REDUCE (Maintained)

CMP: **INR 5,341** Target Price: **INR 4,900 (INR 3,600)** ▼ -8%

ICICI Securities

ICICI Securities Limited is the author and distributor of this report

27 October 2023

India | Equity Research | Q2FY24 result review

Dixon Technologies India

White Goods

Mobile segment remains strong; weakness in other segments continues

Takeaways from Q2FY24: (1) improved business visibility in core mobile division; its revenue contribution likely to improve from current ~50% to 60%+ by FY26, (2) aim on expanding margins by attaining operating leverage, better product mix and higher backward integration, (3) steady growth in exports with likely exports of INR 20-25bn in FY24 the as per company. After a brief stint of uncertainty in Mobiles in FY23, the segment is witnessing strong demand momentum. With strong order pipeline and new client additions, Mobiles is likely to be the key growth driver for Dixon. We model earnings CAGR of 32.9% over FY23-25E. While the growth outlook looks strong, we require additional comfort on valuations. Thus, maintain **REDUCE** with revised DCF-based TP of INR4,900 (Implied FY25E P/E: 64x).

Q2FY24 result

Dixon reported YoY revenue, EBITDA and PAT growth of 27.8%, 37.0% and 37.9%, respectively. Gross and EBITDA margins expanded 100bps and 27bps, respectively YoY on operating leverage and change in revenue mix.

Segment-wise performance

Segment-wise, YoY revenue growth rates were as follows: Consumer Electronics -4.0%, Lighting -37.1%, Home Appliances +0.3%, Mobile & EMS +76.8% and Security Systems +18.3%. EBIT margin expanded in Consumer electronics, Home appliances and Mobiles segments but contracted for Security systems and Lighting Segment YoY.

Mobile segment drives growth, Electronics and Lighting lag

Dixon is witnessing strong traction in its domestic mobile division. It is likely to add new international clients in Q4FY24. The strong order book indicates revenue visibility until FY25. Demand in wearables and hearables and telecom segment has been strong. However, the weakness in electronics and lighting segment persisted in Q2FY24 on sluggish demand and change in technology.

Maintain REDUCE

We model Dixon to report revenue and PAT CAGRs of 26.0% and 32.9%, respectively, over FY23-FY25E and RoE > cost of capital over FY24-25. We maintain **REDUCE** rating with a revised DCF-based target price of INR 4,900 (implied P/E of 64x FY25E EPS). Key risks: Faster-than-expected economic recovery, steep correction in commodity prices, and lower-than-expected competition.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	1,21,920	1,51,651	1,93,464	2,51,218
EBITDA	5,127	6,172	8,222	10,677
EBITDA Margin (%)	4.2	4.1	4.3	4.3
Net Profit	2,559	3,283	4,520	6,137
EPS (INR)	43.1	55.3	76.2	103.4
EPS % Chg YoY	34.8	28.3	37.7	35.8
P/E (x)	123.9	96.6	70.1	51.7
EV/EBITDA (x)	61.9	51.5	38.5	29.3
RoCE (%)	17.0	18.4	21.3	23.8
RoE (%)	22.4	22.9	25.1	26.6

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Market Data

Market Cap (INR)	318bn
Market Cap (USD)	3,821mn
Bloomberg Code	DIXON IN
Reuters Code	DIXO BO
52-week Range (INR)	5,607 /2,553
Free Float (%)	61.0
ADTV-3M (mn) (USD)	36.4

Price Performance (%)	3m	6m	12m
Absolute	30.8	88.7	23.6
Relative to Sensex	35.8	82.8	16.0

ESG Disclosure	2021	2022	Change
ESG score	39.2	-	-
Environment	2.4	-	-
Social	31.6	-	-
Governance	83.6	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	6.5	6.2
EBITDA	3.2	5.0
EPS	4.6	7.0

