

Dixon Technologies (India) (DIXTEC)

CMP: ₹ 4,380

Target: ₹ 5,050 (15%)

Target Period: 12 months

July 28, 2021

BUY

Broadening revenue streams...

About the stock: Dixon Technologies is India's leading electronic manufacturing (EMS) provider and one of the largest beneficiaries of the government's PLI scheme.

- Dixon operates in both original equipment manufacturing (OEM) and original design manufacturing (ODM)
- Strong RoE, RoCE at ~20%, ~24%, respectively (three year's average)

Q1FY22 Results: Adverse product mix and operating leverage impacted the EBITDA margin.

- Revenue grew ~261% YoY to ₹ 1867 crore aided by customer addition and lower base
- EBITDA margin contracted ~70 bps to 2.6% due to a change in product mix with higher contributions from products with lower margins, adverse operating leverage and higher input costs
- PAT increased to ₹ 18 crore (9x growth YoY) favoured by a low base and higher revenues

What should investors do? Dixon's share price has grown by ~8x over the past three years (from ~₹ 566 in July 2018 to ~₹ 4,380 levels in July 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value Dixon at ₹ 5050 i.e. 52x P/E on FY23E EPS

Key triggers for future price performance:

- Indian EMS industry is valued at ~\$23.5 billion and Dixon currently has a market share of ~3-4%, which leaves opportunity to expand and grow
- Domestic mobile production is set to grow 5x under the PLI scheme. Dixon is one of the main beneficiaries
- New segments such as electronics/IT products, telecom products and LED lights & AC component will drive future revenue for Dixon

Alternate Stock Idea: Apart from Dixon, we also like Havells in our coverage

- Trigger for Havells' future revenue growth would be a revival in Lloyds revenues and improvement in margin
- BUY with a target price of ₹ 1345

Key Financial Summary

(₹ crore)	FY19	FY20E	FY21E	4 Year CAGR (FY17-21)	FY22E	FY23E	2 Year CAGR (FY21-23)
Net Sales	2984.5	4400.1	6448.2	27%	12098.9	18915.1	71%
EBITDA	134.9	223.1	286.5	33%	472.3	829.0	70%
EBITDA Margin (%)	4.5	5.1	4.4		3.9	4.4	
Net Profit	63.3	120.5	159.7	35%	306.1	570.5	89%
EPS (₹)	11.2	20.6	27.3		52.3	97.4	
P/E (x)	391.5	212.8	160.6		83.8	45.0	
RoE (%)	16.7	22.3	21.7		33.9	41.7	
RoCE (%)	22.4	26.3	23.5		34.6	47.4	

Source: Company, ICICI Direct Research

Dixon

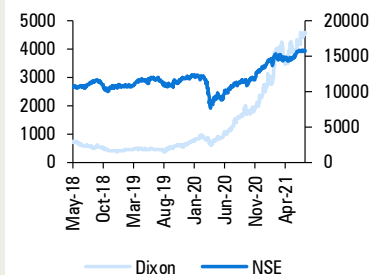
Particulars

Particular	Amount
Market cap (₹ crore)	25732.4
Total Debt (FY21) (₹ crore)	151.3
Cash & Inves (FY21) (₹ crore)	68.8
EV (₹ crore)	25814.9
52 Week H/L	4731/ 1402
Equity Capital (₹ crore)	11.7
Face Value(₹)	2.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	36.1	36.0	35.1	35.0	35.0
FII	12.3	16.2	20.3	19.8	19.9
DII	21.9	17.6	15.2	11.0	9.5
Others	29.7	30.2	29.4	34.2	35.6

Price Chart



Recent event & key risks

- Key Risk:** (i) Shortage of chips supply from importing countries
(ii) Business is exposed to rapid changes in technologies.

