

01 August 2024

## Dixon Technologies

*Robust performance, bright outlook; upgrading to a Buy*

Led by strong growth in the mobile phone category, Dixon Technologies is targeting 28-30m smartphones and will focus on backward integration of non-semiconductor mobile-phone components to expand margins. Focusing on scaling up laptops, it onboarded four clients. It is setting up a manufacturing plant at Chennai and expects Rs40bn revenue in FY26. With the bright outlook ahead, we upgrade the stock to a Buy with a higher TP of Rs14,625.

**Strong performance led by mobiles.** Q1 revenue grew 101% y/y to Rs65.8bn, mainly led by strong growth in mobile phones (up 189.2% y/y). EBITDA was Rs2.5bn, up 88% y/y. The EBITDA margin declined 26bps y/y mainly on the adverse product mix. Net income rose 94.1% y/y to Rs1.3bn as depreciation shot up 57.2% y/y, along with higher other income (up 187% y/y), though offset by higher interest costs (up 109.2% y/y).

**Mobile phone growth robust; laptops to drive the next surge.** Mobile-phone revenue grew 233% y/y in Q1 to Rs46.25bn. Smartphone/feature phone volumes in Q1 were 15.1bn/38bn. Post-Ismartu approval, the company targets 28m-30m smartphones in FY25. It is integrating backward into non-semiconductor components and expanding into laptop manufacturing with four global brands. A new Chennai plant is being set up, aiming at Rs40bn revenue in FY26.

**Outlook, Valuation.** Growth prospects over the medium term appear strong, led by strong growth in mobile phones and a steep ramp-up of IT hardware from FY26. With its focus on backward integration into non-semiconductor components of mobile phones and IT hardware, we expect margins to expand over the medium term. With the strong outlook, we upgrade the stock to a Buy with a higher TP of Rs14,625 (earlier Rs10,000), 90x FY26e EPS. We model 51.8/62.5% revenue/net profit CAGRs over FY24-26, leading to the RoE expanding from 21.7% to 30.6%. **Key risks:** Delay in customers added or ramping up volumes could lead to lowering our earnings estimates.

Key financials (YE: Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	1,06,971	1,21,920	1,76,909	2,96,340	4,07,388
Net profit (Rs m)	1,902	2,555	3,677	6,433	9,713
EPS (Rs)	32.0	42.9	61.5	107.6	162.4
P/E (x)	377.8	282.1	196.9	112.5	74.5
EV / EBITDA (x)	190.2	140.5	103.7	60.9	43.0
P/BV (x)	72.1	56.1	42.7	31.8	22.8
RoE (%)	19.1	19.9	21.7	28.2	30.6
RoCE (%) (post tax)	14.9	19.7	21.2	29.4	31.5
Dividend yield (%)	0.0	0.0	0.0	0.1	0.1
Net debt / equity (x)	0.3	(0.0)	(0.0)	(0.3)	(0.5)

Source: Company

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Rating: **Buy**

Target Price(12-mth): Rs.14,625

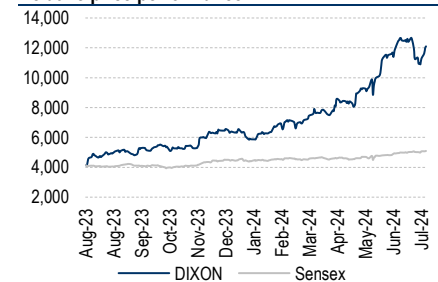
Share Price: Rs.12,106

Key data	DIXON IN / DIXO.BO
52-week high / low	Rs.12,879 / 4,020
Sensex / Nifty	81,741 / 24,951
3-m average volume	\$60.8m
Market cap	Rs.724bn / \$8,651.8m
Shares outstanding	60m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	33.2	33.4	33.6
- of which, Pledged	-	-	-
Free float	66.8	66.6	66.4
- Foreign institutions	19.3	17.9	17.4
- Domestic institutions	26.1	27.0	26.4
- Public	21.4	21.7	22.6