Previous Reports

26-07-2023: Q1FY24 results review
24-05-2023: Q4FY23 results review

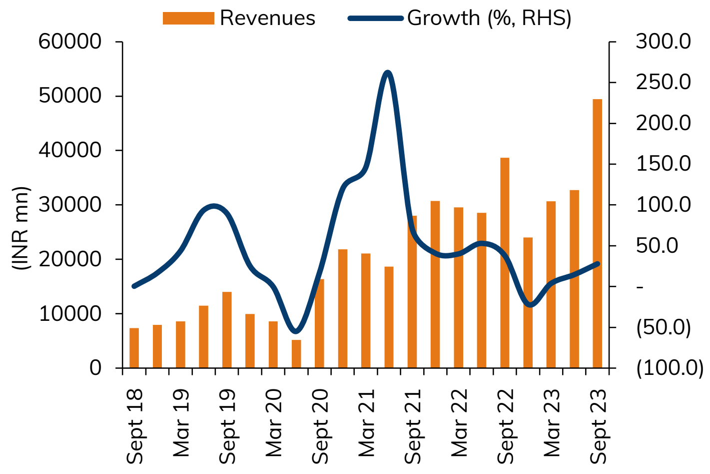
Exhibit 1: Q2FY24 financial performance

Y/e March (INR mn)	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.
Revenue	**49,432**	**38,668**	**27.8**	**32,715**	**51.1**
Expenditure					
Raw materials	44,691	35,346	26.4	29,558	51.2
% of revenue	90.4	91.4		90.3	
Employee cost	953	702	35.6	684	39.3
% of revenue	1.9	1.8		2.1	
Other expenditure	1,799	1,168	54.0	1,154	55.9
% of revenue	3.6	3.0		3.5	
Total expenditure	47,443	37,216	27.5	31,395	51.1
EBITDA	**1,989**	**1,452**	**37.0**	**1,320**	**50.7**
EBITDA margin	4.0	3.8		4.0	
Other income	7	6	30.9	29	(74.7)
PBDIT	**1,996**	**1,457**	**37.0**	**1,348**	**48.1**
Depreciation	364	291	25.2	337	8.1
PBIT	**1,632**	**1,166**	**39.9**	**1,011**	**61.4**
Interest	171	158	8.1	140	22.3
PBT	**1,461**	**1,008**	**44.9**	**871**	**67.7**
Prov for tax	352	231	52.4	229	54.0
% of PBT	24.1	22.9		26.2	
Adjusted PAT	**1,109**	**777**	**42.7**	**642**	**72.6**
Extra ordinary items	**(1)**	**(6)**	-	**(1)**	-
Reported PAT	**1,108**	**771**	**43.7**	**641**	**72.8**

