

Q1 was tough; Strong prospects ahead, however downgrade on valuations

- Q1 was a tough quarter with a 55% drop in sales, with a 32-80% drop across different segments (Refer Exhibit 3). Margins were weak at 3.3% due to lower scale of operations and under absorption of overheads, with increase in capital employed due to working capital.
- Given new customer acquisitions, deepening business with existing customers, and increase in the ODM mix, we expect Dixon's sales/EPS to grow at a CAGR of 20%/25% over FY20-22E. We change our estimates to factor in Q1 as outlined in Exhibit 5.
- We acknowledge that Dixon has multiple growth options including upcoming opportunities in electronic manufacturing-all of which is not captured in near term earnings in FY20-22E. The stock has seen a sharp 60% run up from our last update and is currently trading at ~50x FY22E, which we believe is rich. Even increasing our multiple to 40x, on par with sector leaders like Havells, takes our TP to Rs6500, which forces us to downgrade the stock to sell. We continue to like the structural story in Dixon and would await a better entry point in the stock.

Q1 was a tough quarter for Dixon

Sales were down 55% at 5.17bn. All segments were down in the range of 32-80% yoy. EBITDA down 68% 171mn; Margins at 3.3% due to lower scale of operations and under absorption of overheads, which has led to a miss in the operating leverage for the company. PAT came in at Rs16mn down 93%. Capital employed has gone up 15% with doubling of CE in consumer electronics. Expect working capital to improve from Q2 onwards.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	5,169	11,469	(54.9)	8,574	(39.7)
Total Expense	5,001	10,943	(54.3)	8,015	(37.6)
EBITDA	169	526	(67.9)	559	(69.8)
Depreciation	93	76	21.6	109	(15.2)
EBIT	76	450	(83.0)	450	(83.0)
Other Income	2	6	(63.2)	0	(800.0)
Interest	57	99	(42.2)	77	(25.9)
EBT	22	357	(93.9)	373	(94.2)
Tax	6	121	(95.4)	97	(94.2)
RPAT	16	236	(93.2)	276	(94.2)
APAT	16	236	(93.2)	276	(94.2)
			(bps)		(bps)
Gross Margin (%)	12.0	11.4	59	15.8	(379)
EBITDA Margin (%)	3.3	4.6	(132)	6.5	(325)
NPM (%)	0.3	2.1	(175)	3.2	(291)
Tax Rate (%)	25.9	33.9	(801)	26.0	(5)
EBIT Margin (%)	1.5	3.9	(244)	5.2	(377)

CMP	Rs 7,964
Target / Downside	Rs 6,500 / 18%
BSE Sensex	37,724
NSE Nifty	11,095

Script Details

Equity / FV	Rs 116mn / Rs 10
Market Cap	Rs 90bn
	USD 1bn
52-week High/Low	Rs 8,358/Rs 1,560
Avg. Volume (no)	67,470
NSE Symbol	DIXON
Bloomberg Code	DIXON IN

Shareholding Pattern Jun'20(%)

Promoters	36.1
MF/Banks/FIs	21.9
FII	12.3
Public / Others	29.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	74.7	76.5	48.2
EV/EBITDA	40.3	40.2	27.5
ROE (%)	26.2	19.5	24.9
RoACE (%)	26.6	20.3	24.9

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	44,001	46,494	63,398
EBITDA	2,231	2,232	3,233
PAT	1,205	1,176	1,869
EPS (Rs.)	106.6	104.0	165.4

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Strong customers' addition; diversification and fungibility are Dixon's strengths.

Dixon's customer acquisition and product profile have become stronger in recent times. It has won Voltas Beko as customer in SAWMs in the 5-8.5kg range, and Samsung for FAWMs and SAWM. It has started production for Samsung featured phones and smart phones. It has Jio as customer for set top boxes, which it will use for underutilized security systems capacity in Tirupati. In the lighting segment, Dixon has got Havells, Crompton and HPL, together with all the major brands in its kitty. A key advantage for Dixon is its diversification across customers, products and product fungibility which makes manufacturing flexible. When it is not making security systems, it can use that line to make set top boxes or medical kits. Similarly, its largest OEM in TVs has a strong online sales model, which will help them in times of social distancing. These factors have helped them de-risk their business model in tough times.

