

27 October 2024

Dixon Technologies

Growth momentum continues, bright outlook; maintaining a Buy

The good growth momentum from Q1 continued for Dixon in Q2, largely from the cell-phone category. Backward integration in mobiles via screen manufacturing is underway while tie-ups for camera modules and mechanicals is being explored. These efforts should bear fruit from FY27. Focusing on scaling up laptops, it onboarded four clients, which control ~70-75% of the market. A manufacturing plant for this is being set up, which should provide medium-term revenue assurance. The good growth outlook and margin expansion should drive RoCE to 40.4% by FY27, from 28.2% now. We retain our Buy recommendation with a higher TP of Rs.17,750.

Good performance led by cell phones. Q2 revenue grew 133.3% y/y to Rs115.3bn, chiefly on strong, 235% y/y, growth in cell phones. EBITDA was Rs4.3bn, up 114.4% y/y, the margin declining 33bps y/y chiefly due to an adverse product mix. A Rs2.1bn exceptional gain was on account of fair-value gain SSPA with AIL for sale of 9.5m shares of AIL-Dixon Technologies Pvt. Ltd. in exchange for a 6.5% stake in Aditya Infotech. Adj. net income rose 68% y/y to Rs1.8bn.

Mobile phone growth robust; laptops to drive the next surge. Cell-phone revenue grew 235% y/y in Q2 to Rs85bn. Smartphone (incl. Samsung)/feature phone volumes in Q2 were 9.4m/9.1m. The company onboarded four of the five leading laptop brands, aiming at Rs45bn revenue p.a. from FY27. It is establishing a cell-phone screen manufacturing plant (initial capacity: 25m units, set to expand to 45m. Besides, it is exploring partnerships for components like camera modules and mechanical parts. Further leveraging the HKC partnership, a 12m unit notebook-screen plant will be set up. These steps should raise margins from FY27.

Outlook, Valuation. At the CMP, it quotes at 80.9x/58.9x FY26e/27e EPS of Rs172.2/236.6. We model 50.7%/56.7% revenue/net profit CAGRs over FY24-27, leading to the RoCE expanding from 28.2% to 40.4%. We maintain a Buy with a higher TP of Rs17,750 (earlier Rs14,625), 75x FY27e EPS. **Key risks:** Delay in customers added or ramping up volumes could lead to us lowering earnings estimates.

Key financials (YE: Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	1,21,920	1,76,909	3,78,828	4,89,900	6,05,233
Net profit (Rs m)	2,555	3,677	7,635	10,300	14,151
EPS (Rs)	42.9	61.5	127.7	172.2	236.6
P/E (x)	324.8	226.6	109.2	80.9	58.9
EV / EBITDA (x)	161.8	119.4	59.8	45.8	34.4
P/BV (x)	64.6	49.2	33.0	24.3	17.8
RoE (%)	19.9	21.7	36.5	30.0	30.3
RoCE (%) (post tax)	19.7	21.2	26.6	27.3	30.2
Dividend yield (%)	0.0	0.0	0.1	0.1	0.2
Net debt / equity (x)	(0.0)	(0.0)	0.3	0.1	(0.1)

Source: Company

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Rating: **Buy**

Target Price(12-mth): Rs.17,750

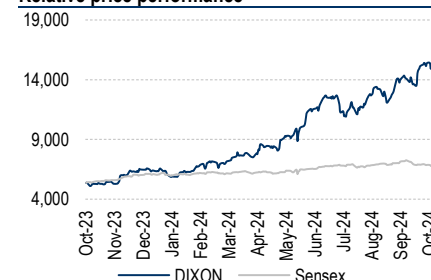
Share Price: Rs.13,937

Key data	DIXON IN / DIXO.BO
52-week high / low	Rs.16,000 / 5,076
Sensex / Nifty	79,402 / 24,181
3-m average volume	\$92.7m
Market cap	Rs.834bn / \$9,918.4m
Shares outstanding	60m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	32.9	33.2	33.4
- of which, Pledged	-	-	-
Free float	67.1	66.8	66.6
- Foreign institutions	22.7	19.3	17.9
- Domestic institutions	23.1	26.1	27.0
- Public	21.3	21.4	21.7

