

29 October 2019

Dixon Technologies – BUY

CMP :Rs.3,020.0
Target Price :Rs.3,667.0
Upside : 21%+
Stop Loss :Rs.2,689.0 (Closing basis)

Investment Thesis

Recently, the stock price of Dixon Technologies Ltd. (Dixon Technologies) corrected by ~6% from 52-week high of Rs.3,232.00 despite the company reported highest ever quarterly revenue in the last quarter.

Dixon Technologies has emerged as a fully integrated end-to-end product and solution suite to OEMs ranging from global sourcing, manufacturing, quality testing and packaging to logistics. Having extensive experience in developing new designs, integrating latest technologies, efficiently utilizing manufacturing facilities, equipment and materials across the verticals of consumer durables, lighting and mobile phones, Dixon Technologies is able to constantly improve its product offerings, structure and functional design according to customers' needs. Over the last 12-18 months, it has invested ~Rs.800mn in the Tirupati facility to expand capacity across major segments. With the pick-up in volumes in TV, washing machines & LED light along with the backward integration of the LCM capacity, margins are expected to improve going forward.

With strong hold in outsourced products for OEMs, Dixon Technologies has added 22 new customers in last 12 months across key business segments. We believe, home appliances, consumer electronics and lighting segment will remain the key revenue growth drivers for Dixon Technologies while mobile segment, on the other hand, is expected to remain volatile till it gets dominant player on board as it does not cater to any top-10 brand. Consumer appliance segment has very high competition, however, strong volume from Xiaomi's will offset the impact of any market loss of existing customer. Samsung's on-boarding has led to strong growth in the home appliance segment and the same could continue with potential new customer addition like Voltas Beko. We expect Dixon Technologies to grow at healthy double digit over FY19-21E.

Financials

- During the past 5 years, revenue of Dixon Technologies grew at a CAGR of 22.2% while PAT grew at CAGR of 38.3% in the same period.

| Consol. (Rs. Mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|------------------|--------|--------|--------|--------|--------|
| Revenue | 24,570 | 28,416 | 29,845 | 34,321 | 39,469 |
| EBITDA | 912 | 1,127 | 1,362 | 1,566 | 1,801 |
| % growth | 63.6 | 23.5 | 20.8 | 15.0 | 15.0 |
| PAT | 476 | 609 | 634 | 730 | 839 |
| EPS (INR) | 43.3 | 53.8 | 55.9 | 64.4 | 74.1 |
| P/E (x) | 70.6 | 56.9 | 54.6 | 47.4 | 41.2 |
| RoE (%) | 24.1% | 19.3% | 16.9% | 17.7% | 18.6% |

- Dixon Technologies has reported highest ever quarterly revenue which grew by 93.5% YoY to Rs.11,469mn in Q1FY20 on account of broad-based growth across segments and low base quarter.

Stock Data

| | |
|-----------------------|--------------|
| Market Cap (Rs. Mn) | 34,591 |
| Market Cap (\$ Mn) | 487.2 |
| Shares O/S (in Mn) | 11.30 |
| Avg. Volume (3 month) | 22,000 |
| 52-Week Range (Rs.) | 3,232/ 1,560 |

Shareholding Pattern

| | |
|-------------------------------|--------|
| Promoters | 38.92% |
| FIIIs | 7.23% |
| Institutions | 22.38% |
| Others (incl. body corporate) | 31.47% |

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|-------|-------|-------|
| Absolute | 17.5% | 27.9% | 28.9% |
| BSE CD | 10.5% | 9.7% | 40.4% |

Key Ratios

| | |
|---------------|--------|
| Div Yield | 0.1% |
| TTM PE | 46.7x |
| ROE | 17.2% |
| TTM EPS (Rs.) | 65.5/- |

- Consumer Electronics and Lighting segments of Dixon Technologies were key drivers of growth in Q1FY20 with revenue rising by 129% YoY and 71% YoY, respectively, and collectively accounting for 73% of total sales in Q1FY20.
- Dixon Technologies has reported EBITDA at Rs.526mn with a significant growth of 104.0% YoY in Q1FY20 on higher revenue growth and lower growth in employee and other expenses as a % of sales. As a result, EBITDA margin has also improved by 30bps YoY to 4.6% in Q1FY20.

Key Business Highlights

- Dixon Technologies is one of the largest home-grown design-focused and solutions company engaged in manufacturing products in the consumer durables, lighting and mobile phones markets in India.
- Dixon Technologies' diversified product portfolio includes LED TVs, washing machines, LED bulbs & tubelights, CFL bulbs, feature phones & smartphones and security surveillance systems like CCTV & DVRs.
- Dixon Technologies has ten state-of-the-art manufacturing facilities, of which 4 are located in Noida to manufacture LED lamps and mobile phones while other 4 are located at Dehradun for LED lamps, LED TVs and washing machines and 2 are located in Andhra Pradesh.