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Revenues were up YoY by ~261% YoY due to customer additions along with price hikes and volume growth
- EBITDA margin contracted ~70 bps to 2.6% YoY due to lower gross margins due to unfavourable operating leverage and higher input costs
- PAT grew 9x to ~₹ 18 crore YoY due to a low base and higher sales

Q1FY22 Earnings Conference Call highlights

- **Demand Outlook:**
 - Order book is strong for the coming quarter and the company expects normalcy for the rest of FY22
 - The management has guided a revenue target of ~₹ 20,00 crore by FY24
- **Consumer Electronics segment:**
 - Topline for this segment grew ~262% to ₹ 1262 crore aided by price hikes and strong volume growth
 - Additional 5.5 million (mn) capacity is being added for LED TVs
- **Lighting Products segment:**
 - Revenue for this segment increased ~98% to ₹ 154 crore but operating margin dropped 290 bps due to adverse operating leverage and higher input costs
 - The management expects margins to normalise from Q2FY22 and return to normal levels of ~8-9%
 - The company is awaiting approval from various countries to start exports in this segment
- **Home appliances segment:**
 - Revenue grew ~193% to ₹ 71 crore and operating margin increased ~460 bps due to price hikes passed on to principal customers to offset higher input cost
 - The order book is strong and the management expects normalisation of margins from Q2 onwards
- **Mobile and EMS segment:**
 - Topline increased ~476% to ₹ 306 crore but operating margins contracted 240 bps due to initial ramp up costs in this segment and adverse operating leverage
 - The management has indicated an increase in the current capacity of 3 mn to ~15 mn
 - Dixon will soon start export of 5G phones to the US
 - The company plans to open a facility in Noida to produce mobile phones.
- **Security Systems segment:**
 - Revenue for this segment grew ~462% to ₹ 75 crore
 - The management believes this segment has returned to normal utilisation levels. The company aims to expand capacities further for this segment
- **PLI revenue for new Products:**
 - The company expects the following annual revenue estimates under the PLI scheme for new products that they are producing:
 - IT Hardware and laptops- ~₹ 800-1000 crore
 - Telecom- ~₹ 2000 crore
 - A/C PCBs- ~₹ 400-450 crore
 - Refrigerator- ~₹ 500-600 crore
 - The management has guided at an EBITDA margin of ~2.8-3.5% for the new additions

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	1867.3	516.9	261.2	2109.7	-11.5	Topline growth led by consumer electronic segment
Other Income	0.4	0.2	81.0	1.0	-61	
Raw Material Exp	1729.1	455.0	280.0	1896.0	-8.8	Change in product mix dragged overall gross margins by 460 bps YoY
Employee cost	36.1	19.8	82.8	43.7	-17.4	
Other Expenditure	54.1	25.3	114.1	90.2	-40.0	
Total Expenditure	1819.4	500.1	263.8	2029.9	-10.4	
EBITDA	47.9	16.9	183.5	79.8	-40.0	
EBITDA Margin (%)	2.6	3.3	-70 bps	3.8	-122 bps	Sharp decline in gross margins was partially offset by savings in employee and other costs
Depreciation	15.0	9.3	62.6	12.3	22.4	
Interest	9.1	5.7	60.5	7.1	28.1	
PBT	24.1	2.2	1015.7	61.4	-60.7	
Total Tax	5.9	0.5	1088.0	17.1	-65.3	
PAT	18.2	1.7	994.0	44.3	-59.0	PAT growth is largely tracking strong sales growth in Q1FY22

Key Metrics*

Consumer Electronics	1,262.3	347.3	263.4	1,178.6	7.1	Strong revenue growth in both TV & AC PCB segment
Lighting Products	153.5	77.7	97.5	381.7	-59.8	Favourable base helped in revival in lighting business
Home appliances	70.6	24.1	193.0	146.5	-51.8	Favourable base helped in revival in washing machine business
Mobile & EMS	305.9	53.1	476.3	289.9	5.5	Low base and customer addition under PLI helped drive revenue
Security Systems	75.1	13.4	461.6	109.2	-31.2	Strong revival in demand of security systems

