

# Dixon Technologies

Refer to important disclosures at the end of this report

## On the right path for growth

CMP: Rs 4,342

as of (May 26, 2020)

TP: Rs 5,172 (▲)

12 months

Rating: BUY (■)

Upside: 19.1 %

- The production-linked incentive scheme (PLI) for mobile manufacturing, which comes with 4-6% incentives spread over five years with a minimum investment of Rs2bn spread over three years by any domestic company, should augur well for Dixon.
- Global brands would be keen to avail the incentives and reduce their manufacturing dependence on China. China accounts for ~47% of exported cell phones while India's share is just 1.2% of global exports. India is the fastest growing in mobile exports though.
- Dixon is best-placed to benefit from this shift as it would gain with incremental mobile exports from India, along with global brands shifting part of their volumes for domestic market from existing vendors to avail the benefits.
- Management is confident on new deal wins and underlying business normalcy from Q2. We raise our target multiple to 30x from 23x as we believe multiples will normalize once company records new deal wins. Retain Buy with a revised TP of Rs5,172.

**PLI scheme details:** Production-linked incentive scheme (PLI) for mobile manufacturing comes with 4-6% incentives spread over five years with a minimum investment of Rs2bn spread over three years by any domestic company. This is for mobile phones priced below Rs15k (ex-factory). In addition, similar incentives are there for mobile components but with an investment of Rs1bn. Similar incentives are there for international companies manufacturing in India, while investment outlay for them is Rs10bn over the same period.

**China 'plus one' strategy by global companies:** China has the biggest pie of global mobile phone exports at 47%, while India's share is just 1.2%. However, India's share has been rising in the last couple of years, and we believe that gains would accelerate with the PLI scheme and global brands looking for 'China plus one' strategy. India's lower corporate tax rate and lower cost of labor would also attract global brands. In addition, global brands with domestic outsourcing would also look at Indian companies to avail the incentives. In comparison with China, India is cost-competitive on the wages front as well.

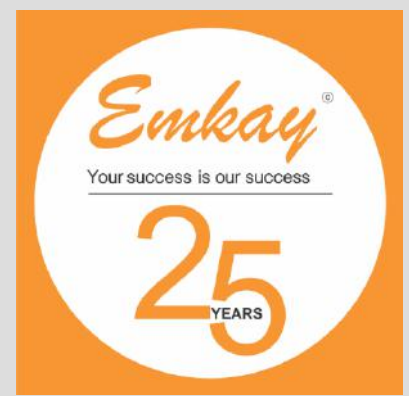
**Dixon well-placed to capture the opportunity:** Increasing focus of brands to outsource manufacturing has been benefiting Dixon and it has been creating scale across business categories. Further, the focus on backward integration and ODM business has also been driving margin profile of the company. Given the track record of customer wins, along with majority of revenue contribution from global brands and with exports in lighting for an international brand, provide confidence on the quality front and should continue to attract new customers. Over the last 12 months, the company has been focusing on improving working capital, which has shown positive results in FY20. Management believes that incrementally, there would be further scope for working capital improvement, along with tight cost control measures post the Covid-19 lockdown.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Durables \(Page 15\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20E	FY21E	FY22E	FY23E
Revenue	29,844	44,077	46,646	58,390	68,997
EBITDA	1,349	2,116	2,379	3,077	3,636
EBITDA Margin (%)	4.5	4.8	5.1	5.3	5.3
APAT	634	1,113	1,381	1,996	2,476
EPS (Rs)	54.7	96.2	119.3	172.4	213.9
EPS (% chg)	4.0	75.7	24.0	44.5	24.1
ROE (%)	18.3	24.6	23.2	26.2	25.2
P/E (x)	79.3	45.1	36.4	25.2	20.3
EV/EBITDA (x)	38.2	23.5	20.4	15.1	12.2
P/BV (x)	13.3	9.5	7.6	5.8	4.6

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	(11.1)/(0.7)
Target Price change (%)	32.3
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	119.3	172.4
Consensus	127.8	171.4
Mean Consensus TP (12M)	Rs 4,500	

### Stock Details

Bloomberg Code	DIXON IN
Face Value (Rs)	10
Shares outstanding (mn)	12
52 Week H/L	4,899 / 1,560
M Cap (Rs bn/USD bn)	50 / 0.66
Daily Avg Volume (nos.)	63,334
Daily Avg Turnover (US\$ mn)	3.3

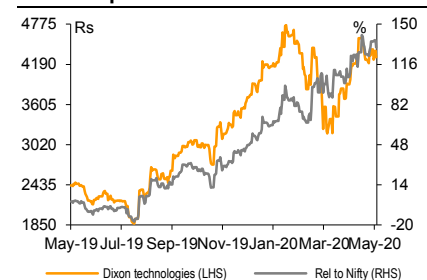
### Shareholding Pattern Mar '20

Promoters	36.2%
FIIIs	10.8%
DIIIs	23.0%
Public and Others	30.1%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	4	-	37	88
Rel. to Nifty	5	33	80	144

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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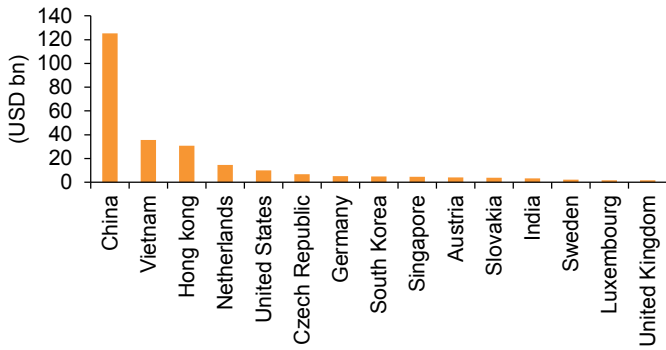
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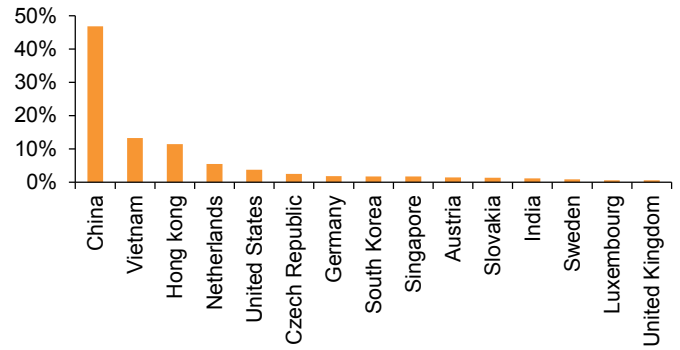
## Story in Charts

