

Improved Quarter, Maintain Accumulate

Consumer electronics, WM, and lighting grew strongly in Q3, together with sequential improvement in mobile revenues. EBITDA margin increased, across all the segments, except WM, which faced higher input cost. We expect lighting, TVs and Mobile to drive performance in Q4, aided by an increasing ODM mix and new customer addition. We reiterate Accumulate rating for the stock, with a TP of ₹ 2500.

Q2- in line Revenues, strong growth in Lighting and Consumer Electronics

Revenue rose 17% YoY to ₹ 79740mn, on account of growth in the consumer electronics segment at 26% YoY, WM segment at 29% YoY, and lighting segment at 43% YoY, excluding the CFL business. The Mobile segment grew 137% sequentially, due to an increase in capacity utilization mainly on account of PCB manufacturing for Micromax along with Gionee and Intex coming back in the market. The growth in the consumer electronics segment was driven by an ODM mix, festive demand, and large order from its new customer, Xiaomi. In addition, Samsung has doubled the order for WM, which led to Dixon's WM volume growth by 12% in the quarter. The EBIT margin has improved in all the segments, except WMs, where commodity and rupee lowered margins till October. However, margin for WM in the month of December was 12%. A Samsung order for SAWM will start from March onwards, leading increase in utilization and help margins. PAT rose 16% YoY to 177mn. The capex plan for FY19 and FY20 is in the range of ₹ 700-750mn. Higher WC increased net debt, company expects it to come down in Q4 as MI volumes pick up in Q4.

View and Valuation

The company maintained margin guidance for all the segments. We expect strong growth in WM and TV, due to large orders to be executed in Q4. In lighting, CFL was phased out, LED is likely to grow in line with the industry. The increasing share in ODM, integration in all the segments, and new customer addition will help improve margins and return ratios. After Q3, we increase FY19/FY20 estimates by 9%/3% and 4%/1%, respectively, for Sales/PAT. We maintain an Accumulate rating for the stock at a TP of ₹ 2500, valuing the stock at 23x for FY21E.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	7,940	6,778	17.1	7,389	7.5
Total Expense	7,549	6,517	15.8	7,058	7.0
EBITDA	391	261	49.8	331	18.3
Depreciation	59	40	48.1	50	17.6
EBIT	332	221	50.2	281	18.5
Other Income	6	27	(78.8)	18	(68.3)
Interest	65	26	154.9	51	26.5
EBT	273	223	50.2	247	10.4
Tax	96	71	35.5	82	16.4
RPAT	178	153	16.9	165	8.0
APAT	179	153	17.6	165	8.6
			(bps)		(bps)
Gross Margin (%)	12.4	12.8	(39)	13.1	(73)
EBITDA Margin (%)	4.9	3.9	108	4.5	45
NPM (%)	2.2	2.2	0	2.2	1
Tax Rate (%)	35.1	31.7	340	33.3	181
EBIT Margin (%)	4.2	3.3	92	3.8	39

CMP	₹ 2,223
Target / Upside	₹ 2,500 / 12%
BSE Sensex	35,591
NSE Nifty	10,652

Scrip Details

Equity / FV	₹ 113mn / ₹ 10
Market Cap	₹ 25.1bn
	US\$ 353mn
52-week High/Low	₹ 4,182/₹ 1,890
Avg. Volume (no)	17,582
NSE Symbol	DIXON
Bloomberg Code	DIXON IN

Shareholding Pattern Dec'18(%)

Promoters	38.9
MF/Banks/FIs	23.5
FIIIs	7.0
Public / Others	30.6

Valuation (x)

	FY19E	FY20E	FY21E
P/E	32.0	23.2	20.6
EV/EBITDA	17.1	12.9	11.5
ROE (%)	22.5	25.3	23.2
RoACE (%)	25.2	26.4	24.3

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	32,948	39,736	47,705
EBITDA	1,450	1,868	2,051
PAT	785	1,084	1,219
EPS (₹)	69.5	95.9	108.0

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TVs, WM, and LED are the growth drivers; Margins should normalize by the end of FY19 for WM

Dixon has manufactured 75000 TV sets for Xiaomi TV till Q3 and expects to build 2.5Lacs in Q4. The company's ODM mix has inched up from 3% to 11% for TVs, as major customers, such as Panasonic and Lloyds, have become ODM customers. The company has also increased the capacity in 3.4mn in TVs, which will contribute 24% of the total TV demand of India. In the lighting segment, the ODM mix has doubled over the last year, this has helped in margin improvement. Dixon is the largest players in lighting market in India and acquired new customers with new products during the quarter. The company expects 35-40% growth in WM and Consumer Electronics and with a margin guidance for WM at 11-12%, for TVs at 3.3.3% and for lighting to sustain at 7-8%.