Estimates revision (%)	FY25e	FY26e
Sales	15.2	10.0
EBITDA	14.7	10.9
PAT	18.2	13.9

### Relative price performance



Source: Bloomberg

**Manish Valecha**  
Research Analyst

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Research Analyst

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
<b>Net revenues</b>	<b>1,06,971</b>	<b>1,21,920</b>	<b>1,76,909</b>	<b>2,96,340</b>	<b>4,07,388</b>
Growth (%)	65.9	14.0	45.1	67.5	37.5
Direct costs	97,792	1,10,207	1,60,390	2,69,669	3,69,909
Gross margins (%)	8.6	9.6	9.3		
SG&A	5,387	6,585	9,543	14,872	20,969
<b>EBITDA</b>	<b>3,791</b>	<b>5,128</b>	<b>6,976</b>	<b>11,798</b>	<b>16,511</b>
EBITDA margins (%)	3.5	4.2	3.9	4.0	4.1
- Depreciation	840	1,146	1,619	2,279	2,715
Other income	38	56	226	270	350
Interest expenses	442	606	747	1,100	1,300
PBT	2,548	3,432	4,836	8,689	12,846
Effective tax rates (%)	25.3	26.1	24.6	24.8	25.2
+ Associates / (Minorities)	(2)	21	31	(100)	100
Net income	1,902	2,555	3,677	6,433	9,713
<b>Adj. income</b>	<b>1,902</b>	<b>2,555</b>	<b>3,677</b>	<b>6,433</b>	<b>9,713</b>
WANS	59.4	59.6	59.8	59.8	59.8
<b>FDEPS (Rs)</b>	<b>32.0</b>	<b>42.9</b>	<b>61.5</b>	<b>107.6</b>	<b>162.4</b>
FDEPS growth (%)	19.0	34.4	43.9	74.9	51.0

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	119	119	120	120	120
Net worth	9,968	12,849	16,949	22,784	31,749
Debt	4,580	1,826	1,550	1,050	550
Minority interest	6	(3)	276	276	276
DTL / (Assets)	201	224	240	240	240
<b>Capital employed</b>	<b>14,754</b>	<b>14,897</b>	<b>19,015</b>	<b>24,350</b>	<b>32,815</b>
Net tangible assets	9,542	11,909	19,353	22,573	25,359
Net intangible assets	191	224	347	347	347
Goodwill	303	303	303	303	303
CWIP (tang. & intang.)	220	1,197	643	643	643
Investments (strategic)	59	142	200	200	200
Investments (financial)	1,350	300	-	-	-
Current assets (excl. cash)	29,282	30,428	46,963	78,667	1,08,146
Cash	1,823	2,292	2,087	6,846	14,986
Current liabilities	28,017	31,898	50,881	85,230	1,17,168
Working capital	1,265	(1,470)	(3,918)	(6,563)	(9,023)
<b>Capital deployed</b>	<b>14,754</b>	<b>14,897</b>	<b>19,015</b>	<b>24,350</b>	<b>32,815</b>
Contingent liabilities	-	-	-	-	-

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
<b>PBT</b>	<b>2,952</b>	<b>3,981</b>	<b>5,357</b>	<b>9,519</b>	<b>13,796</b>
+ Non-cash items	840	1,146	1,619	2,279	2,715
Oper. prof. before WC	3,791	5,128	6,976	11,798	16,511
- Incr. / (decr.) in WC	(62)	2,735	2,448	2,645	2,459
Others incl. taxes	(644)	(897)	(1,189)	(2,156)	(3,233)
<b>Operating cash-flow</b>	<b>3,085</b>	<b>6,965</b>	<b>8,235</b>	<b>12,288</b>	<b>15,737</b>
- Capex (tang. + intang.)	4,649	4,523	8,631	5,500	5,500
<b>Free cash-flow</b>	<b>(1,564)</b>	<b>2,442</b>	<b>(396)</b>	<b>6,788</b>	<b>10,237</b>
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	(119)	(179)	(299)	(598)	(748)
+ Equity raised	2	0	1	-	-
+ Debt raised	3,067	(2,754)	(276)	(500)	(500)
- Fin investments	(457)	968	241	-	-
- Misc. (CFI + CFF)	(205)	10	(524)	930	850
<b>Net cash-flow</b>	<b>1,135</b>	<b>468</b>	<b>(205)</b>	<b>4,760</b>	<b>8,139</b>

