

26 July 2023

India | Equity research | Q1FY24 result review

Dixon Technologies India

White goods

Weak revenue growth; better margins

Dixon's Q1FY24 performance was largely driven by growth in mobile and EMS divisions. Other segments reported revenue decline / flat revenues in line with slowdown in the white goods and durable market in India. Company has added new clients in its mobile business (Iitel and Xiaomi). While customer addition offers revenue visibility, ramp-up is expected to be gradual. The weakness in other segments is expected to continue due to sluggish consumer sentiment.

We reduce our FY25E EPS estimates by 18.4% to factor-in the Q1FY24 performance and weak market conditions. At current valuations of (58x FY25E EPS), risk/reward seems unfavourable to investors. Hence, we maintain **REDUCE** with a DCF-based target price of INR 3.600 (implied P/E of 58x FY25E EPS).

Q1FY24 result

Dixon reported YoY revenue, EBITDA and PAT growth of 14.6%, 31.8% and 41.2%, respectively. Gross and EBITDA margins expanded 55bps and 53bps respectively, YoY, due to correction in input prices and cost optimisation.

Segment-wise performance

Segment-wise, YoY revenue growth rates were as follows: consumer electronics -5.4%, lighting -4%, home appliances +1.3%, mobile & EMS +37.6%, and security systems -13.1%. EBIT margin expanded YoY in all segments except security systems.

Mobile segment gaining traction

Dixon added Iitel as customer in its mobile segment for supply of feature phones. Management expects to start supply to Xiaomi from Sep'23 onward with an initial run-rate of 0.5mn units/month. Further, it aims to ramp up to 1mn units/month. Also, it expects more orders from Jio and Motorola. We believe there is strong revenue visibility for mobile and EMS segments.

Maintain REDUCE

We model Dixon to report revenue and PAT CAGRs of 22.2% and 28.3% respectively, over FY23-FY25E and RoE to exceed the cost of capital over FY24E-FY25. We maintain our **REDUCE** rating with a revised DCF-based target price of INR 3,600 (implied P/E of 58x FY25E EPS). Key risks: Faster than expected economic recovery, steep rise in commodity prices, and lower than expected competition.

Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,06,971	1,21,920	1,42,334	1,82,133
EBITDA	3,791	5,127	5,978	7,832
EBITDA Margin (%)	3.5	4.2	4.2	4.3
Net Profit	1,899	2,527	3,132	4,214
EPS (INR)	32.0	42.6	52.8	71.0
EPS % Chg YoY	17.3	33.0	24.0	34.5
P/E (x)	128.5	96.6	77.9	57.9
EV/EBITDA (x)	65.1	47.7	41.0	31.2
RoCE (%)	16.3	17.1	17.8	20.3
RoE (%)	21.9	22.1	21.9	23.8

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Market Data

Market Cap (INR)	245bn
Market Cap (USD)	2,992mn
Bloomberg Code	DIXON IN
Reuters Code	DIXO BO
52-week Range (INR)	4,730 /2,553
Free Float (%)	61.0
ADTV-3M (mn) (USD)	30

Price Performance (%)	3m	6m	12m
Absolute	43.7	22.3	9.3
Relative to Sensex	11.1	11.2	20.5

ESG Disclosure	2021	2022	Change
ESG score	39.2	-	-
Environment	2.4	-	-
Social	31.6	-	-
Governance	83.6	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(11.0)	(13.8)
EBITDA	(11.0)	(13.8)
EPS	(14.9)	(18.4)

Previous Reports

24-05-2023: [Q4FY23 results review](#)

21-10-2022: [Q2FY23 results review](#)

