

## Resilient Performance Amidst Challenging Times

In Q1FY22, Dixon reported a Consolidated Revenues of Rs 1,867 Cr up 261% YoY/ down 11% QoQ, as the second wave of Covid-19 impacted growth in April and May'21 while the recovery was seen in Jun'21. While the Gross Margins were adversely impacted by 460 bps, the EBITDA margins, too, declined to 2.6% (Vs 3.3% in Q1FY21) due to change in product mix (higher share of LED TV's having lower margins), negative operating leverage, and a sharp increase in RM costs. The PAT stood at Rs 18 Cr as against Rs 2 Cr in Q1FY21.

Dixon continues to focus on acquiring new clients and adding new products to increase its top-line, achieve backward integration, and increase ODM revenues. We believe Dixon will continue to ride on the strong order book by leveraging its execution capabilities to scale up its operations, enter new product segments, and capture PLI opportunities in other segments. We have adjusted FY22E revenue estimates lower by 4.5% and have marginally tweaked FY23E/FY24E revenues by factoring in the growth recovery, going forward. We value Dixon at 50x FY24 E EPS of Rs 90.2 to arrive at a target price of Rs 4,510.

## Quarterly highlights

- Consumer Electronics (FPD TV's):** In Q1FY21, the segment revenues stood at Rs 1,262 Cr up ~3.6x YoY led by strong volume as well pricing growth. The margins for this segment stood at 2.4%. Dixon has started production of large screen sizes viz 70", 75" and 85" inches for anchor customers and is adding a new 65" inch integrated assembly line and one high-speed SMT line to cater to strong demand from the customers. The capacity will expand from 4.4 mn per anum to 5.5 mn per anum and is expected to be completed by Aug'21. The company is further investing in injection moulding at its completely backward integrated unit at Tirupati. It plans a capacity of 1 Mn LED monitors and the production will commence in Q3FY22, which will cater to the requirement of the two large global customers.
- Lighting Segment (LED Lights/battens):** The segment reported revenues of Rs 153 Cr, up 98% YoY. The margins for this segment stood at 4.5% down 295 bps YoY due to adverse operating leverage on reduced volumes and lag in passing on the increased RM costs. The company has passed on some of the price hikes in Q1FY22 and expects the margins to normalize as the scale of business operations normalizes. Currently, with a capacity of 300 Mn LED bulbs (45% of India's requirements), Dixon is the largest ODM manufacturer in lighting. The company has a strong order book in Q2FY22 in this segment and is developing outdoor lighting solutions (including street lights) while planning to launch the products by Sep'21. In the PLI for LED lighting, the company has identified components such as mechanicals, inductors, and light management systems, for which the application will be made before Sep'21 deadline. The Capex for lighting will be Rs 20 Cr per anum for the next 4-5 years.

## Outlook:

Dixon has a healthy order-book across key segments and significant contribution is expected under the different PLI schemes in the medium to long term. We remain positive on future growth prospects given (i) Healthy order book across segments, (ii) Addition of new clients, (iii) Significant contribution from the PLI revenues going forward. Key downside risks are a) Lower revenue contribution from PLI scheme and b) Slower ramp-up in the capacities. Although we continue to maintain our positive stance over the long term, the current price factors in the future growth prospects in our estimates. We value Dixon at 50x FY24 E EPS of Rs 90.2 to arrive at a target price of Rs 4,510, leaving little room for upside potential from the current levels. **Given encouraging long-term potential but limited upside potential from CMP, we recommend a HOLD on the stock.**

## Key Financials (Consolidated)

(Rs Cr)	FY21	FY22E	FY23E	FY24E
Net Sales	6,448	11,604	14,895	18,324
EBITDA	287	522	678	850
Net Profit	160	295	403	522
EPS (Rs)	27.6	51.0	69.6	90.2
PER (x)	148.7	88.6	64.8	50.0
EV/EBITDA (x)	82.9	50.0	38.1	30.2
P/BV (x)	32.2	27.9	19.9	14.5
ROE (%)	24.5	34.7	35.4	33.2
Core ROCE (%)	33.0	46.9	46.6	43.9

Source: Company, Axis Research

(CMP as of July 28, 2020)

CMP (Rs)	4,513
Upside /Downside (%)	0%
High/Low (Rs)	4,732/1,402
Market cap (Cr)	26,109
Avg. daily vol. (6m) Shrs.	113,195
No. of shares (Cr)	5.78

## Shareholding (%)

	Jun-21	Mar-21	Dec-20
Promoter	35.0	35.0	35.1
FIs	19.9	20.6	20.3
MFs / UTI	8.9	10.9	14.2
Banks / FIs	0.0	0.0	0.0
Others	36.2	33.5	30.4

