

### Strong quarter; Working capital improves; Upgrade back to Accumulate

The Q1FY20 results were more than our estimates, and both EBDITA margins and working capital improved, due to strong performance in the consumer electronics segment. Management expects this improvement to continue. As WC improves, debt fell from ₹1bn to ₹700mn. We expect EPS to grow at a CAGR of 26% over FY19-21E, given strong traction with key customers in its TV and lighting business. The mobile segment should also grow with addition of new customers. Given the better-than-expected Q1 results, we increase our FY20 estimates for sales/PAT by 6%/9% YoY. We upgrade the stock to Accumulate, from Reduce, with a TP of ₹2,230 valuing it at 22x for FY21E.

### Q1, better than estimates, sequential improvement on WC

The revenue rose 94% YoY to ₹11.4mn in 1QFY20, with consumer electronics and lightings sales growing at 129% YoY and 71% YoY (87%-excluding CFL business), respectively. Home appliances grew 15% YoY to ₹987mn, while mobile sales doubled to ₹1437mn. The margins for TV and mobile improved by 112bps YoY and 114bps YoY to 2.2% each. The OPM rose 20bps YoY to 4.6%, during the quarter. Capital employed for consumer electronics sequentially improved to ₹701mn, from ₹1361mn, as WC terms for key customers have improved and short terms borrowings have fallen. The WC days improved to negative three in Q1FY20, from seven from Q4FY19, with OCF at ₹300mn in the quarter.

### Margins improvement across verticals; Capex plans intact

The margins for all the segments improved due to a mix of higher ODM and operating leverage. Management expects margins to further improve in the consumer electronics business and WMs, due to customer additions and higher volumes. Currently, the company fulfils 80% of Xiaomi's requirement of TVs, while it's second-largest customer Panasonic has converted into ODM. Washing machines continue to be fully ODM, and Dixon is expanding capacity in WM for top loading FAWM and mobiles. The company's capex plans for FY20 and FY21 are ₹650mn each year.

### Q1FY20 Result (₹ Mn)

| Particulars       | Q1FY20 | Q1FY19 | YoY (%) | Q4FY19 | QoQ (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue           | 11,469 | 5,927  | 93.5    | 8,588  | 33.5    |
| Total Expense     | 10,943 | 5,667  | 93.1    | 8,213  | 33.2    |
| EBITDA            | 526    | 260    | 102.4   | 375    | 40.2    |
| Depreciation      | 76     | 46     | 65.4    | 62     | 23.3    |
| EBIT              | 450    | 214    | 110.3   | 313    | 43.5    |
| Other Income      | 6      | 15     | (61.2)  | 19     | (69.7)  |
| Interest          | 99     | 54     | 84.1    | 88     | 11.9    |
| EBT               | 357    | 175    | 110.3   | 244    | 46.2    |
| Tax               | 121    | 48     | 154.4   | 79     | 53.7    |
| RPAT              | 236    | 127    | 85.1    | 165    | 42.6    |
| APAT              | 236    | 127    | 85.1    | 165    | 42.6    |
|                   |        |        | (bps)   |        | (bps)   |
| Gross Margin (%)  | 11.4   | 14.4   | (300)   | 12.4   | (101)   |
| EBITDA Margin (%) | 4.6    | 4.4    | 20      | 4.4    | 22      |
| NPM (%)           | 2.1    | 2.1    | (9)     | 1.9    | 13      |
| Tax Rate (%)      | 33.9   | 27.2   | 673     | 32.3   | 165     |
| EBIT Margin (%)   | 3.9    | 3.6    | 31      | 3.6    | 27      |

|                 |               |
|-----------------|---------------|
| CMP             | ₹ 1,992       |
| Target / Upside | ₹ 2,230 / 12% |
| BSE Sensex      | 36,940        |
| NSE Nifty       | 10,926        |

### Scrip Details

|                  |                 |
|------------------|-----------------|
| Equity / FV      | ₹ 113mn / ₹ 10  |
| Market Cap       | ₹ 23bn          |
|                  | US\$ 316mn      |
| 52-week High/Low | ₹ 3,070/₹ 1,560 |
| Avg. Volume (no) | 10,898          |
| NSE Symbol       | DIXON           |
| Bloomberg Code   | DIXON IN        |

### Shareholding Pattern Jun'19(%)

|                 |      |
|-----------------|------|
| Promoters       | 38.9 |
| MF/Banks/FIs    | 22.3 |
| FII             | 7.3  |
| Public / Others | 31.5 |

