

Q1, though disappointing on revenues, was in line at an operating and PAT level. While the electronics business faced cost pressures, it was negated by higher margins in lighting, which was almost entirely LED. Management has maintained a 25% revenue growth for FY19. We maintain our Accumulate rating for the stock, valuing it at 33x for FY20E at TP of ₹.3,430.

Operationally in line quarter despite topline miss

Revenue at ₹.5927mn, de-grew by 13% YoY, but excluding mobile business, grew by 33% YoY. While electronics business had cost pressures due to consolidation of operations at Tirupati, ODM business was affected by commodity prices and currency. Margins in lighting surprised positively on account of higher mix of LEDs and along with washing machines drove the overall margins of 4.4% PAT went up by 18% YoY at ₹.127mn.

New customers added in Q1

The company has all the big brands in LEDs in its basket, as it has added Orient, Syska, Bajaj, Usha, Jaguar and expanded lighting product portfolio with Wipro High Beam LED Bulb. It has added a major customer (not named) in TVs and expecting 300000 TV sets production FY19. Company commenced production for iFFALCON in Q1. In WMs segment it has added Lloyds. Airtel started its business again with Dixon and company has strong order book in reverse logistics which will show the results Q2 onwards.

TVs, WMs and LEDs to drive growth in H2FY19

It has added capacity in WMs to 2.4mn WMs a year. Volume growth guidance for FY19 is 40% with 12.5% margins for WMs. Though conventional lightings sales will show sharp decline during the year, yet LEDs will grow strongly at 15-18% in-line with the industry. ODM share in lighting declined to 34% from 47% in Q1FY19. Backward integration in CE has already started and it is expecting margins at 2.8% level in that category. Capacity expanded to 4.5lacs in security systems.

View and Valuations

The company expects ~25% revenues growth in FY19 with ~4.5% EBDITA. We believe its product mix along with its continues efforts in increasing the ODM mix and improving backward integration will help register sales and EPS CAGR at 23%/40% over FY18-FY20E, valuing stock at 33x for FY20E. We have an Accumulate rating with a TP of ₹.3,430.

Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Operating Income	5,927	6,846	(13.4)	5,978	(0.9)
Total Raw Material Cost	5,073	6,082	(16.6)	5,056	0.3
Staff Expenditure	182	155	17.3	200	(8.9)
Other Expenses	412	398	3.5	448	(8.1)
EBITDA	260	211	23.4	274	(5.3)
Other Income	15	8	93.4	16	(8.7)
Depreciation	46	29	61.4	45	2.4
Interest	54	31	70.9	43	24.7
Tax	48	50	(4.6)	62	(22.7)
Net Profit	127	108	17.5	141	(9.6)
			bps		bps
Raw Material Cost	85.6	88.8	(325)	84.6	102
Staff Cost	3.1	2.3	80	3.3	(27)
Other Expenses	6.9	5.8	114	7.5	(55)
EBITDA (%)	4.4	3.1	131	4.6	(20)
NPM (%)	2.1	1.6	57	2.4	(21)

CMP	₹ 2,857
Target / Upside	₹ 3,430/20%
BSE Sensex	37,712
NSE Nifty	11,396

Scrip Details

Equity / FV	₹ 113mn/₹10/-
Market Cap	₹ 32bn
	USD 476mn
52-week High/Low	₹ 4,491/2,510
Avg. Volume (no)	21,496
NSE Symbol	DIXON
Bloomberg Code	DIXON IN

Shareholding Pattern Jun'18 (%)

Promoters	38.9
MF/Banks/FIs	16.4
FIIIs	10.1
Public / Others	34.5

Valuation (x)

	FY18	FY19E	FY20E
P/E	53.1	36.1	27.0
EV/EBITDA	28.7	21.0	15.6
ROE	17.0	19.5	23.2
ROCE	25.2	27.0	32.2

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	27,949	34,456	42,166
EBITDA	1,127	1,516	1,982
PAT	609	893	1,196
EPS (₹)	53.8	79.1	106.0

