ANANDRATHI

India I Equities

Consumer Durables

Company Update

Change in Estimates ☑ Target ☑ Reco ☑

24 November 2021

Dixon Technologies

Targets global pastures after domestic dominance; upgrading to a Buy

Rating: **Buy**
Target Price: Rs 5,936
Share Price: Rs 5,072

After becoming strong in Indian contract manufacturing, Dixon now has global aspirations. It is targeting the global LED-bulb market. Its new product categories like refrigerators and telecoms equipment are well placed to support growth in FY23/FY24. We upgrade the stock to a Buy with a TP of Rs.5,936, based on FY24 earnings.

Robust growth supported by all divisions: Q2 FY22 revenue shot up 71% y/y to Rs28bn with growth supported by all major business categories. The EBITDA margin contracted 150bps y/y as the gross margin dipped 290bps y/y, while staff costs/other manufacturing expenses rose 52%/25% y/y. q/q the EBITDA margin improved 140bps as prices were hiked in a calibrated manner, supported by operating leverage. PAT increased only 20% y/y as interest cost rose 32% y/y and depreciation charges nearly doubled to Rs216m.

Refrigerator plant to cater to 12% of domestic requirement: Dixon will set up a new plant with 0.6m capacity per annum for direct cooling (DC) refrigerators, which would be ramped up to 1m by 2024. With that, it will have capacity to cater to 11-12% of India's annual requirement.

JV with Bharti can generate Rs14bn-16bn revenue in FY23: The JV with Bharti Enterprises has received approval under the PLI scheme (Dixon's share: 51%). This JV can generate Rs14bn-16bn revenues next year. It can generate Rs80bn-90bn revenue in the next five years.

Outlook. After Q2 FY22 earnings, we have revised our estimates and upgraded the stock to a Buy, based on FY24e earnings. While the FY22 and FY23 operating performance are largely intact, we increase depreciation and finance cost since FY22 capex has increased to Rs4.5bn, funded via debt. At the CMP of Rs5,072, the stock trades at 66x/48x our FY23e/FY24e of Rs77/106, as we factor in 33%/69% CAGRs in revenue/PAT over FY22-FY24, resulting in the RoE expanding from 24% in FY22 to 33% in FY24. **Key risks:** Dull demand for consumer durables and delays in on-boarding customers are the key risks to our positive stance on the stock.

Key financials (YE: Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	44,001	64,482	117,655	166,200	207,391
Net profit (Rs m)	1,205	1,598	2,239	4,634	6,408
EPS (Rs)	20.5	26.9	37.0	76.7	106.0
PE (x)	246.9	188.7	136.9	66.2	47.8
EVEBITDA (x)	133.3	105.2	72.6	40.1	29.7
PBV (x)	55.0	40.9	32.7	22.4	15.5
RoE (%)	22.3	21.7	23.9	33.8	32.4
RoCE (%) (post tax)	23.1	19.8	15.7	22.8	23.5
Dividend yield (%)	0.1	0.0	0.1	0.1	0.1
Net debt/equity (x)	0.2	0.2	0.8	0.6	0.5

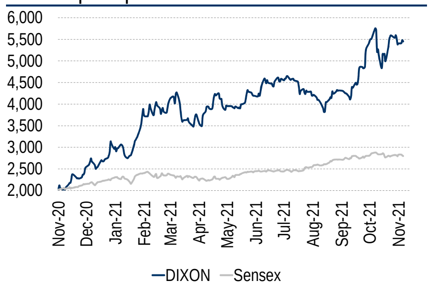
Source: Company

Key data	DIXON IN / DIXO.BO
52-week high / low	Rs6244 / 2120
Sensex / Nifty	58341 / 17415
3-m average volume	$35.3m
Market cap	Rs301bn / $4048.5m
Shares outstanding	59m

