

**Strong end to the year**

Consumer Durables ▶ Result Update ▶ May 24, 2023

**TARGET PRICE (Rs) : 3,403**

Dixon reported a robust quarter, beating Street/our estimates. While sales growth for 4QFY23 stood at 4% YoY, EBITDAM of 5.1% (vs 4% YoY) was the key positive, leading to EBITDA/PAT growth of 32%/28% YoY. Improvement in margin was supported by sales mix, operating leverage and strategic price hikes. On full-year basis, EBITDAM of 4.2% was up from 3.5% YoY, albeit below the 4.4% in FY21. While Management did not guide for any specific sales for FY24, it gave assurance that the group will be aggressive, along with its growth rates clocking much ahead of the industry's. Mobile is expected to be the largest product in the portfolio, with addition of new clients; a large part of FY24 growth hinges on growth in this segment. We roll forward our valuation to Mar-24E with new TP of Rs3,403, based on 35x (unchanged) P/E; retain HOLD.

**Dixon Technologies: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	64,482	106,971	121,920	176,843	224,779
EBITDA	2,866	3,791	5,128	7,346	9,556
Adj. PAT	1,598	1,902	2,539	4,332	5,789
Adj. EPS (Rs)	26.9	32.1	42.8	73.0	97.5
EBITDA margin (%)	4.4	3.5	4.2	4.2	4.3
EBITDA growth (%)	28.5	32.3	35.3	43.3	30.1
Adj. EPS growth (%)	32.6	19.0	33.5	70.6	33.6
RoE (%)	25.0	21.9	22.3	29.6	30.1
RoIC (%)	39.9	32.5	35.3	42.4	43.4
P/E (x)	121.7	102.2	76.6	44.9	33.6
EV/EBITDA (x)	67.8	51.7	37.8	26.6	20.2
P/B (x)	26.4	19.5	15.1	11.8	8.8
FCFF yield (%)	0.1	0.6	(0.3)	(1.3)	0.9

Source: Company, Emkay Research

**Mobile, Home appliances, CE segments deliver in Q4**

Revenue (consol.) for the quarter was up 28% QoQ to Rs31bn, beating our estimate by 7%. Mobile & EMS revenue grew 61% QoQ, as the company saw ramp up in orders from Jio and Airtel, along with aggressive demand in the IT hardware and Mobile component verticals. Home appliances saw 15% QoQ growth on the back of a healthy order book in the semi-automatic WM product. Consumer electronics grew 14% QoQ, with margins expanding 60bps on increased contribution of ODM sales. Despite muted performance in the Lighting segment, Company's strategy of calibrated pricing action, better sourcing and migration of LED tech yielded results as margins expanded 60bps QoQ. EBITDA (consol.) was up 41% QoQ to Rs1.6bn, also higher than Street estimates, by 14%, mainly buoyed by the positive operating leverage as employee expenses & other operating expenses as a % of sales contracted by 50bps & 70bps, respectively. PAT was up 55% QoQ to Rs0.8bn, owing to the strong operating performance.

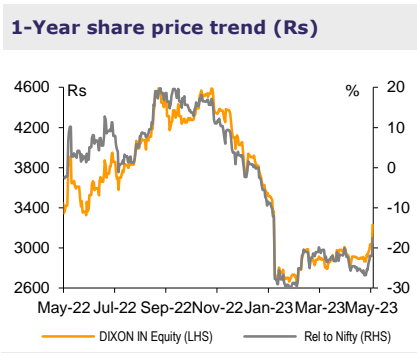
**Valuation and outlook**

While addition of new customers in the mobile segment is imminent, we believe slowdown in some key segments will hamper the overall growth of brands, which will see additional impact from Dixon being a B2B supplier. Robust margin performance in Q4 is likely to sustain, as Dixon's share in ODM manufacturing continues to grow. Building-in the slight cuts in revenue, and offset by the existing margin trajectory, FY24E-25E EPS is largely intact (+2.6% in FY24E, while staying flat in FY25E). We maintain HOLD on the stock, with roll forward Mar-24E TP of Rs3,403/share, based on FY25E 35x PER (unchanged). Sales ramp-up remains the key monitorable going forward, in our view. Risks include slowdown leading to less requirement by brands.