Estimates revision (%)	FY25e	FY26e
Sales	27.8	20.3
EBITDA	19.2	10.5
PAT	18.7	6.0

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	121,920	176,909	378,828	489,900	605,233
Growth (%)	14.0	45.1	114.1	29.3	23.5
Direct costs	110,207	160,390	344,734	444,830	549,552
Gross margins (%)	9.6	9.3	9.0	9.2	9.2
SG&A	6,585	9,543	20,030	26,824	31,645
EBITDA	5,128	6,976	14,064	18,246	24,036
EBITDA margins (%)	4.2	3.9	3.7	3.7	4.0
- Depreciation	1,146	1,619	2,359	2,878	3,379
Other income	56	226	200	350	400
Interest expenses	606	747	1,400	1,500	1,600
PBT	3,432	4,836	12,601	14,219	19,457
Effective tax rates (%)	26.1	24.6	23.8	25.2	25.2
+ Associates / (Minorities)	21	31	(400)	(340)	(408)
Net income	2,555	3,677	9,207	10,300	14,151
Adj. income	2,555	3,677	7,635	10,300	14,151
WANS	59.6	59.8	59.8	59.8	59.8
FDEPS (Rs)	42.9	61.5	127.7	172.2	236.6
FDEPS growth (%)	34.4	43.9	107.6	34.9	37.4

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	3,981	5,357	11,705	15,369	20,657
+ Non-cash items	1,146	1,619	2,359	2,878	3,379
Oper. prof. before WC	5,128	6,976	14,064	18,246	24,036
- Incr. / (decr.) in WC	2,735	2,448	(8,971)	(1,481)	(1,538)
Others incl. taxes	(897)	(1,189)	(2,994)	(3,579)	(4,897)
Operating cash-flow	6,965	8,235	2,100	13,186	17,601
- Capex (tang. + intang.)	4,523	8,631	4,713	5,500	5,500
Free cash-flow	2,442	(396)	(2,614)	7,686	12,101
Acquisitions	-	-	2,787	-	-
- Div.(incl. buyback & taxes)	(179)	(299)	(897)	(1,196)	1,794
+ Equity raised	0	1	-	-	-
+ Debt raised	(2,754)	(276)	2,700	(500)	(3,326)
- Fin investments	968	241	(5,300)	-	-
- Misc. (CFI + CFF)	10	(524)	(3,729)	1,490	1,608
Net cash-flow	468	(205)	(5,169)	4,500	5,373

Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

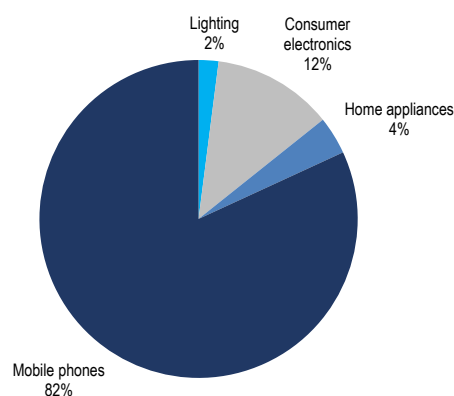
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	119	120	120	120	120
Net worth	12,849	16,949	25,259	34,363	46,720
Debt	1,826	1,550	4,250	3,750	424
Minority interest	(3)	276	276	276	276
DTL / (Assets)	224	240	3,740	3,740	3,740
Capital employed	14,897	19,015	33,525	42,129	51,160
Net tangible assets	11,909	19,353	24,494	27,116	29,237
Net intangible assets	224	347	347	347	347
Goodwill	303	303	570	570	570
CWIP (tang. & intang.)	1,197	643	643	643	643
Investments (strategic)	142	200	5,500	5,500	5,500
Investments (financial)	300	-	-	-	-
Current assets (excl. cash)	30,428	46,963	127,630	165,052	203,908
Cash	2,292	2,087	(3,082)	1,418	6,790
Current liabilities	31,898	50,881	122,578	158,518	195,836
Working capital	(1,470)	(3,918)	5,052	6,534	8,072
Capital deployed	14,897	19,015	33,525	42,129	51,160
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	324.8	226.6	109.2	80.9	58.9
EV / EBITDA (x)	33.1	24.4	12.7	9.5	6.9
EV / Sales (x)	1.4	1.0	0.5	0.4	0.3
P/B (x)	64.6	49.2	33.0	24.3	17.8
RoE (%)	19.9	21.7	36.5	30.0	30.3
RoCE (%) post-tax	19.7	21.2	26.6	27.3	30.2
RoIC (%) post-tax	24.2	24.2	28.7	32.7	39.8
DPS (Rs)	3.0	5.0	15.0	20.0	30.0
Dividend yield (%)	0.0	0.0	0.1	0.1	0.2
Dividend payout (%) - incl. DDT	7.0	8.1	9.7	11.6	12.7
Net debt / equity (x)	(0.0)	(0.0)	0.3	0.1	(0.1)
Receivables (days)	51	48	60	60	60
Inventory (days)	29	35	35	35	35
Payables (days)	73	84	97	97	97
CFO : PAT %	272.6	223.9	27.5	128.0	124.4

