Stock Update

Company Update

MIRAE ASSET Sharekhan

Dixon Technologies (India) Ltd

More power to industry leader

Capital Goods	Sharekhan code: DIXON

Reco/View: Buy	↔	CMP: Rs. 16,874	Price Target: Rs. 18,800	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

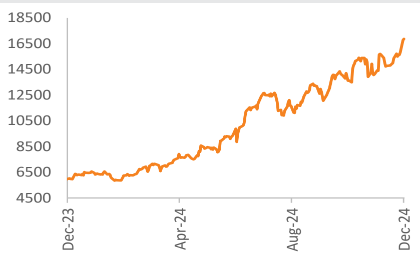
Company details

Market cap:	Rs. 1,00,551 cr
52-week high/low:	Rs. 17,038/52,785
NSE volume: (No of shares)	5.6 lakh
BSE code:	540699
NSE code:	DIXON
Free float: (No of shares)	4.0 cr

Shareholding (%)

Promoters	32.9
FII	21.6
DII	22.7
Others	22.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.5	23.7	32.1	181.1
Relative to Sensex	18.0	25.7	34.1	163.7

Mirae Asset Sharekhan Research, Bloomberg

Summary

- Addressable new clients onboarding like Google (Pixel phones) recently, HP, and Asus in the last quarter has set Dixon on a strong footing for the Mobile and IT hardware segments, propelling its topline growth.
- We expect the IT hardware segment to see strong growth from FY2026. The mobile segment is also poised to grow and would significantly contribute to topline growth.
- Dixon has continued to drive backward integration in TV, lightning, and appliances segments, which is expected to provide cushion to operating margins.
- We retain our BUY rating with a revised PT of Rs. 18,800, factoring in a strong revenue/PAT CAGR of 53%/69% over FY2024-FY2027E. The stock currently trades at 82x/62x its FY2026E/FY2027E earnings, respectively.

Dixon Technologies has announced the mass production of Google Pixel smartphones in collaboration with Compal Smart Device India. Google Pixel broadly comes into the premium category of phones and ranges between Rs. 32K-1.73 lakh. Tagged by the premium segment, volumes for the domestic market would be lower but realisations are expected to be healthy. Any incremental export manufacturing of Pixel phones would be extremely beneficial for Dixon. The company is also looking to add an international mobile brand going ahead. Dixon is among the topmost EMS providers with a strong record of expanding across various product segments with varied customer base. Management is confident of healthy growth in the long term, driven by new customer additions mainly in the mobile and EMS segments. The mobile segment's contribution has increased to 70% of revenue and is expected to decrease to 60-65% as the IT and hardware segments pick up. Overall, revenue growth for Q2FY2025 was 133%, backed by strong performance in the mobiles and home appliances segment, up by 235%/22%, respectively. Operating profit was higher by 114% to Rs. 426 crore, with flat margins on a y-o-y basis.

- **New clients onboarding:** The mobile segment and the newest IT hardware segment are on a spree to onboard new clients. The company has recently onboarded Google to manufacture its flagship premium phone brand, Google Pixel, and HP and Asus for manufacturing its products locally. The IT hardware business is expected to be a significant growth driver, as the top four global brands are in a tie-up with Dixon for manufacturing laptops. Dixon has already started manufacturing for Acer. To cater to upcoming demand, Dixon has setup a plant in Chennai with a capacity of 2 million units, which would be operational by Q4FY2025. Dixon is targeting revenue of Rs. 3,500-4,000 crore by FY2026. The total capex outlay for Chennai unit is at ~Rs. 150 crore.
- **Strong outlook:** Dixon's revenue has strongly registered a 43% CAGR over FY2019-FY2024, backed by its success story in the mobiles segment. The onboarding of multiple sectors and clients would lead to a revenue CAGR of 53% over FY2024-FY2027E. Going forward, we expect the mobiles and IT hardware segment to contribute significantly to the topline growth. Margins are expected to move northwards, driven by 1) backward integration in segments like TV, lightning, and appliances; and 2) Higher share of PLI retention in the mobile segment. We expect operating margins to improve to 4.1% in FY2027E from 3.9% in FY2024. We expect a robust earnings CAGR of 69% over FY2024-FY2027E, driven by topline growth and margin improvement.
- **Components manufacturing initiatives:** The IT ministry is likely to seek the cabinet's nod for a Rs. 40,000 crore package to boost electronic components manufacturing. The package is likely to comprise subsidies on capital expenditure and incentives based on increased production and employment generation, which are expected to create an ecosystem of electronic component production, as the government seeks to integrate domestic companies into the global value chain of electronics manufacturing. Dixon has already announced its plans to foray into manufacturing components and is further looking to deepen the level of manufacturing and get into precision components, mechanical, and camera modules, and the same is under deep study. The company is also working on possible partnerships. Backward integration would enhance margins and value offerings to clients.