Source: Company

**Fig 4 – Ratio analysis**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	377.8	282.1	196.9	112.5	74.5
EV / EBITDA (x)	68.2	33.1	24.4	14.0	9.5
EV / Sales (x)	2.4	1.4	1.0	0.6	0.4
P/B (x)	72.1	56.1	42.7	31.8	22.8
RoE (%)	19.1	19.9	21.7	28.2	30.6
RoCE (%) post-tax	14.9	19.7	21.2	29.4	31.5
RoIC (%) post-tax	19.1	24.2	24.2	41.4	58.6
DPS (Rs)	2.0	3.0	5.0	10.0	12.5
Dividend yield (%)	0.0	0.0	0.0	0.1	0.1
Dividend payout (%) - incl. DDT	6.2	7.0	8.1	9.3	7.7
Net debt / equity (x)	0.3	(0.0)	(0.0)	(0.3)	(0.5)
Receivables (days)	46	51	48	48	48
Inventory (days)	39	29	35	35	35
Payables (days)	79	73	84	84	84
CFO : PAT %	162.2	272.6	223.9	191.0	162.0

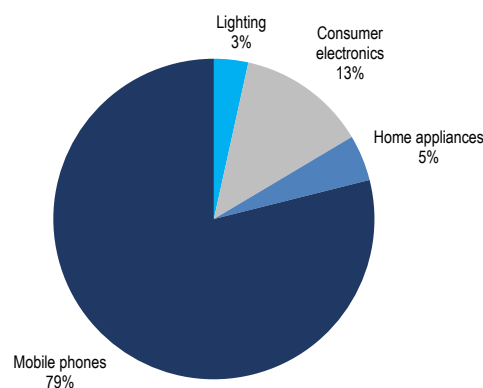
Source: Company

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 6 – Q1 FY25 revenue mix**



Source: Company

Fig 7 – Financial performance

Quarterly (Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Y/Y (%)	Q/Q (%)
<b>Net sales</b>	<b>28,551</b>	<b>38,668</b>	<b>24,047</b>	<b>30,655</b>	<b>32,715</b>	<b>49,432</b>	<b>48,183</b>	<b>46,580</b>	<b>65,798</b>	101.1	41.3
Gross profit	2,598	3,322	2,657	3,136	3,158	4,740	4,265	4,356	5,629	78.3	29.2
<i>Margins (%)</i>	9.1	8.6	11.0	10.2	9.7	9.6	8.9	9.4	8.6	NA	NA
<b>EBITDA</b>	<b>1,001</b>	<b>1,452</b>	<b>1,112</b>	<b>1,563</b>	<b>1,319</b>	<b>1,989</b>	<b>1,844</b>	<b>1,825</b>	<b>2,479</b>	88.0	35.9
<i>Margins (%)</i>	3.5	3.8	4.6	5.1	4.0	4.0	3.8	3.9	3.8	(26) bps	(15) bps
Depreciation	241	291	290	325	337	364	407	510	545	61.7	6.8
Interest	144	158	152	151	140	171	222	214	293	109.2	36.9
Other income	4	6	28	18	29	7	23	167	82	187.0	(51.0)
Extraordinary Items	-	-	-	-	-	-	-	-	-	NA	NA
<b>PBT</b>	<b>621</b>	<b>1,008</b>	<b>698</b>	<b>1,105</b>	<b>870</b>	<b>1,460</b>	<b>1,238</b>	<b>1,267</b>	<b>1,723</b>	98.0	36.0
Tax	165	231	186	315	228	352	287	323	400	75.5	24.0
<i>ETRs (%)</i>	26.7	22.9	26.6	28.5	26.2	24.1	23.1	25.5	23.2		
Reported PAT	457	772	519	806	689	1,073	965	951	1,337	94.1	40.6
<b>Adj. PAT</b>	<b>457</b>	<b>772</b>	<b>519</b>	<b>806</b>	<b>689</b>	<b>1,073</b>	<b>965</b>	<b>951</b>	<b>1,337</b>	94.1	40.6
<b>Adj. EPS</b>	<b>7.7</b>	<b>13.0</b>	<b>8.7</b>	<b>13.6</b>	<b>11.6</b>	<b>18.0</b>	<b>16.2</b>	<b>16.0</b>	<b>22.4</b>	94.1	40.6

