3.2% in FY18. And net profit margin stood up by 20bps at 2.1%.

Liquidity Ratios- Current ratio and quick ratio remained flat at 1.17 and 0.67 in FY18 compared to FY17.

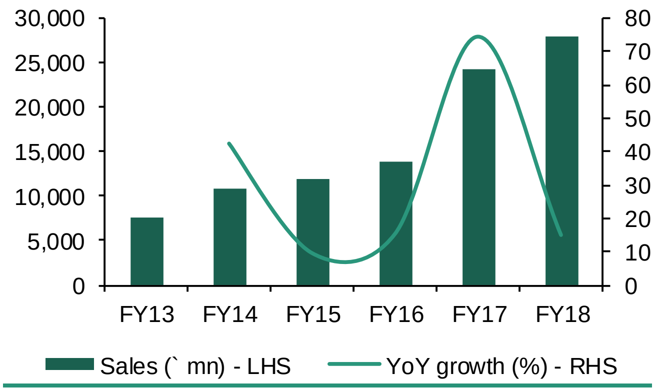
Degree of leverage- The degree of operating leverage stood at 1.35 in FY18 compared to 0.78 in FY17. Which is showing its higher fixed cost in comparison to variable cost. As company is facing lower capacity utilization in some of its business segments like mobiles and TVs. With the addition of new customers in FY19, it should be reduced to some extent. Degree of financial leverage increased to 1.14 from negative 0.07. D/E ratio came down to 0.1 in FY18 from 0.2 in FY17. Average cost of debt got reduced by 500bps to 32%.

Efficiency ratios- Inventory TO ration slightly went up by 10bps to 8.7 in FY18, whereas Fixed asset TO went down by 180bps to 11.1, due to less utilized capacity at some verticals. Working capital TO ratio declined significantly to 17 in FY18 from 24 in FY17. Net WC to CE increased to 0.5 from 0.4 in the last year.

Return Ratio- Company's RoE slightly declined to 17% from 18.6% while RoCE went down to 25% from 27% during the year compared to last year.

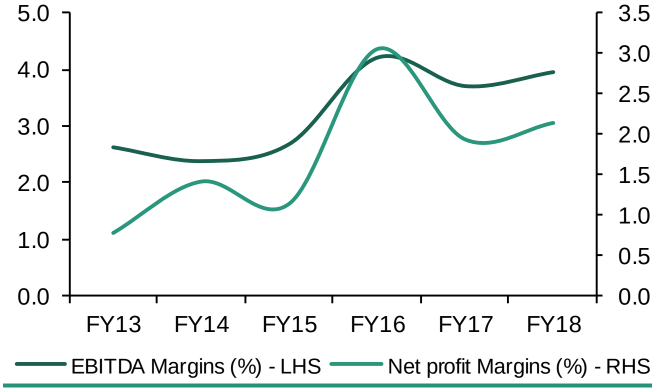
Annual Charts

Exhibit 1: Sales and YoY growth (%)



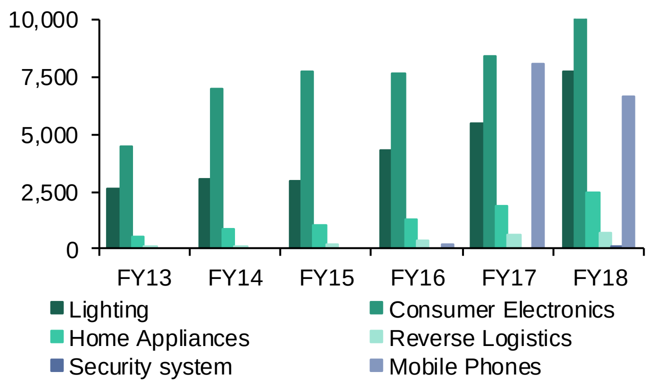
Source: Company, DART

Exhibit 2: Margins (%)