Source: Company

Fig 6 – Q2 FY25 revenue mix



Source: Company

Fig 7 – Financial performance

Quarterly (Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Y/Y (%)	Q/Q (%)
Net sales	38,668	24,047	30,655	32,715	49,432	48,183	46,580	65,798	1,15,341	133.3	75.3
Gross profit	3,322	2,657	3,136	3,158	4,740	4,265	4,356	5,629	8,736	84.3	55.2
Margins (%)	8.6	11.0	10.2	9.7	9.6	8.9	9.4	8.6	7.6	NA	NA
EBITDA	1,452	1,112	1,563	1,319	1,989	1,844	1,825	2,479	4,264	114.4	72.0
Margins (%)	3.8	4.6	5.1	4.0	4.0	3.8	3.9	3.8	3.7	(33) bps	(7) bps
Depreciation	291	290	325	337	364	407	510	545	660	81.1	21.1
Interest	158	152	151	140	171	222	214	293	379	121.6	29.5
Other income	6	28	18	29	7	23	167	82	(57)	(895.8)	(170.0)
Extraordinary Items	-	-	-	-	-	-	-	-	2,096	NA	NA
PBT	1,008	698	1,105	870	1,460	1,238	1,267	1,723	5,263	260.4	205.5
Tax	231	186	315	228	352	287	323	400	1,172	233.2	192.9
ETRs (%)	22.9	26.6	28.5	26.2	24.1	23.1	25.5	23.2	22.3		
Reported PAT	772	519	806	689	1,073	965	951	1,337	3,899	263.4	191.6
Adj. PAT	772	519	806	689	1,073	965	951	1,337	2,326	116.9	74.0
Adj. EPS	13.0	8.7	13.6	11.6	18.0	16.2	16.0	22.4	39.1	116.9	74.0

Source: Company

As % of total income	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	bps y/y	bps q/q
Gross margins	8.6	11.0	10.2	9.7	9.6	8.9	9.4	8.6	7.6	(202)	(98)
SG&A	4.8	6.4	5.1	5.6	5.6	5.0	5.4	4.8	3.9	(169)	(91)
EBITDA margin	3.8	4.6	5.1	4.0	4.0	3.8	3.9	3.8	3.7	(33)	(7)
Depreciation	0.8	1.2	1.1	1.0	0.7	0.8	1.1	0.8	0.6	(16)	(26)
Interest	0.4	0.6	0.5	0.4	0.3	0.5	0.5	0.4	0.3	(2)	(12)
Other income	0.0	0.1	0.1	0.1	0.0	0.0	0.4	0.1	(0.0)	(6)	(17)
Extraordinary Items	-	-	-	-	-	-	-	-	1.8	182	182
PBT	2.6	2.9	3.6	2.7	3.0	2.6	2.7	2.6	4.6	161	194
ETR (%)	22.9	26.6	28.5	26.2	24.1	23.1	25.5	23.2	22.3	(182)	(96)
Adj. PAT margin (%)	2.0	2.2	2.6	2.1	2.2	2.0	2.0	2.0	2.0	(15)	(1)

Segment-wise (Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Y/Y (%)	Q/Q (%)
Net sales											
Lighting	2,904	2,630	2,700	2,220	1,810	2,630	1,970	2,270	2,330	28.7	2.6
Consumer electronics	15,007	8,640	9,810	8,820	14,400	9,290	8,970	8,550	14,130	(1.9)	65.3
Home appliances	3,629	2,440	2,810	2,590	3,640	2,880	2,940	3,050	4,440	22.0	45.6
Mobile phones	15,944	9,150	14,100	17,950	28,190	32,140	30,910	51,920	94,440	235.0	81.9
Sales mix (%)											
Lighting	7.5	10.9	8.8	6.8	3.7	5.4	4.2	3.5	2.0		
Consumer electronics	38.8	35.9	32.0	27.0	29.1	19.0	19.3	13.0	12.3		
Home appliances	9.4	10.1	9.2	7.9	7.4	5.9	6.3	4.6	3.8		
Mobile phones	41.2	38.1	46.0	54.9	57.0	65.7	66.4	78.9	81.9		
EBITDA											
Lighting	238	239	260	190	130	130	142	150	170	30.8	13.3
Consumer electronics	428	260	370	300	490	320	300	290	520	6.1	79.3
Home appliances	327	250	310	280	420	300	301	320	490	16.7	53.1
Mobile phones	423	330	590	530	930	1,040	1,050	1,710	3,060	229.0	78.9
EBITDA margins (%)											
Lighting	8.2	9.1	9.6	8.6	7.2	4.9	7.2	6.6	7.3	11 bps	69 bps
Consumer electronics	2.9	3.0	3.8	3.4	3.4	3.4	3.3	3.4	3.7	28 bps	29 bps
Home appliances	9.0	10.2	11.0	10.8	11.5	10.4	10.2	10.5	11.0	(50) bps	54 bps
Mobile phones	2.7	3.6	4.2	3.0	3.3	3.2	3.4	3.3	3.2	(6) bps	(5) bps