Segmental Performance

Exhibit 1: Revenue (₹ mn)

Particulars	Q3FY19	Q3FY18	YoY(%)	Q2FY19	QoQ(%)	9MFY19	9MFY18	YoY(%)
Consumer Electronics	2,879	2287	25.9	3,597	(20.0)	8,704	743	1071.3
Lighting Products	2,341	1992	17.5	1,904	23.0	6,145	210	2833.0
Home Appliances	923	718	28.6	1,038	(11.2)	2,818	112	2409.5
Mobile Phones	1,511	1584	-4.6	637	137.3	2,880	739	289.7
Reverse Logistics	32	223	-85.8	101	(68.7)	276	(92)	-401.9
Security System	254	0	-	111	128.9	432	249	73.4
Total	7,940	6803	16.7	7,389	7.5	21,255	1,962	983.6

Source: DART, Company

Exhibit 2: EBIT (₹ mn)

Particulars	Q3FY19	Q3FY18	YoY(%)	Q2FY19	QoQ(%)	9MFY19	9MFY18	YoY(%)
Consumer Electronics	60	34	79.2	129	(53.1)	216	31	596.8
Lighting Products	189	140	35.1	111	70.7	444	54	720.5
Home Appliances	99	84	18.5	85	17.3	276	-11	-2650.9
Mobile Phones	44	18	150.3	6	655.2	58	35	64.4
Reverse Logistics	-3	11	-124.3	1	(316.7)	-8	2	-593.8
Security System	1	0	-	-1	(166.7)	-5	5	-198.0
Total	390	285	36.8	330	18.4	980	116	744.3

Source: DART, Company

Exhibit 3: EBIT Margin (%)

Particulars	Q3FY19	Q3FY18	YoY(%)	Q2FY19	QoQ(%)	9MFY19	9MFY18	YoY(%)
Consumer Electronics	2.1	1.5	62	3.6	-148	2.5	4.2	-169
Lighting Products	8.1	7.0	105	5.8	226	7.2	25.8	-1860
Home Appliances	10.8	11.7	-91	8.1	261	9.8	-9.6	1939
Mobile Phones	2.9	1.1	179	0.9	199	2.0	4.8	-275
Reverse Logistics	-8.2	4.8	-1303	1.2	-941	-2.9	-1.7	-111
Security System	0.3	-	-	-1.1	140	-1.2	2.0	-320

Source: DART, Company

Exhibit 4: Volume Growth (%)

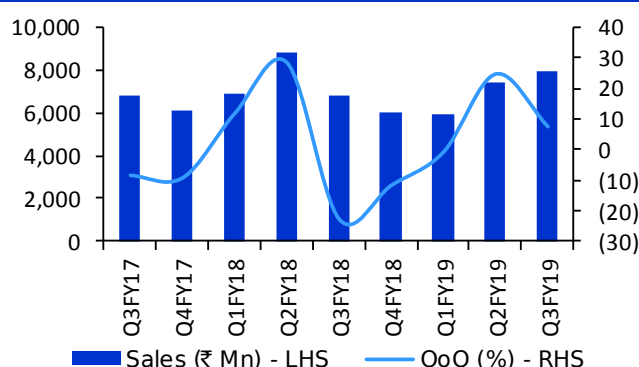
	Q3FY19	Q3FY18	YoY(%)
Consumer Electronics	450,000	390,000	15.4
Home Appliances	180,000	160,000	12.5
Lighting	43,200,000	40,000,000	8.0
Mobile	10,700,000	7,700,000	39.0
Security	510,000		