Shareholding pattern (%)	Sep'21	Jun'21	Mar'21
Promoters	34.9	35.1	35.1
- of which, Pledged	-	-	-
Free float	65.1	64.9	64.9
- Foreign institutions	18.4	19.9	19.8
- Domestic institutions	8.0	8.9	10.1
- Public	37.9	35.6	34.1

Estimates revision (%)	FY22e	FY23e
Sales	2	4
EBITDA	1	2
EPS (Rs)	(12)	(8)

Relative price performance



Source: Bloomberg

Nirav Vasa
Research Analyst

Surbhi Lodha
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Net revenues (Rs m)	44,001	64,482	117,655	166,200	207,391
Growth (%)	*47.4*	*46.5*	*82.5*	*41.3*	*24.8*
Direct costs	38,602	57,697	105,889	147,918	184,578
SG&A	3,169	3,919	7,510	10,586	12,508
EBITDA	2,231	2,866	4,255	7,696	10,305
EBITDA margins (%)	*5.1*	*4.4*	*3.6*	*4.6*	*5.0*
- Depreciation	365	437	776	924	1,085
Other income	52	16	20	30	35
Interest expenses	350	274	494	582	653
PBT	1,568	2,170	3,005	6,221	8,601
Effective tax rate (%)	*23.1*	*26.4*	*25.5*	*25.5*	*25.5*
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,205	1,598	2,239	4,634	6,408
Adjusted income	1,205	1,598	2,239	4,634	6,408
WANS	58.7	59.5	60.5	60.5	60.5
FDEPS (Rs / sh)	20.5	26.9	37.0	76.7	106.0
FDEPS growth (%)	*83.7*	*30.8*	*37.8*	*107.0*	*38.3*
Gross margins (%)	*12.3*	*10.5*	*10.0*	*11.0*	*11.0*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	116	117	117	117	117
Net worth	5,413	7,373	9,370	13,702	19,748
Debt	828	1,513	7,059	8,310	9,333
Minority interest	-	-	-	-	-
DTL / (Assets)	150	184	200	200	200
Capital employed	6,392	9,070	16,629	22,212	29,280
Net tangible assets	4,016	5,381	9,184	11,980	14,394
Net intangible assets	44	40	50	50	50
Goodwill	82	82	82	82	82
CWIP (tang. & intang.)	96	724	617	397	397
Investments (strategic)	-		-	-	-
Investments (financial)	-	953	-	-	-
Current assets (ex cash)	11,734	20,589	34,469	48,435	60,285
Cash	1,002	689	4,551	6,148	9,605
Current liabilities	10,581	19,387	32,322	44,879	55,533
Working capital	1,154	1,202	2,146	3,556	4,752
Capital deployed	6,392	9,070	16,629	22,212	29,280
Contingent liabilities	8,320	16,164	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT	1,568	2,170	3,005	6,221	8,601
+ Non-cash items	812	823	1,250	1,476	1,704
Oper. prof. before WC	2,380	2,993	4,255	7,696	10,305
- Incr. / (decr.) in WC	423	-743	-926	-1,410	-1,195
Others incl. taxes	-429	-549	-766	-1,586	-2,193
Operating cash-flow	2,374	1,701	2,563	4,700	6,916
- Capex (tang. + intang.)	-1,351	-1,680	-4,482	-3,500	-3,500
Free cash-flow	1,023	21	-1,919	1,200	3,416
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	-83	-	-242	-302	-363
+ Equity raised	-	-	-	-	-
+ Debt raised	-570	689	5,546	1,251	1,023
- Fin investments	330	-979	953	-	-
- Misc. (CFI + CFF)	107	-49	-476	-552	-618
Net cash-flow	807	-318	3,862	1,597	3,458