Revision in earnings estimates – We revisited our estimates considering the onboarding of new clients.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 18,800: The onboarding of new topmost major clients in the IT hardware segment has set the floor for Dixon's exponential performance over the coming years. The industry is expected to post a strong 35% CAGR over FY2024-FY2030, backed by various macro tailwinds and government support. Dixon outperformed during Q2FY2025, led by sustained high-growth momentum in the mobile and EMS divisions, aided by improving OPM. The segment is expected to remain the forerunner of growth, as other verticals scale up. Another leg of support will be provided by ramp-up in the IT and laptop segments. We retain our BUY rating on Dixon with a revised price target (PT) of Rs. 18,800, modelling revenue/PAT CAGR of 53%/69% over FY2024-FY2027E.

Key Risks

- Slowdown in consumer discretionary spending and discontinuation or delay in the finalisation of business from its key customers might affect revenue growth.
- Adverse raw-material prices, delay in passing on price hikes adequately, and adverse forex fluctuations might affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	12,192	17,692	37,524	50,227	63,928
OPM (%)	4.2	3.9	4.0	4.0	4.1
Adjusted PAT	252	335	872	1,207	1,616
y-o-y growth (%)	32.4	32.8	160.6	38.5	33.9
Adjusted EPS (Rs.)	42.3	56.2	146.4	202.7	271.3
P/E (x)	394.9	297.3	114.1	82.4	61.5
EV/EBITDA (x)	193.8	142.3	66.6	49.3	37.4
RoCE (%)	23.2	25.8	46.6	44.8	43.3
RoNW (%)	22.1	22.5	41.0	38.3	35.5

Source: Company; Mirae Asset Sharekhan estimates

Dixon's client additions across different segments

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Mobile Phones	Karbonn, Gionee		Motorola	Samsung, Orbic	Nokia (Feature phones)	Xiomi, Jio, Nokia, Itel		Google Pixel
IT hardware					Acer	Lenovo, Dell	Asus, HP	
Washing Machines	Panasonic, Samsung		Voltas- Beko, Haier, Reliance	Bosch	Lloyd, Thompson			
Refrigerator						Forayed	Approvals received	
TVs	Xiomi, Flipkart, Haier	TCL	Toshiba (OEM), Hisense (OEM), Nokia, Samsung		Samsung (ODM), Reliance, VU	Google, Hisense (ODM), Toshiba (ODM)	Samsung (Tizen operating system)	
Wearables					JV with Boat	Samsung		
Lightning	Wiprom Panasonic, Bajaj, Crompton, Philips	Jacquar	Orient, Ajanta, Usha, Havells		Crompton			

Outlook and Valuation

■ Sector Outlook – Promising long-term demand outlook

The Indian electronics and consumer durable industry worth ~Rs. 4,00,000 crore is proliferating. Manufacturing can be a significant growth driver from a medium to long-term perspective, providing enormous opportunities owing to the shift in manufacturing bases outside China and the government's incentives to enhance manufacturing through the Make in India initiative like the PLI scheme, which aims to kick-start the process, with strong industry participation.

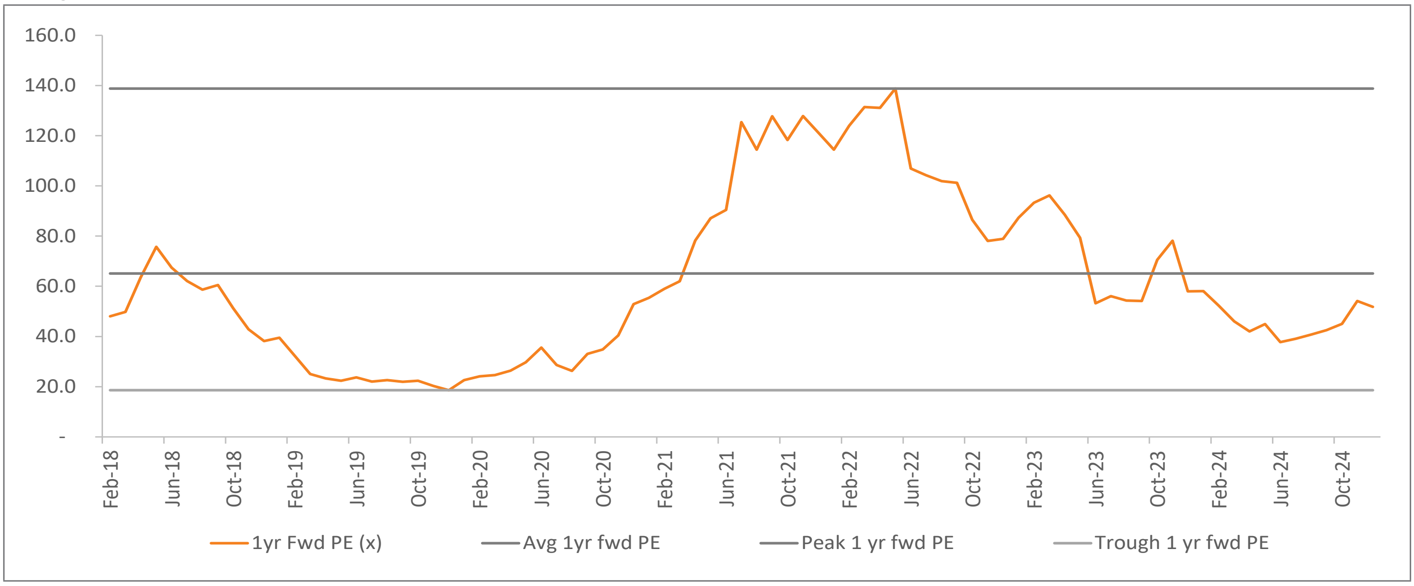
■ Company Outlook – Client addition and margin expansion would be key growth catalysts