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY22E			FY23E			Comments
	Old	Actual	% Chg	Old	New	% Chg	
Revenue	11,162.6	12,098.9	8.4	17,223.1	18,915.1	9.8	We tweak our estimates upward for FY22E-23E considering new product revenues under PLI
EBITDA	494.7	472.3	(4.5)	817.9	829.0	1.4	
EBITDA Margin (%)	4.4	3.9	-50bps	4.7	4.4	-32bps	We slightly tweak our margin estimates downward considering product mix and higher input prices
PAT	320.7	306.1	(4.5)	560.6	570.5	1.8	
EPS (₹)	54.8	52.3	(4.6)	95.8	97.4	1.7	

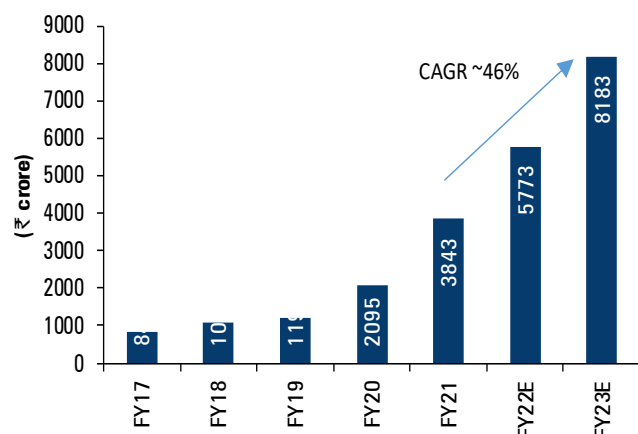
Source: ICICI Direct Research

Exhibit 3: Assumptions

	Current (%)					Previous		Comments
	FY19	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Consumer Elect	11.2	75.5	83.4	50.2	41.8	27.1	39.1	Capacity expansion, entry into new product category to drive segment revenue growth
Lighting Produc	18.8	24.0	-3.2	70.1	92.0	67.9	92.0	Strong future growth considering export opportunities
Home appliance	49.6	5.9	8.8	68.0	44.3	47.6	47.3	Entry into fully automatic and new customer addition to drive revenue growth, going forward
Mobile & EMS	-47.0	51.3	56.4	302.3	63.5	315.5	58.2	Entry into new product category, customer additions and export opportunities to drive future revenue growth of mobile & EMS segments
Security Syster	NM	93.1	0.5	52.2	63.9	31.0	39.9	Strong order pipeline in the security system to drive revenue

