YES SECURITIES INSTITUTIONAL EQUITIES

Dixon Technologies

ADD	CMP Rs15,717	Target Rs15,430	Downside 2%

Strong beat led by TVs and lighting; exploring more PLI schemes after mobiles; reiterate ADD

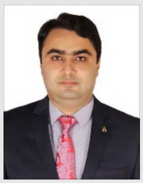
Dixon Technologies delivered a significant beat led by broad-based growth across verticals (especially TVs and lighting) given improved consumer sentiment and strong festive demand for electronics. Its revenue visibility for FY22 and beyond keeps getting better with addition of new clients and full order books necessitating further capacity expansions in multiple segments. While RM headwinds on account of component shortage can limit revenue growth and impact margins in the near term in the ODM business, the OEM business should keep exhibiting strong growth trends. The management is confident of delivering well above ceiling revenues in the mobile PLI segment and is also looking at benefitting from upcoming PLI in other products like lighting, wearables, laptops and set top boxes. Due to component availability issues, no company including Dixon will be able to meet threshold revenues in FY21 under the mobile PLI scheme, and have therefore requested the government for an extension. The company remains focused on ramping up its execution skills by strengthening its talent base and more backward integration wherever possible. After achieving global cost competitiveness in lighting and washing machine segments, it is exploring global opportunities in these products. We increase our FY22 and FY23 EPS estimates by 16% and 12% respectively to factor in better realizations in TVs and higher growth rates in washing machine and lighting segments. The recent outperformance has made valuations quite rich with further up move now expected once execution of the mobile PLI business starts and details on PLI in other products are announced. We will wait till then before ascribing an even higher multiple to the stock which currently has plenty of growth opportunities and triggers. While we remain structurally positive on the story, would wait for better entry points in the stock and reiterate our ADD rating with a PT of Rs 15,430 based on 40x FY23E earnings.

Management commentary

- ✓ **Quarter highlights** – Margin contraction led by inferior segment mix, higher share of business from LED TVs and input cost pressures while scale benefits helped offset GM contraction; growth broad based led by improved consumer sentiment and festive season; orderbook and revenue visibility remains strong for FY22; while demand remains strong, RM headwinds remain with sharp price inflation and component shortage which can continue in near to medium term impacting ODM business margins, frugal cost structure and increasing scale should help, will be taking calibrated price increases and looking at better inventory planning; will keep entering new verticals with opportunities opening up.

- ✓ **LED TVs** – Revenue +199% led by volume and pricing growth, EBITDA +243% with margins increasing from 2.5% to 2.9% given operating leverage, higher backward integration, large screen size TVs of 42" and above, import restrictions on LED TVs, currently have 4.4mn capacity which is being expanded to 5.5mn by 2QFY22 before festive period (40% of India's requirement), automated 65" integrated line (40% of India's requirement), further adding to SMTP and PCBA capacity (2.8mn PCBA), also developed android solutions.

HIMANSHU NAYYAR
Lead Analyst
himanshu.nayyar@ysil.in
+91 9920915754



AAKASH FADIA
aakash.fadia@ysil.in

AMAR AMBANI, Sr. President, Head of Research
amar.ambani@ysil.in

Dixon Technologies

- **Lighting** – Revenue +26% and EBITDA +39% with margins increasing from 8.6% to 9.5% led by operating leverage, more ODM solutions, value engineering and productivity improvement; large wallet share with all key customers, LED bulbs 300mn (45% of market), battens 2mn per month capacity further expanding to 3mn and 4mn per month in 2 phases(40-45% of market), downlighters 600k current capacity expanding to 1.2mn per month now; now setting up another factory for lighting which will be operative by 3QFY22, now among top global players in few SKUs, exporting for Philips to US and Indonesia, completed 33% automation to reduce manufacturing cost, looking at street lighting entry by 2QFY22.
- **Home appliances** – Revenue +68% and EBITDA +28%, margins down due to lag in passing on increase in input prices and freight rates, 4Q margins would also be under pressure; order book strong, expanding at a new site in adjacent plot, semi-automatic capacity will be increased from 1.2mn to 1.6mn; fully automatic top load almost complete, trials beginning from early March with capacity of 600k pa; will have a combined 2.2mn capacity vs Indian demand of 7-7.5mn.
- **Mobile phones and EMS** – Revenue +114%, STB and medical devices contributed 69cr and 11cr respectively, EBITDA +328% with margins improving from 2.3% to 4.6%, closed agreements with Motorola and Nokia for mobile PLI; Nokia production already started, Motorola production should start by end Feb or early March, new factory already set up, trials started, 50cr already spent. 20mn pa smartphone capacity in 2 years, 25-28k cr revenue in 5 years with 3% EBITDA margin after some ramp-up challenges, will do revenue much beyond ceiling revenues, not having own brand big advantage; exploring charges, batteries and camera backward integration; 9lac STB manufactured, 3-4 lac per month order book; wearables PLI scheme will also be explored.