**Exhibit 1: China is the largest Mobile Phone exporter**



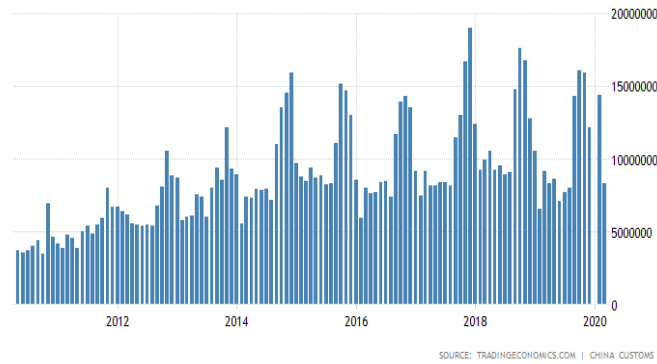
Source: Industry, Emkay Research

**Exhibit 2: China has lion's share (~47%) in world mobile export**



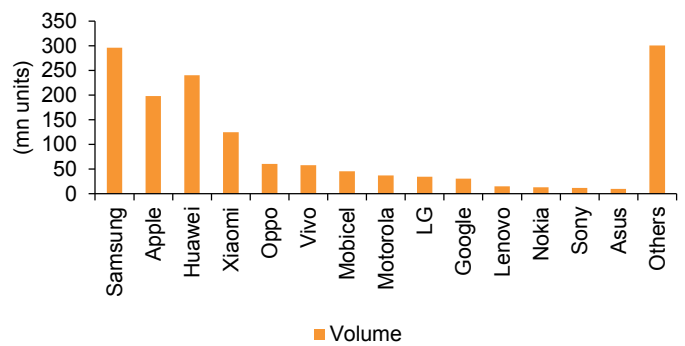
Source: Industry, Emkay Research

**Exhibit 3: China's monthly mobile exports trend**



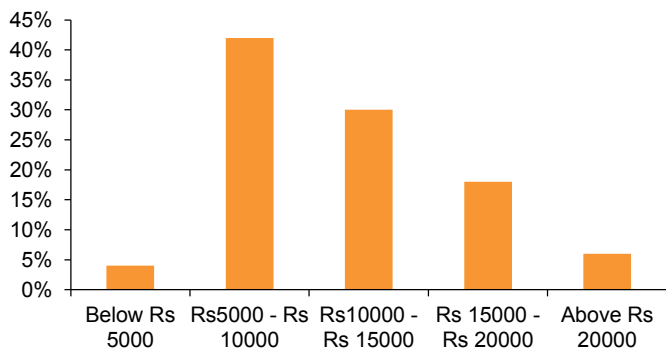
Source: Industry, Emkay Research

**Exhibit 4: Globally Samsung has highest mobile shipments**



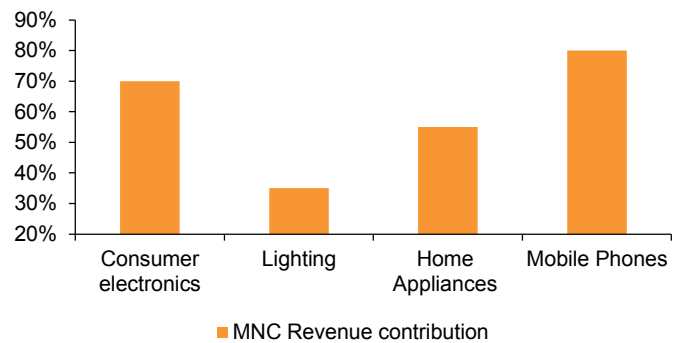
Source: Industry, Emkay Research

**Exhibit 5: India mobile shipment volumes base on price points**



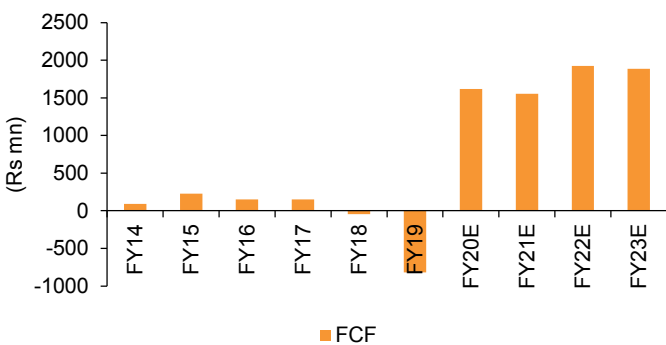
Source: Company, Emkay Research

**Exhibit 6: Global brands contribute majority of Dixon's revenues**



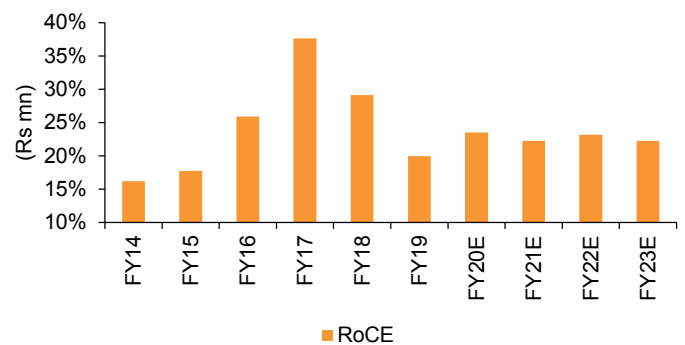
Source: Company, Emkay Research

**Exhibit 7: FCF generation to accelerate from FY20E**



Source: Company, Emkay Research

**Exhibit 8: RoCE is expected to remain steady**



Source: Company, Emkay Research

### Details of PLI scheme

The production-linked incentive scheme (PLI) for mobile manufacturing comes with 4-6% incentives spread over five years with a minimum investment of Rs2bn spread over three years by any domestic company. This is for mobile phones priced below Rs15k (ex-factory). In addition, similar incentives are there for mobile components but with an investment of Rs1bn. Similar incentives are there for international companies manufacturing in India, while the investment outlay for them is Rs10bn over the same period.

Dixon could also look for a JV model with potential brands which can reduce the capex intensity for the company.

#### Exhibit 9: PLI Scheme to have 4-6% incentives for mobile phone manufacturers

Segment	Proposed Incentive	Incremental Investment	Incremental Sales of Manufactured Goods over Base year
	rate %	over Base year	
Mobile (Invoice value of USD 200 and above)		Rs10bn over 3 Years Cumulative minimum (bn) Year 1: Rs2.5bn Year 2: Rs6bn Year 3: Rs10bn	Year 1: Rs4bn Year 2: Rs8bn Year 3: Rs15bn Year 4: Rs20bn Year 5: Rs25bn
Mobile - Domestic	Year 1: 6% Year 2: 6% Year 3: 5% Year 4: 5% Year 5: 4%	Rs2bn over 3 Years Cumulative minimum (bn) Year 1: Rs0.5bn Year 2: Rs1.2bn Year 3: Rs2bn	Year 1: Rs5bn Year 2: Rs10bn Year 3: Rs20bn Year 4: Rs35bn Year 5: Rs50bn
Specified Electronics Components		Rs1bn over 3 Years Cumulative minimum (bn) Year 1: Rs0.25bn Year 2: Rs0.6bn Year 3: Rs1bn	Year 1: Rs1bn Year 2: Rs2bn Year 3: Rs3bn Year 4: Rs4.5bn Year 5: Rs6bn

Source: Government of India, Ministry of Electronics and Information Technology, Emkay Research

#### Exhibit 10: Basis of computation of incentives

Incentive per Company	The incentive per company will be applicable on incremental sales of manufactured goods (as distinct from traded goods) over base year subject to ceilings as decided by the Empowered Committee.
Basis of Computation	Assessment of incremental investment and sales of manufactured goods shall be based on details furnished to the Departments / Ministries / Agencies and Statutory Auditor certificates. Functional Guidelines will be issued by MeitY in consultation with concerned Departments / Ministries.