Valuation

- Dixon Technologies' consumer electronics segment (LED TV) has grown significantly in the past few quarters led by addition of Xiaomi as a client. Xiaomi has 35% market share in Smart TVs in India and accounted for 41% of Dixon Technologies' volume and 68%-69% of value in 1QFY20. Dixon Technologies is supplying 0.15mn-0.16mn TV sets to Xiaomi per month and meets 75% of its requirement as Xiaomi sells 0.2mn-0.22mn TV sets per month. Dixon Technologies has outlined capacity expansion from 2.4mn units to 3.6mn units which will help to meet 100% of Xiaomi's needs in a couple of quarters.
- Dixon Technologies has LED bulb capacity of 20mn per month and did volume of 19.4mn in July 2019, which is ~50% of industry. It is expanding batten capacity from 0.25mn pm to 0.5mn/1.5mn in two phases while downlighter capacity will be expanded from 0.15mn pm to 0.5mn/1mn in two phases. Volume-wise, it is among top four light manufacturers globally and plans to source international orders. It meets light requirement of brands such as Wipro (100%), Bajaj (60%), Panasonic Anchor (60%-70%), Orient (100%) and Usha (100%).
- With addition of Samsung as a client, Dixon Technologies started operating at 100% capacity utilization and had rejected some orders in the home appliance segment. At a capex of Rs.70-80mn, Dixon Technologies has planned capacity expansion to 1.5mn units from 1.0mn units currently by the end of FY20E, of which it aims to supply 0.5mn units to Samsung. Dixon Technologies also has a plan to incur a capex of Rs.300mn for a fully automatic top-load washing machine plant having 0.5mn capacity in 6kg-9kg range on 100% ODM basis.
- With constantly improving product offerings, structure and design, new customer acquisition like Samsung and Xiaomi, capacity expansion plans, migration to ODM and backward integration, we value Dixon Technologies at 49.5x FY21E EPS of Rs.74.10 to arrive at target price of Rs.3,667.00, an upside of ~21%.

Risk & Concern

- Any loss of market share for any key clients to its competitors may directly impact the volumes growth of Dixon Technologies.
- Highly dependent on few key customers, any break-down in business relations with top clients may adversely affect business growth.
- Any slowdown in Indian economy and consumer durable demand may negatively impact growth outlook of Dixon Technologies.

Graphs & Charts

Figure 1: Net Sales Trend

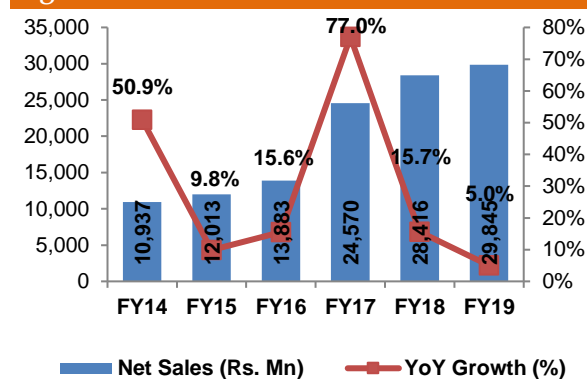


Figure 2: EBITDA & EBITDA Margin Trend

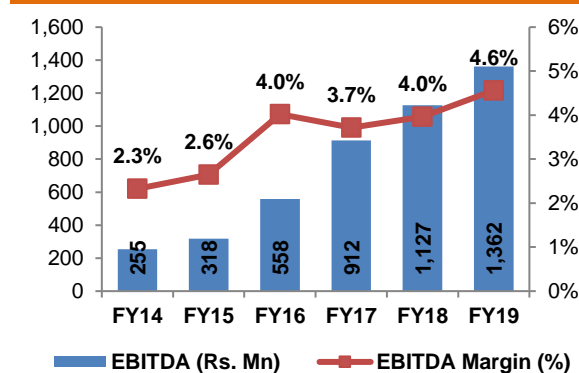


Figure 3: PAT Trend

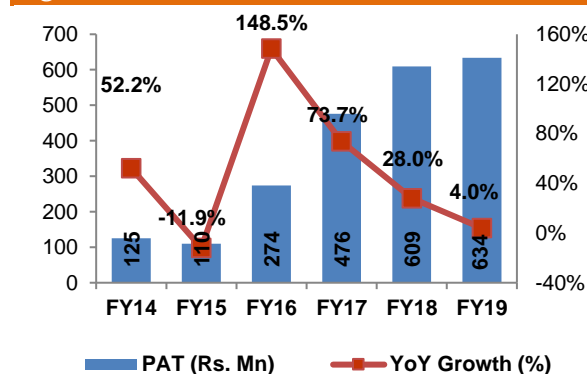
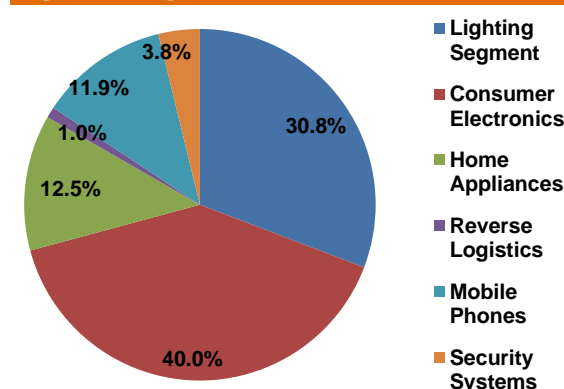


Figure 4: Segment-wise Revenue (FY19)



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|-------------------|------------------|
| Name | Designation |
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