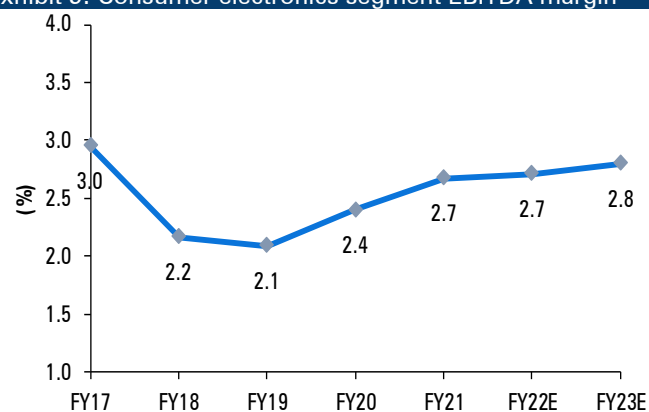
Source: ICICI Direct Research

Exhibit 4: Consumer electronics segment revenue growth



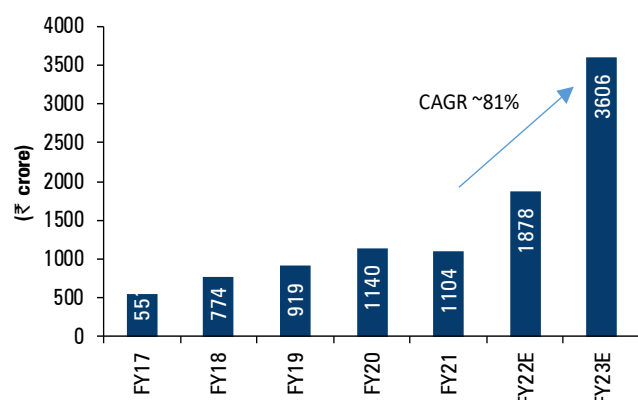
Source: Company, ICICI Direct Research

Exhibit 5: Consumer electronics segment EBITDA margin



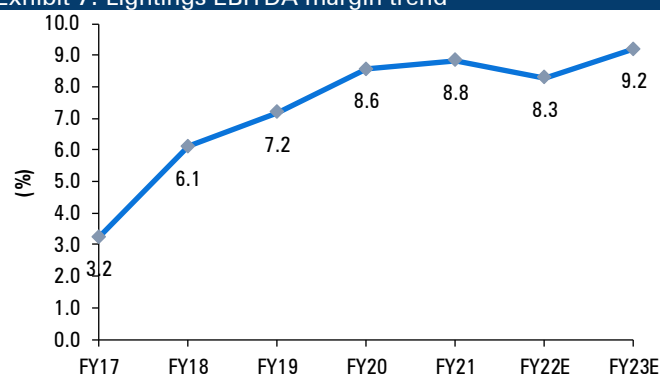
Source: Company, ICICI Direct Research

Exhibit 6: Lighting segment revenue growth trend



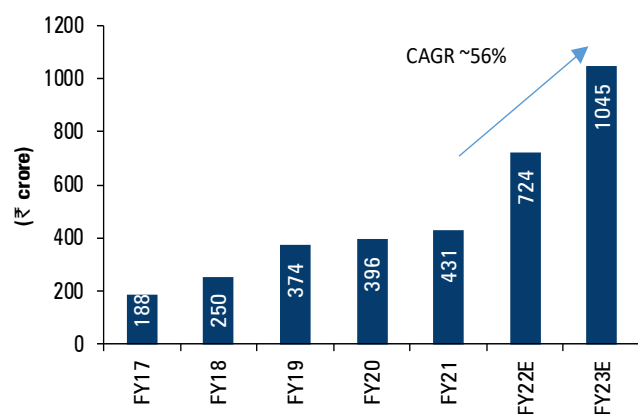
Source: Company, ICICI Direct Research

Exhibit 7: Lightings EBITDA margin trend



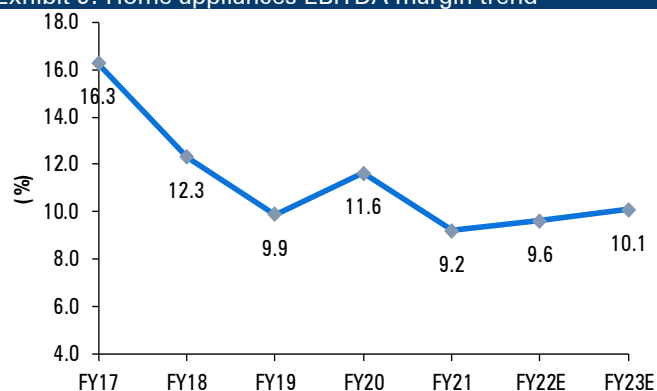
Source: Company, ICICI Direct Research

Exhibit 8: Home appliances segment revenue trend



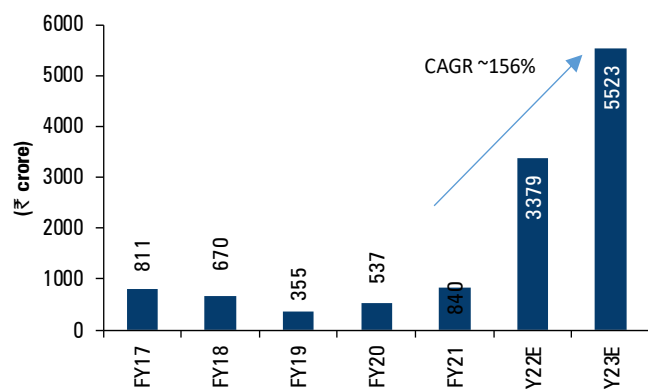
Source: Company, ICICI Direct Research

Exhibit 9: Home appliances EBITDA margin trend



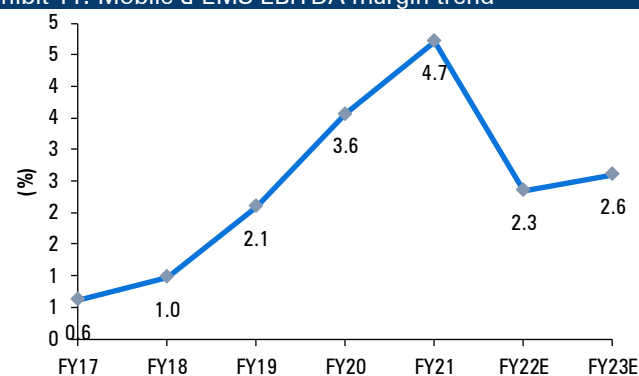
Source: Company, ICICI Direct Research

Exhibit 10: Mobile & EMS segment revenue trend



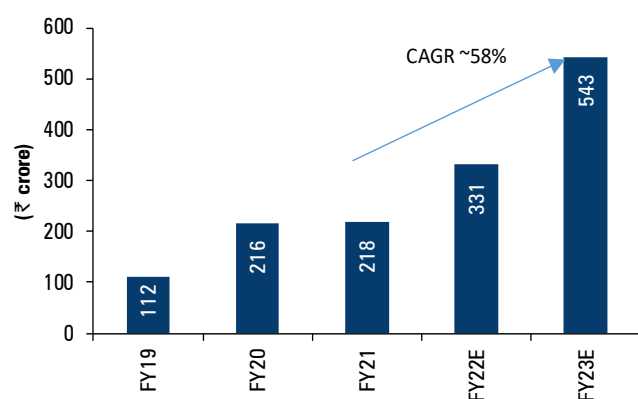
Source: Company, ICICI Direct Research

Exhibit 11: Mobile & EMS EBITDA margin trend



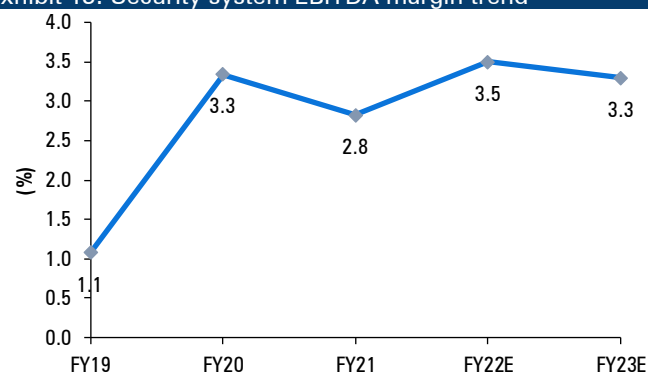