Government thrust on EMS is an emerging opportunity for Dixon

Dixon is participating in the PLI scheme which offers incentives to boost domestic manufacturing of mobiles. It is already in discussions with large customers for both exports and domestic markets. As per norms sub \$200 phones, which is 70% of Indian market, can only be done by domestic companies and this puts Dixon on strong footing. The total capex envisaged under this is Rs2bn over 4 years, with Rs500mn expected to be spent in FY21(of its total expected FY21 capex of Rs1.2-1.3bn).

Strong prospects ahead, however downgrade on valuations

Given new customer acquisitions, deepening business with existing customers, and increase in the ODM mix, we expect Dixon's sales/EPS to grow at a CAGR of 20%/25% over FY20-22E and change our estimates as outlined in Exhibit 5. Dixon has multiple growth options, both current and future including upcoming opportunities in electronic manufacturing- all of which is difficult to capture in near term earnings forecasts in FY20-22E. The stock has seen a sharp 60% run up from our last update and is currently trading at ~50XFY22E, which we believe is rich. Even increasing our multiple to 40x, on par with sector leaders like Havells, takes our TP to Rs6500, which forces us to downgrade the stock to sell. We continue to like the structural story in Dixon and would await a better entry point in the stock.

Exhibit 1: Quarterly Performance

(Rs Mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Net Revenue	11,469	14,020	9,938	8,574	5,169	(54.9)	(39.7)	11,469	5,169	(54.9)
Cost of materials consumed	10,007	12,654	8,561	7,912	3,840	(61.6)	(51.5)	10,007	3,840	(61.6)
Changes in Inventories, WIP & SIP	156	(101)	104	(690)	710	356.0	(202.9)	156	710	356.0
Total Raw Material Cost	10,162	12,553	8,665	7,222	4,550	(55.2)	(37.0)	10,162	4,550	(55.2)
Staff Expenditure	284	315	272	308	198	(30.5)	(35.9)	284	198	(30.5)
Other Expenses	497	521	486	485	253	(49.1)	(47.9)	497	253	(49.1)
EBITDA	526	631	516	559	169	(67.9)	(69.8)	526	169	(67.9)
Depreciation	76	82	98	109	93	21.6	(15.2)	76	93	21.6
EBIT	450	549	417	450	76	(83.0)	(83.0)	450	76	(83.0)
Other Income	6	28	18	(0)	2	(63.2)	(800.0)	6	2	(63.2)
Interest	99	94	81	77	57	(42.2)	(25.9)	99	57	(42.2)
PBT	357	483	355	373	22	(93.9)	(94.2)	357	22	(93.9)
Tax	121	53	92	97	6	(95.4)	(94.2)	121	6	(95.4)
Net Profit	236	430	263	276	16	(93.2)	(94.2)	236	16	(93.2)
Reported EPS	21	38	23	24	1	(93.2)	(94.2)	21	1	(93.2)

Source: Company, DART

Exhibit 2: Operating Cost as a % of Sales

(%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Raw Material Cost	88.6	89.5	87.2	84.2	88.0	(58.7)	378.9	88.6	88.0	(58.7)
Staff Cost	2.5	2.2	2.7	3.6	3.8	134.5	23.0	2.5	3.8	134.5
Other Expenses	4.3	3.7	4.9	5.7	4.9	56.0	(76.9)	4.3	4.9	56.0
Margins (%)										
GM	11.4	10.5	12.8	15.8	12.0	58.7	(378.9)	11.4	12.0	58.7
EBITDA	4.6	4.5	5.2	6.5	3.3	(131.7)	(325.0)	4.6	3.3	(131.7)
EBIT	3.9	3.9	4.2	5.2	1.5	(244.3)	(376.7)	3.9	1.5	(244.3)
PBT	3.1	3.4	3.6	4.3	0.4	(269.4)	(392.8)	3.1	0.4	(269.4)
NPM	2.1	3.1	2.6	3.2	0.3	(174.6)	(290.7)	2.1	0.3	(174.6)