Source: Industry, Emkay Research

#### Exhibit 11: Products/Goods covered under PLI incentive scheme

Sr. No.	Description of goods
1	SMT components
2	Discrete semiconductor devices including transistors, diodes, thyristors, etc.
3	Passive components including resistors, capacitors, etc. for electronic applications
4	Printed Circuit Boards (PCB), PCB laminates, prepregs, photopolymer films, PCB printing inks
5	Sensors, transducers, actuators, crystals for electronic applications
6	System in Package (SIP)
7	Micro/Nano-electronic components such as Micro Electromechanical Systems (MEMS) and Nano Electromechanical Systems (NEMS)
8	Assembly, Testing, Marking and Packaging (ATMP) units

Source: Government of India, Ministry of Electronics and Information Technology, Emkay Research

#### Exhibit 12: Expected Annual incentive outlay (figures to be in zero decimal)

Financial year	Total Incentive (Rs bn)
Year 1	53
Year 2	81
Year 3	84
Year 4	114
Year 5	76
<b>Total</b>	<b>409</b>

Source: Government of India, Ministry of Electronics and Information Technology, Emkay Research

We have put a scenario analysis based on the incremental volumes of Mobile Phones that can get added with new wins and its contribution to EBITDA and profitability. For Dixon, the mobile business comes with negative working capital and a payback period of 12-15 months.

**Exhibit 13: Scenarios based on incremental volumes – Mobile Phones**

Rs mn	Year 1	Year 2	Year 3	Year 4
Units (mn)	5	8	10	12
Ex-Factory handset price (Rs)	10000	10000	10000	10000
<b>Total sales</b>	<b>50000</b>	<b>80000</b>	<b>100000</b>	<b>120000</b>
Conversion Charges earned by Dixon (Rs/Unit)	270	270	270	270
Net revenues	1350	2160	2700	3240
<b>EBITDA</b>	<b>750</b>	<b>1200</b>	<b>1500</b>	<b>1800</b>
<i>EBITDA %</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>
Depreciation	35	88	140	140
Interest	27	27		
<b>PBT</b>	<b>688</b>	<b>1086</b>	<b>1360</b>	<b>1660</b>
<i>Tax @ 17%</i>	<i>117</i>	<i>185</i>	<i>231</i>	<i>282</i>
<b>PAT</b>	<b>571</b>	<b>901</b>	<b>1129</b>	<b>1378</b>

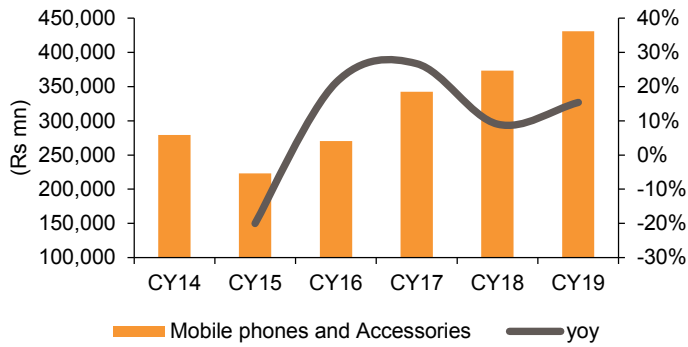
Source: Emkay Research

**Mobile brands make thin margins despite strong market share**

In the hyper-competitive Indian mobile market, companies have been able to make only thin EBIT margins despite strong market share. We believe that brands would seriously evaluate the potential of the PLI scheme to improve their margin profiles. Samsung has already outsourced its feature phones requirement to Dixon, while Xiaomi is outsourcing its mobile phone manufacturing to Foxconn. We believe that Dixon has a chance to win the incremental volume from Xiaomi as it does not have its own facility and has a clear focus on price point to win customers and gain market share.

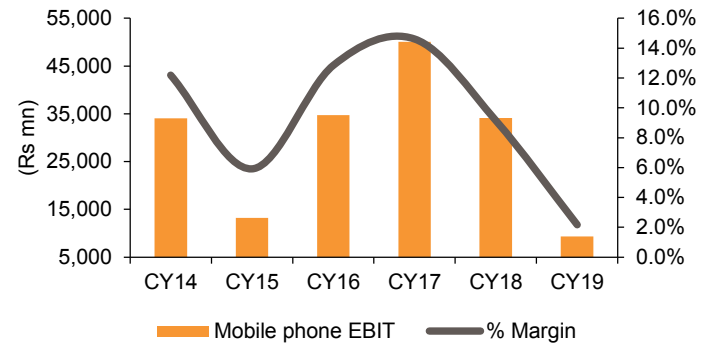
In addition, the sub-Rs15,000 price range accounts for 72% of mobile phone sales in India, which would make it more lucrative for brands to look for getting benefits out of the incentive scheme by outsourcing their requirements to contract manufacturers such as Dixon.