Source: Company, ICICI Direct Research

Exhibit 12: Security systems segment revenue trend



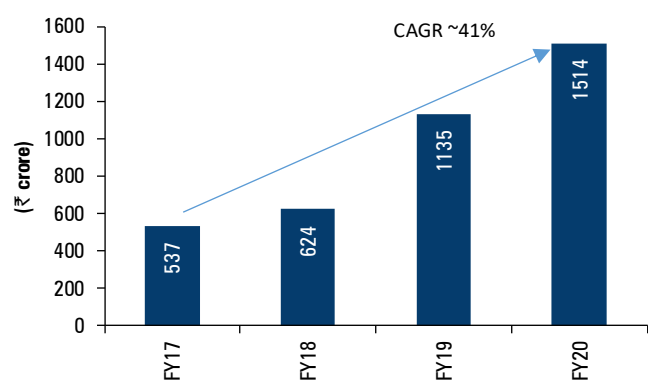
Source: Company, ICICI Direct Research

Exhibit 13: Security system EBITDA margin trend



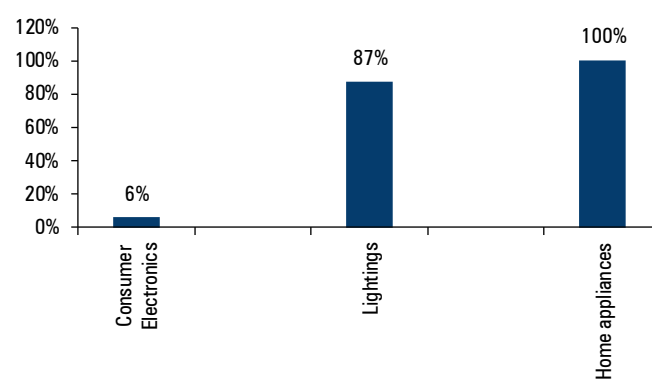
Source: Company, ICICI Direct Research

Exhibit 14: Strong growth in ODM revenue



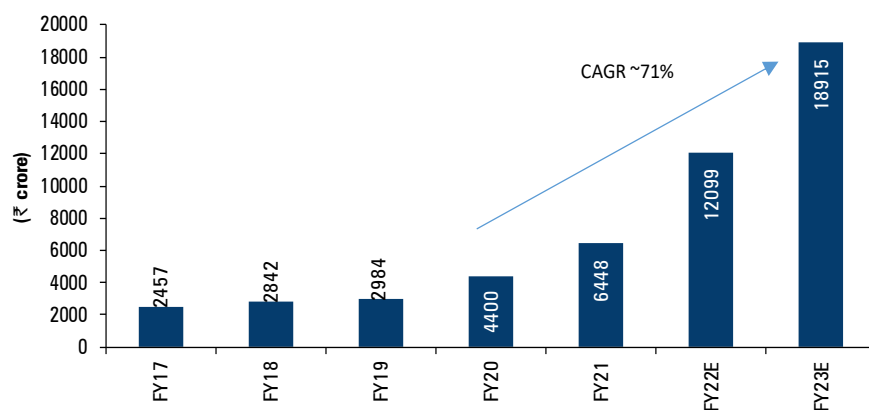
Source: Company, ICICI Direct Research

Exhibit 15: ODM share of business



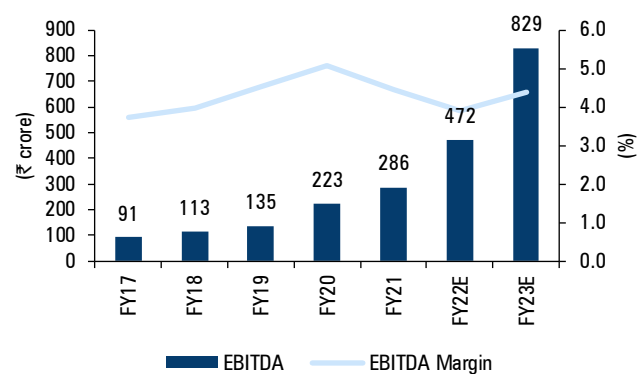
Source: Company, ICICI Direct Research

Exhibit 16: Revenue growth trend



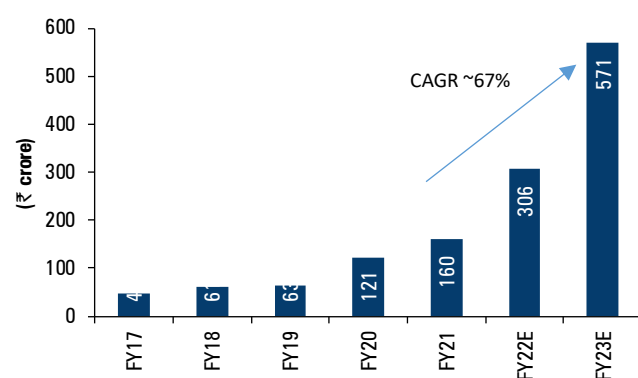
Source: Company, ICICI Direct Research

Exhibit 17: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 18: PAT growth trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 19: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Revenue	4,400.1	6,448.2	12,098.9	18,915.1	
Growth (%)	47.4	46.5	87.6	56.3	
Raw material expense	3,913.3	5,753.5	11,066.1	17,090.3	
Employee expenses	118.0	137.1	213.6	327.3	
Other expenses	198.9	254.8	389.4	668.5	
Total Operating Exp	4,177.1	6,161.7	11,626.5	18,086.1	