## Financial & Valuations

Y/E Mar (Rs. Cr)	2021	2022E	2023E
Net Sales	6,448	11,604	14,895
EBITDA	287	522	678
Net Profit	160	295	403
EPS (Rs.)	27.6	51.0	69.6
PER (x)	148.7	88.6	64.8
EV/EBITDA (x)	82.9	50.0	38.1
P/BV (x)	32.2	27.9	19.9
ROE (%)	24.5	34.7	35.4
Core ROCE (%)	33.0	46.9	46.6

## Change in Estimates (%)

Y/E Mar	FY22E	FY23E	FY23E
Sales	-4.6	-0.4	-0.4
EBITDA	-5.1	-0.5	0.0
PAT	-6.7	-0.6	0.3

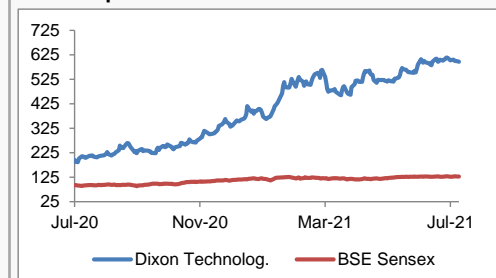
## ESG disclosure Score\*\*

Environmental Disclosure core	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

## Relative performance



Source: Capitaline, Axis Securities

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## Quarterly highlights:

- Home Appliances (Washing Machines):** The washing machine segment reported revenues of Rs 71 cr, up 193% YoY, on a low base, while margins were lower at 6.3% due to negative operating leverage. The company expects margin improvement in Q2FY22, driven by normalizing operations and a robust order book. The company is setting up a new unit for augmenting its semi-automatic washing machines capacity from 1.2 Mn to 1.5 Mn by Aug'21 which will cater to the increased demand from its customers. Dixon will start production of fully automatic top-loading washing machines from Sep'21.
- Mobile phone and EMS segment:** Revenues from the Mobiles & EMS segment in Q1FY22 stood at Rs 290 Cr, up 5x YoY from Rs 53 Cr in Q1FY21. The margins in the segment were 1.3% (down 245 bps YoY) which were impacted due to negative operating leverage and ramp-up cost attached with the production for Motorola and Nokia. The margins are expected to normalize from Q2FY22 onwards given the strong order book from its customers. The company has started exports of mobiles from its new unit, catering to Motorola's global requirements. Furthermore, the company is adding a new production line to cater to the increased demand from Nokia. Under the PLI scheme, the government had allowed the extension of 1 year to achieve the milestone revenues. Nevertheless, the company is targeting to achieve revenues milestone as per the earlier schedule. The company is in discussion with a prospective customer in North America for the supply of smartphones to various carriers. The company has the capability to make 5G phones and is confident of catering to 60-65% of Motorola's requirements. The company expects to commence exports for Motorola to the US by early Jul'21.
- Set-Top Boxes:** The revenues from STBs stood at Rs 55 Cr with margins of 2.9%. While the company is facing supply constraints for semi-conductors, the order book is healthy at 0.5 Mn STB's per month. Dixon has added Sun TV as a customer for STB's for which the supply will start from Sept'21.
- Security Systems (CCTV, DVR):** The revenues grew to Rs 75 Cr as against Rs 13 Cr in Q1FY21 while margins stood at 3.5%. The utilization levels have normalized for the vertical and with a healthy order book the company plans to further expand the capacity.

## Other concall takeaways:

- Entry in refrigerator segment:** Dixon has completed the market study and finalized technology partner for manufacturing DC refrigerators with an initial capacity of 0.6 Mn which will be further increased to 1mn going forward. It is in the process of acquiring 10 acres of land in Greater Noida for the production of DC refrigerators. The commercial production of the refrigerators will commence in 2023.
- Laptop/IT hardware:** Dixon has received approval under the PLI scheme for IT hardware manufacturing. The company has entered into an MOU with a global brand to manufacture laptops. The Capex for the same would be Rs 5 Cr per annum for IT products.
- Telecom equipment:** The JV company with Bharti Enterprises has applied for a license under the PLI scheme for telecom and networking products which includes IoT devices, modems, routers, set-top boxes, etc for the telecom industry.
- PLI for RAC components( AC PCBs):** Dixon is already supplying AC PCBs and is evaluating the option to jointly apply for a license under the PLI scheme along with its Japanese partner. The current revenues from AC PCBs stand at ~Rs 125 Cr.
- Wearables:** Dixon has started manufacturing TWS for BOAT and further explored to increase the wallet share from the company. The company awaits the PLI scheme to be extended to the Wearables segment as the government focuses on boosting local manufacturing in this high-growth category.