Source: Company data, I-Sec research

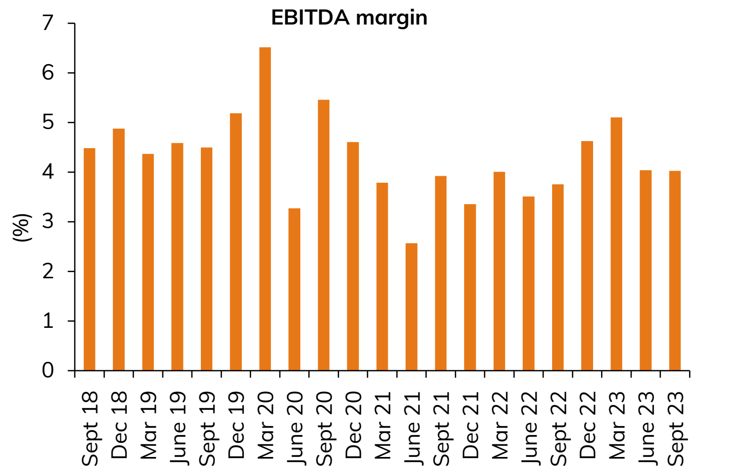
Key performance highlights

Exhibit 2: Revenue and revenue growth



Source: I-Sec research, Company data

Exhibit 3: EBITDA margin



Source: I-Sec research, Company data

Exhibit 4: Segment-wise performance

Particulars	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.
Revenues (INR mn)					
Consumer Electronics	14,400	15,007	-4.0%	8,820	63.3%
Lighting products	1,810	2,904	-37.7%	2,220	-18.5%
Home appliances	3,640	3,629	0.3%	2,590	40.5%
Mobile and EMS	28,190	15,944	76.8%	17,950	57.0%
Security system	1,400	1,183	18.3%	1,140	22.8%
Total	**49,440**	**38,667**	**27.9%**	**32,720**	**51.1%**
EBIT (INR mn)					
Consumer Electronics	490	428	14.5%	300	63.3%
Lighting products	130	238	-45.4%	190	-31.6%
Home appliances	420	327	28.4%	280	50.0%
Mobile and EMS	930	423	119.9%	530	75.5%
Security system	20	36	-44.4%	15	33.3%
Total	**1,990**	**1,452**	**37.1%**	**1,315**	**51.3%**

Source: Company data, I-Sec research

Q2FY24 results and conference call highlights

- **Margin expansion**: The company stated that operating leverage, efficiency measures and cost control initiatives undertaken during Q2FY24 aided margins. It also indicated that thrust over these areas is likely to boost margins ahead.
- **Consumer electronics**: The shift in the festive season has led to a spillover of demand from Q2FY24 to Q3FY24. The segmental margin YoY was supported by the benefits of operating leverage and backward integration and improving ODM contribution.

  The injection moulding plant has become operational and is likely to lead to segmental margin expansion of 40-50bps. The company has introduced Android-based solutions for Google TV which received a positive response. The company is likely to start Samsung Tiazen from Q4FY24.
- **Lighting**: The segmental revenues were impacted by – (1) sluggish demand, (2) intense competition, (3) higher commodity prices, (4) change in technology from LED to DOB and (5) freight rates.

  At the company level, LED volumes declined as the industry has shifted to newer technology. The company has launched newer products like strip and rope lighting in Q2FY24 and is well accepted in the market. Further, professional lighting is likely to be introduced in Q4FY24.

  Exports have expanded and the company expects new orders from UK and German markets.
- **Home appliances**: The segmental margin was aided by the passing on of impact of commodity cost and currency exchange fluctuation to consumers. Also, the benefits of backward integration turned favourable.

  The company manufactured a semi-automatic washing machine for Bosch and a fully automatic washing machine for VOLT Beko in Q2FY24. The company is likely to manufacture new models for Lloyd and Whirlpool in the coming quarter. The volumes grew by 14% YoY in the semi-automatic category in H1FY24 (4% YoY growth for fully automatic in H1FY24). The preference of consumers has shifted to higher variant models.

  In refrigerators, the company expects production to ramp up from Q4FY24. It has a manufacturing capacity of 1.2mn units/year. The trial runs are ongoing with aim to start commercial production by Q4FY24.
- **Mobile**: The order book from anchor customer Motorola has increased. It has received a large order from Jio-Bharat phones (1.5mn units already manufactured till Sept'23).

  It is manufacturing 1mn/month for Nokia. Xiaomi phones production has started in a new facility in Noida.

  The company is in active discussion with two large international players and likely to convert it into orders in Q4FY24.

  The mobile segment is witnessing traction in domestic demand. Exports are likely to improve along with domestic sales. Also, growth in Xiaomi and Itel phones starting from Q4FY24 will boost the segmental growth. The segmental capex for mobile is largely done.

  In H1FY24, the Smartphones (ex-Samsung), feature phone and Samsung smartphone production stood at 2.5mn units, 12mn and 4.2mn units respectively.

Excluding Samsung, the company has three plants for mobile manufacturing with a capacity of 2.5mn and 5.5-6mn units/month of smartphone and feature phones.

