

# Dixon Technologies (India)

27 May 2019

Reuters: DIXO.BO; Bloomberg: DIXON IN

## Sustains Healthy Growth Momentum

Dixon Technologies (India) or Dixon reported 4QFY19 revenues of Rs8.6bn, up 44% YoY and 6% above our/consensus estimate each. Consumer electronics/lighting/home appliances segments were key drivers of growth with revenues rising 51%/43%/14% YoY, respectively, and collectively accounting for 84% of total sales. Consolidated EBITDA margin declined 20bps YoY to 4.4%, below our/consensus estimate of 4.9%/4.8%, respectively, impacted by Rs35mn one-time charge towards ESOPs and corporate overheads. Higher interest costs and tax rate restricted PAT growth to 17% YoY at Rs165mn, 15%/7% below our/consensus estimate, respectively. With a clear focus on achieving scale, migration to ODM, new customer acquisition and backward integration, Dixon is aiming for 25%-30% revenue growth in FY20 along with commensurate improvement in the margin profile. FY19 capex stood at Rs680mn while FY20E capex outlay is Rs600mn-Rs650mn (excluding Rs300mn capex earmarked for top-load washing machine). We have cut our earnings estimates for FY20/FY21 by 11%/10%, respectively. We have retained Buy rating on the stock with a revised target price of Rs3,090 (from Rs3,190 earlier) based on 30x FY21E earnings.

**Healthy revenue growth across segments:** Revenues of consumer electronics segment (LED television) rose 51% YoY to Rs3.2bn in 4QFY19 led by 20%-30% higher realisation. With the addition of Xiaomi as a client, the average selling price has increased as Xiaomi sells 43 inch smart TVs versus Dixon's earlier portfolio of largely 32 and 24 inch TVs. Dixon has increased its capacity from 2.4mn units to 3.4mn units, which forms 25% of India's total capacity. With the current order book, Dixon aims to achieve sales of 1.4mn units (~30% volume growth) in FY20, 65%-70% of it is likely to come from Xiaomi. Home appliances segment revenues grew 14% YoY to Rs926mn in 4QFY19 and 50% YoY to Rs3.7bn in FY19. Addition of Samsung as a client has propelled volume growth as it formed 35% of total segment sales in FY19 and is likely to rise further to 45%-50% in FY20. Dixon has a capacity of 1.2mn units per annum of semi-automatic washing machines, which forms 30% of India's total capacity, and aims at 30%-35% volume growth in FY20. Dixon has finalised its top-load fully automatic washing machine models in the 6kg and 7kg range, with production likely to start in Tirupati in 4QFY20. Lighting segment's sales were up 43% YoY at Rs3bn in 4QFY19 and 19% YoY at Rs9.2bn in FY19. Excluding CFL lights (which has been stopped from 3QFY19), the like-to-like growth was 38% YoY in FY19. Dixon will expand its LED bulb capacity to 20mn per month (from 18mn currently) and batten capacity to 2mn per month (from 0.4mn currently). With the largest capacity in India, it aims to grow volume by 25%-30% in FY20. Dixon is among the top-5 global manufacturer of lighting and aims to expand its export sales. Security systems sales were healthy at Rs687mn in 4QFY19 and Rs1.1bn in FY19, which is its first year of operations. Mobile phones (down 13% YoY at Rs669mn) and reverse logistics (down 79% YoY at Rs26mn) remain subdued as Dixon aims to restructure the operations.

**Margin profile update:** EBITDA margin dipped 20bps YoY to 4.4%, partly owing to a Rs35mn charge towards ESOPs and corporate overheads, 30% of which has been allocated to consumer electronics, lighting and home appliance segment each while 10% is allocated to reverse logistics. Lighting margin rose 80bps YoY to 7.1% led by improved operating leverage, backward integration and higher ODM sales at 89%. Consumer electronics margin fell 10bps YoY to 1.3% while capital employed rose to Rs1.3bn owing to favourable terms offered to Xiaomi, which Dixon expects to gradually rectify. Home appliances' EBITDA margin fell 60bps QoQ to 10.2% owing to one-time corporate expenses while FY20 margins are likely in the 10.5%-11% range. Security systems' margin was healthy at 2.3% while mobile phone margin rose 140bps YoY to 2.5% owing to PCBA backward integration. In FY19, EBITDA margin rose 60bps YoY to 4.5%.

