

Dixon Technologies Ltd

ADD

CMP Rs3,994

Target Rs4,335

Upside 8.5%

Near-term headwinds but multiple new opportunities opening up; maintain ADD

Result Highlights

- ✓ **Quarter summary** – Dixon Technologies delivered a mixed performance with in-line revenues and a miss on EBITDA. EBITDA miss was primarily on account of increase in commodity prices, change in business mix and Rs80mn additional ESOP charge.
- ✓ **Growth across segments** – All segments except reverse logistics registered strong growth with Consumer electronics and Mobile phones registering growth of 2x and 3.8x respectively. Lighting products/Home Appliances/Security systems grew 49.8%/62.7%/99.8% respectively.
- ✓ **Commodity inflation impact** – Gross margins contracted sharply by 564bps as there has been one quarter delay in passing on increased prices in both OEM and ODM business.
- ✓ **Working capital and capex** – Dixon continues to efficiently manage its working capital requirement which continues to be in range of +3 to -3 days. It is expected to incur capex of Rs2000mn in FY22 as it is looking for opportunities in various PLI schemes apart from expanding capacities in its existing business.

Valuation and view – 4Q saw strong growth across all business segments with all the verticals delivering strong revenue growth. Gross margins were impacted on rising commodity prices; however, it has been passed on to the customers in 1QFY22. Dixon continues its strong growth trajectory in its existing verticals with increased capacities and has firmed up further plans for new verticals like telecom products and refrigerators along with applying in new PLI schemes for LED lighting components, Laptops and hardware and AC components.

Dixon remains on a strong footing with its key segment like consumer electronics firing and commencement of mobile phone manufacturing under PLI scheme. Dixon is aiming to replicate its success story in electronics and mobile phones to other verticals as well and aiming to reach a globally competitive scale. We believe growth for Dixon should not be a challenge as there is huge domestic market for the products they are into and many global MNC's are also looking to de-risk their production to India where the company is coming through as a strong partner. We build in FY21-23E Revenue/EBITDA/PAT CAGR of 67%/66%/78% and arrive at PT of Rs4,335 valuing it at 50x FY23 EPS vs 40x earlier as company is entering new verticals and set to pursue benefits from 4 other PLI's apart from Mobile PLI that it has already got. We continue with ADD rating as current valuations leave limited upside potential in the near term.

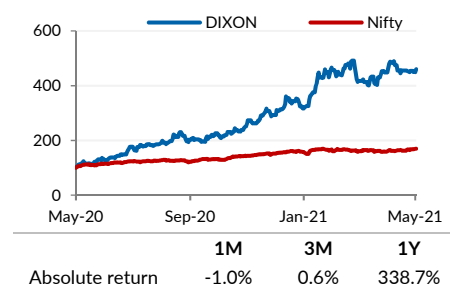
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	21,097	8,574	146.1%	21,828	-3.3%
EBITDA	798	559	42.8%	1005	-20.6%
EBITDAM (%)	3.8%	6.5%		4.6%	
Depreciation	123	109	12.6%	113	9.2%
Interest	71.3	76.8	-7.2%	77.1	-7.5%
Other income	10	0	-3366.7%	1	600.0%
PBT	614	373	64.7%	817	-24.9%
Tax	171	97	76.8%	201	-14.8%
Adjusted PAT	443	276	60.5%	616	-28.1%
Reported PAT	443	276	60.5%	616	-28.1%
PATM (%)	2.1%	3.2%		2.8%	
EPS (Rs)	7.6	4.7		10.5	

Stock data (as on May 27, 2021)

Nifty:	15,338
52 Week h/l (Rs)	4458/905
Market cap (Rs/USD mn)	233,891/3222
Outstanding Shares	59
6m Avg t/o (Rs mn):	1,189
Div yield (%):	NA
Bloomberg code:	DIXON IN
NSE code:	DIXON

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	35.0%
FII+DII	32.4%
Others	32.5%

Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	64,482	131,331	180,780
YoY Growth	47%	104%	38%
EBIDTA	2,866	5,501	7,940
Margins (%)	4.4	4.2	4.4
PAT	1,598	3,347	5,076
YoY Growth	33%	109%	52%
ROE	25.0	37.3	38.9
ROCE	32.2	44.8	46.5
EPS	27.3	57.2	86.7
P/E	146.3	69.8	46.1
EV/EBITDA	81.9	42.9	29.5

Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	27.3	57.2	86.7
EPS (Old)	27.3	54.0	77.2
% Change	NA	5.9	12.4

Change in Rating and TP

	Rating	TP
New	ADD	4,335
Old	ADD	3,086

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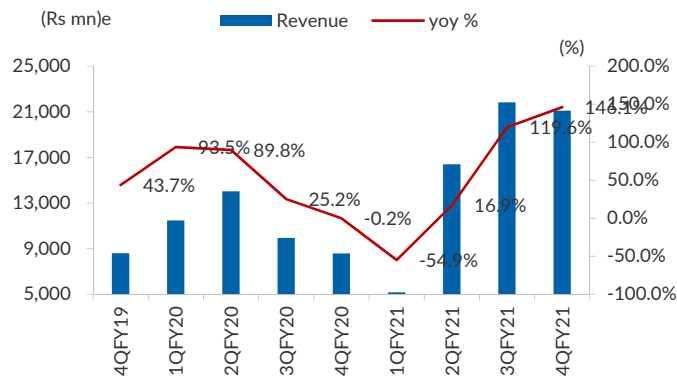
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EARNINGS CALL TAKEAWAYS

- ✓ **Margin contraction** – Margin contraction was driven by change in business mix and increase in input commodity prices. There was also Rs80mn additional charge on account of ESOPS. There has been lag in passing on commodity price increase. Most of the commodity increases have been passed on and management is confident of addressing margin pressure through costs control, innovation and operating leverage.
- ✓ **Near term headwinds** – Demand has been impacted in rural areas; growth started slowing down in April and in May it has further decelerated.
- ✓ **Consumer electronics** – Current TV manufacturing capacity is 4.4mn units, which includes backward integration of LCM and SMT. TV capacity is being expanded to 5.5mn units which is expected to come on stream in next 2 months. Company has started to manufacture large screen size television of 60 inches and above. It has also setup LED monitor capacity of 1mn units for which MOU has been signed with two large customers
- ✓ **Lighting** – Impact of input costs has led to margin contraction; cost increase has been already been passed on to the customers. Company has capacity of 300mn units of LED bulbs. It has also started to manufacture smart LED bulbs. LED battens capacity has been increased to 7mn units/month from 3mn units/month and similarly downlighter capacity has been increased to 3mn units/month vs 1.5mn units. Company is also working on exports.
- ✓ **Washing Machines**- Company has 140 models in semi-automatic category which is highest in the industry. Semi-automatic capacity has been increased to 1.5mn units from 1.2mn units. Fully automatic plant is now ready with trial completed with Bosch appliances and commercial production is expected to start in September. It has 40 models in 6-10kg range.
- ✓ **Mobile Phones** – Increased fixed costs and overheads on start of commercial production under PLI scheme has hampered mobile phones margin. Company is confident of achieving ceiling revenues for FY22 in mobile PLI. Order book in set-top boxes continues to be strong to the tune of 0.5mn units per month however company is only able to manufacture 0.3-0.35mn units/month due to supply chain constraints.
- ✓ **New Opportunities** – Company is going ahead with its DC refrigerator plant for which project manager has been appointed and have applied for 10 acers land in greater Noida. It will initially have capacity of 0.6mn units in 1st phase and will go up to 1mn units in 2nd phase.
- ✓ **PLI Schemes** – Have applied for PLI schemes for laptops, tablets and hardware and have already signed deal with large global player to manufacture laptop. It has also formed JV with Bharti to apply for PLI scheme under telecom products where company is looking to manufacture routers, modems and network hardware. It is also pursuing PLI for AC components apart from LED lighting PLI.
- ✓ **Capex** – Company is planning to incur capex of Rs2000mn in FY22 to make investments under various PLI schemes apart from expanding in existing businesses.