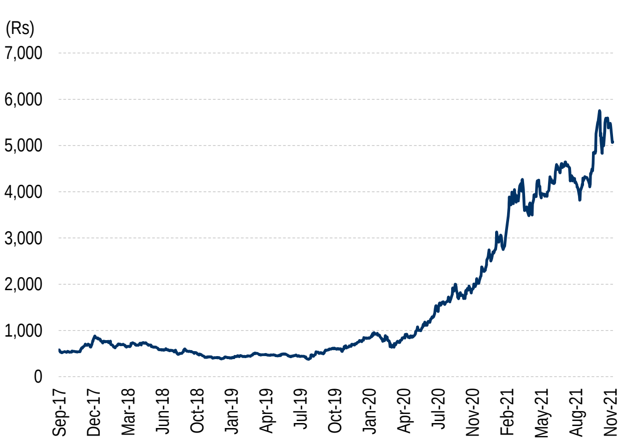
Source: Company

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	246.9	188.7	136.9	66.2	47.8
EV/EBITDA (x)	133.3	105.2	72.6	40.1	29.7
EV/sales (x)	6.8	4.7	2.6	1.9	1.5
P/B (x)	55.0	40.9	32.7	22.4	15.5
RoE (%)	22.3	21.7	23.9	33.8	32.4
RoCE (%) (post tax)	23.1	19.8	15.7	22.8	23.5
ROIC (%) (post tax)	27.3	21.5	21.6	31.5	35.0
DPS (Rs per share)	4.0	1.0	4.0	5.0	6.0
Dividend yield (%)	0.1	0.0	0.1	0.1	0.1
Dividend payout (%) - Inc. DDT	19.5	3.7	10.8	6.5	5.7
Net debt/equity (x)	0.2	0.2	0.8	0.6	0.5
Receivables (days)	43	62	52	52	52
Inventory (days)	41	42	45	45	45
Payables (days)	78	97	92	92	92
CFO:PAT%	197.0	106.4	114.5	101.4	107.9

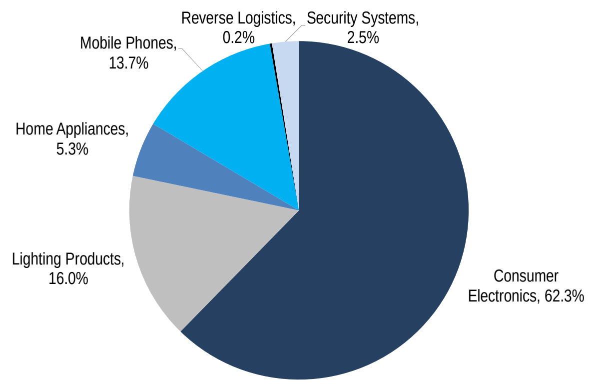
Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 6 –Q2 FY22 revenue mix