**Exhibit 14: Samsung Mobile phone sales in India**



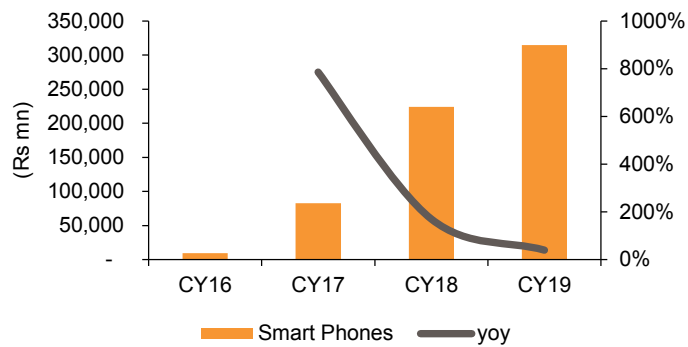
Source: Industry, Emkay Research

**Exhibit 15: Samsung Mobile phone EBIT and EBIT margins**



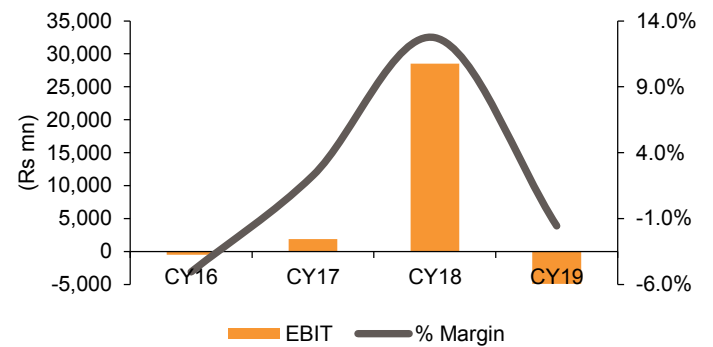
Source: Industry, Emkay Research

**Exhibit 16: Xiaomi's Mobile phones sales in India**



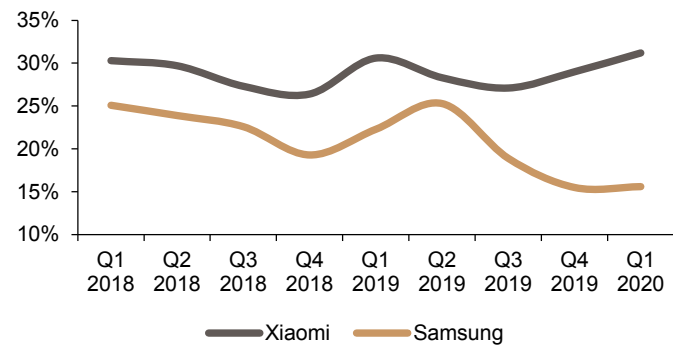
Source: Industry, Emkay Research

**Exhibit 17: Xiaomi's Mobile phone EBIT and EBIT margin**



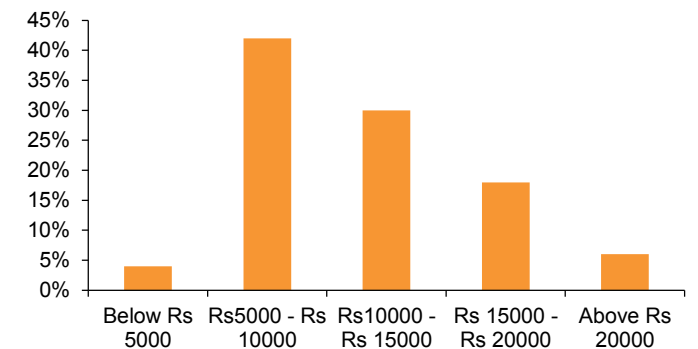
Source: Industry, Emkay Research

**Exhibit 18: Xiaomi Mobile market share in India is on upswing**



Source: Industry, Emkay Research

**Exhibit 19: Mobile phone sales in India at various price points**



Source: Industry, Emkay Research

**Global mobile manufacturing exports**

Global mobile phone export sales totaled \$267.4bn in 2019 with 47% contributed by China. Total worldwide mobile export shipments' value rose by ~2.9% for all exporting countries since 2015 when exported cellphones were valued at \$259.7bn. In CY19, export sales of cellphones declined by 11%. Asian countries contributed ~78% of mobile exports in CY19.

Within the top exporters, the fastest-growing cellphone exporters since 2015 are: India (up 1,836%), Czech Republic (up 142.9%), Vietnam (up 41.5%) and Hong Kong (up 39.6%).

India has been the fastest-growing in mobile exports, although on a small base. We believe that with the recent policy changes with the motivation of incentives, India could see a disproportionate rise in mobile exports and that would also benefit from the global brands' strategy to have 'China plus one country' dependence.

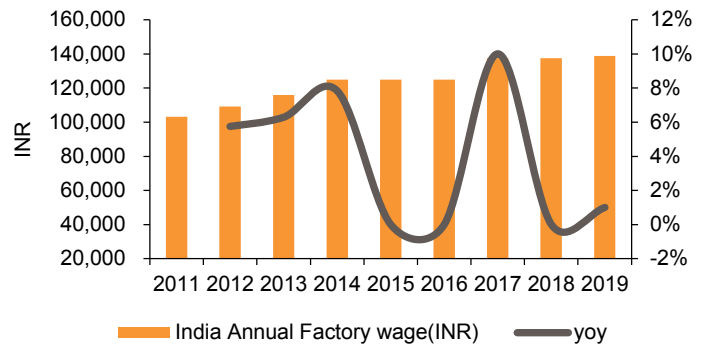
In addition, India has lower factory wages compared with China, and China's wages have seen 10% CAGR over the last eight years compared with 4% for India. We believe that relatively smaller players, which have been outsourcing from China, would think to partly move to India.

**Exhibit 20: Factory wages in China has increased 10% CAGR from CY11-19**



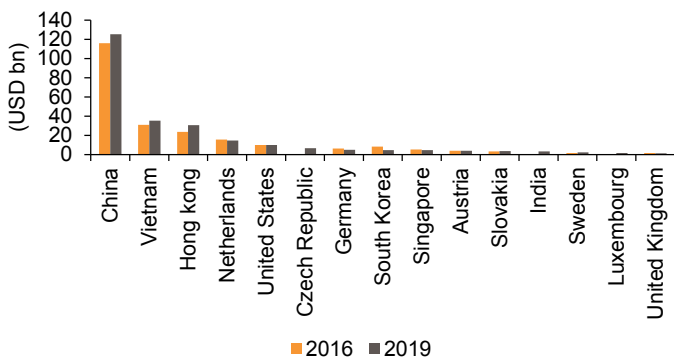
Source: Industry, Emkay Research

**Exhibit 21: Factory wages in India has increased by 4% CAGR from CY11-19**



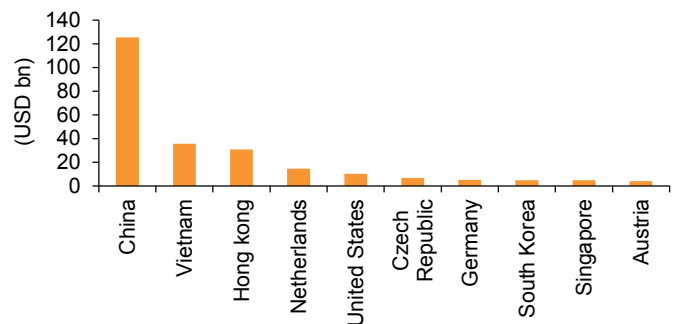
Source: Industry, Emkay Research

**Exhibit 22: Mobile phone exports by various countries over 2016-19**



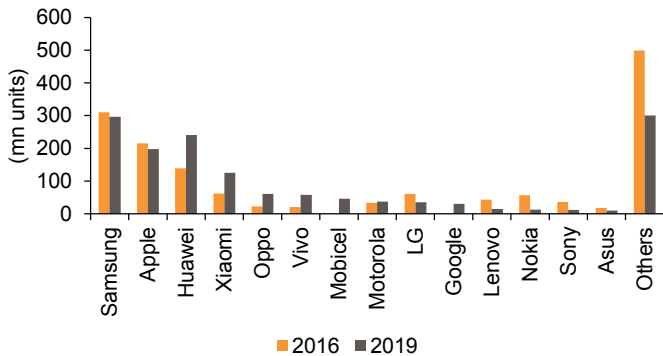
Source: Industry, Emkay Research

**Exhibit 23: China remains the largest exporter of Mobile phones - 2019**



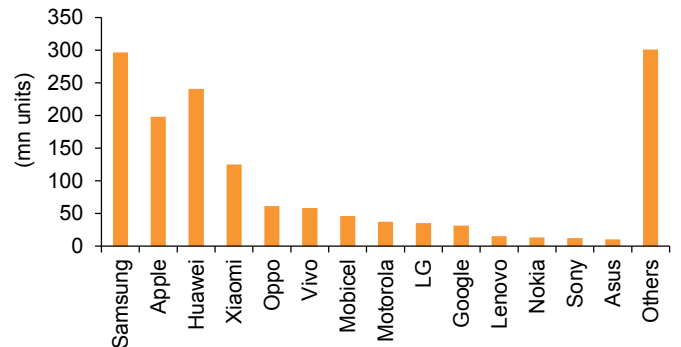
Source: Industry, Emkay Research

**Exhibit 24: Global mobile phones sales by various brands**



Source: Industry, Emkay Research

**Exhibit 25: Global mobile sales by various brands - 2019**



Source: Industry, Emkay Research

**Dixon consistently gaining confidence of brands**

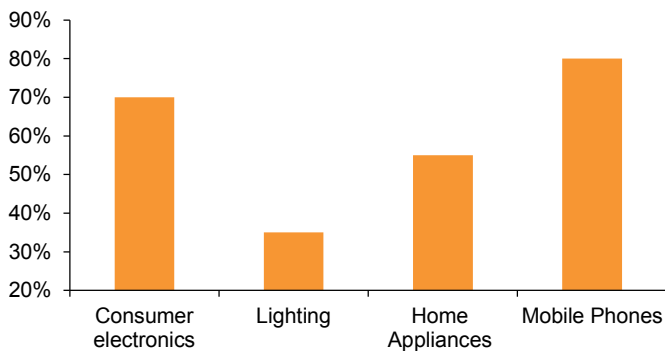
Increasing focus of brands to outsource manufacturing has been benefiting Dixon, and it has been creating scale across its business categories. In addition, the focus on backward integration and the ODM business has also been driving margin improvement. Over the last few years, the company has been gaining confidence of global brands, leading to rising revenue contribution from them. Majority of revenues across the main product categories are from global brands, which shows the quality of the products as MNC brands have stringent quality controls and checks.