- **Telecom and networking**: It has received a large order from India's largest player (Jio) which is expected to commence from Q3FY24. The company is in active discussion with other large clients.

- **Laptops and tablets**: The segmental revenue stood at INR 520mn in Q2FY24. The company is likely to be a beneficiary of the PLI scheme. It expects orders from anchor customer Acer to increase.

  The company indicated that the manufacturing charges at the company level are competitive with global manufacturing charges.

- **Wearables and Hearables**: The company has a healthy segmental order book which offers revenue visibility for the next quarters.

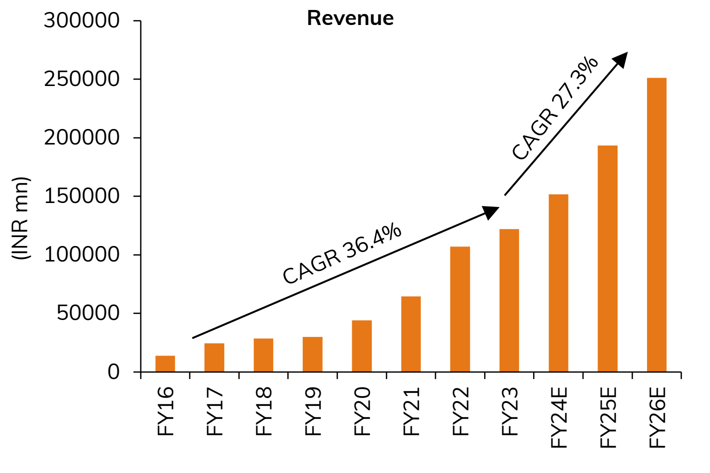
- **Rexxam JV**: The JV reported strong revenues with healthy margins in Q2FY24. The JV has strong OB and is aiming to start exports in FY24. The JV has met the PLI thresholds.

- **Exports**: The management expects export contribution to increase YoY and aims to register exports of INR20-25bn in FY24.

- **Capex**: The company has spent INR 3.3bn till Sept'23 on capital expenditure. It targets to incur INR 5bn in for FY24.