**Outlook:** 36% earnings CAGR over FY19-FY21E, robust growth prospects, healthy return ratios, lean working capital cycle and high fixed-asset turnover will support Dixon's valuation.

## BUY

**Sector:** Consumer Electronics

**CMP:** Rs2,425

**Target Price:** Rs3,090

**Upside:** 27%

**Chirag Muchhala**

Research Analyst

chirag.muchhala@nirmalbang.com

+91-22-6273 8092

### Key Data

Current Shares O/S (mn)	11.3
Mkt. Cap (Rsbn/US\$m)	27.5/395.3
52 Wk H / L (Rs)	3,538/1,890
Daily Vol. (3M NSE Avg.)	8,280

### Price Performance (%)

	1 M	6 M	1 Yr
Dixon Tech	5.0	17.8	(28.7)
Nifty Index	1.0	12.5	12.7

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
<b>Net revenues</b>	<b>5,978</b>	<b>7,940</b>	<b>8,588</b>	<b>43.7</b>	<b>8.2</b>	<b>28,416</b>	<b>29,845</b>	<b>5.0</b>
Raw material costs	5,119	6,957	7,523	47.0	8.1	25,104	26,093	3.9
Staff costs	200	193	273	36.8	41.6	728	839	15.3
Other expenses	386	403	418	8.3	3.6	1,465	1,564	6.8
Total expenditure	5,704	7,553	8,213	44.0	8.7	27,296	28,496	4.4
EBITDA	274	387	375	36.6	(3.1)	1,120	1,349	20.4
<b>EBITDA margin (%)</b>	<b>4.6</b>	<b>4.9</b>	<b>4.4</b>	-	-	<b>3.9</b>	<b>4.5</b>	-
Interest costs	43	62	88	105.1	42.2	128	250	95.9
Depreciation	45	59	62	37.1	4.9	152	217	42.6
Other income	16	6	19	16.8	224.1	42	56	35.0
PBT	203	272	244	20.4	(10.3)	882	938	6.3
Tax	62	96	79	27.7	(17.7)	273	305	11.5
<b>PAT</b>	<b>141</b>	<b>176</b>	<b>165</b>	<b>17.2</b>	<b>(6.3)</b>	<b>609</b>	<b>634</b>	<b>4.0</b>
PAT margin (%)	2.4	2.2	1.9	-	-	2.1	2.1	-
<b>EPS (Rs)</b>	<b>12.4</b>	<b>15.6</b>	<b>14.6</b>	<b>17.2</b>	<b>(6.3)</b>	<b>53.8</b>	<b>55.9</b>	<b>4.0</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net revenues	24,570	28,416	29,845	36,994	44,595
EBITDA	912	1,120	1,349	1,783	2,260
Net profit	476	609	634	883	1,166
PAT growth (%)	54.1	28.0	4.0	39.3	32.1
EPS (Rs)	43.3	53.8	55.9	77.9	103.0
EBITDA margin (%)	3.7	3.9	4.5	4.8	5.1
P/E (x)	56.0	45.1	43.4	31.1	23.6
P/BV (x)	13.5	8.7	7.3	6.0	4.9
EV/EBITDA (x)	30.5	24.5	21.1	15.7	12.2
Dividend yield (%)	0.2	0.1	0.1	0.2	0.3
RoCE (%)	33.6	26.9	21.4	26.2	29.2
RoE (%)	24.1	19.3	16.7	19.2	20.6

