

Dixon Technologies

Analyst Recommendation: BUY

BSE Code: 540699

NSE: DIXON

Bloomberg Code: DIXON:INNatl

CMP: Rs 5,101
2 Year Target: Rs 6,360

Face Value	2.0
Market Cap (Rs cr)	30,268
52 week high/low	6,244/2,255
Beta	0.82
Shares O/S (Cr)	5.94
Book Value per Share (Rs)	140
Sensex	57,065
Nifty	16,983

Investor's Rationale

➤ Robust growth supported by all divisions:

Q2 FY22 revenue shot up 71% y/y to Rs28bn with growth supported by all major business categories. The EBITDA margin contracted 150bps y/y as the gross margin dipped 290bps y/y, while staff costs/other manufacturing expenses rose 52%/25% y/y. q/q the EBITDA margin improved 140bps as prices were hiked in a calibrated manner, supported by operating leverage. PAT increased only 20% y/y as interest cost rose 32% y/y and depreciation charges nearly doubled to Rs216m

➤ Refrigerator plant to cater to 12% of domestic requirement:

Dixon will set up a new plant with 0.6m capacity per annum for direct cooling (DC) refrigerators, which would be ramped up to 1m by 2024. With that, it will have capacity to cater to 11-12% of India's annual requirement.

➤ JV with Bharti can generate Rs14bn-16bn revenue in FY23

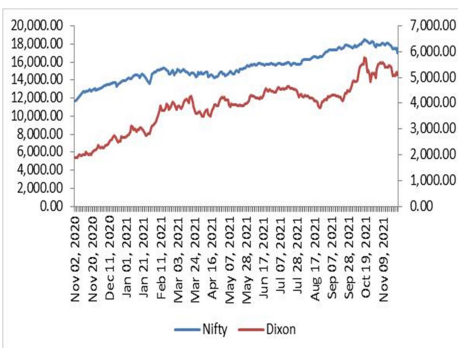
The JV with Bharti Enterprises has received approval under the PLI scheme (Dixon's share: 51%). This JV can generate Rs14bn-16bn revenues next year. It can generate Rs80bn-90bn revenue in the next five years.

After becoming strong in Indian contract manufacturing, Dixon now has global aspirations. It is targeting the global LED-bulb market. Its new product categories like refrigerators and telecoms equipment are well placed to support growth in FY23/FY24

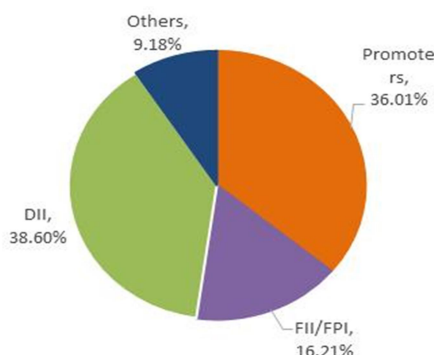
➤ Valuation

Given strong Earnings growth we would like to value the stock at 60x of FY24 earnings and arrive at target price of Rs 6,360

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Dec 2020.



	FY21	FY22E	FY23E	FY24E
Revenue (Rs.Cr)	6,448.2	11,765.5	16,620.0	20,739.1
EBITDA (Rs. cr)	286.6	425.6	769.6	1,030.5
Adj. profit (Rs.Cr)	159.8	223.9	463.4	640.8
Adj. EPS (Rs.)	26.9	37.0	76.7	106.0
P/E (x)	188.7	136.9	66.2	47.8
Dividend Yield	0.00%	0.10%	0.10%	0.10%
EV/EBITDA (x)	105.2	72.6	40.1	29.7
ROE (%)	21.7%	23.9%	33.8%	32.4%
ROCE	19.8%	15.7%	22.8%	23.5%

Key Concall Takeaways**Backward integration underway after becoming the largest manufacturer of television sets**

Installed capacity has now increased to 5.5m sets including backward integration in the supply chain, addressing 35% of India's requirements. Dixon has started producing 70-/80-/85-inch TV sets and has the largest capacity in LED TVs in India, including backward integration of liquid-crystal modules (LCM) and surface-mounted technology (SMT) lines. It would also be backward integrating into manufacturing injection-moulding and plastic parts for LED-based TVs

LED monitors to generate Rs4bn-4.5bn revenue

A production line has been installed for LED monitors and will start producing by Q4 FY22 with 1m capacity. Dixon will start manufacturing 19-inch LED monitors with average SKUs priced at ~Rs8,000 a unit. Production of 0.5m units is expected from this new line, which could generate revenues of Rs4bn-4.5bn in the first year of operations.