## Change in Estimates

(Rs Cr)

	Revised			old			% Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (Rs Cr)	11,604	14,895	18,324	12,159	14,961	18,407	-4.6	-0.4	-0.4
EBITDA (Rs Cr)	522	678	850	550	681	850	-5.1	-0.5	0.0
EBITDA %	4.50%	4.55%	4.64%	4.52%	4.55%	4.62%	(0.02 bps)	-	0.01 bps
PAT (Rs Cr)	295	403	522	316	405	520	-6.7	-0.6	0.3
EPS (Rs )	51.0	69.6	90.2	54.6	70.0	90.0	-6.7	-0.5	0.2

Source: Company, Axis Research

## Quarterly Result

Rs Cr	Q1FY22	Q1FY21	% Change (YoY)	Q4FY21	% Change (QoQ)
Sales	1,867	517	261	2,110	-11.5
Other Inc	0.4	0.2	81	1.0	-61
<b>Total Revenue</b>	<b>1868</b>	<b>517</b>	<b>261</b>	<b>2111</b>	<b>-12</b>
<b>Expenditure</b>					
Net Raw Material	1729	455	280	1896	-9
Personnel	36	20	83	44	-17
Other Exp	54	25	114	90	-40
<b>Total Expenditure</b>	<b>1819</b>	<b>500</b>	<b>264</b>	<b>2030</b>	<b>-10</b>
<b>EBIDTA</b>	<b>48</b>	<b>17</b>	<b>184</b>	<b>80</b>	<b>-40</b>
Margins (%)	2.6	3.3	-	3.8	-
Interest /Fin. Charges	9	6	60	7	28
Depreciation	15	9	63	12	22
PBT	24	2	1016	61	-61
Tax	6	1		17	
<b>PAT</b>	<b>18</b>	<b>2</b>	<b>1035</b>	<b>44</b>	<b>-59</b>
Other Comprehensive Income (net of taxes)	0	0	-90	0	
<b>Total Comprehensive Income</b>	<b>18</b>	<b>2</b>		<b>45</b>	
<b>EPS (Rs.)</b>	<b>3</b>	<b>0</b>	<b>1021</b>	<b>8</b>	<b>-60</b>

Source: Company, Axis Securities

**Financials (consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	6,448	11,604	14,895	18,324
Other operating income	0.0	0.0	0.0	0.0
<b>Total income</b>	6,448	11,604	14,895	18,324
Cost of goods sold	6,162	11,082	14,217	17,474
Contribution (%)	4.44%	4.50%	4.55%	4.64%
<b>Operating Profit</b>	287	522	678	850
Other income	2	6	3	8
<b>PBIDT</b>	288	528	681	858
Depreciation	44	65	74	84
Interest & Fin Chg.	27	70	69	77
E/o income / (Expense)	0	0	0	0
<b>Pre-tax profit</b>	217	394	538	697
Tax provision	57	99	135	175
<b>PAT</b>	160	295	403	522

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
<b>Total assets</b>	<b>1,046</b>	<b>1,276</b>	<b>1,674</b>	<b>2,197</b>
Net Block	410	598	665	733
CWIP	72.4	20.0	13.5	15.5
Investments	19.6	19.6	19.6	19.6
Wkg. cap. (excl cash)	335	397	424	724
Cash / Bank balance	69	102	412	565
Other. Assets	140.4	140.4	140.4	140.4
<b>Capital employed</b>	<b>1,046</b>	<b>1,276</b>	<b>1,674</b>	<b>2,197</b>
Equity capital	11.7	11.7	11.7	11.7
Reserves	726	925	1,301	1,795
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	291	296	311	331
Def tax Liabilities	18.4	43.7	51.6	60.0

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
<b>Sources</b>	<b>287</b>	<b>373</b>	<b>488</b>	<b>622</b>
Cash profit	231	429	546	683
(-) Dividends	27	27	27	27
Retained earnings	204	402	518	655
Issue of equity	0.1	0.0	0.0	0.0
Change in Oth. Reserves	(4.6)	0.0	0.0	0.0
Borrowings	69	15	30	35
Others	19	(44)	(61)	(68)
<b>Applications</b>	<b>287</b>	<b>373</b>	<b>488</b>	<b>622</b>
Capital expenditure	203.9	200.0	135.0	155.0
Investments	96.6	0.0	0.0	0.0
Net current assets	44.1	71.7	42.6	314.2
Change in cash	(57.2)	100.8	310.1	153.1