Source: Company, DART

Exhibit 3: Segment Performance

Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Lighting	3,243	2,839	2,767	2,548	777	(76.0)	(69.5)	3,243	777	(76.0)
Consumer Electronics	5,098	7,382	4,543	3,930	3,473	(31.9)	(11.6)	5,098	3,473	(31.9)
Home Appliances	988	1,391	684	900	241	(75.6)	(73.3)	988	241	(75.6)
Reverse Logistics	24	38	46	47	14	(41.9)	(70.1)	24	14	(41.9)
Security	679	435	503	546	134	(80.3)	(75.5)	679	134	(80.3)
Mobile Phones	1,437	967	1,395	603	531	(63.1)	(12.0)	1,437	531	(63.1)
Total	11,469	13,053	9,938	8,574	5,170	(54.9)	(39.7)	11,469	5,170	(54.9)
EBIT										
Lighting	254	230	239	254	58	(77.3)	(77.3)	254	58	(77.3)
Consumer Electronics	114	177	115	98	86	(24.0)	(11.6)	114	86	(24.0)
Home Appliances	107	164	92	99	4	(96.3)	(95.9)	107	4	(96.3)
Reverse Logistics	(1)	11	16	4	0	(136.4)	(90.7)	(1)	0	(136.4)
Security	20	7	22	19	0	(99.0)	(98.9)	20	0	(99.0)
Mobile Phones	32	41	32	85	20	(37.2)	(76.2)	32	20	(37.2)
EBIT Margin (%)										
Lighting	7.8	8.1	8.6	10.0	7.4	-40.7	-254.8	7.8	7.4	(40.7)
Consumer Electronics	2.2	2.4	2.5	2.5	2.5	25.6	0.1	2.2	2.5	25.6
Home Appliances	10.8	11.8	13.4	11.0	1.7	-914.2	-930.3	10.8	1.7	(914.2)
Reverse Logistics	-4.6	27.6	34.4	9.2	2.9	742.1	-631.1	(4.6)	2.9	742.1
Security	2.2	2.4	2.5	2.5	2.5	25.6	0.1	2.2	2.5	25.6
Mobile Phones	2.2	4.3	2.3	14.1	3.8	157.7	-1030.4	2.2	3.8	157.7
Segment Capital employed										
Lighting	2,573	2,880	2,542	2,680	2,700	4.9	0.7	2,573	2,700	4.9
Consumer Electronics	701	1,083	392	635	1,259	79.7	98.3	701	1,259	79.7
Home Appliances	995	1,250	1,217	1,232	1,389	39.5	12.7	995	1,389	39.5
Reverse Logistics	131	136	161	118	144	9.9	22.6	131	144	9.9
Security	154	154	132	163	161	4.4	-1.5	154	161	4.4
Mobile Phones	336	464	599	719	711	112.0	-1.0	336	711	112.0

Source: Company, DART

Exhibit 4: Variance from our estimates (%)