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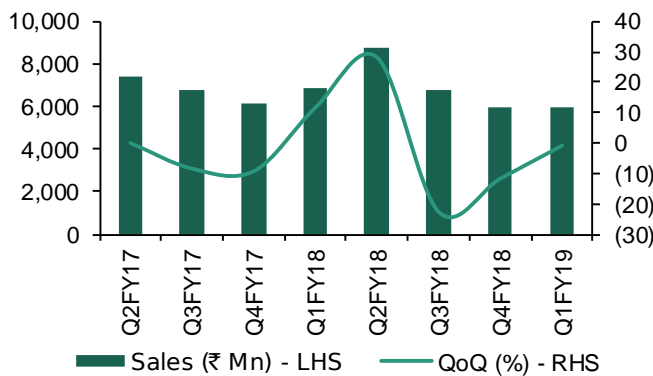
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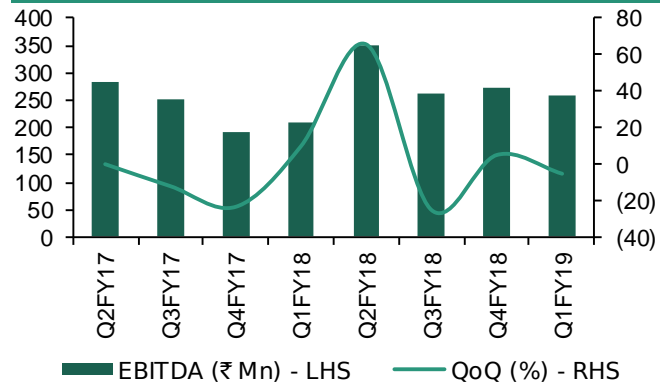
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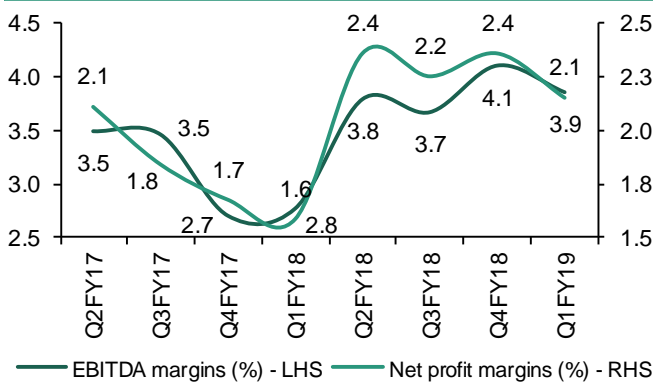
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Exhibit 1: Sales and QoQ % growth


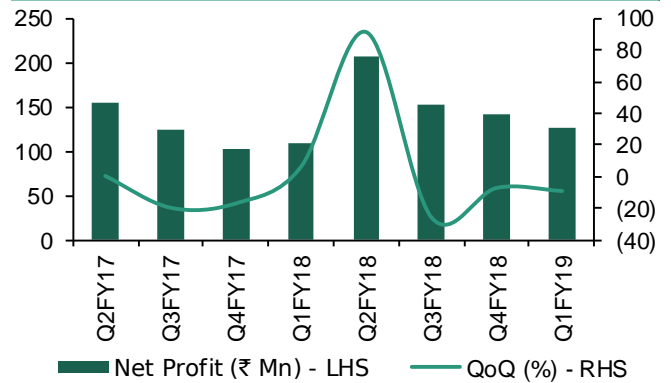
Source: Company, DART

Exhibit 2: EBITDA and QoQ growth (%)


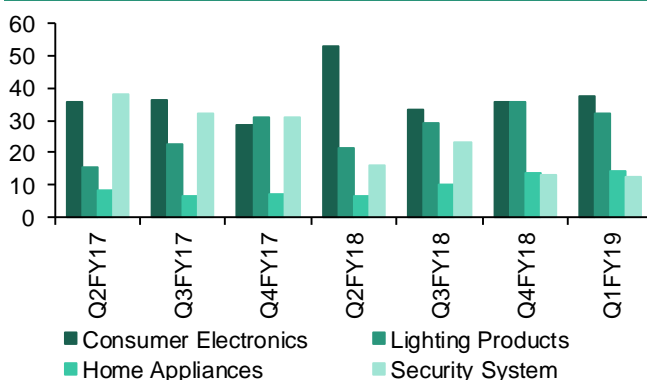
Source: Company, DART

Exhibit 3: Trend in Margin (%)


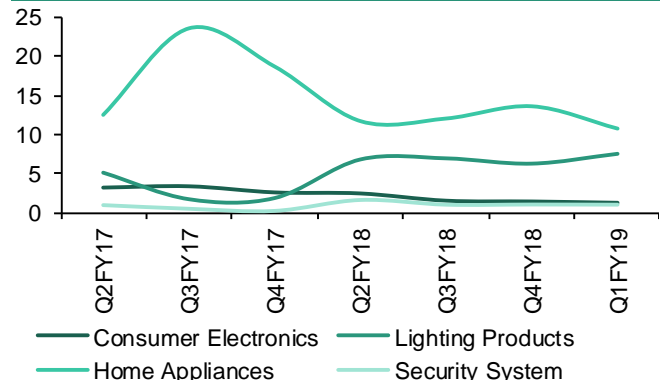
Source: Company, DART

Exhibit 4: Net profit and QoQ % growth


Source: Company, DART

Exhibit 5: Segmental Revenue (₹ mn)


Source: Company, DART

Exhibit 6: Segment EBIT Margin (%) trend


Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Net Sales	24,248	27,949	34,456	42,166
Total Expenditure	23,658	27,289	32,940	40,184
Cost of materials consumed	21,801	24,870	30,149	36,769
Employee Benefits Exp	639	728	896	1,096
Other Expenses	1,218	1,692	1,895	2,319
Other Income	14	42	42	42
EBIDTA (Excl. OI)	913	1,127	1,516	1,982
EBIDTA (Incl. OI)	927	1,169	1,558	2,024
Interest	155	135	125	129
Depreciation	108	152	192	210
Profit Before Tax	664	882	1,240	1,684
Tax	188	273	347	488
Net Profit	476	609	893	1,196

