

Good performance despite disruption; strong growth prospects

In Q4 the company reported flattish consol Revenues y-o-y at Rs 857 cr (vs. Rs 859 cr) as business slowed down in the last 10 days of March (lost ~Rs 165 cr of top-line). However the EBITDA margins increased to 6.5 % up 216 bps on benign RM prices and improved sales mix. The Net Profit for Q4FY20 stood at Rs 27.6 Cr (up ~67% y-o-y) on improved margins, lower finance cost and lower net effective tax rate.

For FY20 the revenues grew 47.41% y-o-y to Rs 4,400 Cr (Vs. 2,984 Cr in FY19). Segment wise Consumer Electronics grew 76%, Lighting 24%, Home Appliances 6%, Mobile Phones 51% (not comparable as it includes 100% in subsidiary vs. 50% for FY19), Security Systems 93% while reverse logistics de-grew by 48%. The Net Profit for FY20 stood at Rs 121 Cr (up ~90% y-o-y), led by strong growth in key segments and margin improvement.

Dixon continues to focus on new client acquisitions and product addition to increase its top-line, backward integration and increasing ODM revenues to expand margins. The company has added new clients across segments and is expanding capacities based on healthy order-book. The government's PLI scheme for mobile manufacturing and foray into Medical Electronics provide huge growth opportunities going forward. Currently, it would be premature to assess the benefit of these new opportunities in the near term forecast of FY20-FY22E. However, the healthy order book and promising new opportunities are likely to translate into strong growth going forward, hence we value Dixon at 36x FY22EPS of Rs 150 arriving at a target price of Rs 5400/-. Maintain HOLD.

Quarterly highlights

Consumer Electronics (FPD TV's): In Q4FY20 & FY20 the segment revenues stood at Rs 393 cr / Rs 2095 cr up 22%/76% y-o-y respectively. Dixon is expanding its capacity to 4.4 mn units which is equivalent to 30% of India's capacity. The company has acquired new clients viz Toshiba, Nokia and HiSense and expects to start production for these customers from July 2020. The order book from new customers is expected to be ~60,000 to 70,000 units per month. While the Volume growth is expected to be flattish in FY21, we expect healthy top-line growth in FY22 and improvement in margins led by expected increase in ODM share for this segment.

Lighting Segment: In Q4FY20 & FY20 the segment revenues stood at Rs 255 cr / Rs 1140 cr down 16%/up 24% y-o-y respectively. Increasing share of ODM - 94% in Q4FY20 (vs. 87% Q4FY19) and 89% in FY20 (vs. Q4FY19), has led to improvement in EBITDA margins for Q420/ FY20 up 288 bps & 139 bps respectively. Dixon's LED bulbs capacity is 20 mn bulbs per month (40% of the total Indian requirement) while in downlighter capacity is at 0.6 mn per month and battens capacity at 1.5 mn per month. Dixon will start exporting to US markets for anchor customer, while it has received inquiries from a large retail-chain in European markets.

Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20E	FY21E	FY22E
Net Sales	2,984	4,400	4,734	6,046
EBITDA	135	223	230	305
Net Profit	63	121	120	174
EPS (Rs.)	55.9	104.1	103.4	150
PER (x)	89	47.9	48.1	33.2
EV/EBITDA (x)	41.5	25.4	24.3	17.9
P/BV (x)	14.9	14.2	11.1	8.4
ROE (%)	18.2	30.5	25.8	28.7
Core ROCE (%)	27.4	35.1	31.2	34.8

Source: Company, Axis Research

(CMP as of Jun 12, 2020)

CMP (Rs)	4,975
Upside /Downside (%)	9%
High/Low (Rs)	5573/ 1831
Market cap (Cr)	5,756
Avg. daily vol. (6m) Shrs.	68,315
No. of shares (Cr)	1.16

Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	36.2	37.9	38.9
FIs	10.8	10.9	7.7
MFs / UTI	22.2	20.3	22.1
Banks / FIs	0.1	0.1	0.0
Others	30.8	30.9	31.3

Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
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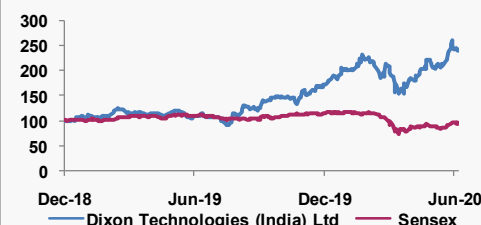
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	(8.6)	1.0
EBITDA	(3.9)	8.3
PAT	(3.5)	16.5

Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	109	132
Consensus	109	170
Mean Consensus TP (12M)		5,489

Relative performance



Source: Capitaline, Axis Securities

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Quarterly highlights:

HomeAppliances: This segment reported a 3% decline in revenues for Q4FY20, while revenues for the FY20 increased by 6%. EBITDA margin increased by 80bpsYoY in Q4FY20 and 170bps in FY20 due to benign raw material prices. The company has acquired new customer's i.e Voltas Beko and Reliance Digital's private label brands such as Kelvinator & BPL. The company remains on track to setup a new plant at Tirupati for top load fully-automatic washing machines with a capacity of 0.6 million units and has entered into agreement with an MNC customer. The management stated that margins for this segment will remain in the range of 10-11% going forward.

Mobiles: Mobile segment reported revenues of Rs 60.3cr in Q4FY20 and Rs 537 cr for FY20; these revenues include 100% of subsidiary Padget technologies vs. 50% till Q4FY19 and hence are not comparable. The company touched 100%+ capacity in February with volume of 2mn per month catering to Anchor customer Samsung's feature phone requirement. In the smartphone segment the company has added LG, Foxconn's in-house brand and Samsung.

