

## Buy

### Well placed post PLI; upgrade to Buy

Winning a PLI has Dixon well placed to capture the mobile local manufacturing opportunities. It is expected to see an eight-fold jump in its mobile revenues (at the cap revenue for incentives) in FY22. At a 3% EBIDTA margin, the expected revenues from PLI should catapult its EPS to Rs236 from Rs165, while FY23 is expected to see an EPS of Rs297. We had downgraded the stock in Q1 purely on valuations based on our earlier numbers devoid of PLI. We incorporate the PLI numbers in our estimates, which gives it an earnings CAGR of 23% over FY20-23E. While we maintain our earlier multiple of 40x, we roll forward to Sep-22 which gives us a new target price of Rs10,700, and upgrade the stock to Buy.

### PLI gives a big earnings boost for Dixon

Government has approved 5 domestic PLI applications of which Dixon has won one approval through its subsidiary, Padget Electronics. Dixon had made 2 PLI applications under this category (phones costing <Rs15,000, 70% of the Indian market). Under this scheme there is an incentive of 4-6% on incremental sales (subject to a cap). This will mean an incremental eight-fold jump in its mobile revenues at the cap revenue for incentives) in FY22. Dixon will do a cumulative investment of Rs2bn, at Rs500mn each year till FY25. At a 3% EBIDTA margin, the expected revenues from PLI should catapult its EPS to Rs236 from Rs165, while FY23 is expected to see an EPS of Rs297. This indicates a sales/EBIDTA/PAT CAGR of 43/37/43% over FY20-23E for the company. Dixon is already in discussion with some major brands for making mobiles under PLI and we expect some announcement in the current quarter on the same from the company.

### Upgrade rating to Buy with revised TP of Rs10700

We had downgraded the stock in Q1 purely on valuations ([Refer our note here](#)) based on our earlier numbers devoid of PLI. We incorporate the PLI numbers in our estimates and while we maintain our earlier multiple of 40x, valuing it close to a PEG of 1x given the 43% earnings CAGR over FY20-23, we roll forward to Sep-22 which gives us a new target price of Rs10700, and upgrade the stock to Buy. Apart from PLI, Dixon has multiple growth across customers and product segments-all of which does not captured in near term earnings. Strong customers' addition; diversification and fungibility of manufacturing are Dixon's strengths.

### FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	29,845	44,001	51,494	98,619	129,925
Growth(%)	5.0	47.4	17.0	91.5	31.7
EBITDA	1,349	2,231	2,472	4,536	5,717
OPM(%)	4.5	5.1	4.8	4.6	4.4
PAT	634	1,205	1,320	2,728	3,437
Growth(%)	4.0	90.2	9.6	106.6	26.0
EPS(Rs.)	54.8	104.1	114.1	235.8	297.0
Growth(%)	4.0	90.2	9.6	106.6	26.0
PER(x)	162.5	85.5	78.0	37.7	30.0
ROANW(%)	18.3	26.2	21.8	34.4	32.3
ROACE(%)	19.9	26.6	22.2	33.4	31.6

CMP	Rs 8,900
Target / Upside	Rs 10,700 / 20%
NIFTY	11,971

### Script Details

Equity / FV	Rs 116mn / Rs 10
Market Cap	Rs 103bn
	USD 1.4bn
52-week High/Low	Rs 10,290/ 2,663
Avg. Volume (no)	85,371
Bloom Code	DIXON IN

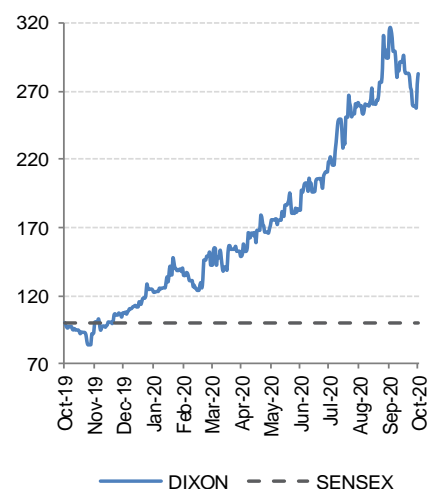
### Price Performance

	1M	3M	12M
Absolute (%)	(11)	38	192
Rel to NIFTY (%)	(15)	25	186

### Shareholding Pattern

	Dec'19	Mar'20	Jun'20
Promoters	36.2	36.1	36.1
MF/Banks/FIs	22.2	21.9	21.9
FIIIs	10.9	12.3	12.3
Public / Others	30.8	29.7	29.7