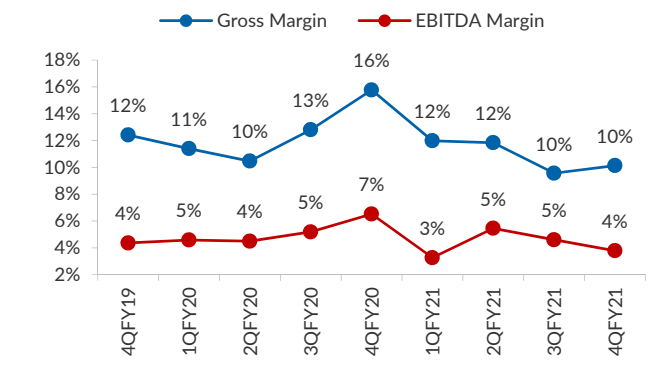
CHARTS

Exhibit 2: Revenue growth is driven by consumer electronics and mobile phones



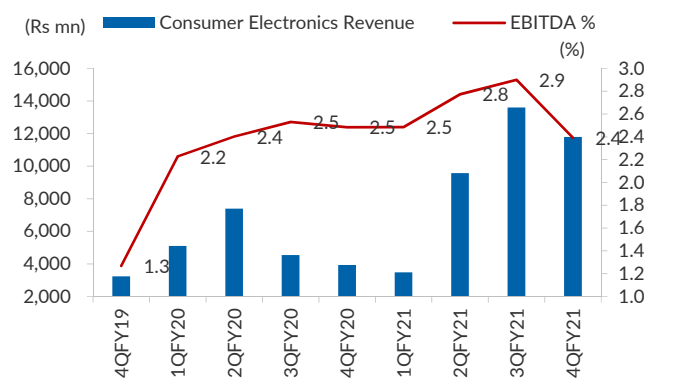
Source: Company, YES Sec - Research

Exhibit 3: High commodity prices dent gross margins



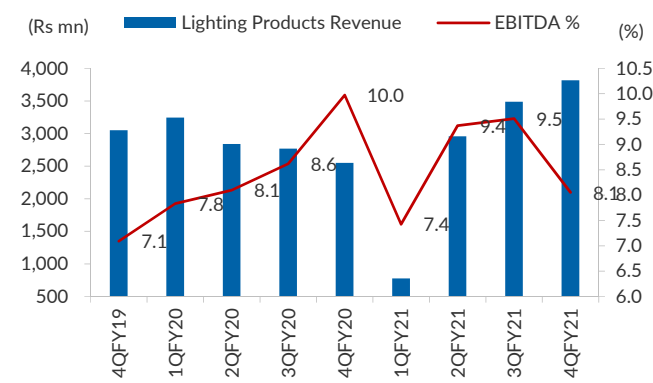
Source: Company, YES Sec - Research

Exhibit 4: Increase in share of higher screen size TV has led to strong revenue growth



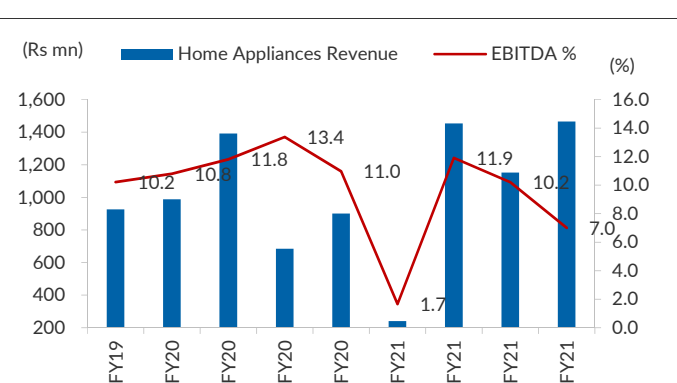
Source: Company, YES Sec - Research

Exhibit 5: Revenue growth is driven by increased capacity in LED batten and downlighters