EBITDA	223.1	286.5	472.3	829.0	
Growth (%)	65.4	28.4	64.9	75.5	
Depreciation	36.5	43.7	50.8	58.6	
Interest	35.0	27.4	16.1	14.1	
Other Income	5.2	1.6	3.4	5.7	
PBT	156.8	216.9	408.8	761.9	
Total Tax	36.3	57.2	102.7	191.4	
PAT	120.5	159.7	306.1	570.5	
Growth (%)	90.2	32.5	91.7	86.4	
EPS (₹)	20.6	27.3	52.3	97.4	

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	120.5	159.7	306.1	570.5	
Add: Depreciation	36.5	43.7	50.8	58.6	
(Inc)/dec in Current Assets	27.3	-880.9	-1219.9	-1983.3	
Inc/(dec) in CL and Provisions	7.0	839.5	1090.6	1633.1	
Others	35.0	27.4	16.1	14.1	
CF from operating activities	226.3	189.4	243.8	293.1	
(Inc)/dec in Investments	7.6	-95.3	40.0	50.0	
(Inc)/dec in Fixed Assets	-192.3	-242.8	-150.0	-200.0	
Others	67.4	39.9	5.0	5.0	
CF from investing activities	-117.2	-298.1	-105.0	-145.0	
Issue/(Buy back) of Equity	0.2	0.1	0.0	0.0	
Inc/(dec) in loan funds	-53.3	68.5	20.0	-60.0	
Dividend paid & dividend tax	-8.3	-35.1	-70.3	-105.4	
Others	15.7	43.8	-86.3	-14.1	
CF from financing activities	-45.6	77.3	-136.6	-179.5	
Net Cash flow	63.4	-31.3	2.2	-31.4	
Opening Cash	36.7	100.1	68.8	71.1	