### Dixon Tech relative to Sensex



**VP - Research: Vinod Chari**  
Tel: +91 22 40969776  
E-mail: vinodc@dolatcapital.com

**Associate: Pranav Lala**  
Tel: +9122 40969722  
E-mail: pranavl@dolatcapital.com

**Exhibit 1: Dixon proforma revenue under PLI**

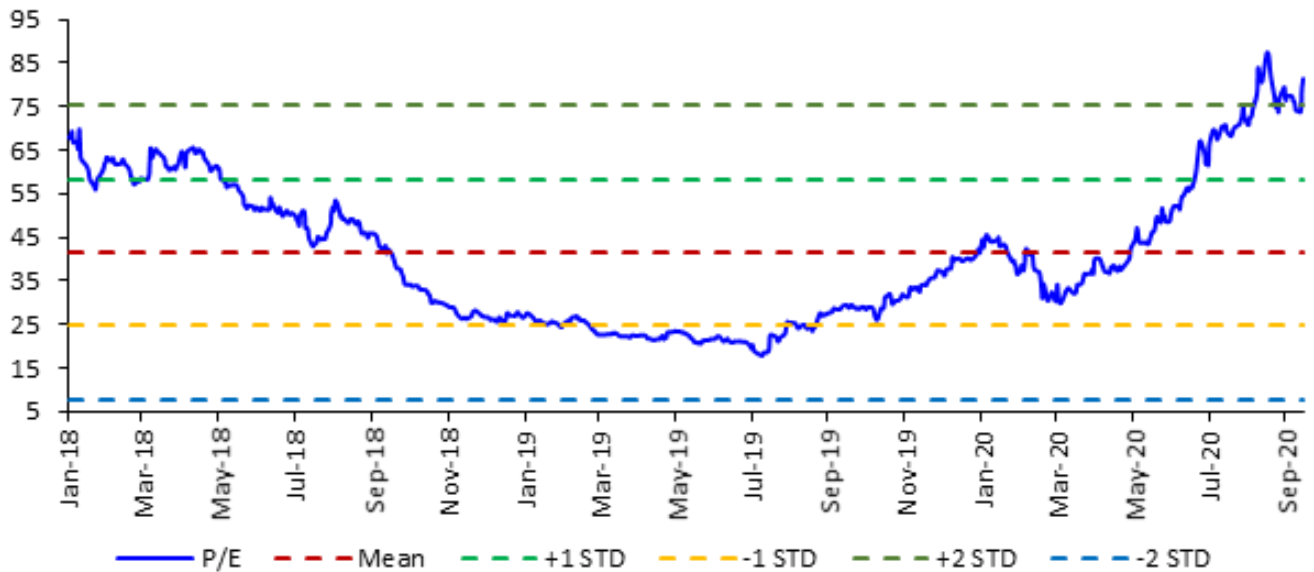
Rs mn	FY21	FY22	FY23	FY24	FY25
Min rev for incentives	5000	10000	30000	40000	50000
Max rev for incentives	20000	40000	60000	80000	100000
Incentive %	6%	6%	5%	5%	4%
Minimum incentives	300	600	1500	2000	2000
Maximum incentives	1200	2400	3000	4000	4000