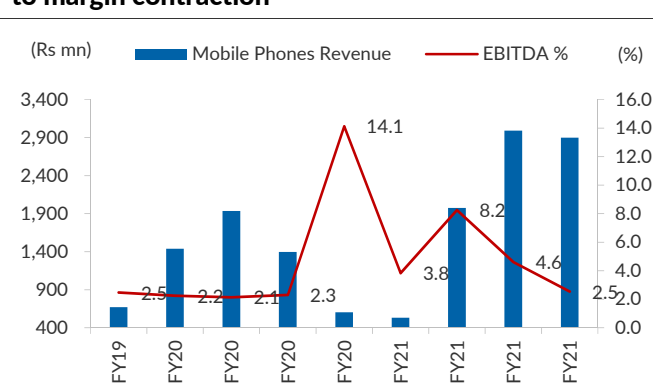
Source: Company, YES Sec - Research

Exhibit 6: High input costs have dented margin in home appliances



Source: Company, YES Sec - Research

Exhibit 7: Additional costs and overheads on start of commercial production under mobile PLI scheme has led to margin contraction



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 8: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	113	116	117	117	117
Reserves	3,669	5,298	7,256	10,481	15,371
Net worth	3,782	5,413	7,373	10,598	15,488
Debt	1,412	867	1,513	2,513	2,513
Deferred tax liab (net)	160	150	184	184	184
Other non current liabilities	1,630	959	1,393	1,499	1,587
Total liabilities	6,985	7,389	10,462	14,794	19,772
Fixed Asset	2,597	3,335	4,904	6,318	7,107
Investments	76	0	953	953	953
Other Non-current Assets	1,634	1,176	1,641	2,479	3,196
Net Working Capital	2,534	1,922	2,326	4,672	6,820
Inventories	4,084	4,978	7,433	15,472	21,297
Sundry debtors	5,167	5,151	10,891	17,631	22,288
Loans and Advances	0	0	0	0	0
Sundry creditors	7,397	9,391	17,097	30,597	39,721
Other current liabilities	509	149	841	1,713	2,357
Cash & equivalents	144	957	638	372	1,696
Total Assets	6,985	7,389	10,462	14,794	19,772

Exhibit 9: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	29,844	44,001	64,482	131,331	180,780
Operating profit	1,349	2,231	2,866	5,501	7,940
Depreciation	217	365	437	602	725
Interest expense	250	350	274	452	452
Other income	56	52	16	26	22
Profit before tax	938	1,568	2,170	4,473	6,784
Taxes	305	363	572	1,126	1,707
Minorities and other	-	-	-	-	-
Adj. profit	634	1,205	1,598	3,347	5,076
Exceptional items	-	-	-	-	-
Net profit	634	1,205	1,598	3,347	5,076

Exhibit 10: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	1,188	1,917	2,445	4,926	7,236
Depreciation	217	365	437	602	725
Tax paid	(305)	(363)	(572)	(1,126)	(1,707)
Working capital Δ	(1,199)	688	(1,356)	(2,347)	(2,148)
Other operating items					
Operating cashflow	(98)	2,608	953	2,055	4,106
Capital expenditure	(864)	(1,103)	(2,007)	(2,015)	(1,515)
Free cash flow	(962)	1,505	(1,053)	40	2,591
Equity raised	135	509	420	0	(0)
Investments	-	-	-	-	-
Debt financing/disposal	966	(546)	646	1,000	-
Interest paid	(250)	(350)	(274)	(452)	(452)
Dividends paid	(136)	(83)	(59)	(123)	(186)
Net Δ in cash	18	812	(318)	(266)	1,324