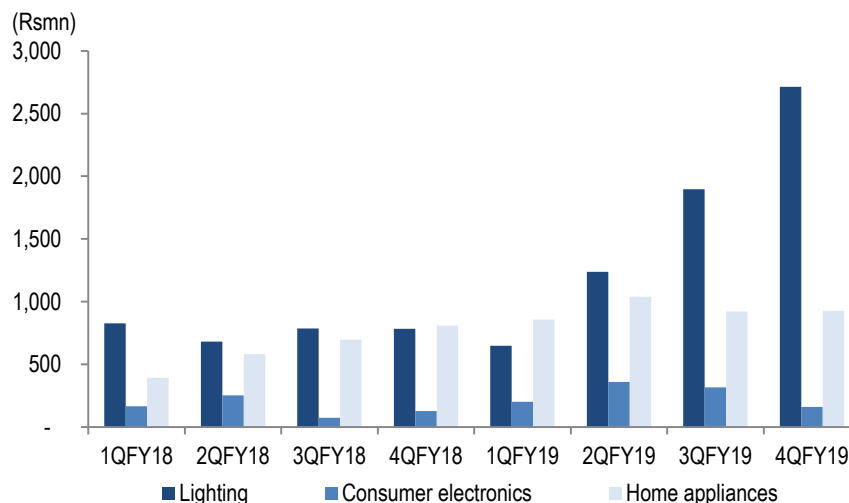
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Segment-wise analysis

Y/E March	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
<b>Revenues (Rsmn)</b>								
Lighting	2,132	2,341	3,049	43.0	30.2	7,742	9,194	18.8
Consumer electronics	2,136	2,879	3,233	51.3	12.3	10,735	11,937	11.2
Home appliances	810	923	926	14.2	0.3	2,503	3,744	49.6
Reverse logistics	123	32	26	(79.3)	(19.3)	734	302	(58.9)
Mobile phones	772	1,511	669	(13.4)	(55.7)	6,698	3,549	(47.0)
Security systems	5	254	687	-	170.3	5	1,120	-
<b>Total</b>	<b>5,978</b>	<b>7,940</b>	<b>8,588</b>	<b>43.7</b>	<b>8.2</b>	<b>28,416</b>	<b>29,845</b>	<b>5.0</b>
<b>Revenue mix (%)</b>								
Lighting	35.7	29.5	35.5	-	-	27.2	30.8	-
Consumer electronics	35.7	36.3	37.6	-	-	37.8	40.0	-
Home appliances	13.6	11.6	10.8	-	-	8.8	12.5	-
Reverse logistics	2.1	0.4	0.3	-	-	2.6	1.0	-
Mobile phones	12.9	19.0	7.8	-	-	23.6	11.9	-
Security systems	0.1	3.2	8.0	-	-	0.0	3.8	-
<b>EBITDA (Rsmn)</b>								
Lighting	135	189	216	60.5	14.5	469	660	40.7
Consumer electronics	29	60	41	39.5	(32.1)	231	249	8.2
Home appliances	110	99	95	(14.0)	(4.6)	307	370	20.6
Reverse logistics	(4)	(3)	(9)	-	-	58	(17)	-
Mobile phones	9	44	17	89.7	(62.3)	65	74	13.8
Security systems	(4)	1	16	-	-	(9)	12	-
<b>Total</b>	<b>274</b>	<b>390</b>	<b>375</b>	<b>36.7</b>	<b>(3.9)</b>	<b>1,120</b>	<b>1,349</b>	<b>20.4</b>
<b>EBITDA margin (%)</b>								
Lighting	6.3	8.1	7.1	-	-	6.1	7.2	-
Consumer electronics	1.4	2.1	1.3	-	-	2.1	2.1	-
Home appliances	13.6	10.8	10.2	-	-	12.3	9.9	-
Reverse logistics	(3.4)	(8.2)	(35.7)	-	-	7.8	(5.7)	-
Mobile phones	1.1	2.9	2.5	-	-	1.0	2.1	-
Security systems	(87.8)	0.3	2.3	-	-	NA	1.1	-

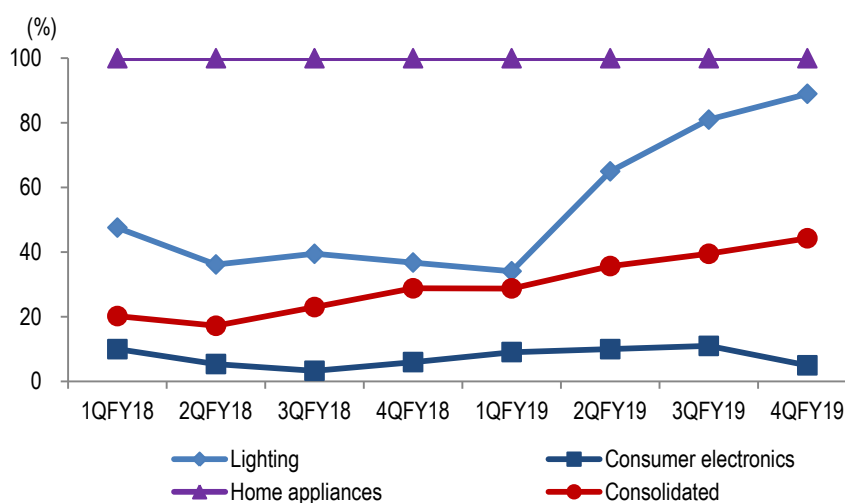
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: ODM revenue trend



Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: ODM sales as a percentage of total sales



Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Actual performance versus our estimates

4QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)	Consensus est.	Deviation (%)
Revenues	8,588	8,112	5.9	8,107	5.9
EBITDA	375	397	(5.5)	381	(1.6)
PAT	165	194	(14.8)	177	(6.5)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenues	35,405	41,955	36,994	44,595	4.5	6.3
EBITDA	1,837	2,282	1,783	2,260	(3.0)	(0.9)
PAT	991	1,289	883	1,166	(10.9)	(9.6)

Source: Company, Nirmal Bang Institutional Equities Research

## Financials (consolidated)

### Exhibit 7: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	24,570	28,416	29,845	36,994	44,595
% growth	76.8	15.7	5.0	24.0	20.5
Raw material costs	21,801	25,104	26,093	32,159	38,698
Staff costs	639	728	839	1,036	1,204
Other overheads	1,218	1,465	1,564	2,017	2,433
Total expenditure	23,658	27,296	28,496	35,211	42,335
EBITDA	912	1,120	1,349	1,783	2,260
% growth	55.5	22.8	20.4	32.2	26.8
EBITDA margin (%)	3.7	3.9	4.5	4.8	5.1
Depreciation	107	152	217	252	286
Interest costs	155	128	250	275	303
Other income	14	42	56	62	69
Profit before tax	664	882	938	1,318	1,740
Tax	188	273	305	435	574
Net profit	476	609	634	883	1,166
% growth	54.1	28.0	4.0	39.3	32.1
PAT margin (%)	1.9	2.1	2.1	2.4	2.6
EPS (Rs)	43.3	53.8	55.9	77.9	103.0
No. of shares (mn)	11.0	11.3	11.3	11.3	11.3

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	110	113	113	113	113
Reserves & surplus	1,861	3,036	3,669	4,484	5,541
Net worth	1,971	3,150	3,782	4,597	5,654
Short-term loans	331	326	1,299	1,049	899
Long-term loans	99	80	61	61	61
Total loans	430	406	1,361	1,111	961
Deferred tax liability (net)	(3)	41	144	144	144
<b>Total liabilities</b>	<b>2,398</b>	<b>3,597</b>	<b>5,287</b>	<b>5,852</b>	<b>6,759</b>
Net block	1,366	1,824	2,409	3,148	3,662
Capital WIP	20	126	188	-	-
Investments	-	111	76	76	76
Inventories	2,822	3,223	4,084	4,846	5,619
Debtors	2,802	3,007	6,650	7,095	7,942
Cash	153	441	367	603	849
Other current assets	722	922	1,135	1,480	1,784
Total current assets	6,499	7,594	12,235	14,024	16,193
Creditors	5,030	5,148	8,976	10,573	12,192
Other current liabilities & provisions	456	911	646	823	980
Total current liabilities	5,487	6,059	9,622	11,396	13,172
Net current assets	1,013	1,536	2,614	2,627	3,021
<b>Total assets</b>	<b>2,398</b>	<b>3,597</b>	<b>5,287</b>	<b>5,852</b>	<b>6,759</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	805	968	1,132	1,531	1,974
(Inc.)/dec. in working capital	(198)	(235)	(1,152)	222	(148)
<b>Cash flow from operations</b>	<b>607</b>	<b>733</b>	<b>(20)</b>	<b>1,753</b>	<b>1,826</b>
Other income	14	42	56	62	69
Depreciation	107	152	217	252	286
Tax paid (-)	(164)	(230)	(202)	(435)	(574)
<b>Net cash from operations</b>	<b>564</b>	<b>696</b>	<b>52</b>	<b>1,632</b>	<b>1,607</b>
Capital expenditure (-)	(373)	(716)	(864)	(803)	(800)
<b>Net cash after capex</b>	<b>191</b>	<b>(20)</b>	<b>(812)</b>	<b>829</b>	<b>807</b>
Interest paid (-)	(155)	(128)	(250)	(275)	(303)
Dividends paid (-)	(79)	(27)	(27)	(68)	(109)
Inc./(dec.) in short-term borrowing	81	(4)	973	(250)	(150)
Inc./(dec.) in long-term borrowing	(396)	(19)	(19)	-	-
Inc./(dec.) in total borrowings	(314)	(23)	954	(250)	(150)
(Inc.)/Dec. in investments	1	(111)	35	-	-
Equity issue/(buyback)	456	571	-	-	-
<b>Cash from financial activities</b>	<b>(92)</b>	<b>282</b>	<b>712</b>	<b>(593)</b>	<b>(562)</b>
Others	(20)	26	26	-	-
Opening cash balance	75	153	441	367	603
Closing cash balance	153	441	367	603	849
Change in cash balance	79	288	(74)	236	246