Target Price – 12M	Mar-24
<b>Change in TP (%)</b>	<b>7.5</b>
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	3.9
CMP (23-May-23) (Rs)	3,275.7

Stock Data	Ticker
52-week High (Rs)	4,670
52-week Low (Rs)	2,553
Shares outstanding (mn)	59.6
Market-cap (Rs bn)	195
Market-cap (USD mn)	2,356
Net-debt, FY24E (Rs mn)	1,155
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,053.2
ADTV-3M (USD mn)	12.7
Free float (%)	61.0
Nifty-50	18,348
INR/USD	82.8
<b>Shareholding, Mar-23</b>	
Promoters (%)	34.1
FPIs/MFs (%)	12.1/23.8

Price Performance			
(%)	1M	3M	12M
Absolute	11.8	21.9	(6.6)
Rel. to Nifty	7.4	16.3	(17.5)

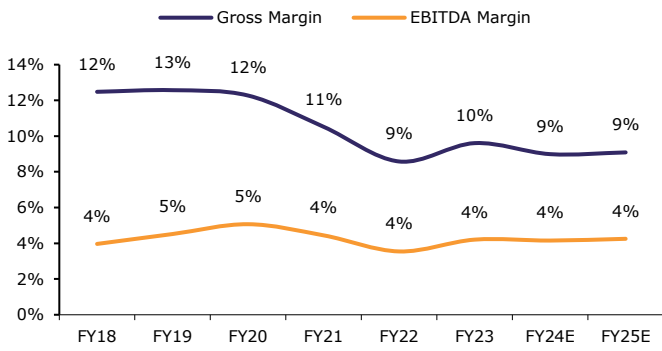


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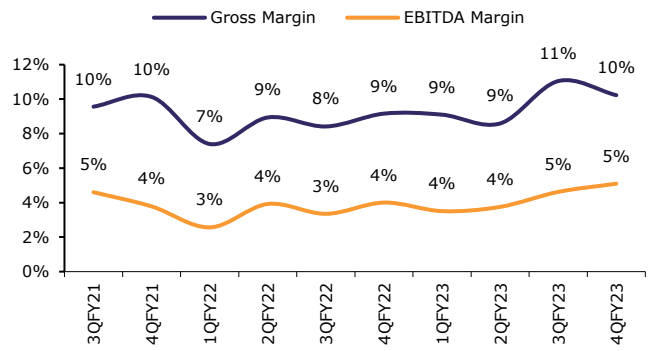
# Story in Charts