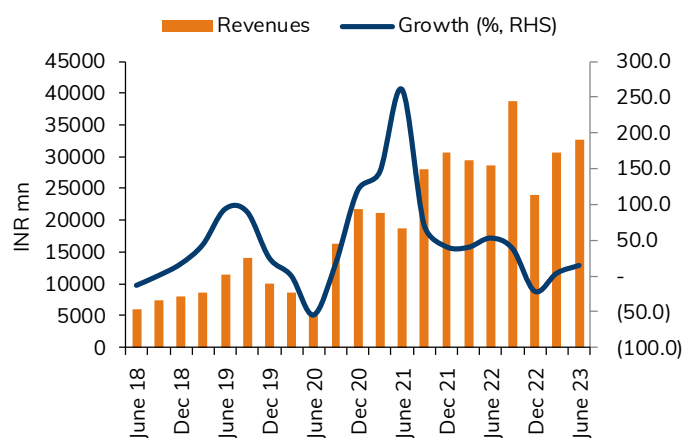
Exhibit 1: Q1FY24 financial performance

Y/e March (INR mn)	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Revenue	32,715	28,551	14.6	30,655	6.7
Expenditure					
Raw materials	29,558	25,953	13.9	27,519	7.4
% of revenue	90.3	90.9		89.8	
Employee cost	684	547	25.0	630	8.5
% of revenue	2.1	1.9		2.1	
Other expenditure	1,154	1,050	9.9	943	22.4
% of revenue	3.5	3.7		3.1	
Total expenditure	31,395	27,550	14.0	29,092	7.9
EBITDA	1,320	1,001	31.8	1,563	(15.6)
EBITDA margin	4.0	3.5		5.1	
Other income	29	4	578.6	18	56.6
PBDIT	1,348	1,005	34.1	1,581	(14.7)
Depreciation	337	241	40.1	325	3.9
PBIT	1,011	765	32.2	1,257	(19.5)
Interest	140	144	(3.0)	151	(7.5)
PBT	871	621	40.4	1,105	(21.2)
Prov for tax	229	165	38.1	315	(27.4)
% of PBT	26.2	26.7		28.5	
Adjusted PAT	642	455	41.2	790	(18.7)
Extra ordinary items	(1)	(1)	18.2	(12)	(89.3)
Reported PAT	641	454	41.2	778	(17.6)

Source: Company data, I-Sec research

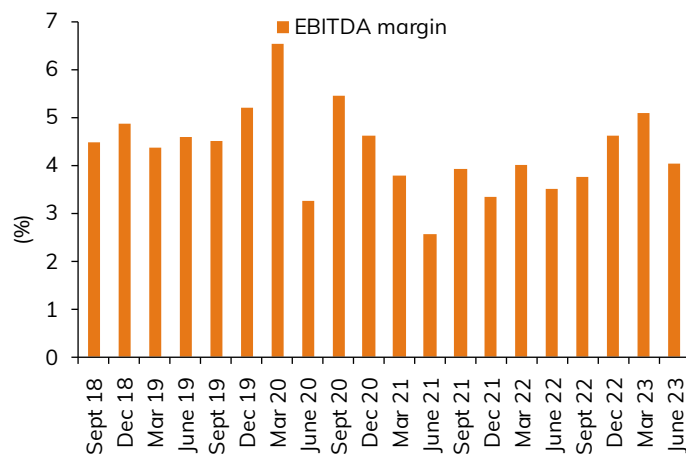
Key performance highlights

Exhibit 2: Revenue and revenue growth



Source: I-Sec research, Company data

Exhibit 3: EBITDA margin



Source: I-Sec research, Company data

Exhibit 4: Segment-wise performance

Particulars	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Revenues (INR mn)					
Consumer Electronics	8,820	9,322	-5.4%	9,810	-10.1%
Lighting products	2,220	2,312	-4.0%	2,700	-17.8%
Home appliances	2,590	2,556	1.3%	2,810	-7.8%
Mobile and EMS	17,950	13,049	37.6%	14,100	27.3%
Security system	1,140	1,311	-13.1%	1,240	-8.1%
Total	32,720	28,551	14.6%	30,660	6.7%
EBIT (INR mn)					
Consumer Electronics	300	248	20.8%	370	-18.9%
Lighting products	190	167	13.9%	260	-26.9%
Home appliances	280	207	35.6%	310	-9.7%
Mobile and EMS	530	328	61.7%	590	-10.2%
Security system	15	52	-71.1%	36	-58.3%
Total	1,315	1,001	31.3%	1,566	-16.0%
EBIT margin (%)					
Consumer Electronics	3.4	2.7		3.8	
Lighting products	8.6	7.2		9.6	
Home appliances	10.8	8.1		11.0	
Mobile and EMS	3.0	2.5		4.2	
Security system	1.3	4.0		2.9	
Total	4.0	3.5		5.1	