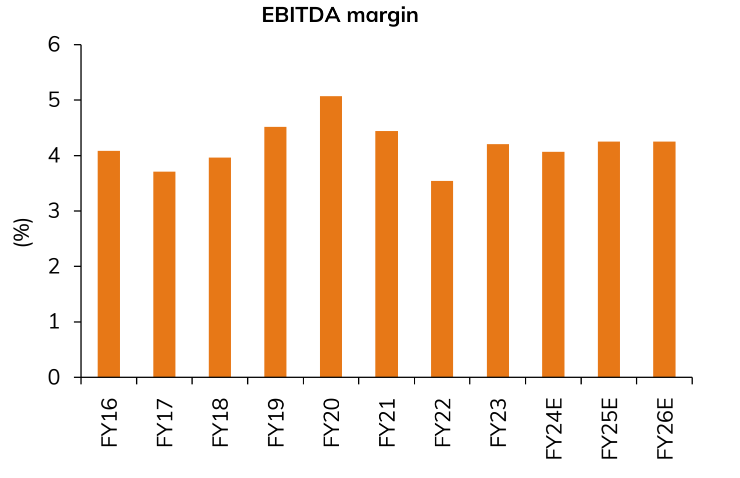
Key ratios – Annual

Exhibit 5: Revenue and revenue growth



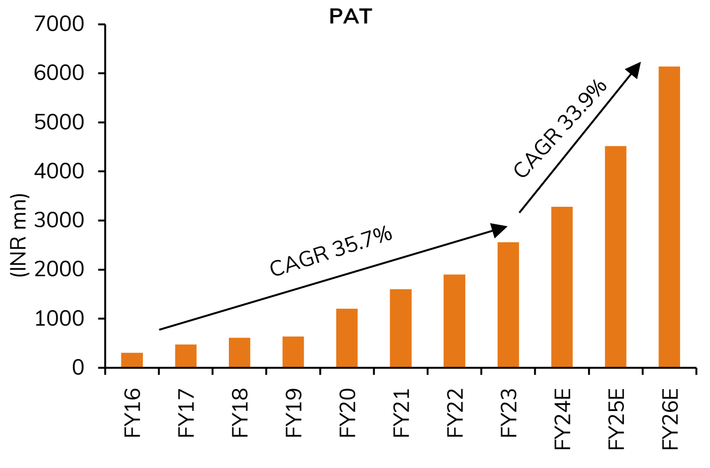
Source: Company data, I-Sec research

Exhibit 6: EBITDA margin



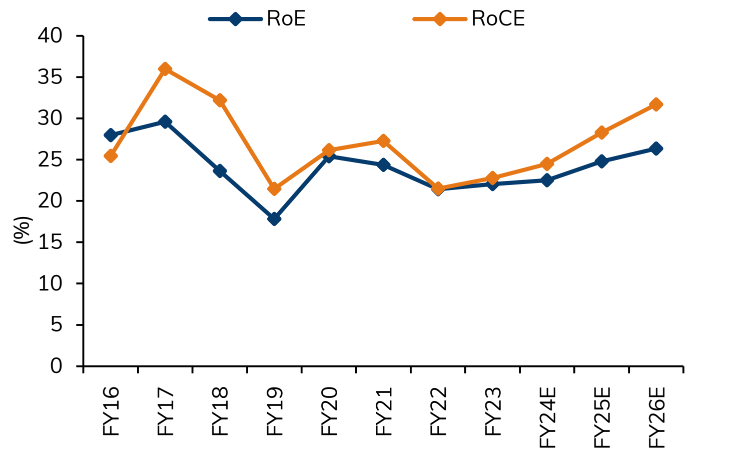
Source: Company data, I-Sec research

Exhibit 7: PAT and PAT growth



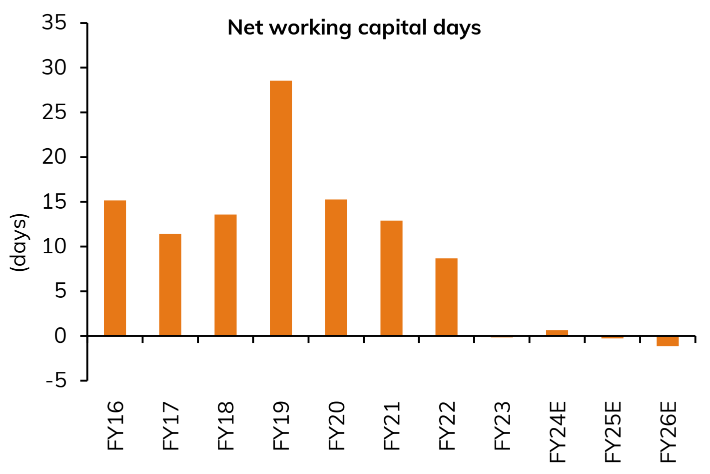
Source: I-Sec research, Company data

Exhibit 8: RoE and RoCE



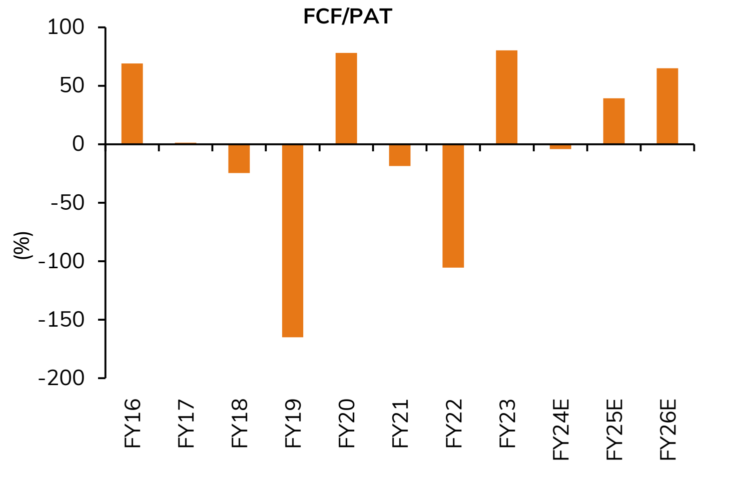
Source: I-Sec research, Company data

Exhibit 9: Net working capital days



Source: Company data, I-Sec research

Exhibit 10: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model Dixon to report revenue and PAT CAGRs of 26.0% and 32.9% over FY23-FY25E and RoCE to be higher than 20% in FY25E. At our revised DCF-based target price of INR 4,900, implied P/E works out to 64x FY25E EPS. Maintain REDUCE.

Exhibit 11: DCF-based valuation

Particulars	Amt (INR mn)
Cost of Equity	10.6%
Terminal growth rate	5.0%
Discounted interim cash flows	51,530
Discounted terminal value	2,35,460
Total equity value	2,86,991
Value per share (INR)	**4,900**

Source: Company data, I-Sec research

Risks

Sharp correction in input prices and lower than expected competitive pressures