Aims at \$8bn-\$9bn of the global LED bulb market:

The outlook for this segment is bright while margins were dented by the increase in input costs and the lag in passing them on to customers. Dixon is the largest manufacturer of LED bulbs (installed capacity: 300m), ~50% of India's requirement. In batons, capacity is now 9m-10m a month. In down-lighters, capacity of 1.5m a month has been created, against 3m p.m. required. Dixon also intends to develop outdoor (incl. street and commercial) lighting. Technical approval for exports to Europe has been received. Technical approvals pertaining to the American market are being evaluated and are expected in a few months. The global market for LED bulbs can be \$8bn-\$9bn a year. Dixon has applied for production-linked incentives in the manufacture of LED components. Rs1bn would be invested over the next five years.

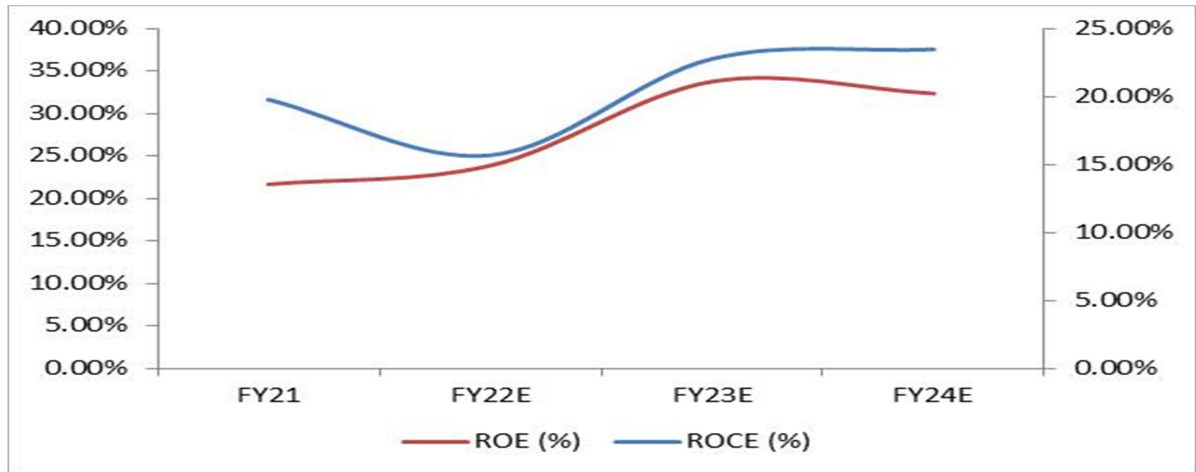
Capacity expansion underway in home appliances:

Operating margins in this segment were hurt by rising commodity prices, passed on to customers in Q2 FY22. Dixon has 160 semi-automatic models of 6-14 kg. It has set up a plant in Dehradun as visibility from customers is healthy. It plans to increase capacity from 1.5m to 2.2m semi-automatic machines by May'22. The fully automatic machine plant is now operational and is expected to start operating commercially from 15th Nov'21. Dixon has added three anchor customers in this category and can offer 96 variants in 6-10 kg with annual capacity of 0.6m. Capacity will reach 3m by Apr'22, against India's 7.5m - 7.8m requirement a year.

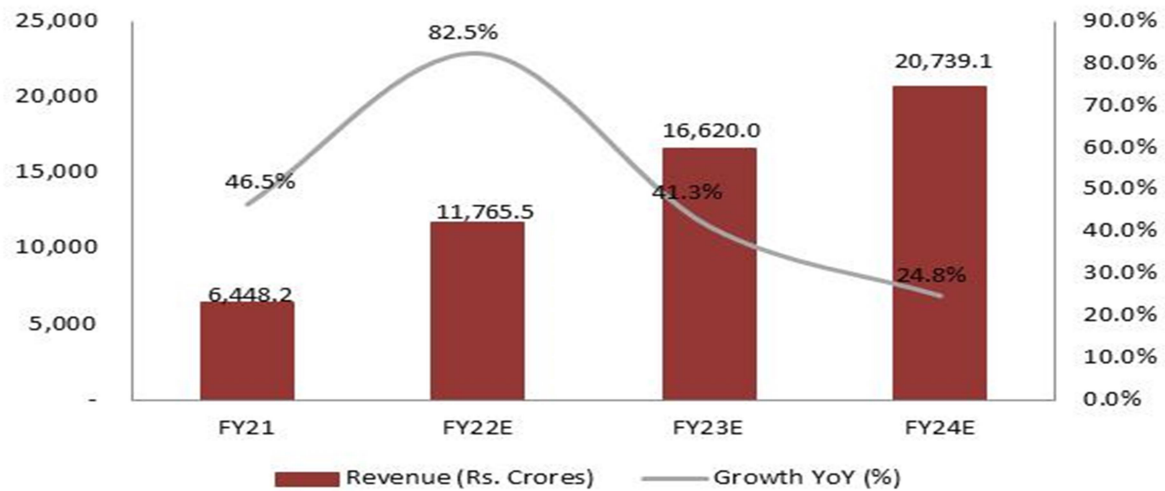
Adds customers, capacity expanded for Samsung:

Dixon will manufacture feature and smart phones for Nokia, (~2.5m handsets per quarter from Q4 FY22). Itel is another customer in this category. To meet rising demand, the company will set up a factory on leased land in Noida. For 5G handsets, Orbic has been added, and will cater to exports to the American market. With customers added, Dixon can meet its revenue targets under the PLI for mobiles, effective from Nov'21. Traction from Samsung is strong for 4G handsets, where volumes of 0.8m-1m a month are being booked. Dixon has taken five acres in Noida to meet rising demand from Samsung, which has asked for capacity to be raised to 1.5m-1.6m a month.

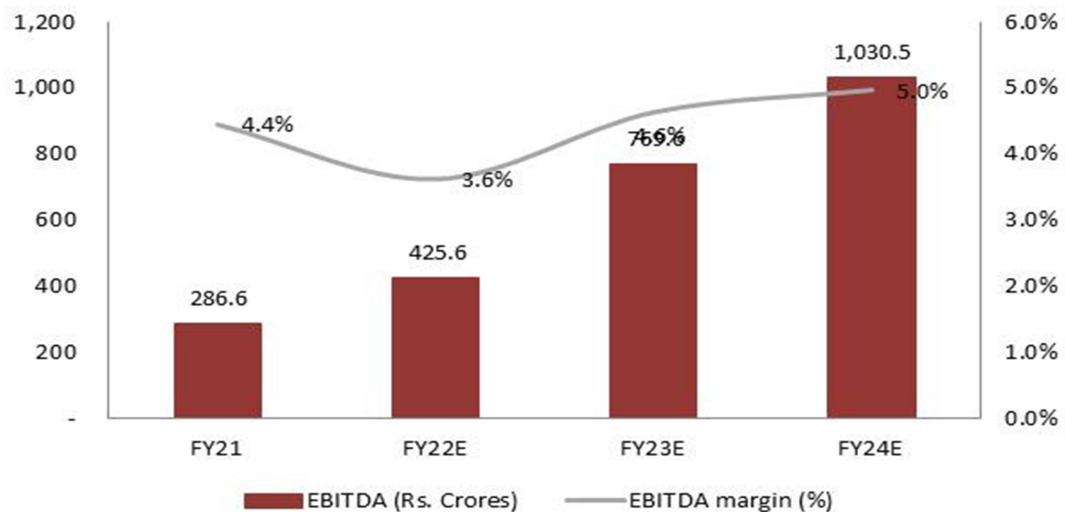
Return ratios to show strong growth in future