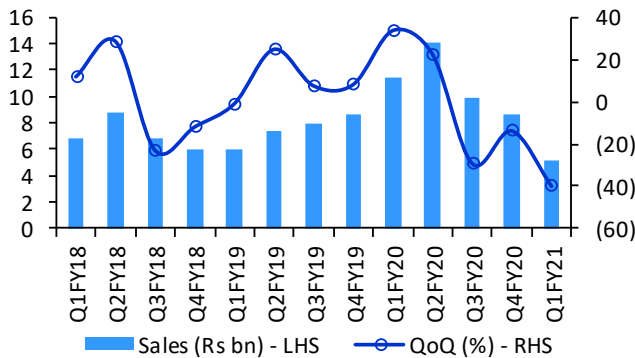
(Rs Mn)	Actual Q4FY20	DART Consensus		DART Consensus		Comments
		Q4FY20E	Q4FY20E	Var (%)	Var (%)	
Sales	5,169	8,940	5,671	(42.2)	(8.8)	Topline was impacted in the quarter due to lockdown
EBITDA	169	375	165	(55.0)	2.4	
EBITDA margins	3.3	4.2	2.9	(92.7)	35.8	Margins lower as lower scale of operations and under absorption of overhead
PAT	16	130	(34)	(87.7)	(147.1)	
Pat margins	0.3	1.5	(0.6)	(114.5)	90.9	Lower sales and EBITDA led to lower PAT
EPS	1.4	11.5	(4.9)	(87.7)	(128.9)	

Source: Company, DART

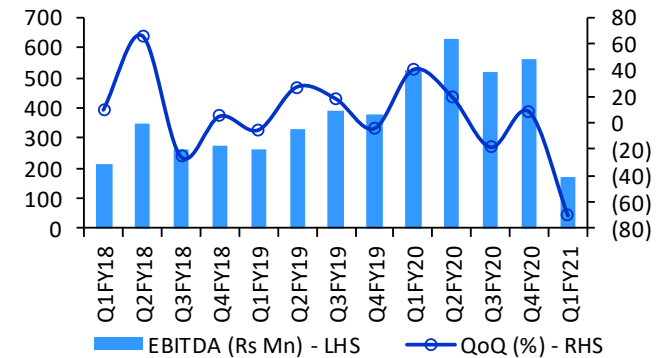
Exhibit 5: Change in Estimates

Particulars (Rs mn)	FY21E			FY22E		
	Earlier	New	Var(%)	Earlier	New	Var(%)
Sales	50,411	46,494	(7.8)	63,420	63,398	0.0
EBITDA	2,420	2,232	(7.8)	3,234	3,233	0.0
EBITDA Margin	4.8	4.8	(0.1)	5.1	5.1	0.1
PAT	1,317	1,176	(10.7)	1,870	1,869	(0.1)
EPS	114.0	101.6	(10.9)	162.0	161.5	(0.3)

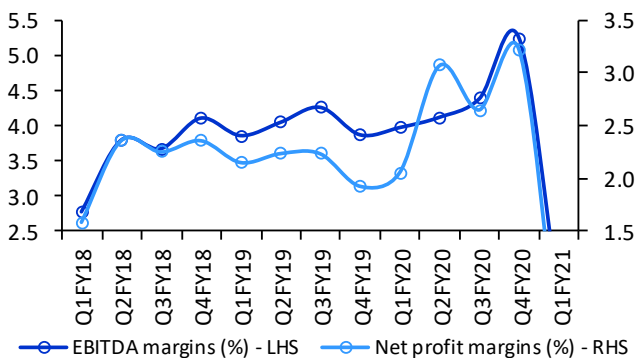
Source: DART, Company

Exhibit 6: Sales and QoQ % growth


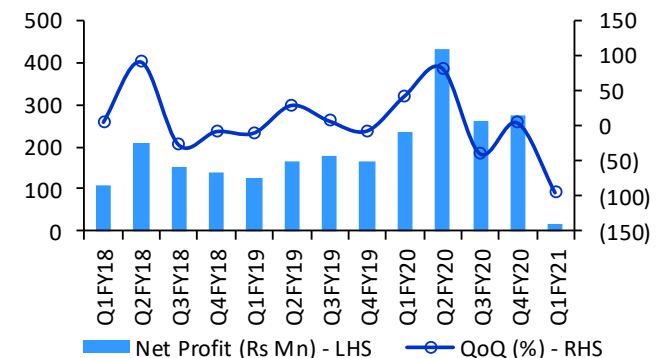
Source: Company, DART

Exhibit 7: EBITDA and QoQ growth (%)