**Exhibit 2: At maximum revenues**

Rs mn	FY21	FY22	FY23	FY24	FY25
units sold/capacity	0.5	4	6	8	10
Price per unit (in Rs.)	10000	10000	10000	10000	10000
Net Revenues	5000	40000	60000	80000	100000
COGS	4500	36000	54000	72000	90000
COGS rate	90%	90%	90%	90%	90%
Other expenses	350	2800	4200	5600	7000
% of sales	7.0%	7.0%	7.0%	7.0%	7.0%
EBITDA	150	1200	1800	2400	3000
EBITDA Margins	3.0%	3.0%	3.0%	3.0%	3.0%
Depreciation	50	100	150	200	200
Gross Block Additions	500	1000	1500	2000	2000
Depreciation Rate	10%	10%	10%	10%	10%
Other Income	0	0	0	0	0
EBIT	100	1100	1650	2200	2800
Interest	0	0	0	0	0
PBT	100	1100	1650	2200	2800
PBT Margins	2.0%	2.8%	2.8%	2.8%	2.8%
Tax	25.0	275	413	550	700
Tax Rate	25%	25%	25%	25%	25%
PAT	75.0	825	1238	1650	2100
No. of shares	11.6	11.6	11.6	11.6	11.6
EPS	6.6	71	109	146	185
EPS of the base business	107	165	188		
Consolidated EPS	114	236	297		