Closing Cash	100.1	68.8	71.1	39.7	

Source: Company, ICICI Direct Research

Exhibit 21: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Capital	11.6	11.7	11.7	11.7	
Reserve and Surplus	529.8	725.6	891.3	1,356.4	
Total Shareholders funds	541.3	737.3	903.0	1,368.1	
Total Debt	82.8	151.3	171.3	111.3	
Other non current liabilities	104.4	148.9	153.9	158.9	
Total Liabilities	728.5	1,037.5	1,228.2	1,638.3	
Assets					
Gross Block	488.4	731.2	881.2	1,081.2	
Less: Acc Depreciation	82.5	126.2	177.0	235.7	
Total Fixed Assets	415.5	614.5	713.7	855.0	
Investments	0.0	95.3	55.3	5.3	
Inventory	497.8	743.3	1,392.2	2,332.0	
Debtors	515.1	1,089.1	1,491.6	2,332.0	
Loans and Advances	0.0	2.5	2.5	2.5	
Other CA	133.1	192.1	360.5	563.6	
Cash	100.1	68.8	71.1	39.7	
Total Current Assets	1,246.2	2,095.8	3,317.9	5,269.8	
Creditors	939.1	1,709.7	2,718.1	4,249.4	
Provisions	10.9	14.4	22.9	35.7	
Other CL	18.7	84.1	157.9	246.8	
Total Current Liabilities	968.7	1,808.2	2,898.8	4,532.0	
Net current assets	277.5	287.6	419.1	737.9	
Other non current assets	35.6	40.1	40.1	40.1	
Total Assets	728.5	1,037.5	1,228.2	1,638.3	