Source: Company, Axis Securities

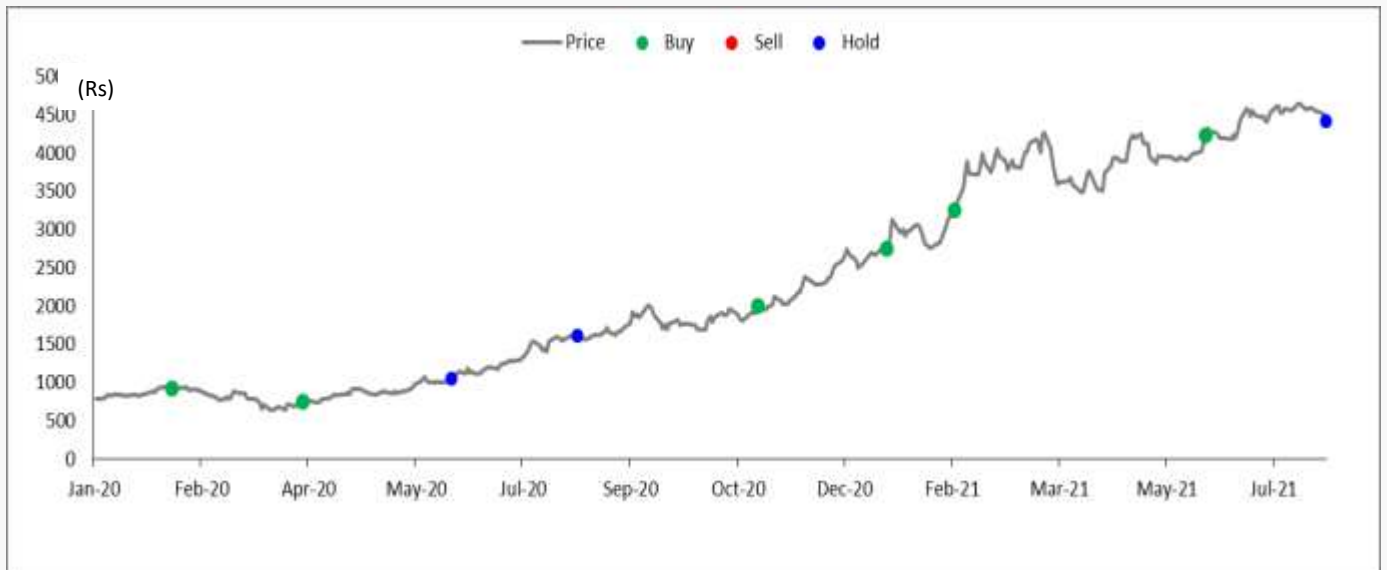
**Ratio Analysis**

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>Sales growth</b>	46.5	80.0	28.4	23.0
OPM				
Oper. profit growth	4.4	4.5	4.6	4.6
COGS / Net sales	28.5	82.2	29.8	25.4
Overheads/Net sales	95.6	95.5	95.4	95.4
Depreciation / G. block	0.0	0.0	0.0	0.0
Effective interest rate	8.2	8.2	8.0	7.8
Net wkg.cap / Net sales	0.1	0.0	0.0	0.1
Net sales / Gr block (x)	12.0	14.7	16.0	16.9
Core RoCE	33.0	46.9	46.6	43.9
Debt / equity (x)	0.21	0.17	0.13	0.11
Effective tax rate	26.4	25.2	25.2	25.2
RoE	24.5	34.7	35.4	33.2
Payout ratio (Div/NP)	17.1	9.3	6.8	5.2
EPS (Rs.)	27.6	51.0	69.6	90.2
EPS Growth	32.6	84.5	36.6	29.5
CEPS (Rs.)	35.2	62.1	82.5	104.8
DPS (Rs.)	4.0	4.0	4.0	4.0

Source: Company, Axis Securities

### Dixon Technologies Chart and Recommendation History



Date	Reco	TP	Research
06-Feb-20	BUY	5,116	Result Update
07-Apr-20	BUY	3,949	Result Update
15-Jun-20	HOLD	5,400	Result Update
13-Aug-20	HOLD	8,279	Result Update
05-Nov-20	BUY	11,214	Result Update
04-Jan-21	BUY	15,636	Company Update
05-Feb-21	BUY	17,430	Result Update
02-Jun-21	BUY	4,500	Result Update
28-Jul-21	HOLD	4,510	Result Update

Source: Axis Securities

**About the analyst**

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