Source: Company

Fig 7 – Financial performance

(Rsm)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	% Y/Y	% Q/Q
Total Income	11,469	14,020	9,938	8,574	5,169	16,387	21,828	21,097	18,673	28,038	***71.1***	***50.2***
RM Costs	10,162	12,553	8,666	7,222	4,550	14,447	19,740	18,960	17,291	25,532	*76.7*	*47.7*
Employee Exp	284	315	272	308	198	359	377	437	361	546	*52.2*	*51.1*
Other Exp	497	521	486	485	253	688	706	902	541	860	*25.0*	*58.8*
EBITDA	526	631	515	559	169	894	1,005	798	479	1,100	***23.1***	***129.7***
Dep	76	82	98	109	93	109	113	123	150	216	*97.8*	*43.6*
Interest	99	94	81	77	57	69	77	71	91	91	*32.1*	*0.0*
Other income	6	28	18	(0)	2	3	1	10	4	10	*280.0*	*150.0*
PBT	357	484	355	373	22	718	817	614	241	802	***11.7***	***232.9***
Tax	121	53	92	97	6	195	201	171	59	176	*-9.6*	*196.1*
PAT	236	430	263	276	16	524	616	443	182	626	***19.6***	***244.9***
EPS (INR)	4	8	5	5	0.3	9.1	10.5	7.6	3.1	10.7	*18.2*	*244.9*
As % Total Income											***bps YoY***	***bps QoQ***
Raw material costs	88.6	89.5	87.2	84.2	88.0	88.2	90.4	89.9	92.6	91.1	*290*	*(154)*
Gross margin	11.4	10.5	12.8	15.8	12.0	11.8	9.6	10.1	7.4	8.9	***-290***	***154***
Employee cost	2.5	2.2	2.7	3.6	3.8	2.2	1.7	2.1	1.9	1.9	*-24*	*1*
Other expenses	4.3	3.7	4.9	5.7	4.9	4.2	3.2	4.3	2.9	3.1	*-113*	*17*
EBITDA margin	4.6	4.5	5.2	6.5	3.3	5.5	4.6	3.8	2.6	3.9	***-153***	***136***
PBT margin	3.1	3.4	3.6	4.3	0.4	4.4	3.7	2.9	1.3	2.9	***-152***	***157***
Effective tax rate	33.9	11.0	25.8	26.0	25.9	27.1	24.6	27.9	24.6	21.9	*-516*	*(272)*
PAT margin	2.1	3.1	2.6	3.2	0.3	3.2	2.8	2.1	1.0	2.2	***-96***	***126***
Revenue segmentation												
Consumer Electronics	5,098	7,382	4,543	3,561	3,434	9,393	13,598	11,071	12,214	14,521		
Lighting Products	3,243	2,839	2,767	2,548	777	2,957	3,486	3,817	1,535	3,957		
Home Appliances	988	1,391	684	900	241	1,454	1,152	1,465	706	2,240		
Mobile Phones	1,437	1,934	1,395	603	531	1,974	2,991	2,899	2,476	5,215		
Reverse Logistics	24	38	46	47	14	36	45	38	17	24		
Security Systems	679	435	503	546	134	397	555	1,092	751	990		
Total	11,469	14,020	9,938	8,574	5,170	16,387	21,828	21,097	18,673	28,038		
y/y(%)												
Consumer Electronics	129	105	58	10	(33)	27	199	211	256	55		
Lighting Products	71	49	18	(16)	(76)	4	26	50	98	34		
Home Appliances	15	34	(26)	(3)	(76)	4	68	63	193	54		
Mobile Phones	96	204	(8)	(10)	(63)	2	114	381	366	164		
Reverse Logistics	(83)	(62)	46	84	(42)	(5)	(3)	(18)	21	(35)		
Security Systems	911	292	98	(20)	(80)	(9)	10	100	462	149		
EBITDA segmentation												
Consumer Electronics	113.6	177.3	114.9	97.6	86.3	265.3	394.3	281.9	297.7	360.5		
Lighting Products	254	229.9	238.5	254.1	57.7	277.1	331.5	307.4	68.7	315.7		
Home Appliances	106.7	164.3	91.5	98.7	4	173.2	117.5	102.6	44.3	189.9		
Mobile Phones	32.3	41.3	32.2	85.2	20.3	162.8	137.7	73.6	16.2	168.7		
Reverse Logistics	-1.1	7.2	15.9	4.3	0.2	3.7	4.6	1	0	0		
Security Systems	20.4	10.6	22.3	19	0.4	11.7	19.5	31.4	26.3	40.6		
EBITDA (%)												
Consumer Electronics	2.2	2.4	2.5	2.7	2.5	2.8	2.9	2.5	2.4	2.5		
Lighting Products	7.8	8.1	8.6	10.0	7.4	9.4	9.5	8.1	4.5	8.0		
Home Appliances	10.8	11.8	13.4	11.0	1.7	11.9	10.2	7.0	6.3	8.5		
Mobile Phones	2.2	2.1	2.3	14.1	3.8	8.2	4.6	2.5	0.7	3.2		
Reverse Logistics	(4.6)	18.8	34.4	9.2	1.4	10.2	10.3	2.6	-	-		
Security Systems	3.0	2.4	4.4	3.5	0.3	2.9	3.5	2.9	3.5	4.1		