Source: Company

As % of total income	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	bps y/y	bps q/q
Gross margins	9.1	8.6	11.0	10.2	9.7	9.6	8.9	9.4	8.6	(110)	(80)
SG&A	5.6	4.8	6.4	5.1	5.6	5.6	5.0	5.4	4.8	(83)	(65)
EBITDA margin	3.5	3.8	4.6	5.1	4.0	4.0	3.8	3.9	3.8	(26)	(15)
Depreciation	0.8	0.8	1.2	1.1	1.0	0.7	0.8	1.1	0.8	(20)	(27)
Interest	0.5	0.4	0.6	0.5	0.4	0.3	0.5	0.5	0.4	2	(1)
Other income	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.4	0.1	4	(23)
Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-
PBT	2.2	2.6	2.9	3.6	2.7	3.0	2.6	2.7	2.6	(4)	(10)
ETR (%)	26.7	22.9	26.6	28.5	26.2	24.1	23.1	25.5	23.2	(297)	(224)
Adj. PAT margin (%)	1.6	2.0	2.2	2.6	2.1	2.2	2.0	2.0	2.0	(7)	(1)

Segmental (Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Y/Y (%)	Q/Q (%)
<b>Net sales</b>											
Lighting	2,312	2,904	2,630	2,700	2,220	1,810	2,630	1,970	2,270	2.3	15.2
Consumer electronics	9,322	15,007	8,640	9,810	8,820	14,400	9,290	8,970	8,550	(3.1)	(4.7)
Home appliances	2,556	3,629	2,440	2,810	2,590	3,640	2,880	2,940	3,050	17.8	3.7
Mobile phones	13,049	15,944	9,150	14,100	17,950	28,190	32,140	30,910	51,920	189.2	68.0
<b>Sales mix (%)</b>											
Lighting	8.1	7.5	10.9	8.8	6.8	3.7	5.4	4.2	3.5		
Consumer electronics	32.6	38.8	35.9	32.0	27.0	29.1	19.0	19.3	13.0		
Home appliances	9.0	9.4	10.1	9.2	7.9	7.4	5.9	6.3	4.6		
Mobile phones	45.7	41.2	38.1	46.0	54.9	57.0	65.7	66.4	78.9		
<b>EBITDA</b>											
Lighting	167	238	239	260	190	130	130	142	150	(21.1)	5.6
Consumer electronics	248	428	260	370	300	490	320	300	290	(3.3)	(3.3)
Home appliances	207	327	250	310	280	420	300	301	320	14.3	6.3
Mobile phones	328	423	330	590	530	930	1,040	1,050	1,710	222.6	62.9
<b>EBITDA margins (%)</b>											
Lighting	7.2	8.2	9.1	9.6	8.6	7.2	4.9	7.2	6.6	(195) bps	(60) bps
Consumer electronics	2.7	2.9	3.0	3.8	3.4	3.4	3.4	3.3	3.4	(1) bps	5 bps
Home appliances	8.1	9.0	10.2	11.0	10.8	11.5	10.4	10.2	10.5	(32) bps	25 bps
Mobile phones	2.5	2.7	3.6	4.2	3.0	3.3	3.2	3.4	3.3	34 bps	(10) bps

Source: Company

## Q1 FY25 Concall highlights

### Mobile phones, EMS

#### ■ Volume

- **Smartphones** - 5.2m in Q1 (4.1m non-Samsung, 1.1m for Samsung) vs. 3.4m a year ago (1.1m non-Samsung, 2m for Samsung).
- **Feature phones** – 6.6m in Q1.