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Key ratios

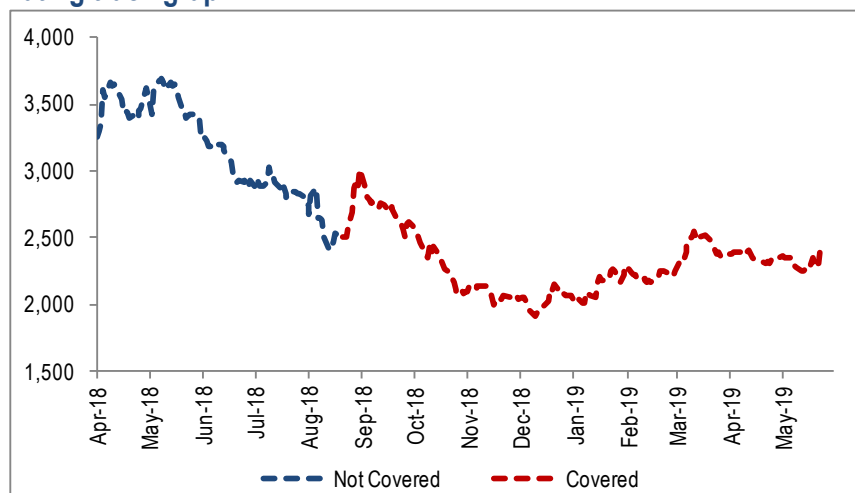
Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	43.3	53.8	55.9	77.9	103.0
Book value	179.4	278.1	334.0	405.9	499.3
<b>Valuation (x)</b>					
P/E	56.0	45.1	43.4	31.1	23.6
P/BV	13.5	8.7	7.3	6.0	4.9
EV/EBITDA	30.5	24.5	21.1	15.7	12.2
EV/sales	1.1	1.0	1.0	0.8	0.6
<b>Return ratios (%)</b>					
RoCE	33.6	26.9	21.4	26.2	29.2
RoE	24.1	19.3	16.7	19.2	20.6
RoIC	35.9	31.8	23.4	29.6	33.8
<b>Profitability ratios (%)</b>					
EBITDA margin	3.7	3.9	4.5	4.8	5.1
EBIT margin	3.3	3.4	3.8	4.1	4.4
PAT margin	1.9	2.1	2.1	2.4	2.6
<b>Turnover ratios</b>					
Fixed-asset turnover (x)	16.2	16.0	12.0	10.9	10.4
Debtor days	42	39	81	70	65
Inventory days	47	47	57	55	53
Creditor days	84	75	126	120	115
<b>Solvency ratios (x)</b>					
Debt-equity	0.2	0.1	0.4	0.2	0.2

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price	Target price (Rs)
21 August 2018	Buy	2,515	3,285
9 October 2018	Buy	2,348	3,285
2 November 2018	Buy	2,115	2,990
9 January 2019	Buy	2,095	2,990
31 January 2019	Buy	2,218	3,020
9 April 2019	Buy	2,377	3,190
16 April 2019	Buy	2,348	3,190
27 May 2019	Buy	2,425	3,090

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010