Further, the company has been adding new product categories at regular intervals and it is expected to further expand its product category in the near- to medium term.

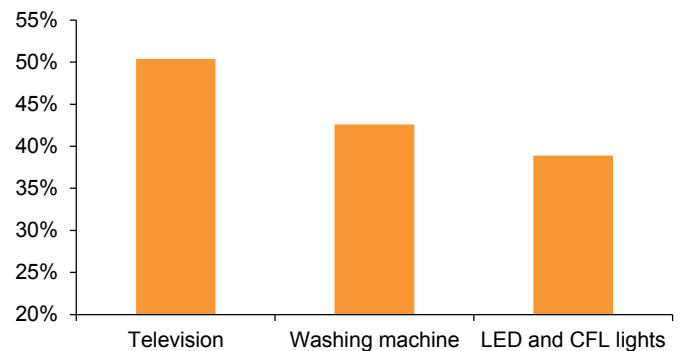
**Exhibit 26: Dixon has continuously added new customers**

Segment	Period	Customer Addition
Lighting	2QFY18	Crompton Greaves, Wipro, Panasonic, Anchor
	4QFY18	Jaguar, Usha
	1QFY19	Syska, Orient
	2QFY19	Ajanta, RR Kabel & Polycab
	3QFY19	Luker
	4QFY19	Bajaj
Home Appliance	2QFY18	Samsung, Flipkart (MarQ)
	3QFY18	Lloyd, Micromax and VoltBek
Consumer Electronics	2QFY18	Flipkart (MarQ)
	3QFY18	Skyworth
	4QFY18	TCL
	1QFY19	iFFALCON
	2QFY19	Xiaomi
	3QFY19	Lloyd, BPL, Koryo and Philips
	1QFY20	Re-connect
	3QFY20	Samsung
Mobile Phones	3QFY18	Blaupunkt
	4QFY18	Tambo
	3QFY19	Panasonic, Micromax, Mobistar and Intex
	3QFY20	Samsung

Source: Company, Emkay Research

**Exhibit 27: Global brands contribute maximum to Dixon's revenue**

Source: Company, Emkay Research

**Exhibit 28: Dixon has healthy OEM/ODM market share across the large categories**

Source: Company, Emkay Research

**Update on underlying business:** Management remains confident on the order book in categories like washing machines, TV and mobile phones while utilization should improve gradually in Q2. The security and surveillance business is expected take much longer to recover. **Key risks to our estimates:** sustained macro slowdown impacting consumer durables demand, raw material cost inflation, INR volatility, customer loss and inability to add new customer in mobile segment despite recent incentive linked manufacturing policy.

In wake of extended lockdown, we have lowered our revenue assumptions for Lighting/Consumer Electronics/Mobiles/Security system by 11.7%/12.4%/14.3%/36.3% in FY21 and by 9.2%/4.2%/14.3%/33.6% in FY22, while we have marginally increased revenue assumptions in Washing machines by 1.9% over the same period.

EBITDA margin increase is backed by accelerated cost optimization program started by the company during the Covid-19 lockdown.

**Exhibit 29: Changes in Estimate**

Particulars	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	53,255	46,646	-12.4%	63,106	58,390	-7.5%	68,997
EBITDA	2,610	2,379	-8.8%	3,092	3,077	-0.5%	3,636
EBITDA Margin %	4.9	5.1	20 bps	4.9	5.3	37 bps	5.3
PAT	1553	1381	-11.1%	2011	1996	-0.7%	2476
EPS	134.2	119.3	-11.1%	173.7	172.4	-0.7%	213.9
<b>Revenue assumptions</b>							
Revenue assumptions	FY21E			FY22E			FY23
	Old	New	% Change	Old	New	% Change	Introduced
Lighting	12660	11176	-11.7%	14622	13276	-9.2%	15657
Consumer Electronics	26860	23529	-12.4%	31988	30644	-4.2%	36674
Washing Machine	4167	4246	1.9%	5417	5519	1.9%	6623
Mobiles	6990	5992	-14.3%	7959	6822	-14.3%	7504
Reverse Logistics	168	168	0.0%	171	171	0.0%	191
Security Systems	2410	1535	-36.3%	2949	1958	-33.6%	2349
<b>Total</b>	<b>53255</b>	<b>46646</b>	<b>-12.4%</b>	<b>63106</b>	<b>58390</b>	<b>-7.5%</b>	<b>68997</b>

Source: Company, Emkay Research

**Exhibit 30: Key Assumptions**

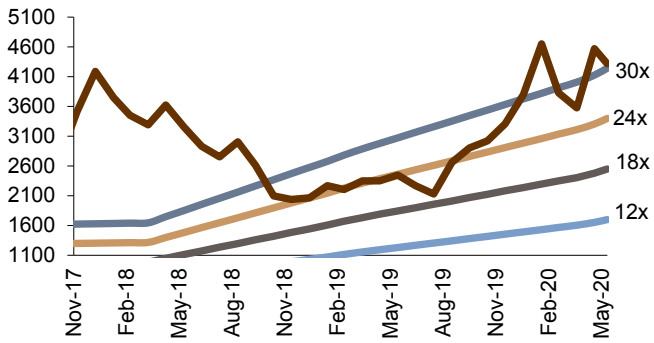
Revenue (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Consumer Electronics	10735	11938	20902	23529	30644	36674
% yoy growth	27%	11%	75%	13%	30%	20%
Lighting Products	7742	9192	11485	11176	13276	15657
% yoy growth	41%	19%	25%	-3%	19%	18%
Home Appliances	2503	3731	3931	4246	5519	6623
% yoy growth	33%	49%	5%	8%	30%	20%
Mobile Phones	6698	3551	5453	5992	6822	7504
% yoy growth	-17%	-47%	54%	10%	14%	10%
Reverse Logistics	734	298	155	168	171	191
% yoy growth	17%	-59%	-48%	8%	2%	12%
Security Systems	5	1134	2150	1535	1958	2349
% yoy growth			90%	-29%	28%	25%
<b>Total Revenue</b>	<b>28416</b>	<b>29844</b>	<b>44077</b>	<b>46646</b>	<b>58390</b>	<b>68997</b>
<b>% yoy growth</b>	<b>16%</b>	<b>5%</b>	<b>48%</b>	<b>6%</b>	<b>25%</b>	<b>18%</b>