#### ■ Mobile production capacity

- Total: 65m-67m units annually.
- Breakdown: 45m units non-Samsung capacity, 10m units from Ismartu, 10m-12m units from Samsung.
- Represents 55-60% of available market opportunity.

#### ■ Brand-wise volume update

- Motorola: 0.9-1m units a month.
- Xiaomi: 0.7m units a month. The company anticipates higher volumes in the coming festival season.
- Longcheer: 400,000-450,000 units a month. Expected to ramp-up to 700,000 units.
- Compal: Production expected to begin from Sep'24.
- Expects to onboard one more global brand.

#### ■ Ismartu (Intel, Infinix, Tenco)

- FY24 financials: revenue Rs82bn, EBITDA Rs3.25bn, EBITDA margin 3.96%, PBT Rs2.8bn, PAT Rs2.4bn.
- FY25 volume target: 8.4m-9.6m/.56m-0.64m featurephones/smartphones.
- Consolidate financials from the next month.

#### ■ Backward integration

- Partnering with HKC to produce display modules. Setting up a new plant to produce 25m units a year.
- Also trying to backward integrate into non-semiconductor mobile phone components and IT hardware components via collaborations.

#### ■ Government incentives

- Mobile phone components production linked incentive (PLI) scheme anticipated in 9-12 months.

### **Consumer electronics**

- In Q1 FY25, LED TV sales of 590,000 units, down 17% y/y. Expects volumes of 800,000-1m in Q2.
- Manufacturing in collaboration with Samsung for Tizen operating systems began in Q1 FY25. Besides, Android-based solutions, covering 32 to 85 inches, were introduced in Q4 and have received positive customer feedback.
- Plans to expand product range to include interactive flat panel displays and digital signs. Also, exploring partnerships to manufacture industrial, institutional and automotive displays.

### **Home appliances**

- Volumes for SAWM/FAWM were 430k/50k units, 10%/3x growth y/y.
- Margins declined due to higher freight costs, to be adjusted in the quarter following. The tool room is now fully operational, with most tools being produced in-house.
- Aims at high double-digit growth in home appliances. SAWM is expected to grow in single digits, FAWM in double digits.

### **Lighting**

- LED bulbs/battens/downlighter volumes were 30m/6m/2.9m, 15% growth y/y.
- Launched professional lighting solutions in Q4 FY25, incl. DoD-based floodlights and streetlights, with revenue expected from Q2 FY26. Also begun backward-integration with injection moulding for shielding lights and plans to use extrusion for battens.
- Introducing high-value premium products such as high-voltage battens and COB downlighters; is seeing some price stabilisation here.

### **Laptop and IT hardware**

- Commenced manufacturing laptops for Acer; will start production for Lenovo in Q3 FY25.
- Has onboarded two more large global brands; production to begin in Q1 FY26. Has now onboarded the top four of five large global brands.
- Plans to establish a new manufacturing plant in Chennai of 1.5m units. Capex pegged at Rs1.5bn; plant expected to be operational in 8-10 months.
- Targeting Rs40bn revenue for FY26.

### **Surveillance systems**

- The company sold a 50% stake in its surveillance systems business to its JV partner Aditya Infotech in exchange for a 5% equity stake.
- Aditya Infotech plans to an IPO in Q4 FY25 or Q1 FY26.

### **Refrigerators**

- Production of 80,000 units a month, at 80-85% utilisation.
- Plans to invest in increasing capacity to meet growing demand; has expanded its range to include a 100-litre category.

**EMS (electronics manufacturing services)**

- Exploring entry to the industrial EMS; is in advanced discussions with major semiconductor brands for PCBA assembly. Also negotiating for automotive electronics PCBA assembly and is seeing positive traction.

**Guidance**

- **FY25 EBITDA margin** guidance: 4%.
- FY25 capex pegged at Rs5bn-6bn.