Source: DART, Company

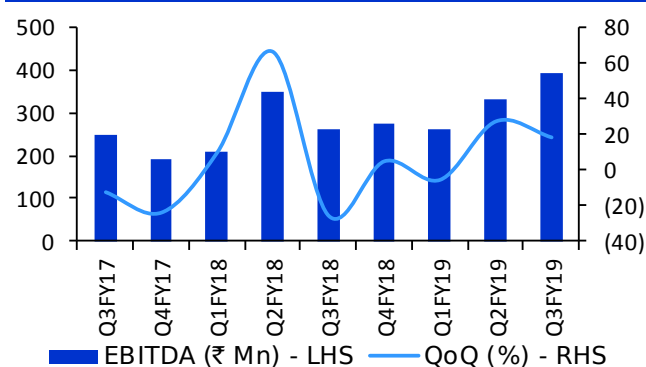
Exhibit 5: Change in Estimates

Particulars (₹ mn)	Earlier FY19	New FY19	Variance (%)	Earlier FY20	New FY20E	Variance (%)
Sales	30,294	32,948	8.7	38,346	39,736	3.6
EBITDA	1,333	1,450	8.7	1,802	1,868	3.6
PAT	761	785	3.1	1,068	1,084	1.5

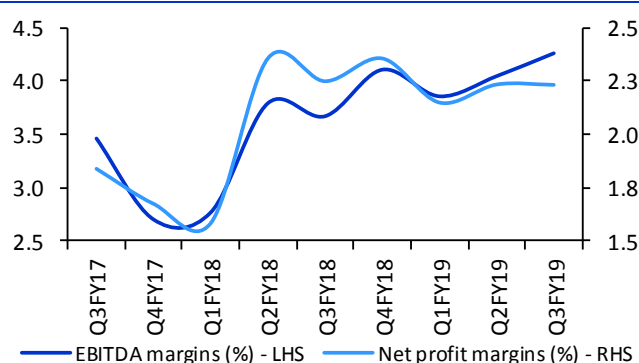
Source: DART, Company

Exhibit 6: Sales and QoQ % growth


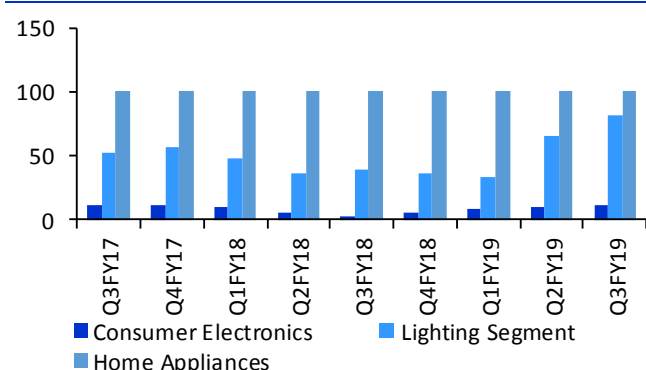
Source: DART, Company

Exhibit 7: EBITDA and QoQ growth (%)


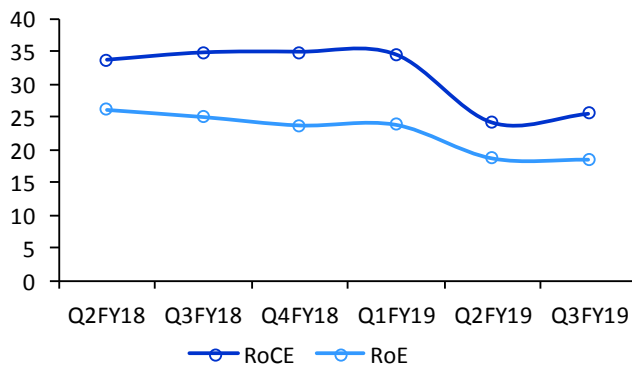
Source: DART, Company

Exhibit 8: Trend in Margin (%)


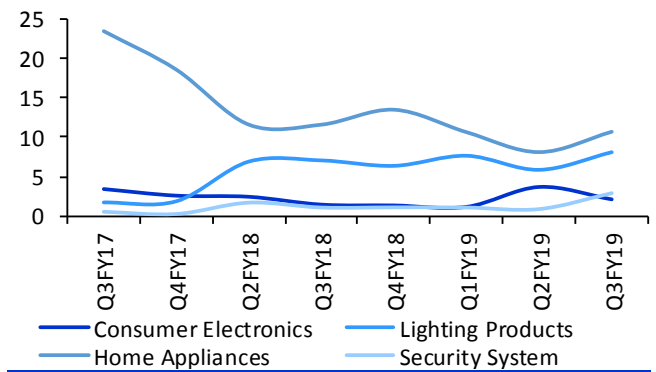
Source: DART, Company

Exhibit 9: % ODM trend (%)


Source: DART, Company

Exhibit 10: ROCE & ROE Trend (%)