Source: Company

Q2 FY25 Concall highlights

Mobile phones

- Clocked 8.1m/1.3m/9.1m smartphone/Samsung smart phones/feature phones in Q2 FY25.
- Sep'24 exit cell-phone run rate was 2.8-2.9m. Management said Diwali was a bit slow (the run rate has reduced to 2.3m-2.4m); expects it to bounce back by Q4.
- Cell-phone realisations are rising due to the mounting share of 5G mobiles.
- Targeting Ismartu revenue of ~Rs70bn in FY25.
- Expects to start manufacturing cell-phone screens from Q1/Q2 FY26. Will manufacture 25m units in phase 1, which will be ramped up to 45m in phase 2.
- Expect PLI for cell-phone components to be rolled out very soon.
- Also, planning on manufacturing other cell-phone components such as camera modules (7-8% of BoM) and mechanicals (7-8%).
- Overall, aiming to address 27-28% BoM for cell-phones via backward integration.
- 7x-8x asset turns for components are expected but margins will be significantly better. Blended RoCE will be 30%+.

Consumer electronics

- LED TVs: volumes 9.7m (down 10% y/y). Exploring tie-ups with a global partner for open-cell manufacturing.
- Refrigerators clocked 90%+ utilisation. Dixon is expanding refrigerator capacity to 1.6m units vs 1.2m now.

Home appliances

- Clocked FAWM/SAWM volumes of 0.55m/1.5m in Q2.

Lighting

- LED pricing has started to stabilize.
- Relations with a UAE customer have matured; expects to receive orders from the US very soon.

Laptop and IT hardware

- Onboarded the top-4 of the five brands. Production of Acer is already on; expect Lenovo production to start this month.
- Setting up 1m-1.25m laptop manufacturing plant in Chennai.
- Has committed Rs480bn under IT hardware PLI 2.0.
- Expects annual revenues of Rs45bn-50bn from FY27.
- Planning to lever the HKC partnership and manufacture screens for notebooks from year 2. Will set up a 12m plant for this.

Others

- The loss in Other income was due to a forex loss in Japanese machinery payment.
- After IT hardware, exploring industrial PCBA and components for growth.
- PLI of Rs700m/1.2bn booked in Q2/H1 FY25.
- FY25 capex pegged at Rs5.5bn-5.8bn.
- Higher costs stemmed from the Ismartu acquisition, more capex and increased lease costs.
- May explore setting up capacity to manufacture automotive display after notebook display manufacturing.

Outlook, Valuations

On the ongoing scaling up of the cell-phone category, the outlook is bright. Recent clients added (laptops) provides confidence regarding growth. Efforts to backward integrate are underway, which should bear fruit in the medium term. Post-Q2, we raise our estimates largely to reflect better realisations for smart-phones and higher IT hardware revenue on onboarding two clients in Q1.