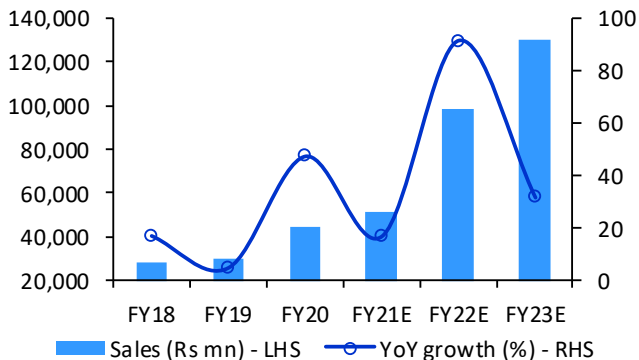
Source: Company, DART

**Exhibit 3: Dixon 1-yr Forward PE Band Chart**



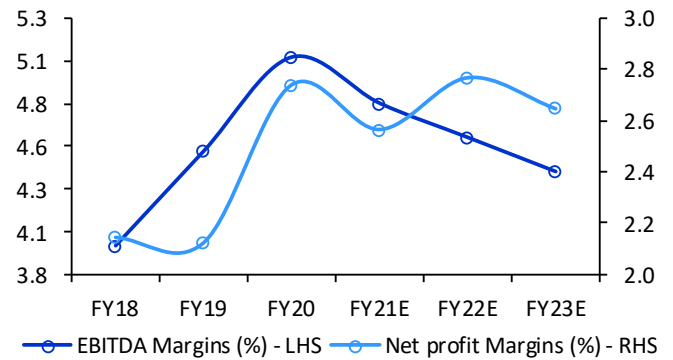
Source: Company, DART

**Exhibit 4: Sales and growth YoY**



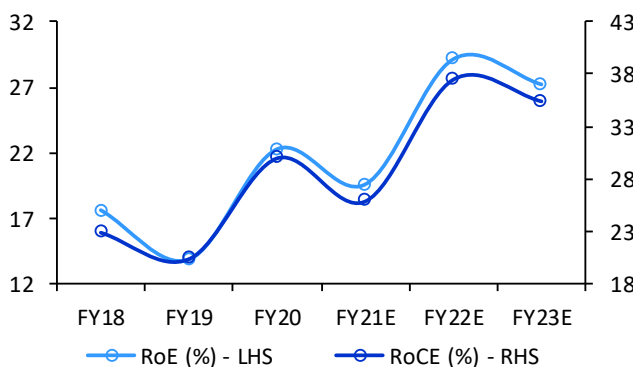
Source: Company, DART

**Exhibit 5: Margins**



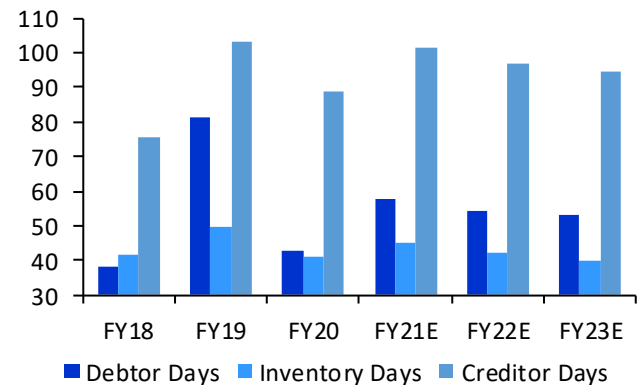
Source: Company, DART

**Exhibit 6: Return Ratios**



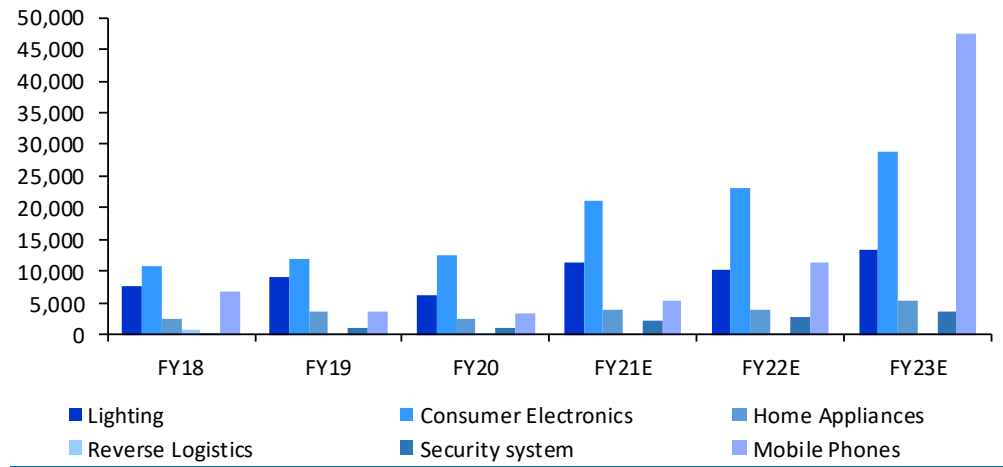
Source: Company, DART

**Exhibit 7: Working capital cycle**



Source: Company, DART

### Exhibit 8: Segmental Performance



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>44,001</b>	<b>51,494</b>	<b>98,619</b>	<b>129,925</b>
<b>Total Expense</b>	<b>41,771</b>	<b>49,022</b>	<b>94,082</b>	<b>124,208</b>
COGS	38,602	44,542	86,292	114,334
Employees Cost	1,180	1,390	2,564	3,378
Other expenses	1,989	3,090	5,227	6,496
<b>EBIDTA</b>	<b>2,231</b>	<b>2,472</b>	<b>4,536</b>	<b>5,717</b>
Depreciation	365	516	704	939
<b>EBIT</b>	<b>1,865</b>	<b>1,956</b>	<b>3,833</b>	<b>4,778</b>
Interest	350	240	240	240
Other Income	52	45	45	45
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>1,568</b>	<b>1,761</b>	<b>3,637</b>	<b>4,583</b>
Tax	363	440	909	1,146
RPAT	1,205	1,320	2,728	3,437
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,205</b>	<b>1,320</b>	<b>2,728</b>	<b>3,437</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	116	116	116	116
Minority Interest	0	0	0	0
Reserves & Surplus	5,298	6,580	9,029	12,048
<b>Net Worth</b>	<b>5,413</b>	<b>6,695</b>	<b>9,145</b>	<b>12,164</b>
Total Debt	828	828	828	828
Net Deferred Tax Liability	148	148	148	148
<b>Total Capital Employed</b>	<b>6,389</b>	<b>7,671</b>	<b>10,121</b>	<b>13,140</b>