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	110	113	113	113
Other Reserves	1,870	3,037	3,903	5,045
Net Worth	1,980	3,150	4,015	5,158
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	4,486	5,628
Applications of Funds				
Gross Block	1,885	2,520	3,170	3,469
Less: Accu. Depreciation	515	695	889	1,101
Net Block	1,370	1,825	2,281	2,368
Capital Work in Progress	20	126	-	-
Current Assets, Loans & Advances				
Inventories	2,822	3,223	3,965	4,852
Sundry Debtors	2,802	2,963	3,776	4,621
Cash and Bank Balance	158	441	879	1,732
Loans and Advances	-	-	-	-
<i>sub total</i>	6,503	7,909	9,857	12,442
Less: Current Liabilities & Provisions				
Current Liabilities	5,428	6,187	7,270	8,665
Provisions	58	74	381	518
<i>sub total</i>	5,487	6,262	7,652	9,183
Net Current Assets	1,017	1,647	2,205	3,260
Total Assets	2,407	3,597	4,486	5,628

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Profit before tax	1,128	1,442	1,324	1,771
Depreciation & w.o.	108	152	192	210
Net Interest Exp	14	42	42	42
Direct taxes paid	(188)	(273)	(347)	(488)
Change in Working Capital	(100)	(347)	(120)	(201)
(A) CF from Opt. Activities	827	1,173	1,096	1,324
Capex	(261)	(712)	(523)	(298)
Free Cash Flow	566	461	573	1,026
(B) CF from Invst. 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)	(33)	(44)
(C) CF from Financing	(483)	(177)	(135)	(173)
Net Change in Cash	83	284	438	853
Opening Cash balances	75	158	441	879
Closing Cash balances	158	441	879	1,732

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	3.7	4.0	4.4	4.7
Interest / Sales	0.6	0.5	0.4	0.3
Tax/PBT	28.3	31.0	28.0	29.0
Net Profit Margin	1.9	2.1	2.6	2.8
(B) As Percentage of Net Sales				
Raw Material	89.9	89.0	87.5	87.2
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				
Debt / Equity (x)	0.2	0.1	0.1	0.1
Interest Coverage (x)	6.0	8.7	12.4	15.7
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
Creditors Days	75.7	67.2	66.0	66.0
Inventory Turnover Ratio (x)	8.6	8.7	8.7	8.7
Fixed Assets Turnover (x)	12.9	11.1	10.9	12.2
W.C. Turnover (x)	23.8	17.0	15.6	12.9
Non-Cash WC (₹ Mn)	859	1,206	1,326	1,528
(D) Measures of Investment				
EPS (₹) (excl EO)	43.3	53.8	79.1	106.0
CEPS (₹)	53.1	67.2	96.1	124.6
DPS (₹)	6.0	2.0	2.9	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	355.8	457.0
RoANW (%)	18.6	17.0	19.5	23.2
RoACE (%)	27.3	25.2	27.0	32.2
RoAIC (%)	30.3	30.1	36.4	46.5
(E) Valuation Ratios				
CMP (₹)	2,857	2,857	2,857	2,857
P/E (x)	68.0	53.1	36.1	27.0
Market Cap. (₹ Mn.)	31,384	32,370	32,241	32,241
MCap/ Sales (x)	1.3	1.2	0.9	0.8
EV (₹ Mn)	31,656	32,335	31,792	30,939
EV/Sales (x)	1.3	1.2	0.9	0.7
EV/EBDITA (x)	34.7	28.7	21.0	15.6
P/BV (x)	15.9	10.3	8.0	6.3
Dividend Yield (%)	0.2	0.1	0.1	0.1

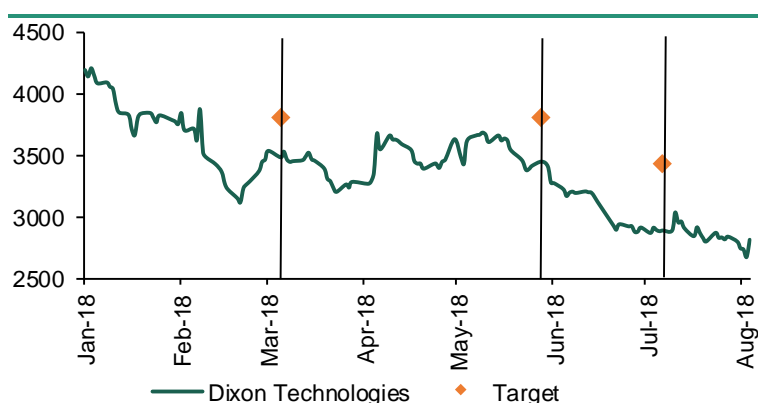
E – Estimates

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
Jul-18	Buy	3,430	2,889

* As on Recommendation Date

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