Source: Company data, I-Sec research

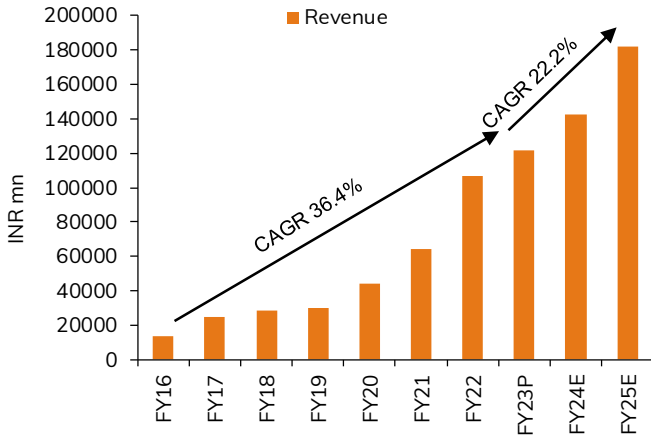
Q1FY24 result and conference call highlights

- **EBITDA margin expansion:** Overall EBITDA margin expansion was led by operating leverage, cost optimisation and strategic price hikes.
- **Growth drivers:** Management expects new customer acquisitions, improving demand environment and entry into new segments to be key growth triggers.
- **Consumer electronics:** Operating leverage and backward integration led to margin expansion. Management expects new product launches and higher share of ODM to drive growth in the vertical. Company has completed backward integration for its injection-moulding business.
- **Lighting:** Revenue was impacted by sluggish consumer demand and price erosion. EBITDA margin expansion was on account of inventory planning and RM deflation.
- **Exports:** Company has received export orders from the UAE. It has also received new orders from Germany (expected to start delivery in Q2FY24). Also, the management is in discussion with customers in the US and UK. New plant in Dehradun was commercialised in May'23.
- **Home appliances:** Margin expansion was attributable to price hikes, cost optimisation and operating leverage. Company is likely to supply fully automatic top-loading washing machines to VOLT Beko from Q3FY24.
- **Mobile:** Dixon added Itel Mobiles in addition to Xiaomi as new customer. The Motorola orderbook remained stagnant in Q1FY24, but is expected to increase by 1.2mn-1.3mn by Q3FY24. Production for Itel's featurephones is likely to start from Sep'23. Management expects to start production in Sep-Oct'23 for Xiaomi. Initially, it targets production of 0.5mn units/month and expects to gradually increase it to 1mn. The ramp-up from 0.5mn to 1mn is likely to require 8-10 months as per the management.

- Management expects strong mobile performance in Q3FY24 due to improvement in Motorola and Intel production and commencement of Jio Bharat phones and Xiaomi.
- **Telecom:** Management guided for a healthy orderbook for the telecom business, largely from Airtel. Dixon has also received a large order from Jio for internet set-top boxes, which is expected to be fulfilled from Q3FY24 onward. Company is a beneficiary of PLI and has met the threshold to avail of PLI benefits.
- **Tablet & IT hardware:** Dixon is likely to participate in PLI for IT hardware. At present, Acer is the base customer.
- **Wearables and hearables:** Dixon has achieved a monthly run-rate of 2mn units in this segment. It has received a smart watches order. Management indicates strong performance in the segment on the back of a healthy orderbook.
- **Security systems:** Dixon has expanded its production capacity from 10mn to 14mn units per annum. The additional capacity went operational in mid-May'23. Segmental EBIT margin saw contraction due to additional shifting expenses.
- **JV with Rexam:** The JV achieved INR 90mn in revenues during the quarter. Company has met the revenue threshold for PLI in the business.
- **Refrigerator:** Dixon is setting up a plant with capacity of ~1.2mn of 290-325 litre refrigerators. Production is likely to start from Oct-Dec'23. At present, the company has certain orders from large brands. Management considers a payback period of 4years for the business with an RoCE estimation of ~20%.
- **Capex:** Company expects to incur capital expenditure of INR 4bn-4.2bn for FY24. The major portion of it will be utilised for mobile business followed by refrigerator segment. Some portion will be allocated to meet PLI investment thresholds.