Source: Company, Emkay Research



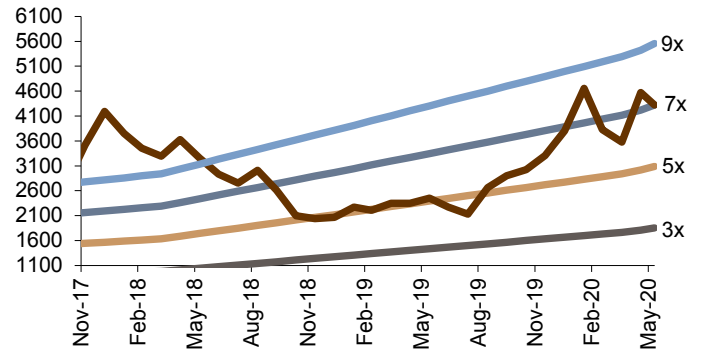
## Valuation charts

**Exhibit 31: P/E band**



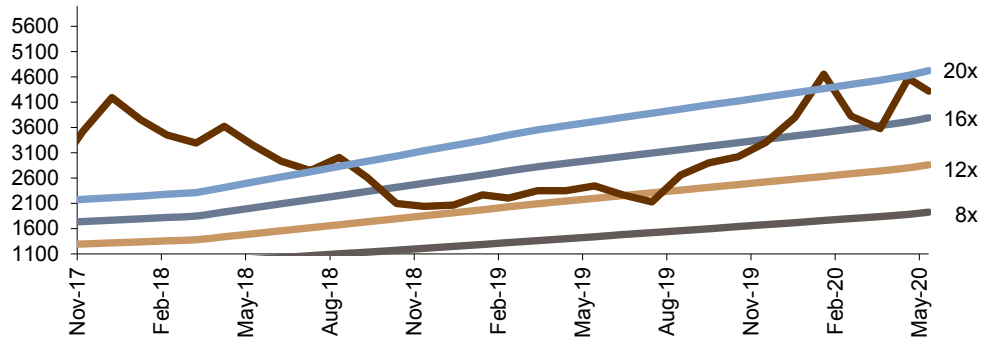
Source: Company, Emkay Research

**Exhibit 32: P/B band**



Source: Company, Emkay Research

**Exhibit 33: EV/EBITDA band**



Source: Company, Emkay Research

## Annexure: Incentives schemes for manufacturing of electronics

**Exhibit 34: Salient features of PLI Scheme**

S. No	Clause	Description
1	Period of Receiving Applications	1st Apr, 20 - 31st July, 20
2	Target Segments	Mobile phones and Specified Electronic Components
3	Applicant	Company Registered In India , can operate new or existing manufacturing facility(ies)
4 (a)	Investment	<b>Included:</b> <ul style="list-style-type: none"> <li>- Plant, machinery and equipment, tools, dies, moulds, jigs, fixtures &amp; parts, components &amp; spares of Plant, machinery and equipment</li> <li>- Expenditure on packaging, freight / transport, insurance, and erection and commissioning of the same</li> <li>- All taxes and duties (whether creditable or not)</li> <li>- R&amp;D expenditure: Test and measuring instruments, purchase of design tools, software cost (directly used for R&amp;D) &amp; license fee, expenditure on technology, IPR, Patents &amp; Copyrights inclusive of all taxes &amp; duties (whether creditable or not), total expense on R&amp;D should not exceed 20% of the total Investment</li> <li>- Expenditure related to Transfer of Technology (ToT) Agreements, including cost of technology &amp; initial technology purchase inclusive of all taxes &amp; duties (whether creditable or not)</li> <li>- Expenditure on utilities, software used in the manufacturing process of goods, associated utilities (electrical utilities etc.) will be capped at CPWD rates</li> </ul>
4 (b)		<b>Excluded:</b> <ul style="list-style-type: none"> <li>-Expenditure incurred on land and building (including factory building / construction)</li> <li>-Expenditure on consumables and raw material used for manufacturing</li> <li>-Payment under a Letter of Credit with a bank prior to 01.04.2020</li> </ul>
5	Invoice Value	Unit Price charged on an invoice raised by an applicant on sale of manufactured goods, net of credit notes, discounts or any other adjustments and applicable taxes
6	Net Sales Turnover	Gross Sale Turnover net of credit notes, discounts (including but not limited to cash, volume, turnover, target or for any other purpose) and taxes applicable. Gross Sale Turnover shall be reduced by the amount relating to return of sales
7	Base Year	Financial Year 2019-20
8	Incremental Investment	Investment made after the end of the Base Year, Baseline for Investment: As on 31.03.2020
9	Incremental Sales of Manufactured Goods	Sales of Manufactured Goods over a given period minus the Sales of Manufactured Goods in the Base Year Baseline for Sales of Manufactured Goods: First year i.e. FY 2020-21: Period from 1st Aug , 19 to 31st March, 20, Second year onwards: Period from 1st Apr , 19 to 31st Mar, 20
10	Value Addition	Value of Non-originating material used in manufacturing / Net Sales Turnover of Eligible Product
11	Plant, Machinery and Equipment for Investment	Machinery should be purchased /leased in name of the applicant. If Leased, the lease should be in the nature of a financial lease within the meaning of AS- 19. Total Value of used / refurbished plant, machinery and equipment (including for associated utilities and R&D) allowed but not exceeding 40% of the total Investment Total value of Domestically procured used/refurbished plant, machinery and equipment (including for associated utilities and R&D) allowed but not exceeding 20% of the total Investment. Used/refurbished plant, machinery and equipment shall have a minimum residual life of at least 5 years. Tools, dies, molds, jigs, fixtures and parts, accessories, components and spares outside the premises of an applicant allowed - undertaking from person having custody + valid agreement with him
12	Incentive	Net Incremental Sales of Eligible Product x Rate of Incentive. Incentive amount payable will be subject to ceilings on Net Incremental Sales Turnover on which incentive shall be applicable.

Source: Government of India, Ministry of Electronics and Information Technology, Emkay Research

**Exhibit 35: Scheme for promotion and manufacturing of electronic components and semiconductors (SPECS)**

	Description
Scheme	To offer financial incentive of 25% of capital expenditure for the manufacturing of goods as per list annexed that constitute the supply chain of an electronic product under the Scheme for Promotion of manufacturing of Electronic Components and Semiconductors (SPECS).
Objective	The scheme will help offset the disability for domestic manufacturing of components and semiconductors in order to strengthen the electronics manufacturing ecosystem in the country.
Eligibility	The SPECS will be applicable to investments in new units as well as expansion of capacity/ modernization and diversification of existing units.
Threshold Limit	The minimum threshold investment to be eligible under the scheme is below
	The thresholds are same for new units or expansion of capacity/ modernization and diversification of existing units.
	Periodic reviews will be undertaken with respect to changes, if any, to the list of goods/ thresholds for which incentives are provided.
Tenure of the Scheme	The SPECS will be open for applications initially for 3 years from the date of its notification. The applications received under the scheme will be appraised on an ongoing basis and implementation will continue as per the approvals accorded under the scheme.
Application	This scheme was open to receive applications till 31.12.2018 for new projects as well as expansion projects
Incentives under the scheme	An incentive of 25% on capital expenditure shall be provided to the units making investment for the goods as per list annexed. The incentive will be provided on reimbursement basis
	The capital expenditure will be total of expenditure in plant, machinery, equipment, associated utilities and technology, including for Research & Development (R&D). Details of such eligible capital expenditure will be included in the guidelines. The total value of refurbished plant, machinery and equipment (including for associated utilities and R&D), whether imported or domestically procured, not exceeding 20% of the total eligible plant, machinery and equipment (including for associated utilities and R&D), shall be considered for calculation of incentive in this regard
	The incentives, if any, offered by the State Government or any of its agencies or local bodies shall be over and above the incentive eligible under the proposed scheme.
	The applicants shall also be eligible to take benefit under any other scheme(s) of Government of India. However, investments committed by the applicants under M-SIPS scheme for which incentives have been claimed will not qualify as eligible investments under SPECS scheme.