### Valuation (x)

|           | FY19A | FY20E | FY21E |
|-----------|-------|-------|-------|
| P/E       | 35.5  | 23.7  | 19.6  |
| EV/EBITDA | 17.4  | 11.6  | 9.7   |
| ROE (%)   | 18.3  | 21.0  | 19.8  |
| RoACE (%) | 19.9  | 21.3  | 20.1  |

### Estimates (₹ mn)

|         | FY19A  | FY20E  | FY21E  |
|---------|--------|--------|--------|
| Revenue | 29,845 | 41,328 | 47,721 |
| EBITDA  | 1,349  | 1,901  | 2,195  |
| PAT     | 634    | 949    | 1,149  |
| EPS (₹) | 56.1   | 84.0   | 101.8  |

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### Raise estimates, upgrade to Accumulate, but lower multiples for overall slowdown

The key reason for our downgrade in the previous quarter was the increase in debt and WC, which have improved in Q1. Management is confident that this will sustain. Given the higher-than-estimated Q1FY20 results, we increase our FY20/21 estimates by 6%/0% for sales and 9%/7% for PAT. We upgrade the stock back to Accumulate, with a TP of ₹2230. However, we lower our multiple to 22x FY21E, in view of the overall macro slowdown.

## Segmental Performance

### Exhibit 1: Revenue (₹ mn)

| Particulars          | Q1FY20        | Q1FY19       | YoY(%)      | Q4FY19       | QoQ(%)      | FY19          | FY18          | YoY(%)     |
|----------------------|---------------|--------------|-------------|--------------|-------------|---------------|---------------|------------|
| Consumer Electronics | 5,097         | 2,228        | 128.8       | 3,232        | 57.7        | 11,936        | 10,735        | 11.2       |
| Lighting Products    | 3,243         | 1,899        | 70.8        | 3,048        | 6.4         | 9,193         | 7,742         | 18.7       |
| Home Appliances      | 987           | 857          | 15.1        | 925          | 6.7         | 3,743         | 2,503         | 49.6       |
| Mobile Phones        | 1,437         | 732          | 96.3        | 669          | 114.8       | 3,549         | 6,698         | (47.0)     |
| Reverse Logistics    | 24            | 144          | (83.2)      | 26           | (5.5)       | 302           | 734           | (58.9)     |
| Security System      | 679           | 67           | 914         | 687          | (1.1)       | 1,119         | 5             | 22,737     |
| <b>Total</b>         | <b>11,468</b> | <b>5,927</b> | <b>93.5</b> | <b>8,586</b> | <b>33.6</b> | <b>29,841</b> | <b>28,416</b> | <b>5.0</b> |

Source: DART, Company

### Exhibit 2: EBIT (₹ mn)

| Particulars          | Q1FY20     | Q1FY19     | YoY(%)       | Q4FY19     | QoQ(%)      | FY19         | FY18         | YoY(%)      |
|----------------------|------------|------------|--------------|------------|-------------|--------------|--------------|-------------|
| Consumer Electronics | 114        | 25         | 361.8        | 41         | 177.1       | 249          | 231          | 8.2         |
| Lighting Products    | 254        | 145        | 75.8         | 216        | 17.5        | 660          | 469          | 40.7        |
| Home Appliances      | 107        | 92         | 16.4         | 95         | 12.8        | 370          | 307          | 20.6        |
| Mobile Phones        | 32         | 8          | 298.8        | 17         | 95.8        | 74           | 65           | 13.8        |
| Reverse Logistics    | (1)        | (5)        | (76.1)       | (9)        | (87.9)      | (15)         | 58           | (126.3)     |
| Security System      | 20         | (7)        | (413.8)      | 16         | 29.1        | 12           | (9)          | (233.0)     |
| <b>Total</b>         | <b>526</b> | <b>258</b> | <b>104.0</b> | <b>375</b> | <b>40.2</b> | <b>1,351</b> | <b>1,120</b> | <b>20.6</b> |