The company plans to apply for the Production Linked Incentive (PLI) scheme, which gives 4-6% incentive for locally manufactured mobiles, with incremental revenues of Rs 500 cr over base year and investment of Rs 200 cr over a period of 4 years. We expect healthy growth in the Mobile segment going forward and EBITDA margin improvement based on strong order book and acquisition of new clients; while we currently do not factor in the opportunity presented by PLI scheme as we watch for further developments in this regard.

Other Segments: The Security Systems (CCTVs & DVRs) reported revenues of Rs 54.64 cr / Rs 216 cr in Q4FY20 / FY20 respectively. Being a discretionary item the revenues in security systems is expected to be under pressure going forward; the management stated that the near term outlook for security systems in the immediate term looks weak. For Reverse logistics the revenues stood at 4.69 cr in Q4FY20 / Rs 15.56 cr in FY20. The company has also added Dist TV as customer for set top boxes in addition to order of making hybrid set top boxes for Reliance Jio.

Other concall takeaways:

Medical equipment manufacturing: Dixon has signed an MOU with Molbio Diagnostics for manufacturing RT PCR analyzer devices, which will be used to detect 27 infectious diseases including COVID-19, TB, Malaria etc. The commercial production is expected to start from August and it has already received orders worth Rs 30 cr for the same.

Capex: The Company maintains its capex plans between Rs 90 to Rs 120 cr in FY21, with Rs ~45 cr allocation for Washing Machine facility and Rs 50 cr for PLI scheme.

Operations: The Company has resumed operations across all its 9 manufacturing units with limited capacity utilization. However, plants at Noida, Dehradun and Tirupati are completely operational. The Company plans to implement automation for Lighting and LED TV units to overcome impact due to social distancing norms on production.

Outlook & Valuation

Dixon continues to focus on new client acquisition and product addition to increase its top-line, backward integration and increasing ODM revenues. The company has added new clients across segments and is expanding capacities based on healthy order-book. The government's PLI scheme for mobile manufacturing and foray into Medical Electronics provide huge growth opportunities going forward. Currently, it would be premature to assess the benefit of these new opportunities in the near term forecast of FY20-FY22E. However, the healthy order book and promising new opportunities are likely to translate into strong growth going forward, hence **we value Dixon at 36x FY22EPS of Rs 150 arriving at a target price of Rs 5400/-.** Maintain HOLD/-.

Change in FY22 Estimates

(Rs Cr)

	Revised		Old		%Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	4,734	6,046	5,178	5,988	(8.6)	1.0
EBITDA	230	305	239	282	(3.9)	8.3
EBITDA %	4.8	5.1	4.6	4.7	20 bps	34 bps
PAT	120	174	124	149	(3.5)	16.5
EPS	103	150	109	132	(5.2)	13.7

Source: Company, Axis Research

Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20E	FY21E	FY22E
Net sales	2,984	4,400	4,734	6,046
Other operating income	0.0	0.0	0.0	0.0
Total income	2,984	4,400	4,734	6,046
Cost of goods sold	2,850	4,177	4,505	5,740
Contribution (%)	4.5%	5.07%	4.85%	5.05%
Operating Profit	135	223	230	305
Other income	6	5	5	6
PBIDT	141	228	235	312
Depreciation	22	37	38	44
Interest & Fin Chg.	25	35	37	36
E/o income / (Expense)	0	0	0	0
Pre-tax profit	94	157	160	232
Tax provision	30	36	40	58
PAT	63	121	120	174

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Total assets	535	598	717	881
Net Block	241	277	326	350
CWIP	18.8	9.6	9.0	6.5
Investments	9.7	18.3	18.3	18.3
Wkg. cap. (excl cash)	229	193	169	178
Cash / Bank balance	36.7	100	195	328
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	535	598	717	881
Equity capital	11.3	11.6	11.6	11.6
Reserves	367	393	507	675
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	141	179	174	166
Def tax Liabilities	16.0	15.0	24.8	28.6

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Sources	96	157	167	222
Cash profit	110	192	195	253
(-) Dividends	3	5	5	5
Retained earnings	107	187	189	248
Issue of equity	0.0	0.2	0.0	0.0
Change in Oth. Reserves	2.7	(88.6)	0.0	0.0
Borrowings	(2)	5	5	7
Others	(12)	54	(27)	(33)
Applications	96	157	167	222
Capital expenditure	94.6	67.3	86.5	65.0
Investments	(11.0)	0.9	0.0	0.0
Net current assets	20.0	25.7	(14.3)	24.4
Change in cash	(7.4)	63.4	94.9	133.1

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E
Sales growth	4.6	47.4	7.6	27.7
OPM	4.5	5.1	4.8	5.1
Oper. profit growth	20.4	65.4	2.9	33.0
COGS / Net sales	95.5	94.9	95.2	94.9
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	7.5	10.1	8.5	8.5
Effective interest rate	28.3	31.9	46.0	49.1
Net wkg.cap / Net sales	0.07	0.1	0.1	0.1
Net sales / Gr block (x)	10.3	12.2	10.6	11.7
Core RoCE	27.4	35.1	31.2	34.8
Debt / equity (x)	0.36	0.20	0.15	0.10
Effective tax rate	32.5	23.1	25.2	25.2
RoE	18.2	30.5	25.8	28.7
Payout ratio (Div/NP)	4.3	4.5	4.6	3.1
EPS (Rs.)	55.9	104.1	103.4	150.0
EPS Growth	2.1	86.2	(0.7)	45.1
CEPS (Rs.)	75.0	135.3	136.3	187.7
DPS (Rs.)	2.0	3.9	3.9	3.9

Source: Company, Axis Securities

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