Source: Government of India, Ministry of Electronics and Information Technology, Emkay Research

**Exhibit 36: Modified electronics manufacturing clusters (EMC 2.0) Scheme**

	Description
Objective	Under Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme; Electronics Manufacturing Clusters would be established to create infrastructure with common facilities and amenities in EMC projects and upgrade the infrastructure in Industrial Estates / Parks / Areas as Common Facility Centre (CFC) for attracting investment in electronics manufacturing.
Eligibility for Financial assistance	EMC Project would be an undeveloped / underdeveloped geographical area, preferably contiguous, where the focus is on development of basic infrastructure, amenities and other common facilities for the ESDM units.
	Common Facility Centre (CFC): There should be significant number of existing ESDM units located in the area and the focus is on upgrading common technical infrastructure and providing common facilities for the ESDM units in existing EMCs, Industrial Estates / Parks / Areas.
	Anchor Unit (s) shall be electronics manufacturing company (ies) with a commitment of purchasing minimum 20% of the saleable / leasable land area in the proposed EMC project for setting up electronics manufacturing facility in the EMC and will give a commitment of an investment of Rs. 300 crore or above.
Financial Assistance	For EMC Project; financial assistance will be restricted to 50% of the project cost subject to a ceiling of Rs. 70 crore for every 100 acres of land. For larger areas, pro-rata ceiling would apply but not exceeding Rs.350 crore per project. The remaining project cost will be borne by State Government or State Implementing Agency (SIA) or Central Public Sector Unit (CPSU) or State Public Sector Unit (SPSU) or Industrial Corridor Development Corporation (ICDC) such as DMICDC, etc. (as the case may be) with a minimum contribution of 50% of the project cost.
	For Common Facility Centers (CFCs); financial assistance will be restricted to 75% of the project cost subject to a ceiling of Rs.75 crore. The remaining project cost will be borne by State Government or State Implementing Agency (SIA) or Central Public Sector Unit (CPSU) or State Public Sector Unit (SPSU) or Industrial Corridor Development Corporation (ICDC) such as DMICDC, etc. (as the case may be) with a minimum contribution of 25% of the project cost.
Scheme tenure	Government notified Electronic Manufacturing Clusters (EMC) Scheme in October, 2012 to provide support for creation of world-class infrastructure for attracting investments in Electronics Systems Design and Manufacturing (ESDM) sector. The Scheme was closed for receipt of applications from October, 2017

Source: Government of India, Ministry of Electronics and Information Technology, Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20E	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>29,844</b>	<b>44,077</b>	<b>46,646</b>	<b>58,390</b>	<b>68,997</b>
<b>Expenditure</b>	<b>28,496</b>	<b>41,961</b>	<b>44,268</b>	<b>55,312</b>	<b>65,361</b>
<b>EBITDA</b>	<b>1,349</b>	<b>2,116</b>	<b>2,379</b>	<b>3,077</b>	<b>3,636</b>
Depreciation	217	337	375	461	532
<b>EBIT</b>	<b>1,132</b>	<b>1,779</b>	<b>2,004</b>	<b>2,616</b>	<b>3,104</b>
Other Income	56	71	134	211	350
Interest expenses	250	362	292	159	145
<b>PBT</b>	<b>938</b>	<b>1,488</b>	<b>1,845</b>	<b>2,667</b>	<b>3,309</b>
Tax	305	374	464	671	833
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>634</b>	<b>1,113</b>	<b>1,381</b>	<b>1,996</b>	<b>2,476</b>
<b>Adjusted PAT</b>	<b>634</b>	<b>1,113</b>	<b>1,381</b>	<b>1,996</b>	<b>2,476</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY19	FY20E	FY21E	FY22E	FY23E
Equity share capital	113	116	116	116	116
Reserves & surplus	3,669	5,165	6,523	8,484	10,917
<b>Net worth</b>	<b>3,782</b>	<b>5,281</b>	<b>6,638</b>	<b>8,599</b>	<b>11,033</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>1,412</b>	<b>862</b>	<b>562</b>	<b>362</b>	<b>362</b>
Net deferred tax liability	144	144	144	144	144
<b>Total Liabilities</b>	<b>5,338</b>	<b>6,287</b>	<b>7,345</b>	<b>9,106</b>	<b>11,539</b>
<b>Net block</b>	<b>2,409</b>	<b>3,082</b>	<b>3,472</b>	<b>3,776</b>	<b>4,059</b>
<b>Investment</b>	<b>76</b>	<b>76</b>	<b>76</b>	<b>76</b>	<b>76</b>
<b>Current Assets</b>	<b>12,235</b>	<b>15,683</b>	<b>17,034</b>	<b>21,610</b>	<b>26,622</b>
Cash & bank balance	144	1,273	2,270	4,078	6,128
Other Current Assets	1,222	2,238	2,393	2,686	2,951
<b>Current liabilities &amp; Provision</b>	<b>9,570</b>	<b>12,742</b>	<b>13,425</b>	<b>16,544</b>	<b>19,405</b>
<b>Net current assets</b>	<b>2,665</b>	<b>2,941</b>	<b>3,609</b>	<b>5,066</b>	<b>7,216</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>5,338</b>	<b>6,287</b>	<b>7,345</b>	<b>9,106</b>	<b>11,539</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY19	FY20E	FY21E	FY22E	FY23E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>882</b>	<b>1,417</b>	<b>1,711</b>	<b>2,456</b>	<b>2,959</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(969)	853	329	351	(100)
<b>Operating Cashflow</b>	<b>(31)</b>	<b>2,547</b>	<b>2,320</b>	<b>2,691</b>	<b>2,703</b>
Capital expenditure	(864)	(1,009)	(765)	(765)	(815)
<b>Free Cash Flow</b>	<b>(894)</b>	<b>1,537</b>	<b>1,555</b>	<b>1,926</b>	<b>1,888</b>
Investments	35	0	0	0	0
Other Investing Cash Flow	134	82	0	0	0
<b>Investing Cashflow</b>	<b>(638)</b>	<b>(857)</b>	<b>(631)</b>	<b>(554)</b>	<b>(465)</b>
Equity Capital Raised	0	3	0	0	0
Loans Taken / (Repaid)	966	(550)	(300)	(200)	0
Dividend paid (incl tax)	(27)	(83)	(23)	(35)	(43)
Other Financing Cash Flow	124	577	1,197	2,336	4,078
<b>Financing Cashflow</b>	<b>813</b>	<b>(416)</b>	<b>581</b>	<b>1,942</b>	<b>3,890</b>
<b>Net chg in cash</b>	<b>144</b>	<b>1,273</b>	<b>2,270</b>	<b>4,078</b>	<b>6,128</b>
Opening cash position	127	144	1,273	2,270	4,078
<b>Closing cash position</b>	<b>144</b>	<b>1,273</b>	<b>2,270</b>	<b>4,078</b>	<b>6,128</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EBITDA Margin	4.5	4.8	5.1	5.3	5.3
EBIT Margin	3.8	4.0	4.3	4.5	4.5
Effective Tax Rate	32.5	25.2	25.2	25.2	25.2
Net Margin	2.1	2.5	3.0	3.4	3.6
ROCE	26.5	31.8	31.4	34.4	33.5
ROE	18.3	24.6	23.2	26.2	25.2
RoIC	27.7	36.8	41.9	54.6	62.6