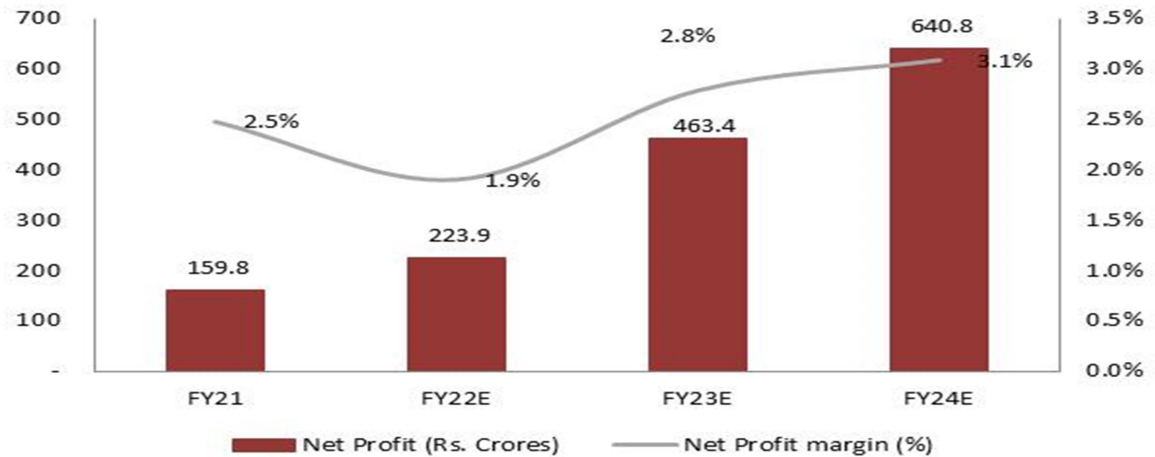
Revenue will experience Strong growth



EBITDA will experience strong growth



Net profit will experience a growth trajectory



Outlook and Valuation

Given strong Earnings growth we would like to value the stock at 60x of FY24 earnings and arrive at target price of Rs 6,360

Dixon Technologies - Company Overview

Dixon Technologies (India) Limited is the largest* home grown design-focused and solutions company engaged in manufacturing products in the consumer durables, lighting and mobile phones/smart phones markets in India. Their diversified product portfolio includes (i) consumer electronics like LED TVs; (ii) home appliances like washing machines; (iii) lighting products like LED bulbs and tubelights, downlighters; (iv) mobile phones/smart phones; and (v) CCTV & DVRs (vi) Medical Equipment. Dixon also provides solutions in reverse logistics i.e. repair and refurbishment services of set top boxes, mobile phones /smart phones and LED TV panels.



Balance sheet (Consolidated)

(Rs crore)	FY21	FY22E	FY23E	FY24E
Liabilities				
Paid up capital	117	117	117	117
Reserves and Surplus	620	820	1253	1858
Net worth	737	937	1370	1975
Total Loans	151	706	831	933
Deffered Tax Liability	18	20	20	20
Minority Interest				
Total Liabilities	907	1,663	2,221	2,928
Assets				
Net Tangible Assets	538	918	1,198	1,439
CWIP	72	62	40	40
Net Intangible Assets	12	13	13	13
Current Asstes	2,127.80	3,902.00	5,458.30	6,989.00
Current Liabilities	1,939	3,232	4,488	5,552
Net Current Assets	189	670	970	1437
Other	107	13	13	12
Total Assets	907	1663	2221	2928

Equity Research

Profit & Loss Account (Consolidated)

(Rs crore)	FY21	FY22E	FY23E	FY24E
Total operating Income				
	6,448	11,766	16,620	20,739
Direct Costs	5,770	10,589	14,792	18,458
SG&A	392	751	1,059	1,251
EBITDA	287	426	770	1,031
Depreciation	44	78	92	109
EBIT	243	348	677	922
Interest cost	27	49	58	65
Other Income & Extraordinary Items	2	2	3	4
Profit before tax	217	301	622	860
Tax	57	77	159	219
Profit after tax	160	224	463	641
Minority Interests				
P/L from Associates				
Other				
Adjusted PAT	160	224	463	641



Equity Research

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY21	FY22E	FY23E	FY24E
PBT (Ex Other Income) (NI+Dep)	217	301	622	860
Change in Working Capital	-47	-44	-152	-169
Cash flow from operating activities	170	256	470	692
Capex	-168	-448	-350	-350
Cash flow from investing activities	-168	-448	-350	-350
Change in Borrowing	69	555	125	102
Dividend	0	-24	-30	-36
Other	-98	-360	155	585
Cash flow from financing activities	-29	194	280	687
Net chg in cash	-31	386	160	346
Opening Cash	100	69	455	615
Closing Cash	69	455	615	961

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY21	FY22E	FY23E	FY24E
Per share data (Rs.)				
EPS	26.90	37.00	76.70	106.00
DPS	1.00	4.00	5.00	6.00
Margin (%)				
EBITDA	4.4%	3.6%	4.6%	5.0%
NPM	2.5%	1.9%	2.8%	3.1%
Return Ratios (%)				
RoE	21.7%	23.9%	33.8%	32.4%
ROCE	19.8%	15.7%	22.8%	23.5%
Valuation(x)				
P/E	188.7	136.9	66.2	47.8
EV/EBITDA	105.2	72.6	40.1	29.7
Dividend Yield	0.00%	0.10%	0.10%	0.10%
Per share data (Rs.)				
EPS	26.9	37.0	76.7	106.0



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

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