Source: Company

Q2 FY22 Concall Highlights

Backward integration underway after becoming the largest manufacturer of television sets. Installed capacity has now increased to 5.5m sets including backward integration in the supply chain, addressing 35% of India's requirements. Dixon has started producing 70-/80-/85-inch TV sets and has the largest capacity in LED TVs in India, including backward integration of liquid-crystal modules (LCM) and surface-mounted technology (SMT) lines. It would also be backward integrating into manufacturing injection-moulding and plastic parts for LED-based TVs.

LED monitors to generate Rs4bn-4.5bn revenue: A production line has been installed for LED monitors and will start producing by Q4 FY22 with 1m capacity. Dixon will start manufacturing 19-inch LED monitors with average SKUs priced at ~Rs8,000 a unit. Production of 0.5m units is expected from this new line, which could generate revenues of Rs4bn-4.5bn in the first year of operations.

Aims at $8bn-$9bn of the global LED bulb market: The outlook for this segment is bright while margins were dented by the increase in input costs and the lag in passing them on to customers. Dixon is the largest manufacturer of LED bulbs (installed capacity: 300m), ~50% of India's requirement. In batons, capacity is now 9m-10m a month. In down-lighters, capacity of 1.5m a month has been created, against 3m p.m. required. Dixon also intends to develop outdoor (incl. street and commercial) lighting. Technical approval for exports to Europe has been received. Technical approvals pertaining to the American market are being evaluated and are expected in a few months. The global market for LED bulbs can be $8bn-$9bn a year. Dixon has applied for production-linked incentives in the manufacture of LED components. Rs1bn would be invested over the next five years.

Capacity expansion underway in home appliances: Operating margins in this segment were hurt by rising commodity prices, passed on to customers in Q2 FY22. Dixon has 160 semi-automatic models of 6-14 kg. It has set up a plant in Dehradun as visibility from customers is healthy. It plans to increase capacity from 1.5m to 2.2m semi-automatic machines by May'22. The fully automatic machine plant is now operational and is expected to start operating commercially from 15th Nov'21. Dixon has added three anchor customers in this category and can offer 96 variants in 6-10 kg with annual capacity of 0.6m. Capacity will reach 3m by Apr'22, against India's 7.5m - 7.8m requirement a year.

Adds customers, capacity expanded for Samsung: Dixon will manufacture feature and smart phones for Nokia, (~2.5m handsets per quarter from Q4 FY22). Itel is another customer in this category. To meet rising demand, the company will set up a factory on leased land in Noida. For 5G handsets, Orbic has been added, and will cater to exports to the American market. With customers added, Dixon can meet its revenue targets under the PLI for mobiles, effective from Nov'21. Traction from Samsung is strong for 4G handsets, where volumes of 0.8m-1m a month are being booked. Dixon has taken five acres in Noida to meet rising demand from Samsung, which has asked for capacity to be raised to 1.5m-1.6m a month.

Set-top boxes temporarily hit by chip shortage: Dixon manufactures 0.7m set-top boxes for leading telecoms giants such as Jio, Dish TV and other cable networks. This business is under pressure because of supply-chain issues and unavailable chips for set-top boxes. The company added customers in this segment as well.

Refrigerator plant to cater to 12% of domestic requirement: Dixon has finalised designs for refrigerators, a technology partner has been appointed and orders for machinery are being placed. It will set up a plant with 0.6m capacity per annum for direct cooling (DC) refrigerators, which would be ramped up to 1m by 2024. With that, it will have capacity to cater to 11-12% of India's annual requirement. The plant is expected to be set up in Noida, where 14 acres have been allocated to Dixon.