<b>Per Share Data (Rs)</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EPS	54.7	96.2	119.3	172.4	213.9
CEPS	73.4	125.3	151.7	212.3	259.9
BVPS	326.8	456.2	573.5	742.9	953.1
DPS	2.0	6.0	2.0	3.0	3.7

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
PER	79.3	45.1	36.4	25.2	20.3
P/CEPS	59.1	34.7	28.6	20.5	16.7
P/BV	13.3	9.5	7.6	5.8	4.6
EV / Sales	1.7	1.1	1.0	0.8	0.6
EV / EBITDA	38.2	23.5	20.4	15.1	12.2
Dividend Yield (%)	0.0	0.1	0.0	0.1	0.1

<b>Gearing Ratio (x)</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Net Debt/ Equity	0.3	(0.1)	(0.3)	(0.4)	(0.5)
Net Debt/EBIDTA	0.9	(0.2)	(0.7)	(1.2)	(1.6)
Working Cap Cycle (days)	30.8	13.8	10.5	6.2	5.8

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	5.0	47.7	5.8	25.2	18.2
EBITDA	19.7	56.9	12.4	29.3	18.2
EBIT	16.1	57.1	12.6	30.5	18.7
PAT	4.0	75.7	24.0	44.5	24.1

<b>Quarterly (Rs mn)</b>	<b>Q3FY19</b>	<b>Q4FY19</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>
Revenue	7,940	8,588	11,469	14,020	9,938
EBITDA	390	375	526	631	515
<b>EBITDA Margin (%)</b>	<b>4.9</b>	<b>4.4</b>	<b>4.6</b>	<b>4.5</b>	<b>5.2</b>
PAT	176	165	236	430	263
<b>EPS (Rs)</b>	<b>15.2</b>	<b>14.3</b>	<b>20.4</b>	<b>37.2</b>	<b>22.7</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Nov-19</b>	<b>Dec-19</b>	<b>Mar-20</b>
Promoters	38.9	38.9	38.1	37.9	36.2
FIs	7.2	7.7	8.3	10.9	10.8
DIs	22.4	22.1	21.0	20.7	23.0
Public and Others	31.5	31.4	32.6	30.5	30.1

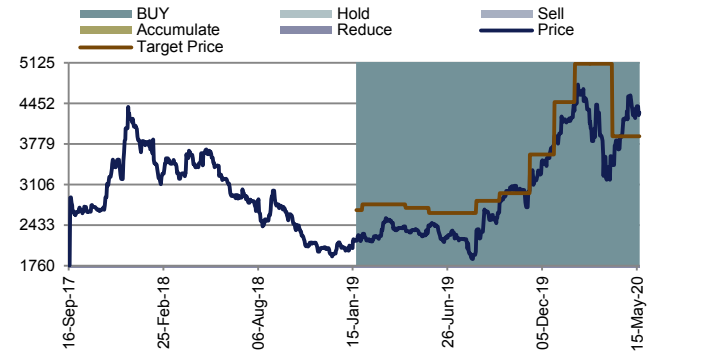
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
07-Apr-20	3,755	3,908	12m	Buy	Naval Seth
03-Apr-20	3,429	3,908	12m	Buy	Naval Seth
16-Mar-20	3,886	5,111	12m	Buy	Naval Seth
05-Mar-20	4,101	5,111	12m	Buy	Naval Seth
13-Feb-20	4,693	5,111	12m	Buy	Naval Seth
30-Jan-20	4,499	5,111	12m	Buy	Naval Seth
26-Dec-19	3,912	4,475	12m	Buy	Naval Seth
28-Nov-19	3,339	3,605	12m	Buy	Naval Seth
19-Nov-19	3,232	3,605	12m	Buy	Naval Seth
14-Nov-19	3,263	3,605	12m	Buy	Naval Seth
23-Sep-19	2,877	2,963	12m	Buy	Naval Seth
11-Sep-19	2,603	2,834	12m	Buy	Naval Seth
14-Aug-19	2,351	2,834	12m	Buy	Naval Seth
13-Jun-19	2,259	2,637	12m	Buy	Naval Seth
25-May-19	2,427	2,637	12m	Buy	Naval Seth
20-May-19	2,346	2,718	12m	Buy	Naval Seth
23-Apr-19	2,318	2,718	12m	Buy	Naval Seth
15-Apr-19	2,353	2,718	12m	Buy	Naval Seth
08-Apr-19	2,385	2,776	12m	Buy	Naval Seth
14-Mar-19	2,537	2,776	12m	Buy	Naval Seth
31-Jan-19	2,269	2,776	12m	Buy	Naval Seth
21-Jan-19	2,180	2,683	12m	Buy	Naval Seth

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Consumer Durables



### Analyst: Naval Seth

#### Contact Details

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#### Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

#### Analyst bio

Naval holds an MBA in Finance and has more than 11 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Consumer Durables</b>	<b>0.75</b>	<b>0.75</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
Amber Enterprises	0.00	0.01	NA	1	1.00
Blue Star	0.00	0.00	NA	0	0.00
Crompton Greaves CE	0.18	0.20	10%	2	26.59
Dixon Technologies	0.00	0.02	NA	2	2.83
Havells India	0.24	0.22	-6%	-1	29.6
V-Guard Industries	0.00	0.00	NA	0	0.00
<b>Voltas</b>	<b>0.21</b>	<b>0.19</b>	<b>-12%</b>	<b>-3</b>	<b>24.83</b>
Whirlpool Of India	0.12	0.11	-6%	-1	15.11
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

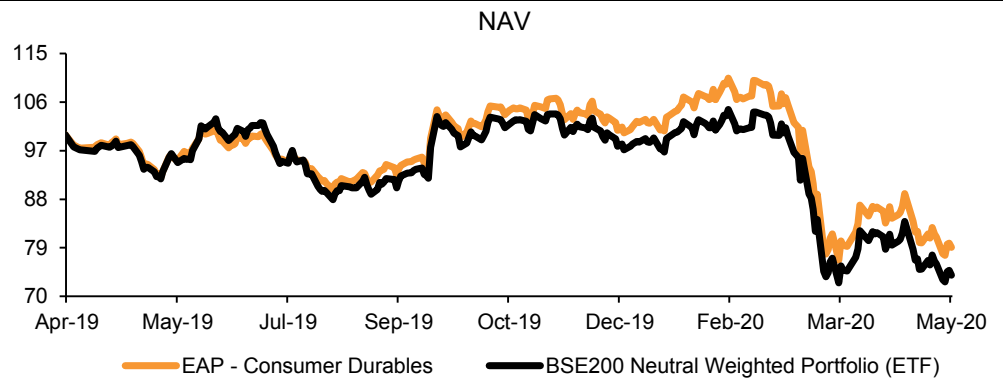
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-Aug-19	22-Nov-19	20-Feb-20	22-Apr-20	22-May-20
EAP - Consumer Durables	100.0	91.7	102.7	110.0	84.7	79.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	90.6	99.9	104.2	79.8	73.9

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 May 2020 15:23:32 (SGT)  
Dissemination Date: 26 May 2020 15:24:32 (SGT)

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