**Applications of Funds**

Net Block	<b>4,141</b>	<b>4,347</b>	<b>6,346</b>	<b>8,654</b>
CWIP	96	96	96	96
Investments	0	0	0	0
<b>Current Assets, Loans &amp; Advances</b>	<b>12,733</b>	<b>16,861</b>	<b>27,964</b>	<b>35,316</b>
Inventories	4,978	6,349	11,348	14,238
Receivables	5,151	8,183	14,590	18,866
Cash and Bank Balances	1,002	728	424	609
Loans and Advances	0	0	0	0
Other Current Assets	1,602	1,602	1,602	1,602
<b>Less: Current Liabilities &amp; Provisions</b>	<b>10,581</b>	<b>13,632</b>	<b>24,285</b>	<b>30,925</b>
Payables	9,391	12,415	22,966	29,545
Other Current Liabilities	1,190	1,217	1,319	1,381
		<i>sub total</i>		
Net Current Assets	2,153	3,229	3,679	4,390
<b>Total Assets</b>	<b>6,389</b>	<b>7,671</b>	<b>10,121</b>	<b>13,140</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	12.3	13.5	12.5	12.0
EBIDTA Margin	5.1	4.8	4.6	4.4
EBIT Margin	4.2	3.8	3.9	3.7
Tax rate	23.1	25.0	25.0	25.0
Net Profit Margin	2.7	2.6	2.8	2.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	87.7	86.5	87.5	88.0
Employee	2.7	2.7	2.6	2.6
Other	4.5	6.0	5.3	5.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.1	0.1	0.1
Interest Coverage	5.3	8.1	16.0	19.9
Inventory days	41	45	42	40
Debtors days	43	58	54	53
Average Cost of Debt	32.0	29.0	29.0	29.0
Payable days	78	88	85	83
Working Capital days	18	23	14	12
FA T/O	10.6	11.8	15.5	15.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	104.1	114.1	235.8	297.0
CEPS (Rs)	135.7	158.7	296.6	378.2
DPS (Rs)	4.0	10.0	20.0	30.0
Dividend Payout (%)	3.8	8.8	8.5	10.1
BVPS (Rs)	467.9	578.7	790.4	1051.3
RoANW (%)	26.2	21.8	34.4	32.3
RoACE (%)	26.6	22.2	33.4	31.6
RoAIC (%)	36.2	31.7	46.1	43.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	8900	8900	8900	8900
P/E	85.5	78.0	37.7	30.0
Mcap (Rs Mn)	102,974	102,974	102,974	102,974
MCap/ Sales	2.3	2.0	1.0	0.8
EV	102,801	103,075	103,379	103,193
EV/Sales	2.3	2.0	1.0	0.8
EV/EBITDA	46.1	41.7	22.8	18.1
P/BV	19.0	15.4	11.3	8.5
Dividend Yield (%)	0.0	0.1	0.2	0.3
<b>(F) Growth Rate (%)</b>				
Revenue	47.4	17.0	91.5	31.7
EBITDA	65.4	10.8	83.5	26.0
EBIT	64.8	4.8	96.0	24.7
PBT	67.1	12.3	106.6	26.0
APAT	90.2	9.6	106.6	26.0
EPS	90.2	9.6	106.6	26.0
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
CFO	3,565	804	2,871	4,020
CFI	(2,005)	(722)	(2,703)	(3,247)
CFF	(926)	(356)	(472)	(587)
FCFF	1,561	82	168	773
Opening Cash	367	1,002	728	424
Closing Cash	1,002	728	424	609

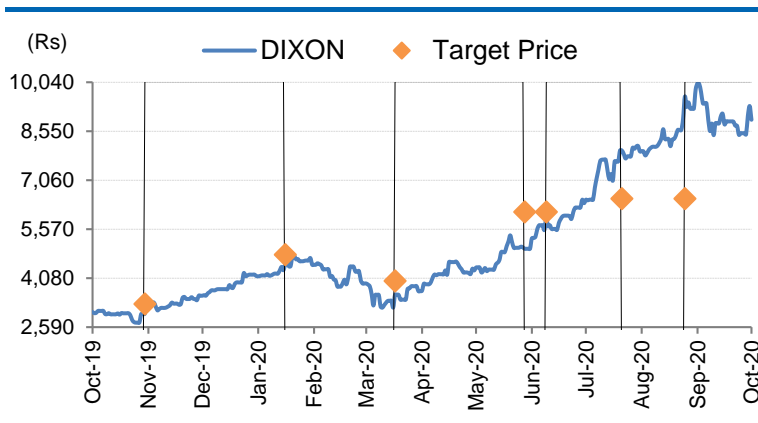
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Aug-20	Sell	6,500	7,964
Sept-20	Sell	6,500	9,605

\*Price as on recommendation date

### DART Team

<b>Purvag Shah</b>	<b>Managing Director</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
<b>Amit Khurana, CFA</b>	<b>Head of Equities</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>

#### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat** Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Corporate Identity Number: U65990DD1993PTC009797

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031 & INF230710031, Research: INH000000685  
Registered office: Unit no PO6-02A - PO6-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355  
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com