CONCALL TAKEAWAYS

- **Mobile PLI revenue visibility** – Motorola order size and projections mainly for global market almost cover the entire ceiling revenue, deep relationship should extend beyond FY25 as well as more backward integration would happen in Dixon and India, should become cost competitive by then, Xiaomi can be a prospective customer.
- **TVs share outlook** – Will do 2.9mn vs 2.1mn sets in FY21 with growth of 20-25%, open cell and glass availability will be challenge for 1-2 quarters; unit value moved from 9-10k to 14-15k with market shifting from 32 to 42 inches, new customers like Samsung, Flipkart, Reliance, Vu, Croma added; FY22 should also see 20-25% growth, not exploring exports as of now given open cell availability.
- **Lighting expansion** – New expanded capacity can be fully utilized soon as orders are coming ahead of expectations.
- **Wearables opportunity** – Market is 5000cr; tied up with Boat, see massive opportunity.
- **PLI base shifting to FY21 from FY20** – Given display and microprocessor availability issue, no one will meet thresholds in FY21, so industry and has requested for extension.
- **Motorola** – Current volumes of about 40-41mn handsets, target 15-20% of global share in 3rd to 4th year; currently in China and Brazil, China base of Motorola shifting to India.
- **Nokia** – is only for the domestic market as of now; in talks with 1-2 more global brands
- **TV client concentration**– 75% of revenue from Xiaomi and Samsung and balance from other brands, can come down to 65-67% in next 2 years; last year was 85%.
- **Component availability issues** – Mobiles - sourcing and procurement handled by brand owners to start with in mobile PLI; LED Lighting – accumulated driver IC and LED chips inventory in October which helped; TV – global shortfall of open cell but ahead of peers; OEM clients take care of sourcing, problem is in lighting and washing machines.

- **Budget proposals** – increase in duties will lead to small cost increase for brand owners but no impact on Dixon as cost is pass-thru, not looking at backward integration into PCBs, looking into chargers, battery packs etc
- **Capex targets** – 104 cr capex done in 9 months mainly on washing machine and mobile PLI, 145-155cr target for FY21 and FY22 as well, volumes – LED – 9lac vs 4.5lac, lighting – LED bulbs – 6cr , battons – 45lac, downlighters – 14 lac, others – 27 lac, washing machines – 2.4 lac, mobiles 75 – lac, 3 lac smartphones and 72 lac 2G phones, CCTV – 9 lac, STB – 9 lac, RT PCR- 450
- **Lighting PLI** – expect decision by 3rd week of February, will have to expand new facility in Uttarakhand, will align new factory if possible.
- **Capability building given rising opportunities** – Focusing on talent acquisition, focus on design, tooling, manufacturing, quality management, IT teams; tied up with global consultant for mobiles
- **Laptop/tablet opportunity** – closely exploring both IT and wearables PLI, will be pursuing it post announcement.
- **Opportunity size** – Lighting – 1300-1500cr revenue range (LED bulb global market is 8bn USD – global No.4 in volumes – target 7-8% global market – 500mn USD can get added to lighting revenue in 4-5 years) (Washers – also pursuing global opportunities) (Mobile – will foray into backward integration for basic phones)
- **Changing sales mix** – Mobile could be 35-40% of revenue and TV also could be higher, 3Q margins of 4.5-4.7% should be the margin range for FY22 as well
- **ODM share** – is currently at 35%, ODM share in TV can go upto 15-20%, Light can increase to 95-96%.
- **China Plus One beneficiaries** – Vietnam has been the biggest beneficiary bagging large business in electronics; (6-7bn USD is India exports, Vietnam is already at USD 100bn); while India is better on labor costs and equal on productivity, power tariff is same, Vietnam has edge on infrastructure side.