Major decline in input prices and/or lower than expected competitive pressures could result in upside to our estimates.

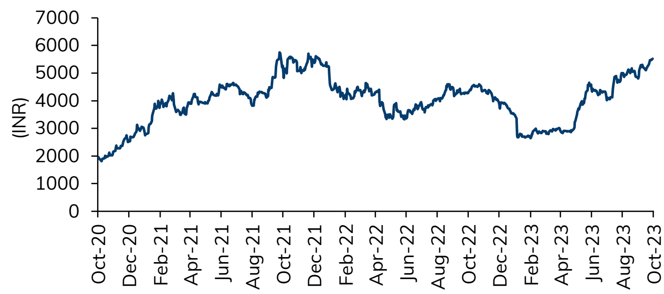
Faster than expected economic recovery
Faster than expected economic recovery is an upside risk to our estimates.

Exhibit 12: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	34.1	34.0	33.8
Institutional investors	35.8	39.6	43.1
MFs and others	12.0	13.7	15.7
FIs/Banks	0.0	0.0	0.0
Insurance	11.1	10.7	11.7
FIIs	12.7	15.2	15.7
Others	30.1	26.4	23.1

Source: Bloomberg

Exhibit 13: Price chart



Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	**1,21,920**	**1,51,651**	**1,93,464**	**2,51,218**
Operating Expenses	6,585	8,417	10,544	13,691
EBITDA	**5,127**	**6,172**	**8,222**	**10,677**
EBITDA Margin (%)	4.2	4.1	4.3	4.3
Depreciation & Amortization	1,146	1,410	1,838	2,238
EBIT	3,981	4,762	6,384	8,439
Interest expenditure	606	486	436	336
Other Non-operating Income	56	131	119	134
Recurring PBT	**3,432**	**4,407**	**6,067**	**8,237**
Profit / (Loss) from Associates	**(16)**	**-**	**-**	**-**
Less: Taxes	897	1,124	1,547	2,100
PAT	2,535	3,283	4,520	6,137
Less: Minority Interest	(8)	-	-	-
Extraordinaries (Net)	(13)	-	-	-
Net Income (Reported)	**2,546**	**3,283**	**4,520**	**6,137**
Net Income (Adjusted)	**2,559**	**3,283**	**4,520**	**6,137**