Source: Company, DART

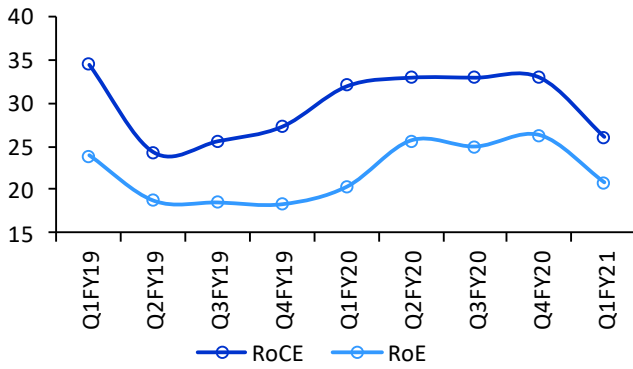
Exhibit 8: Trend in Margin (%)


Source: Company, DART

Exhibit 9: Net Profit and QoQ growth (%)


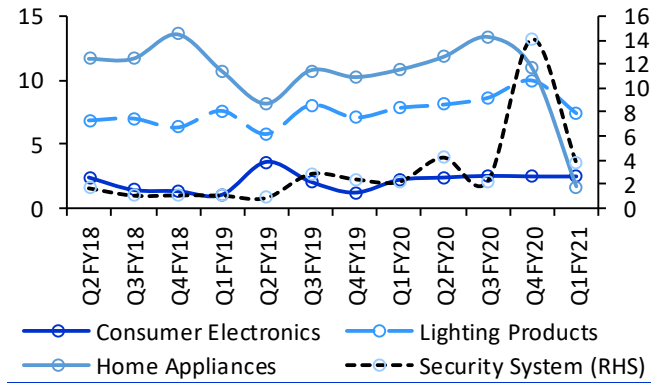
Source: Company, DART

Exhibit 10: ROCE & ROE Trend (%)



Source: DART, Company

Exhibit 11: Segment EBIT Margin (%) trend



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	29,845	44,001	46,494	63,398
Total Expense	28,496	41,771	44,262	60,165
COGS	26,093	38,602	40,403	55,093
Employees Cost	839	1,180	1,255	1,712
Other expenses	1,564	1,989	2,604	3,360
EBIDTA	1,349	2,231	2,232	3,233
Depreciation	217	365	469	547
EBIT	1,132	1,865	1,763	2,687
Interest	250	350	240	240
Other Income	56	52	45	45
Exc. / E.O. items	0	0	0	0
EBT	938	1,568	1,568	2,492
Tax	305	363	392	623
RPAT	634	1,205	1,176	1,869
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	634	1,205	1,176	1,869

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	113	116	116	116
Minority Interest	0	0	0	0
Reserves & Surplus	3,669	5,298	6,502	8,281
Net Worth	3,782	5,413	6,618	8,397
Total Debt	1,361	828	828	828
Net Deferred Tax Liability	144	148	148	148
Total Capital Employed	5,287	6,389	7,594	9,373

Applications of Funds

Net Block	2,409	4,141	4,051	4,876
CWIP	188	96	96	96
Investments	0	0	0	0
Current Assets, Loans & Advances	12,311	12,733	15,862	20,416
Inventories	4,084	4,978	5,732	7,469
Receivables	6,650	5,151	7,388	9,553
Cash and Bank Balances	367	1,002	1,140	1,792
Loans and Advances	0	0	0	0
Other Current Assets	1,211	1,602	1,602	1,602
Less: Current Liabilities & Provisions	9,622	10,581	12,415	16,014
Payables	7,397	9,391	11,209	14,764
Other Current Liabilities	2,225	1,190	1,206	1,250
sub total				
Net Current Assets	2,690	2,153	3,447	4,402
Total Assets	5,287	6,389	7,594	9,373