Dixon technologies 3QFY21 Results First cut – Strong revenue and EBITDA beat led by strong showing in consumer electronics (TV) segment

- **Result summary** – Revenue growth beat estimates on strong consumer electronics business. Revenue/EBITDA/PAT grew 119.6%/95%/134% yoy.
- **Margins** – Gross margin contracted sharply by 324bps yoy to 9.6% on higher input costs. Gross margin are expected to remain under pressure as a result of input cost increase on back of increased components and commodity prices. Firm control on employee and other expenses restricted higher contraction in EBITDA margin. EBITDA margin contracted by 58bps yoy to 4.6%.
- **Consumer Electronics**: Revenue grew 199.4% yoy, on strong festive season growth and new clients addition. TV excluding AC-PCB grew 211% yoy, while AC PCBA was flat on yoy basis. The margin for the segment stood at 2.9%, expansion of 37bps yoy. Cost control and higher operating leverage led to margin expansion. Increase in demand for larger screen size TV would have led to stupendous growth in Televisions.
- **Lighting:** Lighting revenue grew 26% yoy on increased demand in consumer lighting. Margins in this segment stood at 9.5% expanding by 89bps yoy.
- **Home Appliances:** Revenue grew 68% yoy with EBITDA margin 10.2% contraction of 318bps. Festive season demand aided sale of washing machines.
- **Mobile phone and EMS segment**: Segment registered growth of 114% to Rs2992mn. Set-top box and Medical electronics stood at Rs693.2mn and Rs109.2mn respectively which are included in total segment revenue. Margin in this segment stood at 4.6% expansion of 230bps. Change in revenue mix has led to expansion in margins.

- **Reverse logistics and Security systems** – Security systems revenue stood at Rs555mn growth of 10.4% and EBITDA margin of 3.5%, while Reverse logistics revenue stood at Rs45mn with EBITDA margin of 10.3%.
- **Other Highlights** – Company has decided to sub-divide its equity share in the ratio 1:5.
- **Working Capital** – Cash conversion Cycle stood at 1 day which is in line with the management guidance of -3 to + 5 days. Company's RoE and RoCE stood at 23.8% and 31.7%.

Exhibit 1: Financials summary

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Net Sales	9,938	16,387	21,828	119.6	33.2
Raw Material	8666	14447	19740	127.8	36.6
as % of sales	87.2	88.2	90.4		
Employee Cost	272	359	377	38.7	5.0
as % of sales	2.7	2.2	1.7		
Other operating expenses	486	688	706	45.3	2.7
as % of sales	4.9	4.2	3.2		
Total Expenditure	9423	15494	20823	121.0	34.4
EBITDA	515	894	1005	95.0	12.4
EBITDA Margin	5.2	5.5	4.6		
Other Income	18	3	1	(92.3)	(44.0)
EBIDT	534	896	1006	88.6	12.3
Depreciation	98	109	113	14.3	3.0
Interest	80.6	69.1	77.1	(4.3)	11.6
PBT	355	718	817	130.3	13.7
Share of profit/(loss) of JV	0.0	0.0	0.0		
Exceptional	0.0	0.0	0.0		
PBT After Exceptional	355	718	817	130.3	13.7
Tax	92	195	201	119.3	3.3
ETR	25.8	27.1	24.6		
PAT	263	524	616	134.2	17.6
Margins (%)				**(bps)**	**(bps)**
Gross Margin	12.8	11.8	9.6	(324)	(228)
EBIDTA	5.2	5.5	4.6	(58)	(85)
EBIT	5.4	5.5	4.6	(76)	(86)
EBT	3.6	4.4	3.7	17	(64)
PAT	2.6	3.2	2.8	18	(37)
Effective Tax rate	25.8	27.1	24.6	(124)	(249)

Dixon Technologies

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Consumer electronics	4,543	9,569	13,598	199.4	42.1
Lighting Products	2,767	2,957	3,486	26.0	17.9
Home Appliances	684	1,454	1,152	68.4	(20.8)
Mobile Phones	1,395	1,974	2,992	114.4	51.6
Reverse Logistics	46	36	45	(3.5)	22.5
Security Systems	503	397	555	10.4	39.8
Net Sales	9,938	16,387	21,828	119.6	33.2
EBITDA					
Consumer electronics	115	265	394	243.2	48.6
EBITDA %	2.5	2.8	2.9		
Lighting Products	239	277	332	39.0	19.6
EBITDA %	8.6	9.4	9.5		
Home Appliances	92	173	118	28.4	(32.2)
EBITDA %	13.4	11.9	10.2		
Mobile Phones	32	163	138	327.6	(15.4)
EBITDA %	2.3	8.2	4.6		
Reverse Logistics	16	4	5		
EBITDA %	34.4	10.2	10.3		
Security Systems	22	12	20	(12.6)	66.7
EBITDA %	4.4	2.9	3.5		
Total EBITDA	515	894	1,005	95.1	12.5
EBITDA %	5.2	85.2	94.8		

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Himanshu Nayyar, Aakash Fadia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India
Email: research@ysil.in | Website: https://yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 |INVESTMENT ADVISER: INA000007331| Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338 |

Details of Compliance Officer: Vaibhav Purohit,
Email: compliance@ysil.in, Contact No.: +91-22-33479208

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.