Source: DART, Company

Exhibit 11: Segment EBIT Margin (%) trend


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	28,416	32,948	39,736	47,705
Total Expense	27,289	31,498	37,869	45,654
COGS	24,870	28,829	34,650	41,503
Employees Cost	728	857	1,033	1,288
Other expenses	1,692	1,812	2,185	2,862
EBIDTA	1,127	1,450	1,868	2,051
Depreciation	152	192	210	229
EBIT	975	1,258	1,657	1,823
Interest	135	209	172	172
Other Income	42	42	42	42
Exc. / E.O. items	0	0	0	0
EBT	882	1,090	1,527	1,692
Tax	273	305	443	474
RPAT	609	785	1,084	1,219
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	1
APAT	609	785	1,084	1,220

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	113	113	113	113
Minority Interest	0	0	0	0
Reserves & Surplus	3,037	3,712	4,626	5,653
Net Worth	3,150	3,824	4,739	5,766
Total Debt	406	430	430	430
Net Deferred Tax Liability	41	41	41	41
Total Capital Employed	3,597	4,295	5,209	6,237

Applications of Funds

Net Block	1,825	2,281	2,368	2,438
CWIP	126	0	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	7,909	9,353	11,540	13,980
Inventories	3,223	3,791	4,572	5,489
Receivables	2,963	3,611	4,355	5,228
Cash and Bank Balances	441	715	1,376	2,025
Loans and Advances	0	0	0	0
Other Current Assets	1,281	1,237	1,237	1,237
Less: Current Liabilities & Provisions	6,262	7,339	8,699	10,180
Payables	5,147	5,958	7,185	8,626
Other Current Liabilities	1,114	1,381	1,514	1,553
Net Current Assets	1,647	2,014	2,841	3,800
Total Assets	3,597	4,295	5,209	6,238

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	12.5	12.5	12.8	13.0
EBIDTA Margin	4.0	4.4	4.7	4.3
EBIT Margin	3.4	3.8	4.2	3.8
Tax rate	31.0	28.0	29.0	28.0
Net Profit Margin	2.1	2.4	2.7	2.6
(B) As Percentage of Net Sales (%)				
COGS	87.5	87.5	87.2	87.0
Employee	2.6	2.6	2.6	2.7
Other	6.0	5.5	5.5	6.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	7.3	6.0	9.6	10.6
Inventory days	41	42	42	42
Debtors days	38	40	40	40
Average Cost of Debt	32.2	50.0	40.0	40.0
Payable days	66	66	66	66
Working Capital days	21	22	26	29
FA T/O	15.6	14.4	16.8	19.6
(D) Measures of Investment				
AEPS (₹)	53.9	69.5	95.9	108.0
CEPS (₹)	67.3	86.5	114.6	128.2
DPS (₹)	7.3	9.0	12.4	14.0
Dividend Payout (%)	13.5	13.0	13.0	12.9
BVPS (₹)	278.8	338.4	419.3	510.3
RoANW (%)	23.7	22.5	25.3	23.2
RoACE (%)	24.8	25.2	26.4	24.3
RoAIC (%)	36.1	37.3	44.7	45.3
(E) Valuation Ratios				
CMP (₹)	2223	2223	2223	2223
P/E	41.2	32.0	23.2	20.6
Mcap (₹ Mn)	25,119	25,119	25,119	25,119
MCap/ Sales	0.9	0.8	0.6	0.5
EV	25,084	24,835	24,173	23,523
EV/Sales	0.9	0.8	0.6	0.5
EV/EBITDA	22.3	17.1	12.9	11.5
P/BV	8.0	6.6	5.3	4.4
Dividend Yield (%)	0.3	0.4	0.6	0.6
(F) Growth Rate (%)				
Revenue	15.6	15.9	20.6	20.1
EBITDA	23.4	28.6	28.8	9.8
EBIT	21.1	29.0	31.8	10.0
PBT	32.8	23.6	40.1	10.8
APAT	27.9	28.9	38.1	12.6
EPS	27.9	28.9	38.1	12.6

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	1,229	1,084	1,272	1,277
CFI	(712)	(523)	(298)	(298)
CFF	(233)	(288)	(313)	(330)
FCFF	517	561	974	979
Opening Cash	158	441	715	1,376
Closing Cash	441	715	1,376	2,025

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	3,476
May-18	Accumulate	3,800	3,409
Jul-18	Accumulate	3,430	2,888
Aug-18	Accumulate	3,430	2,751
Nov-18	Accumulate	2,500	2,099

*Price as on Recommendation Date

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