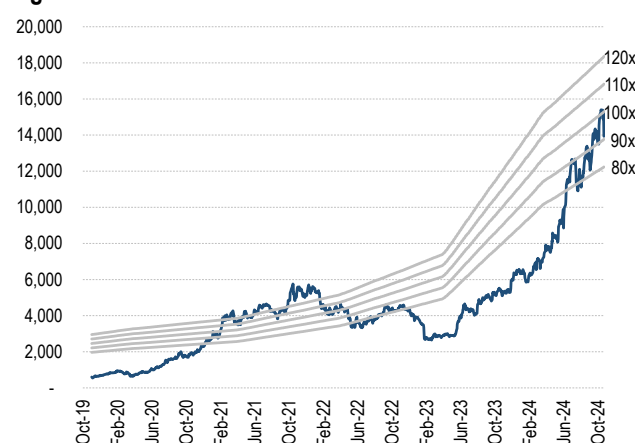
Further, we introduce FY27e and roll forward our valuation to Mar'27. We maintain a Buy recommendation with a higher TP of Rs17,750 (earlier Rs14,625), 75x FY27e EPS. At the CMP, the stock quotes at 80.9x/58.9x FY26e/27e EPS of Rs172.2/Rs236.6. We model 50.7%/56.7% revenue/net profit CAGRs over FY24-27, leading to the RoCE expanding from 28.2% to 40.4%.

Fig 8 – Estimate revisions

	Actual	New		Old		Variance (%)	
(Rs m)	FY24	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
Net sales	176,909	378,828	489,900	296,340	407,388	27.8	20.3
EBITDA	7,116	14,064	18,246	11,798	16,511	19.2	10.5
EBITDA margins (%)	4.0	3.7	3.7	4.0	4.1	(27) bps	(33) bps
PBT	4,836	10,505	14,219	8,689	12,846	20.9	10.7
Adj. PAT	3,677	7,635	10,300	6,433	9,713	18.7	6.0
Adj. EPS	61.5	127.7	172.2	107.6	162.4	18.7	6.0

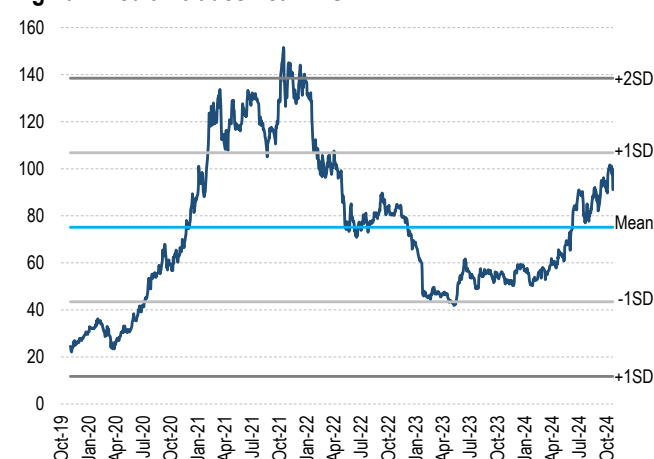
Source: Company, Anand Rath Research

Fig 9 – PE band



Source: Company, Anand Rath Research

Fig 10 – Median trades near +1SD



Source: Company, Anand Rath Research

Key risks

- Significant delays in ramping up volumes from customers could lead to less-than-expected revenue growth.
- Timely onboarding of customers is critical, as it can drive volumes.

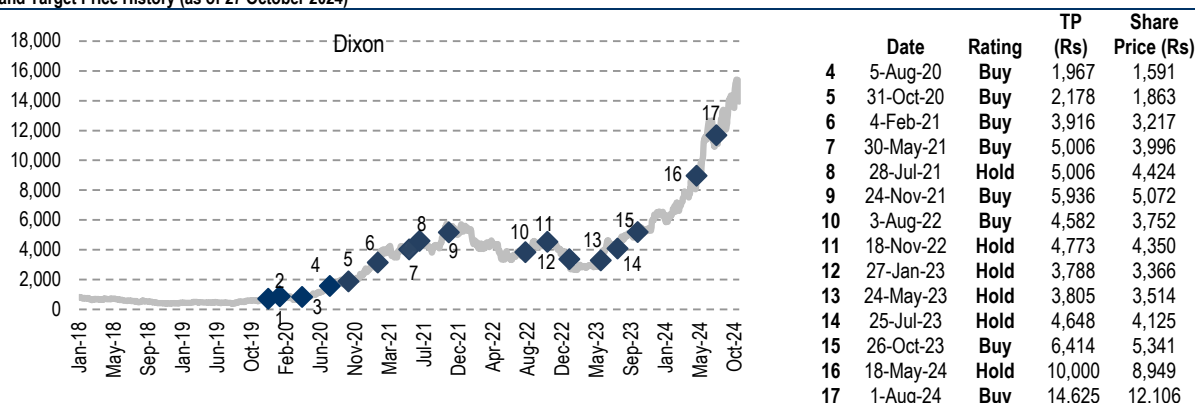
Appendix

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Small Caps (251st company onwards)	>25%	0-25%	<0%

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