**Exhibit 1: EBITDAM to stay stable over FY23-25E**



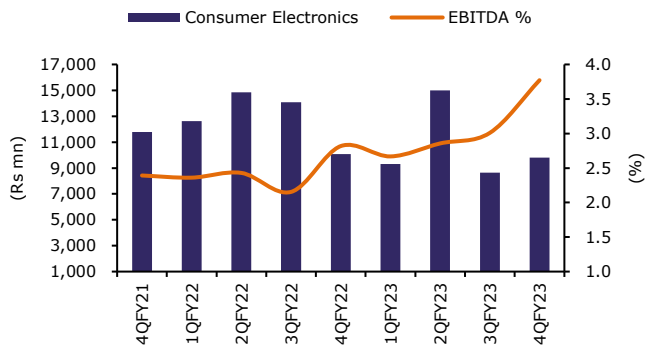
Source: Company, Emkay Research

**Exhibit 2: Margins improved, as share of ODM in product mix grew**



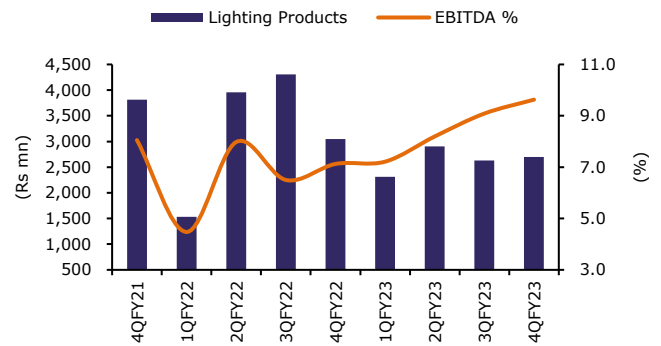
Source: Company, Emkay Research

**Exhibit 3: Margins improved significantly**



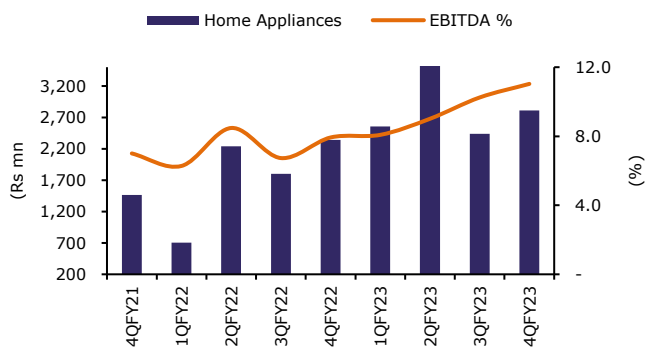
Source: Company, Emkay Research

**Exhibit 4: Despite slow demand, margins improved**



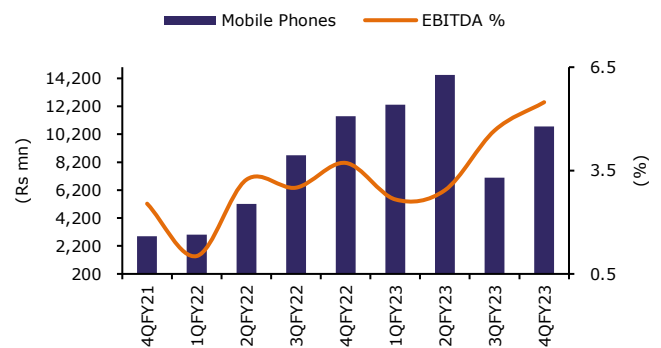
Source: Company, Emkay Research

**Exhibit 5: Both, margins and sales, improved YoY**



Source: Company, Emkay Research

**Exhibit 6: Ex-Mobile contributions helped margin growth**



Source: Company, Emkay Research

## Exhibit 7: Summary of quarterly financials

(Rs mn)	Q4FY20	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	3-year CAGR
Total Sales	8,574	29,528	24,047	30,655	3.8	27.5	53%
Raw Material cost	7,222	26,823	21,391	27,519	2.6	28.6	56%
as % of sales	84.2	90.8	89.0	89.8			
Employee cost	308	537	637	630	17.3	(1.1)	27%
as % of sales	3.6	1.8	2.6	2.1			
Other operating expenses	485	986	908	943	(4.4)	3.8	25%
as % of sales	5.7	3.3	3.8	3.1			
Total Expenditure	8,015	28,346	22,936	29,092	2.6	26.8	54%
EBITDA	559	1,182	1,112	1,563	32.2	40.6	41%
Depreciation	109	191	290	325	69.7	11.9	44%
EBIT	450	991	821	1,238	25.0	50.8	40%
Other Income	-0	18	28	18	-	(35.5)	-493%
Interest	77	139	152	151	8.6	(0.2)	25%
PBT	373	869	698	1,105	27.1	58.3	44%
Tax	97	238	186	315	32.4	69.3	48%
PAT before MI	276	632	512	790	25.1	54.4	42%
Minority interest	-	-	-7	-16			
PAT	276	632	519	806	27.6	55.4	43%

(%)					(bps)	(bps)
Gross margin	15.8	9.2	11.0	10.2	107	(82)
EBITDAM	6.5	4.0	4.6	5.1	110	48
EBITM	5.2	3.4	3.4	4.0	68	62
EBTM	4.3	2.9	2.9	3.6	66	70
PATM	3.2	2.1	2.2	2.6	49	47
Effective Tax rate	26.0	27.3	26.6	28.5	115	184

Source: Company

## Exhibit 8: Actuals vs Estimates (Q4FY23)

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation	
				Emkay	Consensus
Revenue	30,655	28,653	28,963	7%	6%
EBITDA	1,563	1,141	1,375	37%	14%
EBITDA margin	5.1%	4.0%	4.7%	111 bps	35 bps
PAT	806	539	703	50%	15%

Source: Company, Emkay Research

## Exhibit 9: Quarterly segmental financials

(Rs mn)	Q4FY20	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	3-year CAGR (%)
Consumer Electronics	3,930	10,087	8,640	9,810	(2.7)	13.5	35.7
Lighting Products	2,548	3,046	2,630	2,700	(11.3)	2.7	2.0
Home Appliances	900	2,341	2,440	2,810	20.0	15.2	46.1
Mobile +EMS	603	12,941	8,350	13,450	3.9	61.1	181.5
Reverse Logistics	47	16	46	0	(100.0)	(100.0)	-100.0
Security Systems	546	1,096	1,184	1,240	13.2	4.7	31.4
<b>Total Sales</b>	<b>8,574</b>	<b>29,528</b>	<b>23,290</b>	<b>30,010</b>	<b>1.6</b>	<b>28.9</b>	<b>51.8</b>