## Outlook & valuations

**Outlook, Valuations.** On the bright outlook, we upgrade the stock to a Buy with a higher TP of Rs14,625 (earlier Rs10,000), 90x FY26e EPS. At the CMP, it quotes at 112.5x/74.5x FY25e/26e EPS of Rs107.6/Rs162.4. We model 51.8/62.5% revenue/net profit CAGRs over FY24-26, leading to the RoE expanding from 21.7% to 30.6%.

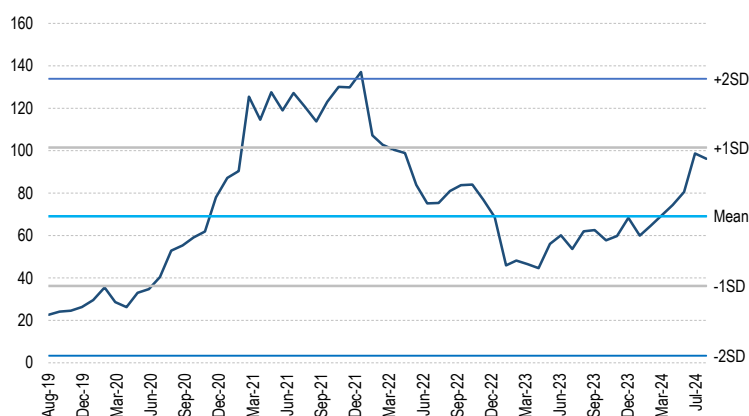
Post Q1, we raise our estimates largely to reflect better realisations for smart-phones and higher IT hardware revenue on onboarding two clients in Q1.

**Fig 8 – Estimate revisions**

	Actual	New		Old		Variance (%)	
(Rs m)	FY24	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
Net sales	1,76,909	2,96,340	4,07,388	2,57,208	3,70,370	15.2	10.0
EBITDA	7,116	11,798	16,511	10,284	14,890	14.7	10.9
EBITDA margins (%)	4.0	4.0	4.1	4.0	4.0	(2) bps	3 bps
PBT	4,836	8,689	12,846	7,231	11,359	20.2	13.1
Adj. PAT	3,677	6,433	9,713	5,442	8,531	18.2	13.9
Adj. EPS	61.5	107.6	162.4	91.0	142.7	18.2	13.9

Source: Company, Anand Rathi Research

**Fig 9 – Median trades near +1SD**



Source: Company, Anand Rathi Research

### Key risks

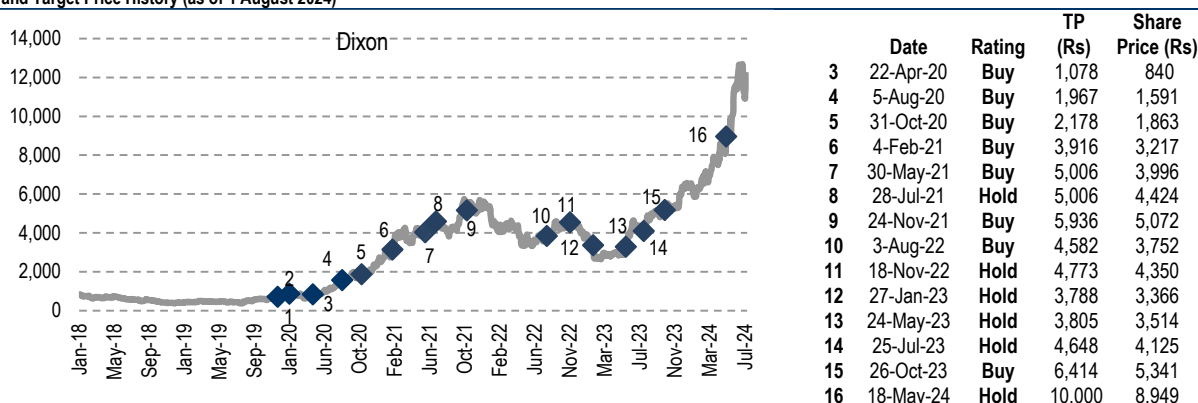
- Significant delays in ramping up volumes from customers could lead to less-than-expected revenue growth.
- Timely onboarding of customers is critical, as it can drive volumes.

## Appendix

### Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

#### Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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