Dixon's leadership position is a key benefit in the electronic outsourcing business. The company's Tirupati facility is expected to add a new dimension to growth prospects as it will foray into new business verticals, expand the product portfolio of existing business verticals, and penetrate further into South India by forging alliances with original equipment manufacturers (OEMs) and add them as clients. Expanded capacity in consumer electronics and home appliances, coupled with a PLI scheme license for mobile phones, will likely drive revenue growth momentum. In contrast, the margin may expand due to the lighting business's economies of scale and automation. The company is also applying for PLI schemes in 1) IT (laptops, tablets, and hardware); 2) Lighting (extrusions, batons, plastics, and mechanicals); 3) AC components; and 4) telecom (modems, routers, and IoT devices), which augur well for long-term growth opportunities.

■ Valuation – Maintain BUY with a revised PT of Rs. 18,800

The onboarding of new topmost major clients in the IT hardware segment has set the floor for Dixon's exponential performance over the coming years. The industry is expected to post a strong 35% CAGR over FY2024-FY2030, backed by various macro tailwinds and government support. Dixon outperformed during Q2FY2025, led by sustained high-growth momentum in the mobile and EMS divisions, aided by improving OPM. The segment is expected to remain the forerunner of growth, as other verticals scale up. Another leg of support will be provided by ramp-up in the IT and laptop segments. We retain our BUY rating on Dixon with a revised PT of Rs. 18,800, modelling revenue/PAT CAGR of 53%/69% over FY2024-FY2027E.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Founded by Sunil Vachani, Dixon is a leading manufacturer of products for key consumer durable brands in India. The company currently has 10 state-of-the-art manufacturing units, four in Noida (Uttar Pradesh) and three each in Dehradun (Uttarakhand) and Tirupati (Andhra Pradesh). The company manufactures products with a capacity of 3.4 million LED TVs per year in the consumer durables segment, 20 million LED bulbs per month in the lighting segment, 1.2 million washing machines per year in home appliances, mobile phones, 7 lakh CCTVs, and 1.5 lakh DVDs per month in the security devices segment in India. The company also provides solutions in reverse logistics, i.e., repair and refurbishment services of STBs, mobile phones, and LED TV panels. Based on a report, 'Project Rise' by Frost & Sullivan India, Dixon is the a home-grown, design-focused products and solutions company.

Investment theme

Local manufacturing is expected to boost due to the increasing emphasis on Make in India and the government's PLI scheme. The EMS industry is expected to witness a higher CAGR of 30.8% during the same period as players scale up their offerings from assembly-only to design-led manufacturing. Dixon benefits in the electronic outsourcing business with a leadership position in key business segments. The company is foraying into new business verticals and expanding its product portfolio of existing business verticals. Moreover, the company is eying export markets for its products, which augurs well for long-term growth. An increase in the share of ODM revenue would also lead to margin expansion, thereby setting a healthy growth trajectory for the long term.

Key Risks

- Any delay in commissioning capex projects, slowdown in consumer discretionary spending, and the discontinuation of business from key customers might affect revenue growth.
- Adverse raw-material prices, a delay in passing on price hikes adequately in time, and adverse forex fluctuation might affect margins.

Additional Data

Key management personnel

Sunil Vachani	Executive Chairperson
Atul B. Lall	Executive Director
Saurabh Gupta	Chief Financial Officer
Abhijit Kotnis	Chief Operating Officer
Ashish Kumar	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	2.49
2	The Vanguard Group Inc.	2.41
3	Blackrock Inc.	1.82
4	Life Insurance Corp. of India	1.81
5	HDFC Asset Management Co. Ltd.	1.8
6	Kotak Mahindra Asset Management Co.	1.61
7	UTI Asset Management Co. Ltd.	1.3
8	Canara Robeco Asset Management Co.	1.23
9	L&T Mutual Fund Trustee Ltd./India	1.14
10	Steadview Capital Mauritius Ltd.	1.01

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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