EBITDA							
Consumer Electronics	98	284	260	370	30.2	42.3	55.9
Lighting Products	254	217	239	260	19.8	8.8	0.8
Home Appliances	99	186	250	310	67.0	24.0	46.4
Mobile +EMS	85	457	330	590	29.0	78.8	90.6
Reverse Logistics	4	-	-	-	-	-	-
Security Systems	19	38	23	36	(4.8)	56.5	23.7
<b>Total EBITDA</b>	<b>559</b>	<b>1,182</b>	<b>1,102</b>	<b>1,566</b>	<b>32.5</b>	<b>42.1</b>	<b>41.0</b>

EBITDA margins (%)					(bps)	(bps)
Consumer Electronics	2.5	2.8	3.0	3.8	95	76
Lighting Products	10.0	7.1	9.1	9.6	250	54
Home Appliances	11.0	7.9	10.2	11.0	311	79
Mobile +EMS	14.1	3.5	4.0	4.4	85	43
Reverse Logistics	9.2	-	-	-	-	-
Security Systems	3.5	3.4	1.9	2.9	(55)	96
<b>Total EBITDA</b>	<b>6.5</b>	<b>4.0</b>	<b>4.7</b>	<b>5.2</b>	<b>122</b>	<b>49</b>

Source: Company

## Exhibit 10: Change in estimates

(Rs mn)	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Revenue	181,843	176,843	-2.7%	233,779	224,779	-3.8%
EBITDA	7,144	7,346	2.8%	9,137	9,556	4.6%
EBITDA margin (%)	3.9	4.2	23 bps	3.9	4.3	34 bps
PAT	4208	4332	3.0%	5752	5789	0.6%
EPS (Rs)	70.9	73	2.6%	96.9	97	0.3%

Source: Emkay Research

## Con-call Highlights

### Consumer Electronics

- FY23 saw 15% volume growth to 3.43mn units, while realization trended almost 30% downwards to Rs11,500, as prices of open sales of TVs declined in global markets.
- Margins, however, improved by 60bps QoQ, as share of ODM increased from 5% last year to 38% in Q4FY23. Management expects share of ODM to remain in-line, only slightly improving from Q4 levels; hence, margins are likely to be maintained in FY24.
- Added focus on backward integration has been instrumental in delivering margins. Company is migrating its backward integration for Samsung and Xiaomi.

### Lighting

- Calibrated pricing action, significant better sourcing strategy, and migration of LED tech from the driver base have all led to significant cost savings.
- Margin expansion of 60bps QoQ, despite flattish revenue growth owing to the above-mentioned factors.
- By Q3FY24, Dixon will execute its first German export order, in addition to exports to ME.
- Company will maintain its launch momentum: via launching rope lighting and strip lights, along with smart lighting solutions.

### Home appliances

- Company has a healthy order book in the semi-automatic category.
- It sold 1.5mn semi-automatic washing-machine units and 1.6lakh (i.e. 0.16mn) fully-automatic machines, in FY23. It expects growth in the semi-automatic output to 1.75mn units and to 2.5lakh (0.25mn) units in the fully-automatic category, in FY24.
- Another Semi-Automatic plant in Dehradun will be operational by Jul-23.

### Mobile

- Company is on the verge of on-boarding two large brands in India for which it has plans of a new plant. Manufacturing is likely to commence in Q3FY24. There is possibility of revenue contribution of Rs40-50bn from these brands.
- Orders from Jio and Airtel have significantly ramped up. Current order run rate is 0.5mn for Jio phones.
- Incentives booked in PLI scheme – Dec-22: Rs9.5crore (Rs95mn) and an additional Rs2.5crore (Rs25mn) in its telecom JV with Bharti.

### Others

- Expects capex of ~Rs400crore (Rs4bn), in FY24.
- Growth in FY24 will be ahead of the industry.
- FY24/25 will continue seeing expansion in EBITDA.
- Company will participate in PLI 2.0 in the IT hardware segment; we see this as another strong growth opportunity.