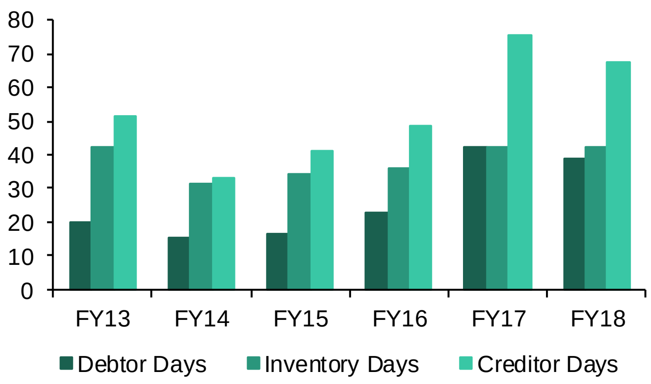
Source: Company, DART

Exhibit 3: Segmental Revenue



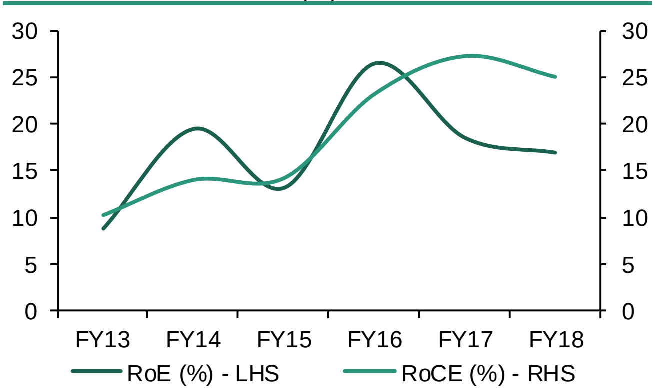
Source: Company, DART

Exhibit 4: Working capital days



Source: Company, DART

Exhibit 5: Return Ratios (%)



Source: Company, DART

Exhibit 6: Segmental EBIT Margin (%)

	FY13	FY14	FY15	FY16	FY17	FY18
Lighting	1.9	2.8	3.0	5.2	3.2	6.1
Consumer Electronics	2.7	1.6	1.7	2.1	3.0	2.2
Home Appliances	5.0	6.3	5.8	10.7	16.3	12.3
Reverse Logistics	22.7	20.7	19.1	18.1	19.6	7.8
Security system						(185.7)
Mobile Phones				(2.2)	0.6	1.0

Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Net Sales	**24,248**	**27,949**	**35,546**	**40,907**
Total Income	24,571	28,416	35,546	40,907
Total Expenditure	23,658	27,289	33,982	38,943
Raw Material	21,801	24,870	31,103	35,630
Employee Expenses	639	728	924	1,064
Other Expenses	1,218	1,692	1,955	2,250
Other Income	14	42	42	42
EBIDTA (Excl. OI)	**913**	**1,127**	**1,564**	**1,964**
EBIDTA (Incl. OI)	**927**	**1,169**	**1,606**	**2,005**
Interest	155	135	125	129
Gross Profit	**772**	**1,034**	**1,480**	**1,876**
Depreciation	108	152	192	210
PBT & EO Items	664	882	1,288	1,666
Extra Ordinary Exps/(Inc.)	-	-	-	-
Profit Before Tax	664	882	1,288	1,666
Tax	188	273	374	483
Net Profit	476	609	915	1,183
Minority Interest	-	-	-	-
Net Profit	**476**	**609**	**915**	**1,183**

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	110	113	113	113
Other Reserves	1,870	3,037	3,923	5,053
Net Worth	**1,980**	**3,150**	**4,036**	**5,166**
Minority Interest	-	-	-	-
Secured Loans	99	80	80	80
Unsecured Loans	331	326	350	350
Loan Funds	**430**	**406**	**430**	**430**
Deferred Tax Liability	(3)	41	41	41
Total Capital Employed	**2,407**	**3,597**	**4,507**	**5,637**
Applications of Funds				
Gross Block	1,885	2,520	3,170	3,469
Less: Accumulated Dep.	515	695	889	1,101
Net Block	**1,370**	**1,825**	**2,281**	**2,368**
Capital Work in Progress	20	126	-	-
Investments	-	-	-	-
Current Assets, Loans & Advances				
Inventories	2,822	3,223	4,090	4,707
Sundry Debtors	2,802	2,963	3,895	4,483
Cash and Bank Balance	158	441	877	1,790
Loans and Advances	-	-	-	-
Other Current Assets	722	1,281	1,237	1,237
sub total	6,503	7,909	10,100	12,216
Less: Current Liabilities & Provisions				
Current Liabilities	5,428	6,187	7,468	8,437
Provisions	58	74	406	511
sub total	5,487	6,262	7,874	8,948
Net Current Assets	1,017	1,647	2,226	3,268
Total Assets	**2,407**	**3,597**	**4,507**	**5,637**