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	31,093	38,958	49,178	65,280
of which cash & cash eqv.	2,292	1,911	2,414	5,132
Total Current Liabilities & Provisions	28,860	36,775	46,915	60,920
Net Current Assets	**2,233**	**2,183**	**2,263**	**4,360**
Investments	2,068	2,068	2,068	2,068
Net Fixed Assets	12,133	16,420	19,583	22,345
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,197	-	-	-
Total Intangible Assets	303	303	303	303
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**17,935**	**20,975**	**24,217**	**29,076**
Liabilities				
Borrowings	**4,864**	**4,864**	**3,864**	**2,864**
Deferred Tax Liability	**224**	**224**	**224**	**224**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	119	119	119	119
Reserves & Surplus	12,730	15,770	20,012	25,871
Total Net Worth	**12,849**	**15,889**	**20,132**	**25,990**
Minority Interest	(3)	(3)	(3)	(3)
Total Liabilities	**17,935**	**20,975**	**24,217**	**29,076**

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sept-23
Net Sales	24,047	30,655	32,715	49,432
% growth (YoY)	(21.8)	3.8	14.6	27.8
EBITDA	1,112	1,563	1,320	1,989
Margin %	4.6	5.1	4.0	4.0
Other Income	28	18	29	7
Extraordinaries	7	(12)	(1)	(1)
Adjusted Net Profit	519	798	688	1,072

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**6,541**	**4,362**	**6,781**	**8,996**
Working Capital Changes	2,764	(331)	423	622
Capital Commitments	(4,612)	(4,500)	(5,000)	(5,000)
Free Cashflow	**1,929**	**(138)**	**1,781**	**3,996**
Other investing cashflow	**1,036**	**-**	**-**	**-**
Cashflow from Investing Activities	(3,576)	(4,500)	(5,000)	(5,000)
Issue of Share Capital	336	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(2,776)	-	(1,000)	(1,000)
Dividend paid	(119)	(243)	(278)	(278)
Others	-	-	-	-
Cash flow from Financing Activities	(2,559)	(243)	(1,278)	(1,278)
Chg. in Cash & Bank balance	**406**	**(381)**	**503**	**2,718**
Closing cash & balance	2,170	1,911	2,414	5,132

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	43.1	55.3	76.2	103.4
Adjusted EPS (Diluted)	43.1	55.3	76.2	103.4
Cash EPS	62.4	79.1	107.1	141.1
Dividend per share (DPS)	2.0	4.1	4.7	4.7
Book Value per share (BV)	216.5	267.7	339.2	437.9
Dividend Payout (%)	4.6	7.4	6.1	4.5
Growth (%)				
Net Sales	14.0	24.4	27.6	29.9
EBITDA	35.2	20.4	33.2	29.9
EPS (INR)	34.8	28.3	37.7	35.8
Valuation Ratios (x)				
P/E	123.9	96.6	70.1	51.7
P/CEPS	85.5	67.5	49.9	37.9
P/BV	24.7	19.9	15.7	12.2
EV / EBITDA	61.9	51.5	38.5	29.3
P / Sales	2.6	2.1	1.6	1.3
Dividend Yield (%)	0.0	0.1	0.1	0.1
Operating Ratios				
Gross Profit Margins (%)	9.6	9.6	9.7	9.7
EBITDA Margins (%)	4.2	4.1	4.3	4.3
Effective Tax Rate (%)	26.1	25.5	25.5	25.5
Net Profit Margins (%)	2.1	2.2	2.3	2.4
NWC / Total Assets (%)	(0.3)	1.3	(0.6)	15.0
Net Debt / Equity (x)	0.0	0.1	0.0	(0.2)
Net Debt / EBITDA (x)	0.1	0.1	(0.1)	(0.4)
Profitability Ratios				
RoCE (%)	17.0	18.4	21.3	23.8
RoE (%)	22.4	22.9	25.1	26.6
RoIC (%)	17.0	18.4	21.3	23.8
Fixed Asset Turnover (x)	9.3	8.6	8.4	9.0
Inventory Turnover Days	31	36	37	37
Receivables Days	55	57	57	58
Payables Days	92	97	98	99

Source Company data, I-Sec research

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