MoU signed with a global brand after securing PLI approval: Dixon has received approval under the PLI scheme for IT hardware manufacturing. It has entered into an MoU with a global brand to manufacture laptops. A factory has been approved and production for this global brand will start this quarter.

JV with Bharti can generate Rs14bn-16bn revenues in FY23: The JV with Bharti Enterprises has received approval under the PLI scheme (Dixon's share: 51%). This JV can generate Rs14bn-16bn revenues next year. It can generate Rs80bn-90bn revenue in the next five years.

Outlook & valuations

Valuations, Rating. Post-Q2 FY22 results, we have revised our estimates. While the FY22 and FY23 operating performances are largely intact, we raise depreciation and finance costs since FY22 capex was raised to Rs4.5bn (vs Rs2bn earlier), which would be funded via debt. Rs1.65bn capex has already been incurred in H1 FY22.

Capex details for FY22 would include (a) Rs600m to acquire 20 acres of land, (b) Rs2bn for a refrigerator project, (c) Rs400m for the washing machine factory and (d) purchase of a factory from Beetel in Punjab on a slump-sale basis. Further details are awaited.

We roll over our earnings to FY24 and upgrade the stock to a Buy with a TP of Rs5,936, 56x FY24e EPS of Rs106 (previously Rs5,006 at 60x FY23e EPS of 83.4, with a Hold rating) as the sales momentum is expected to continue in FY24 and will not require any major increase in working capital, thereby, strengthening the balance sheet. Exports of lighting (a potential $8-$9bn market) and mobiles can be other growth levers to drive growth for Dixon.

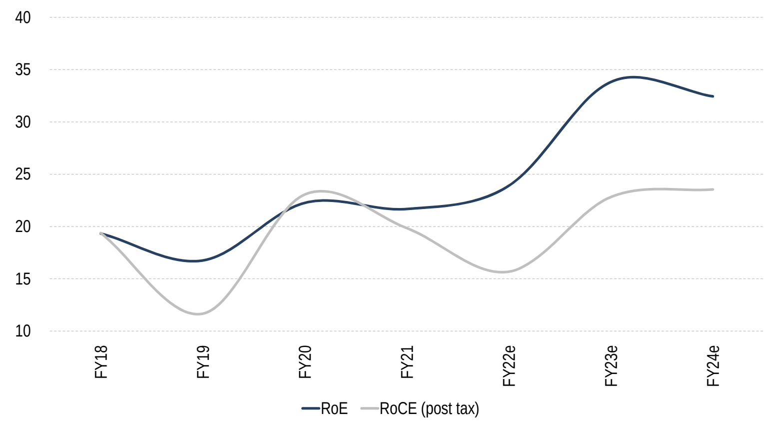
The mean PE is 50x. However, we lower the PE assigned from 60x to 56x to factor in the base effect which would be seen in FY24 as revenue growth would be down to 25% (vs 83% in FY21 and 41% in FY22). At the CMP of Rs5,072, the stock trades at 66x/48x our FY23e/FY24e of Rs77/106, as we factor in 33%/69% CAGRs in revenue/PAT over FY22-FY24, resulting in the RoE expanding from 24% in FY22 to 33% in FY24.

Fig 8 – Estimate revision

	Revised estimates			Previous estimates			Variance (%)		
(Rs m)	FY22e	FY23e	FY24e	FY22e	FY23e	FY24e	FY22e	FY23e	FY24e
Revenue	117,655	166,200	207,391	115,069	160,485	Not introduced earlier	2	4	
y/y (%)	82	41	25	78	39				
EBITDA	4,255	7,696	10,305	4,201	7,565		1	2	
EBITDA (%)	3.6	4.6	5.0	3.7	4.7				
PAT	2,239	4,634	6,408	2,470	4,883		(9)	(5)	
PAT (%)	1.9	2.8	3.1	2.1	3.0				
EPS	37.0	76.7	106.0	42.2	83.4		(12)	(8)	