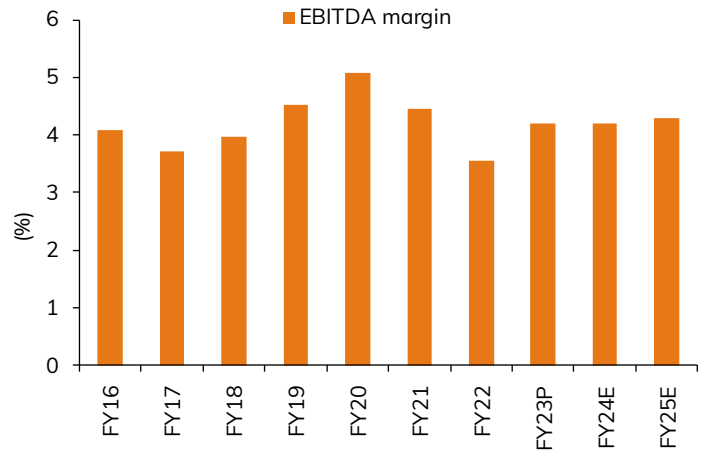
Key indicators – Annual

Exhibit 5: Revenue and revenue growth



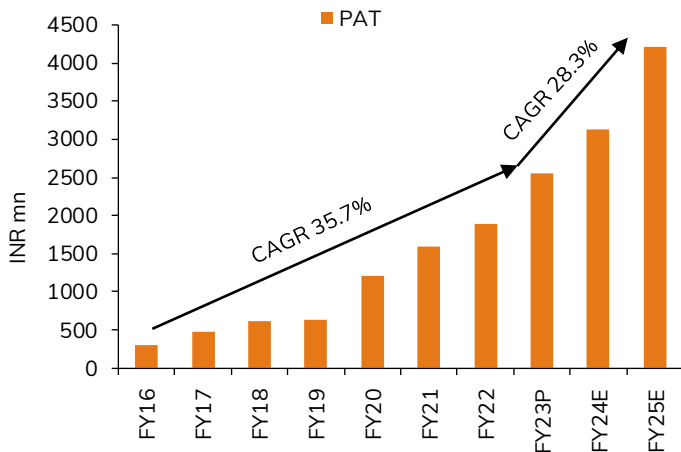
Source: Company data, I-Sec research

Exhibit 6: EBITDA margin



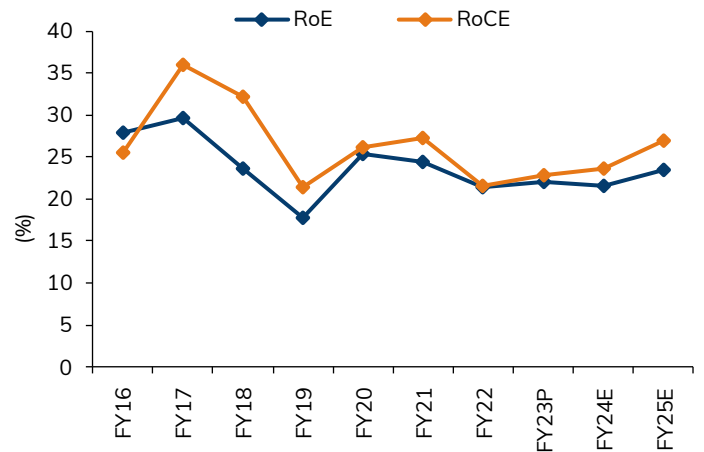
Source: Company data, I-Sec research

Exhibit 7: PAT and PAT growth



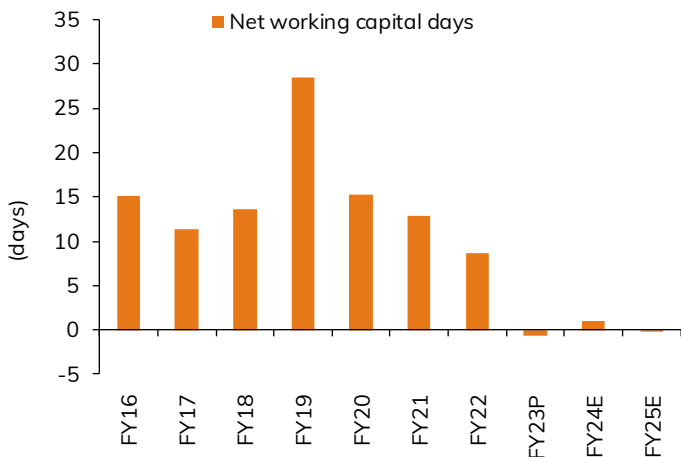
Source: I-Sec research, Company data

Exhibit 8: RoE and RoCE



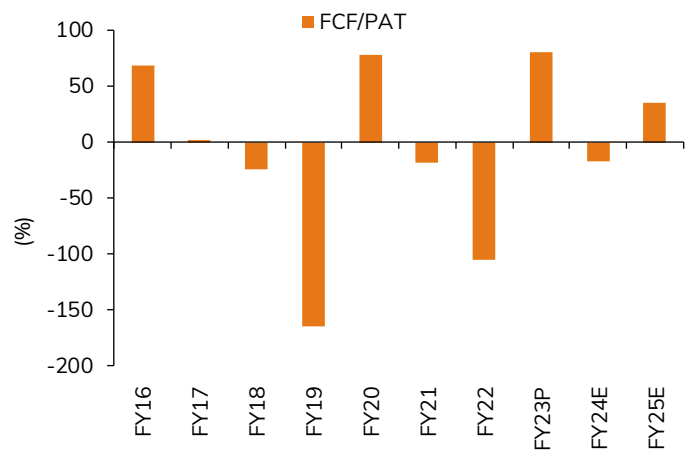
Source: I-Sec research, Company data

Exhibit 9: Net working capital days



Source: Company data, I-Sec research

Exhibit 10: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model Dixon to report revenue and PAT CAGRs of 22.2% and 28.3% over FY23- FY25E and RoCE to be higher than 20% in FY25E. At our revised DCF-based target price of INR 3,600, the implied P/E works out to 58x FY25E EPS. Maintain REDUCE.

Exhibit 11: DCF-based valuation

Particulars	Amt (INR mn)
Cost of Equity	10.6%
Terminal growth rate	5.0%
Discounted interim cash flows	37,485
Discounted terminal value	1,73,365
Total equity value	2,10,850
Value per share (INR)	3,600

Source: Company data, I-Sec research

Risks