Source: DART, Company

### Exhibit 3: EBIT Margin (%)

| Particulars          | Q1FY20 | Q1FY19 | YoY(%) | Q4FY19 | QoQ(%) | FY19  | FY18    | YoY(%)  |
|----------------------|--------|--------|--------|--------|--------|-------|---------|---------|
| Consumer Electronics | 2.2    | 1.1    | 112    | 1.3    | 96     | 2.1   | 2.1     | (6)     |
| Lighting Products    | 7.8    | 7.6    | 22     | 7.1    | 74     | 7.2   | 6.1     | 112     |
| Home Appliances      | 10.8   | 10.7   | 11     | 10.2   | 58     | 9.9   | 12.3    | (237)   |
| Mobile Phones        | 2.2    | 1.1    | 114    | 2.5    | (22)   | 2.1   | 1.0     | 112     |
| Reverse Logistics    | (4.6)  | (3.2)  | (136)  | (35.7) | 3,112  | (5.0) | 7.8     | (1,284) |
| Security System      | 3.0    | (9.7)  | 1,270  | 2.3    | 70     | 1.1   | (185.7) | 18,680  |

Source: DART, Company

### Exhibit 4: Variance from our estimates (%)

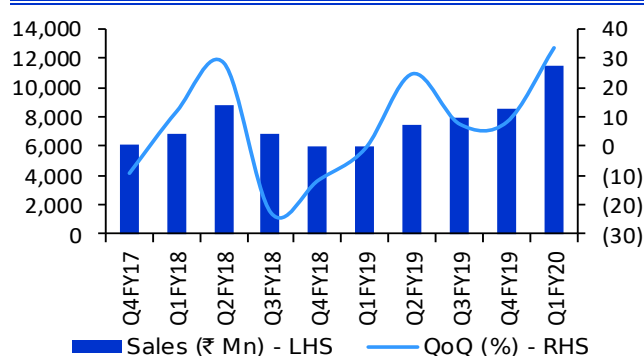
|               | Q1FY20 | Q1FY20E | Var (%) |
|---------------|--------|---------|---------|
| Sales         | 11,469 | 8308    | 38.1    |
| EBITDA        | 526    | 357     | 47.3    |
| EBITDA margin | 4.6    | 4.3     | 28      |
| PAT           | 236    | 161     | 46.5    |
| EPS           | 20.8   | 14.2    | 46.6    |

Source: DART, Company

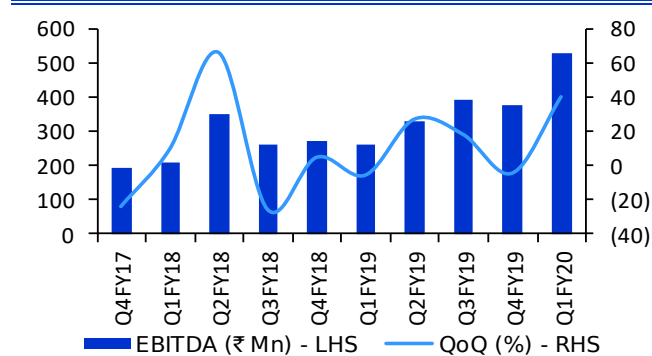
**Exhibit 5: Change in Estimates**

| Particulars (₹ mn) | FY20E   |        |           | FY21E   |        |        |
|--------------------|---------|--------|-----------|---------|--------|--------|
|                    | Earlier | New    | Var(%)    | Earlier | New    | Var(%) |
| Sales              | 38,978  | 41,328 | 6.0       | 47,727  | 47,721 | 0.0    |
| EBITDA             | 1,892   | 1,951  | 3.1       | 2,208   | 2,240  | 1.5    |
| EBITDA Margin      | 4.9     | 4.7    | (13.3)bps | 4.6     | 4.7    | 7bps   |
| PAT                | 875     | 949    | 8.5       | 1,074   | 1,148  | 6.9    |
| EPS                | 77      | 84     | 8.8       | 95      | 101    | 6.7    |