Exhibit 11: Du-pont analysis

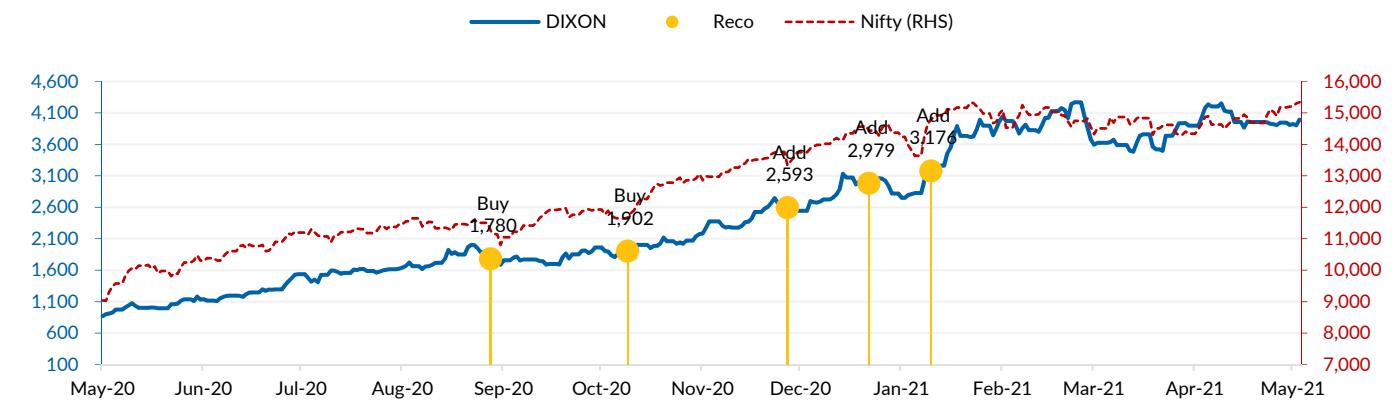
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.68	0.77	0.74	0.75	0.75
Interest burden (x)	0.79	0.82	0.89	0.91	0.94
EBIT margin (x)	0.04	0.04	0.04	0.04	0.04
Asset turnover (x)	2.41	2.76	2.84	3.47	3.31
Financial leverage (x)	3.58	3.47	3.55	4.21	4.19
RoE (%)	18.3	26.2	25.0	37.3	38.9

Exhibit 12: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	5.0	47.4	46.5	103.7	37.7
Op profit growth	19.7	65.4	28.5	92.0	44.3
EBIT growth	16.9	61.3	27.5	101.5	46.9
Net profit growth	4.0	90.2	32.6	109.5	51.6
Profitability ratios (%)					
OPM	4.5	5.1	4.4	4.2	4.4
EBIT margin	4.0	4.4	3.8	3.8	4.0
Net profit margin	2.1	2.7	2.5	2.5	2.8
RoCE	27.0	33.4	32.2	44.8	46.5
RoNW	18.3	26.2	25.0	37.3	38.9
RoA	5.1	7.6	7.0	8.8	9.3
Per share ratios					
EPS	11.2	20.8	27.3	57.2	86.7
Dividend per share	2.0	1.2	1.0	2.1	3.2
Cash EPS	15.0	27.1	34.8	67.4	99.1
Book value per share	66.8	93.6	125.9	181.0	264.5
Valuation ratios					
P/E	356.9	191.7	146.3	69.8	46.1
P/CEPS	64.6	50.2	36.6	33.0	29.4
P/B	19.4	16.6	13.2	10.7	8.9
EV/EBIDTA	168.6	103.5	81.9	42.9	29.5
Payout (%)					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	21	7	3.7	3.7	3.7
Tax payout	32	23	26.4	25.2	25.2
Liquidity ratios					
Debtor days	63	43	61.6	49.0	45.0
Inventory days	50	41	42.1	43.0	43.0
Creditor days	90.5	77.9	96.8	85.0	80.2

Recommendation tracker



Source: Company, YES Sec – Research

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