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Profit before tax	**1,128**	**1,442**	**1,372**	**1,753**
Depreciation & w.o.	108	152	192	210
Net Interest Exp	14	42	42	42
Direct taxes paid	(188)	(273)	(374)	(483)
Change in Working Capital	(100)	(347)	(143)	(130)
Other	(134)	157	6	(9)
(A) CF from Opt. Activities	**827**	**1,173**	**1,095**	**1,383**
Capex	(261)	(712)	(523)	(298)
Free Cash Flow	**566**	**461**	**572**	**1,085**
Inc./ (Dec.) in Investments	1	0	0	0
(B) CF from Invt. Activities	**(260)**	**(712)**	**(523)**	**(298)**
Inc./(Dec.) in Debt	(341)	(23)	24	0
Interest exp net	(155)	(135)	(125)	(129)
Dividend Paid (Incl. Tax)	(66)	(23)	(34)	(44)
(C) CF from Financing	**(483)**	**(177)**	**(136)**	**(173)**
Net Change in Cash	83	284	436	912
Opening Cash balances	**75**	**158**	**441**	**877**
Closing Cash balances	**158**	**441**	**877**	**1,790**

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	3.7	4.0	4.4	4.8
EBIDTA Margin (incl. O.I.)	3.8	4.1	4.5	4.9
Interest / Sales	0.6	0.5	0.4	0.3
Gross Profit Margin	3.1	3.6	4.2	4.6
Tax/PBT	28.3	31.0	29.0	29.0
Net Profit Margin	1.9	2.1	2.6	2.9
(B) As Percentage of Net Sales				
Raw Material	89.9	89.0	87.5	87.1
Employee Expenses	2.6	2.6	2.6	2.6
Other Expenses	5.0	6.1	5.5	5.5
(C) Measures of Financial Status				
Interest Coverage (x)	6.0	8.7	12.8	15.5
Average Cost of Debt (%)	37.2	32.2	29.2	30.0
Debtors Period (days)	42.2	38.7	40.0	40.0
Closing stock (days)	42.5	42.1	42.0	42.0
Inventory Turn. Ratio (x)	8.6	8.7	8.7	8.7
Fixed Assets Turnover (x)	12.9	11.1	11.2	11.8
WC Turnover (x)	23.8	17.0	16.0	12.5
Non-Cash WC (` Mn)	859	1,206	1,349	1,479
(D) Measures of Investment				
EPS (₹) (excl EO)	43.3	53.8	81.1	104.8
EPS (₹)	42.0	53.8	81.1	104.8
CEPS (₹)	53.1	67.2	98.1	123.4
DPS (₹)	6.0	2.0	3.0	3.9
Dividend Payout (%)	14.3	3.7	3.7	3.7
Profit Ploughback (%)	85.7	96.3	96.3	96.3
Book Value (₹)	180.2	278.0	357.6	457.8
RoANW (%)	18.6	17.0	19.9	22.9
RoACE (%)	27.3	25.1	27.9	31.8
RoAIC (%)	30.3	30.0	37.8	46.7
(E) Valuation Ratios				
CMP (₹)	2,889	2,889	2,889	2,889
P/E (x)	68.8	53.7	35.6	27.6
Market Cap. (₹ Mn)	31,736	32,732	32,602	32,602
MCap/ Sales (x)	1.3	1.2	0.9	0.8
EV (₹ Mn)	32,008	32,697	32,155	31,243
EV/Sales (x)	1.3	1.2	0.9	0.8
EV/EBDITA (x)	35.1	29.0	20.6	15.9
P/BV (x)	16.0	10.4	8.1	6.3
Dividend Yield (%)	0.2	0.1	0.1	0.1

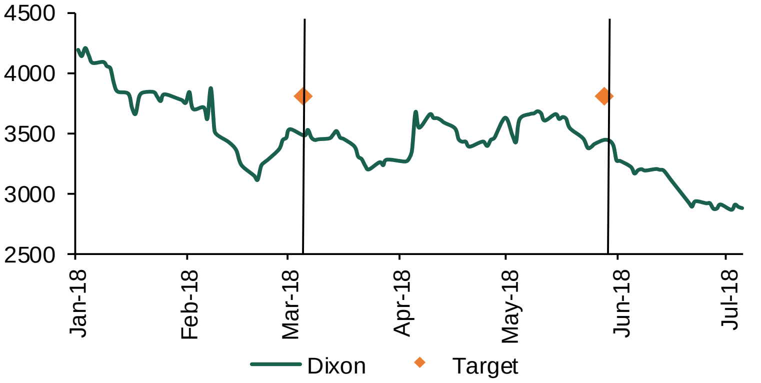
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Mar'18	Buy	3,800	3,229
May'18	Buy	3,800	3,444

** As on Recommendation Date*

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I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

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