Sharp correction in input prices and lower than expected competitive pressures:
Major decline in input prices and/or lower than expected competitive pressures could result in upside to our estimates.

Faster than expected economic recovery:
Faster than expected economic recovery is an upside risk to our estimates.

Exhibit 12: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	34.1	34.1	34.0
Institutional investors	34.5	35.8	39.6
MFs and others	7.6	12.0	13.7
Insurance Cos	10.2	11.1	10.7
FII's	16.7	12.7	15.2
Others	31.4	30.1	26.4

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,06,971	1,21,920	1,42,334	1,82,133
Operating Expenses	5,387	6,585	7,900	9,926
EBITDA	3,791	5,127	5,978	7,832
EBITDA Margin (%)	3.5	4.2	4.2	4.3
Depreciation & Amortization	840	1,146	1,435	1,863
EBIT	2,952	3,981	4,543	5,968
Interest expenditure	442	606	469	419
Other Non-operating Income	38	56	131	107
Recurring PBT	2,548	3,432	4,205	5,656
Profit / (Loss) from Associates	1	(16)	-	-
Less: Taxes	644	897	1,072	1,442
PAT	1,904	2,535	3,132	4,214
Less: Minority Interest	(5)	8	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,905	2,518	3,132	4,214
Net Income (Adjusted)	1,899	2,527	3,132	4,214