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	12.6	12.3	13.1	13.1
EBIDTA Margin	4.5	5.1	4.8	5.1
EBIT Margin	3.8	4.2	3.8	4.2
Tax rate	32.5	23.1	25.0	25.0
Net Profit Margin	2.1	2.7	2.5	2.9
(B) As Percentage of Net Sales (%)				
COGS	87.4	87.7	86.9	86.9
Employee	2.8	2.7	2.7	2.7
Other	5.2	4.5	5.6	5.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.2	0.1	0.1
Interest Coverage	4.5	5.3	7.3	11.2
Inventory days	50	41	45	43
Debtors days	81	43	58	55
Average Cost of Debt	28.3	32.0	29.0	29.0
Payable days	90	78	88	85
Working Capital days	33	18	27	25
FA T/O	12.4	10.6	11.5	13.0
(D) Measures of Investment				
AEPS (Rs)	56.1	106.6	104.0	165.4
CEPS (Rs)	75.2	139.0	145.5	213.7
DPS (Rs)	2.0	5.3	4.3	6.8
Dividend Payout (%)	3.6	5.0	4.1	4.1
BVPS (Rs)	334.7	479.1	585.7	743.1
RoANW (%)	18.3	26.2	19.5	24.9
RoACE (%)	19.9	26.6	20.3	24.9
RoAIC (%)	28.0	36.2	29.8	38.3
(E) Valuation Ratios				
CMP (Rs)	7964	7964	7964	7964
P/E	142.1	74.7	76.5	48.2
Mcap (Rs Mn)	89,990	89,990	89,990	89,990
MCap/ Sales	3.0	2.0	1.9	1.4
EV	90,984	89,817	89,679	89,027
EV/Sales	3.0	2.0	1.9	1.4
EV/EBITDA	67.5	40.3	40.2	27.5
P/BV	23.8	16.6	13.6	10.7
Dividend Yield (%)	0.0	0.1	0.1	0.1
(F) Growth Rate (%)				
Revenue	5.0	47.4	5.7	36.4
EBITDA	19.7	65.4	0.0	44.9
EBIT	16.1	64.8	(5.5)	52.4
PBT	6.3	67.1	0.0	58.9
APAT	4.0	90.2	(2.4)	58.9
EPS	4.0	90.2	(2.4)	58.9
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	108	3,579	806	2,339
CFI	(863)	(2,005)	(379)	(1,371)
CFF	681	(940)	(288)	(317)
FCFF	(755)	1,575	427	968
Opening Cash	441	367	1,002	1,140
Closing Cash	367	1,002	1,140	1,792

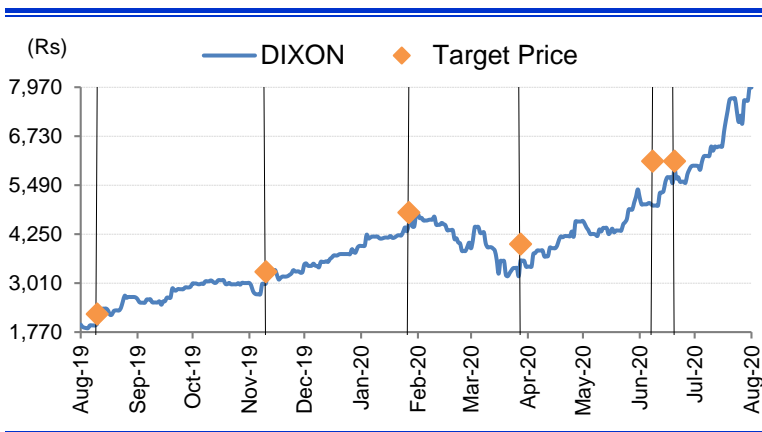
E – Estimates

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 (Rs.)	Price (Rs.)
Aug-19	Accumulate	2,230	1,992
Nov-19	Accumulate	3,300	3,000
Jan-20	Accumulate	4,800	4,499
Mar-20	Accumulate	4,000	3,580
Jun-20	Buy	6,100	4,976
Jun-20	Buy	6,100	5,907

*Price as on recommendation date

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