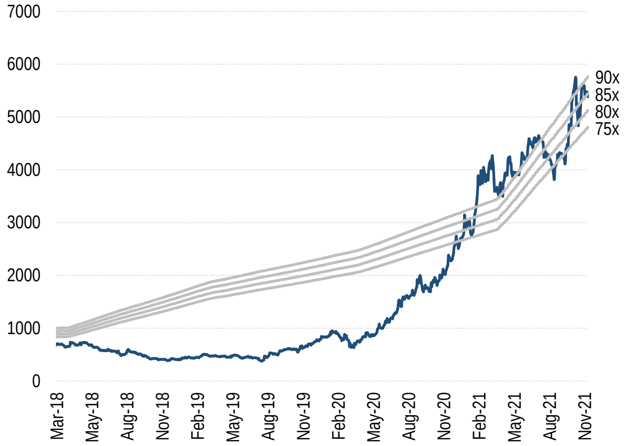
Source: Company

Fig 9 – Return ratios to expand in FY23 / FY24



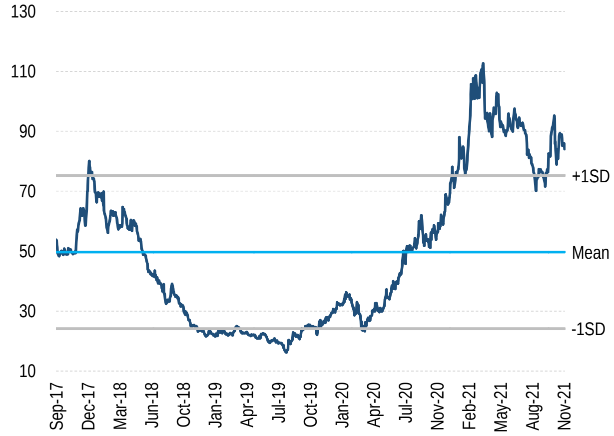
Source: Company, Anand Rathi Research

Fig 10 – Stock continues to trade at premium valuations



Source: Company, Anand Rathi Research

Fig 11 – Mean PE: 50x



Source: Company, Anand Rathi Research

Key Risks (to our positive stance)

- Sombre demand for consumer durables.
- Delay in on-boarding customers, post-PLI approval.
- Acute shortage of semi-conductors and chips, which can severely dent production of many product categories. Demand for semiconductors and chips can increase exponentially with the 5G roll-out.

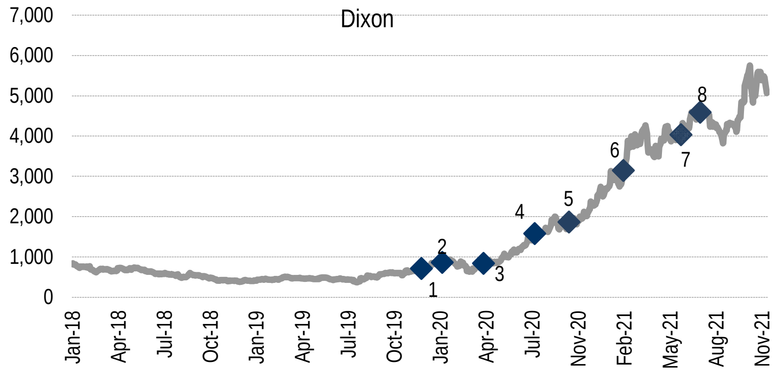
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 24 November 2021)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	17-Dec-19	Buy	1,164	710
2	29-Jan-20	Buy	1,180	865
3	22-Apr-20	Buy	1,078	840
4	5-Aug-20	Buy	1,967	1,591
5	31-Oct-20	Buy	2,178	1,863
6	4-Feb-21	Buy	3,916	3,217
7	30-May-21	Buy	5,006	3,996
8	28-Jul-21	Hold	5,006	4,424

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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