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	30,120	31,093	36,398	45,849
of which cash & cash eqv.	1,823	2,292	1,493	1,690
Total Current Liabilities & Provisions	25,752	29,036	34,516	44,167
Net Current Assets	4,368	2,057	1,882	1,681
Investments	2,395	2,068	2,068	2,068
Net Fixed Assets	9,730	12,133	16,395	19,531
ROU Assets	-	-	-	-
Capital Work-in-Progress	224	1,197	-	-
Total Intangible Assets	303	303	303	303
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	17,020	17,758	20,648	23,584
Liabilities				
Borrowings	6,845	4,688	4,688	3,688
Deferred Tax Liability	201	224	224	224
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	119	119	119	119
Reserves & Surplus	9,849	12,730	15,619	19,556
Total Net Worth	9,968	12,849	15,738	19,675
Minority Interest	6	(3)	(3)	(3)
Total Liabilities	17,020	17,758	20,648	23,584

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sept-22	Dec-22	Mar-23	Jun-23
Net Sales	38,668	24,047	30,655	32,715
% growth (YOY)	37.9	(21.8)	3.8	14.6
EBITDA	1,452	1,112	1,563	1,320
Margin %	3.8	4.6	5.1	4.0
Other Income	6	28	18	29
Extraordinaries	(6)	7	(12)	(1)
Adjusted Net Profit	772	519	798	688

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	2,168	6,541	3,944	6,475
Working Capital Changes	(641)	2,764	(624)	397
Capital Commitments	(4,206)	(4,612)	(4,500)	(5,000)
Free Cashflow	(2,039)	1,929	(556)	1,475
Other investing cashflow	(445)	1,036	-	-
Cashflow from Investing Activities	(4,651)	(3,576)	(4,500)	(5,000)
Issue of Share Capital	642	336	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	3,026	(2,776)	-	(1,000)
Dividend paid	(59)	(119)	(243)	(278)
Others	-	-	-	-
Cashflow from Financing Activities	3,610	(2,559)	(243)	(1,278)
Chg. in Cash & Bank balance	1,126	406	(799)	197
Closing cash & balance	1,765	2,170	1,493	1,690

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	32.0	42.6	52.8	71.0
Adjusted EPS (Diluted)	32.0	42.6	52.8	71.0
Cash EPS	46.1	61.9	77.0	102.4
Dividend per share (DPS)	1.0	2.0	4.1	4.7
Book Value per share (BV)	167.9	216.5	265.2	331.5
Dividend Payout (%)	3.1	4.7	7.8	6.6
Growth (%)				
Net Sales	65.9	14.0	16.7	28.0
EBITDA	32.3	35.2	16.6	31.0
EPS (INR)	17.3	33.0	24.0	34.5
Valuation Ratios (x)				
P/E	128.5	96.6	77.9	57.9
P/CEPS	89.1	66.5	53.4	40.2
P/BV	24.5	19.0	15.5	12.4
EV / EBITDA	65.1	47.7	41.0	31.2
P / Sales	2.3	2.0	1.7	1.3
Dividend Yield (%)	0.0	0.0	0.1	0.1
Operating Ratios				
Gross Profit Margins (%)	8.6	9.6	9.8	9.8
EBITDA Margins (%)	3.5	4.2	4.2	4.3
Effective Tax Rate (%)	25.3	26.1	25.5	25.5
Net Profit Margins (%)	1.8	2.1	2.2	2.3
NWC / Total Assets (%)	58.6	72.4	76.2	83.4
Net Debt / Equity (x)	0.3	0.0	0.1	0.0
Net Debt / EBITDA (x)	0.7	0.1	0.2	0.0
Profitability Ratios				
RoCE (%)	16.3	17.1	17.8	20.3
RoE (%)	21.9	22.1	21.9	23.8
RoIC (%)	16.3	17.1	17.8	20.3
Fixed Asset Turnover (x)	11.8	9.2	7.9	7.8
Inventory Turnover Days	49	31	35	37
Receivables Days	58	55	55	57
Payables Days	109	92	94	98

Source Company data, I-Sec research

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