## Dixon Technologies: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>64,482</b>	<b>106,971</b>	<b>121,920</b>	<b>176,843</b>	<b>224,779</b>
Revenue growth (%)	46.5	65.9	14.0	45.0	27.1
<b>EBITDA</b>	<b>2,866</b>	<b>3,791</b>	<b>5,128</b>	<b>7,346</b>	<b>9,556</b>
EBITDA growth (%)	28.5	32.3	35.3	43.3	30.1
Depreciation & Amortization	437	840	1,146	1,430	1,682
<b>EBIT</b>	<b>2,429</b>	<b>2,952</b>	<b>3,981</b>	<b>5,916</b>	<b>7,874</b>
EBIT growth (%)	30.2	21.5	34.9	48.6	33.1
Other operating income	0	0	0	0	0
Other income	16	38	56	45	14
Financial expense	274	442	606	256	186
<b>PBT</b>	<b>2,170</b>	<b>2,548</b>	<b>3,432</b>	<b>5,706</b>	<b>7,702</b>
Extraordinary items	0	0	0	0	0
Taxes	572	644	897	1,322	1,785
Minority interest	0	(2)	4	(51)	(128)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>1,598</b>	<b>1,902</b>	<b>2,539</b>	<b>4,332</b>	<b>5,789</b>
PAT growth (%)	32.6	19.0	33.5	70.6	33.6
<b>Adjusted PAT</b>	<b>1,598</b>	<b>1,902</b>	<b>2,539</b>	<b>4,332</b>	<b>5,789</b>
<b>Diluted EPS (Rs)</b>	<b>26.9</b>	<b>32.1</b>	<b>42.8</b>	<b>73.0</b>	<b>97.5</b>
Diluted EPS growth (%)	32.6	19.0	33.5	70.6	33.6
<b>DPS (Rs)</b>	<b>0.0</b>	<b>2.0</b>	<b>3.0</b>	<b>3.0</b>	<b>4.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>6.2</b>	<b>7.0</b>	<b>4.1</b>	<b>4.1</b>
EBITDA margin (%)	4.4	3.5	4.2	4.2	4.3
EBIT margin (%)	3.8	2.8	3.3	3.3	3.5
Effective tax rate (%)	26.4	25.3	26.1	23.2	23.2
<b>NOPLAT (pre-IndAS)</b>	<b>1,788</b>	<b>2,206</b>	<b>2,941</b>	<b>4,546</b>	<b>6,050</b>
Shares outstanding (mn)	59.4	59.4	59.4	59.4	59.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	2,170	2,548	3,432	5,706	7,702
Others (non-cash items)	0	0	0	0	0
Taxes paid	(572)	(644)	(897)	(1,322)	(1,785)
Change in NWC	(450)	(642)	2,409	(2,835)	(1,631)
<b>Operating cash flow</b>	<b>1,701</b>	<b>2,728</b>	<b>7,258</b>	<b>1,809</b>	<b>5,385</b>
Capital expenditure	(2,007)	(4,233)	(4,378)	(4,035)	(2,975)
Acquisition of business	0	0	0	0	0
Interest & dividend income	5	7	13	45	14
<b>Investing cash flow</b>	<b>(2,654)</b>	<b>(4,645)</b>	<b>(3,556)</b>	<b>(3,990)</b>	<b>(2,961)</b>
Equity raised/(repaid)	1	2	0	0	0
Debt raised/(repaid)	694	3,019	(2,754)	0	(500)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(274)	(442)	(606)	(256)	(186)
Dividend paid (incl tax)	0	(119)	(179)	(179)	(238)
Others	1,170	1,222	2,006	2,986	1,127
<b>Financing cash flow</b>	<b>1,591</b>	<b>3,682</b>	<b>(1,532)</b>	<b>2,552</b>	<b>203</b>
Net chg in Cash	638	1,765	2,170	371	2,626
OCF	(31)	2,374	1,701	2,728	7,258
Adj. OCF (w/o NWC chg.)	2,444	3,369	4,494	6,024	7,771
FCFF	(306)	(1,505)	2,879	(2,226)	2,410
FCFE	113	1,085	(489)	(2,437)	1,738
OCF/EBITDA (%)	59.4	71.9	141.5	24.6	56.4
FCFE/PAT (%)	7.1	57.1	(19.3)	(56.2)	30.0