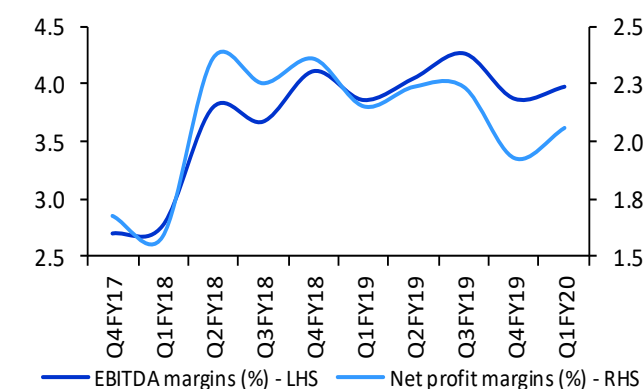
Source: DART, Company

**Exhibit 6: Sales and QoQ % growth**


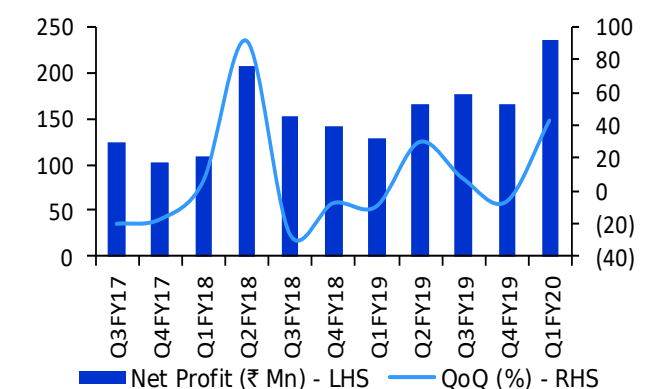
Source: DART, Company

**Exhibit 7: EBITDA and QoQ growth (%)**


Source: DART, Company

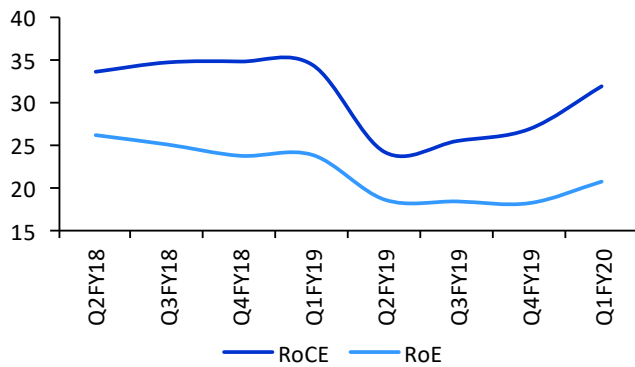
**Exhibit 8: Trend in Margin (%)**


Source: DART, Company

**Exhibit 9: Net Profit and QoQ growth (%)**


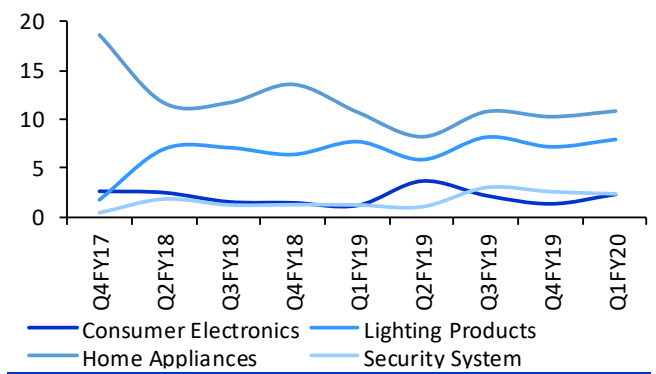
Source: DART, Company

**Exhibit 10: ROCE & ROE Trend (%)**



Source: DART, Company

**Exhibit 11: Segment EBIT Margin (%) trend**



Source: DART, Company

### Profit and Loss Account

| (₹ Mn)                                 | FY18A         | FY19A         | FY20E         | FY21E         |
|--|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                         | <b>28,416</b> | <b>29,845</b> | <b>41,328</b> | <b>47,721</b> |
| <b>Total Expense</b>                   | <b>27,289</b> | <b>28,496</b> | <b>39,427</b> | <b>45,526</b> |
| COGS                                   | 24,870        | 26,093        | 36,079        | 41,470        |
| Employees Cost                         | 728           | 839           | 1,116         | 1,288         |
| Other expenses                         | 1,692         | 1,564         | 2,232         | 2,768         |
| <b>EBIDTA</b>                          | <b>1,127</b>  | <b>1,349</b>  | <b>1,901</b>  | <b>2,195</b>  |
| Depreciation                           | 152           | 217           | 305           | 389           |
| <b>EBIT</b>                            | <b>975</b>    | <b>1,132</b>  | <b>1,596</b>  | <b>1,806</b>  |
| Interest                               | 135           | 250           | 250           | 163           |
| Other Income                           | 42            | 56            | 50            | 45            |
| Exc. / E.O. items                      | 0             | 0             | 0             | 0             |
| <b>EBT</b>                             | <b>882</b>    | <b>938</b>    | <b>1,396</b>  | <b>1,688</b>  |
| Tax                                    | 273           | 305           | 447           | 540           |
| RPAT                                   | 609           | 634           | 949           | 1,149         |
| Minority Interest                      | 0             | 0             | 0             | 0             |
| <b>Profit/Loss share of associates</b> | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>1</b>      |
| <b>APAT</b>                            | <b>609</b>    | <b>634</b>    | <b>949</b>    | <b>1,150</b>  |