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
EPS	20.6	27.3	52.3	97.4	
Cash EPS	26.8	34.7	61.0	107.5	
BV	92.5	125.9	154.2	233.7	
DPS	1.4	6.0	12.0	18.0	
Operating Ratios (%)					
EBITDA Margin	5.1	4.4	3.9	4.4	
PAT Margin	2.7	2.5	2.5	3.0	
Asset Turnover	9.0	8.8	13.7	17.5	
Inventory Days	41.3	42.1	42.0	45.0	
Debtor Days	42.7	61.6	45.0	45.0	
Creditor Days	77.9	96.8	82.0	82.0	
Return Ratios (%)					
RoE	22.3	21.7	33.9	41.7	
RoCE	26.3	23.5	34.6	47.4	
RoIC	31.0	26.7	34.8	43.0	
Valuation Ratios (x)					
P/E	213.5	161.2	84.1	45.1	
EV / EBITDA	115.3	89.8	54.6	31.1	
EV / Net Sales	5.8	4.0	2.1	1.4	
Market Cap / Sales	5.8	4.0	2.1	1.4	
Price to Book Value	47.5	34.9	28.5	18.8	
Solvency Ratios					
Debt / Equity	0.2	0.2	0.2	0.1	
Current Ratio	1.2	1.2	1.2	1.2	
Quick Ratio	0.7	0.7	0.7	0.7	

Source: Company, ICICI Direct Research

Exhibit 23: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	3,063	3,665	Buy	2,93,742	33.4	39.5	50.4	91.6	77.5	60.8	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	2,052	1,915	Hold	30,916	20.3	21.8	29.3	101.0	94.2	70.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	3,020	3,130	Buy	9,497	24.7	45.7	88.2	122.2	66.0	34.2	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,142	1,280	Buy	12,983	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	849	835	Hold	82,455	7.4	9.3	12.3	114.6	91.6	69.1	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	467	480	Buy	29,281	9.8	9.2	11.9	47.5	51.0	39.3	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	4,380	5,050	Buy	25,645	27.3	52.3	97.4	160.6	83.8	45.0	89.8	54.6	31.1	23.5	34.6	47.4	21.7	33.9	41.7
EPL (ESSPRO)	243	275	Hold	7,667	7.7	9.2	11.4	31.4	26.3	21.3	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	1,162	1,345	Buy	72,497	16.7	18.8	24.3	69.7	61.3	47.8	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	617	655	Buy	33,251	9.9	12.1	14.4	62.6	50.9	42.9	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLPLA)	520	600	Buy	1,442	16.5	20.8	28.0	31.6	25.0	18.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	2,321	2,035	Hold	1,17,860	22.2	26.3	31.8	104.7	88.2	73.0	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,858	2,100	Hold	28,138	59.4	59.2	77.7	31.8	31.9	24.3	23.3	21.5	16.6	21.9	21.1	24.2	18.5	16.5	18.5
Supreme Indus (SUPIND)	2,093	2,450	Buy	26,587	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	993	1,050	Hold	6,947	15.3	20.8	33.0	64.9	47.8	30.9	48.7	37.6	24.3	15.2	22.1	31.8	14.9	21.1	30.1
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	254	320	Buy	10,879	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,026	1,150	Buy	33,933	16.0	21.2	28.9	64.2	48.5	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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