<b>FCFF/NOPLAT (%)</b>	<b>(17.1)</b>	<b>(68.2)</b>	<b>97.9</b>	<b>(49.0)</b>	<b>39.8</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	117	119	119	119	119
Reserves & Surplus	7,256	9,849	12,730	16,319	21,870
<b>Net worth</b>	<b>7,373</b>	<b>9,968</b>	<b>12,849</b>	<b>16,438</b>	<b>21,989</b>
Minority interests	0	6	(3)	49	177
Deferred tax liability (net)	184	201	224	224	224
<b>Total debt</b>	<b>1,561</b>	<b>4,580</b>	<b>1,826</b>	<b>1,826</b>	<b>1,326</b>
<b>Total liabilities &amp; equity</b>	<b>9,118</b>	<b>14,754</b>	<b>14,897</b>	<b>18,537</b>	<b>23,716</b>
Net tangible fixed assets	4,059	7,583	9,425	11,499	12,792
Net intangible assets	40	188	224	191	191
Net ROU assets	1,322	1,959	2,484	3,060	3,520
Capital WIP	724	224	1,197	1,197	1,197
Goodwill	82	303	303	303	303
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>689</b>	<b>1,823</b>	<b>2,292</b>	<b>492</b>	<b>2,748</b>
Current assets (ex-cash)	21,961	31,300	33,175	49,924	63,052
Current Liab. & Prov.	19,339	28,017	32,278	46,193	57,690
<b>NWC (ex-cash)</b>	<b>2,623</b>	<b>3,282</b>	<b>896</b>	<b>3,731</b>	<b>5,362</b>
<b>Total assets</b>	<b>9,118</b>	<b>14,754</b>	<b>14,896</b>	<b>18,537</b>	<b>23,716</b>
Net debt	(30)	1,406	(644)	1,155	(1,600)
Capital employed	9,118	14,754	14,897	18,537	23,716
<b>Invested capital</b>	<b>6,803</b>	<b>11,356</b>	<b>11,229</b>	<b>16,669</b>	<b>19,593</b>
BVPS (Rs)	124.2	167.9	216.5	277.0	370.5
Net Debt/Equity (x)	0.0	0.1	(0.1)	0.1	(0.1)
Net Debt/EBITDA (x)	0.0	0.4	(0.1)	0.2	(0.2)
Interest coverage (x)	0.1	0.1	0.2	0.0	0.0
<b>RoCE (%)</b>	<b>31.4</b>	<b>25.0</b>	<b>27.2</b>	<b>35.7</b>	<b>37.3</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	121.7	102.2	76.6	44.9	33.6
P/CE(x)	95.5	70.9	52.8	33.7	26.0
P/B (x)	26.4	19.5	15.1	11.8	8.8
EV/Sales (x)	3.0	1.8	1.6	1.1	0.9
EV/EBITDA (x)	67.8	51.7	37.8	26.6	20.2
EV/EBIT(x)	80.0	66.3	48.7	33.1	24.5
EV/IC (x)	28.6	17.2	17.3	11.7	9.8
FCFF yield (%)	0.1	0.6	(0.3)	(1.3)	0.9
FCFE yield (%)	0.1	0.6	(0.3)	(1.3)	0.9
Dividend yield (%)	0.0	0.1	0.1	0.1	0.1
<b>DuPont-RoE split</b>					
Net profit margin (%)	2.5	1.8	2.1	2.4	2.6
Total asset turnover (x)	8.3	9.0	8.2	10.6	10.6
Assets/Equity (x)	1.2	1.4	1.3	1.1	1.1
<b>RoE (%)</b>	<b>25.0</b>	<b>21.9</b>	<b>22.3</b>	<b>29.6</b>	<b>30.1</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	2.8	2.1	2.4	2.6	2.7
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>39.9</b>	<b>32.5</b>	<b>35.3</b>	<b>42.4</b>	<b>43.4</b>
<b>Operating metrics</b>					
Core NWC days	(4.4)	(0.6)	(1.2)	3.8	3.8
<b>Total NWC days</b>	<b>14.8</b>	<b>11.2</b>	<b>2.7</b>	<b>7.7</b>	<b>8.7</b>
Fixed asset turnover	13.8	14.1	10.6	11.6	12.0
Opex-to-revenue (%)	6.1	5.0	5.4	4.8	4.8

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
27-Jan-23	2,722	3,165	Hold	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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