### Balance Sheet

| (₹ Mn)                        | FY18A        | FY19A        | FY20E        | FY21E        |
|-------------------------------|--------------|--------------|--------------|--------------|
| <b>Sources of Funds</b>       |              |              |              |              |
| Equity Capital                | 113          | 113          | 113          | 113          |
| Minority Interest             | 0            | 0            | 0            | 0            |
| Reserves & Surplus            | 3,037        | 3,669        | 5,142        | 6,234        |
| <b>Net Worth</b>              | <b>3,150</b> | <b>3,782</b> | <b>5,255</b> | <b>6,348</b> |
| Total Debt                    | 406          | 1,361        | 561          | 561          |
| Net Deferred Tax Liability    | 41           | 144          | 144          | 144          |
| <b>Total Capital Employed</b> | <b>3,597</b> | <b>5,287</b> | <b>5,960</b> | <b>7,053</b> |

### Applications of Funds

|   |              |               |               |               |
|---|--------------|---------------|---------------|---------------|
| Net Block   | 1,825        | 2,409         | 2,213         | 2,649         |
| CWIP  | 126          | 188           | 188           | 188           |
| Investments                                       | 0            | 0             | 0             | 0             |
| <b>Current Assets, Loans &amp; Advances</b>       | <b>7,909</b> | <b>12,311</b> | <b>16,246</b> | <b>18,009</b> |
| Inventories                                       | 3,223        | 4,084         | 5,661         | 5,883         |
| Receivables                                       | 2,963        | 6,650         | 6,794         | 7,583         |
| Cash and Bank Balances                            | 441          | 367           | 1,097         | 1,849         |
| Loans and Advances                                | 0            | 0             | 0             | 0             |
| Other Current Assets                              | 1,281        | 1,211         | 2,693         | 2,693         |
| <b>Less: Current Liabilities &amp; Provisions</b> | <b>6,262</b> | <b>9,622</b>  | <b>12,686</b> | <b>13,792</b> |
| Payables  | 5,147        | 7,397         | 10,417        | 11,505        |
| Other Current Liabilities                         | 1,114        | 2,225         | 2,269         | 2,286         |
| sub total   |              |               |               |               |
| Net Current Assets                                | 1,647        | 2,690         | 3,560         | 4,218         |
| <b>Total Assets</b>                               | <b>3,597</b> | <b>5,287</b>  | <b>5,960</b>  | <b>7,054</b>  |

E – Estimates

### Important Ratios

| Particulars                               | FY18A  | FY19A  | FY20E  | FY21E  |
|---|--------|--------|--------|--------|
| <b>(A) Margins (%)</b>                    |        |        |        |        |
| Gross Profit Margin                       | 12.5   | 12.6   | 12.7   | 13.1   |
| EBIDTA Margin                             | 4.0    | 4.5    | 4.6    | 4.6    |
| EBIT Margin                               | 3.4    | 3.8    | 3.9    | 3.8    |
| Tax rate                                  | 31.0   | 32.5   | 32.0   | 32.0   |
| Net Profit Margin                         | 2.1    | 2.1    | 2.3    | 2.4    |
| <b>(B) As Percentage of Net Sales (%)</b> |        |        |        |        |
| COGS                                      | 87.5   | 87.4   | 87.3   | 86.9   |
| Employee                                  | 2.6    | 2.8    | 2.7    | 2.7    |
| Other                                     | 6.0    | 5.2    | 5.4    | 5.8    |
| <b>(C) Measure of Financial Status</b>    |        |        |        |        |
| Gross Debt / Equity                       | 0.1    | 0.4    | 0.1    | 0.1    |
| Interest Coverage                         | 7.3    | 4.5    | 6.4    | 11.1   |
| Inventory days                            | 41     | 50     | 50     | 45     |
| Debtors days                              | 38     | 81     | 60     | 58     |
| Average Cost of Debt                      | 32.2   | 28.3   | 26.0   | 29.0   |
| Payable days                              | 66     | 90     | 92     | 88     |
| Working Capital days                      | 21     | 33     | 31     | 32     |
| FA T/O                                    | 15.6   | 12.4   | 18.7   | 18.0   |
| <b>(D) Measures of Investment</b>         |        |        |        |        |
| AEPS (₹)                                  | 53.9   | 56.1   | 84.0   | 101.8  |
| CEPS (₹)                                  | 67.3   | 75.2   | 111.0  | 136.2  |
| DPS (₹)                                   | 7.3    | 2.0    | 4.2    | 4.1    |
| Dividend Payout (%)                       | 13.5   | 3.6    | 5.0    | 4.0    |
| BVPS (₹)                                  | 278.8  | 334.7  | 465.0  | 561.7  |
| RoANW (%)                                 | 23.7   | 18.3   | 21.0   | 19.8   |
| RoACE (%)                                 | 24.8   | 19.9   | 21.3   | 20.1   |
| RoAIC (%)                                 | 36.1   | 28.0   | 32.6   | 35.9   |
| <b>(E) Valuation Ratios</b>               |        |        |        |        |
| CMP (₹)                                   | 1992   | 1992   | 1992   | 1992   |
| P/E                                       | 37.0   | 35.5   | 23.7   | 19.6   |
| Mcap (₹ Mn)                               | 22,511 | 22,511 | 22,511 | 22,511 |
| MCap/ Sales                               | 0.8    | 0.8    | 0.5    | 0.5    |
| EV  | 22,476 | 23,505 | 21,975 | 21,223 |
| EV/Sales                                  | 0.8    | 0.8    | 0.5    | 0.4    |
| EV/EBITDA                                 | 19.9   | 17.4   | 11.6   | 9.7    |
| P/BV                                      | 7.1    | 6.0    | 4.3    | 3.5    |
| Dividend Yield (%)                        | 0.4    | 0.1    | 0.2    | 0.2    |
| <b>(F) Growth Rate (%)</b>                |        |        |        |        |
| Revenue                                   | 15.6   | 5.0    | 38.5   | 15.5   |
| EBITDA                                    | 23.4   | 19.7   | 41.0   | 15.5   |
| EBIT                                      | 21.1   | 16.1   | 41.0   | 13.2   |
| PBT                                       | 32.8   | 6.3    | 48.8   | 20.9   |
| APAT                                      | 27.9   | 4.0    | 49.9   | 21.1   |
| EPS                                       | 27.9   | 4.0    | 49.9   | 21.1   |

### Cash Flow

| (₹ Mn)       | FY18A | FY19A | FY20E   | FY21E |
|--------------|-------|-------|---------|-------|
| CFO          | 1,229 | 108   | 1,935   | 1,785 |
| CFI          | (712) | (146) | (825)   | (825) |
| CFF          | (233) | 681   | (1,097) | (209) |
| FCFF         | 517   | (39)  | 1,110   | 960   |
| Opening Cash | 158   | 441   | 1,084   | 1,097 |
| Closing Cash | 441   | 1,084 | 1,097   | 1,849 |

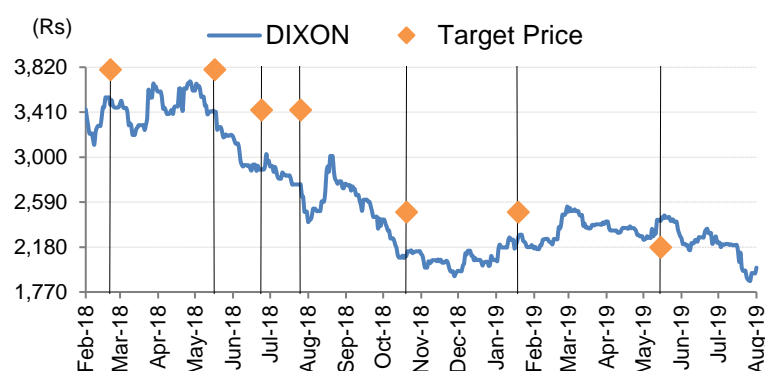
E – Estimates

## 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     |
| Jan-19 | Accumulate | 2,500  | 2,269     |
| May-19 | Accumulate | 2,180  | 2,418     |

\*Price as on recommendation date

## DART Team

|             |                   |                         |                 |
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**Analyst(s) Certification**

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