Sharekhan by BNP PARIBAS

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Dixon Technologies (India) Ltd

IT & Hardware next growth lever

Stock Update | Result Update

Capital Goods	Sharekhan code: DIXON

Reco/View: Buy	↔	CMP: Rs. 13,930	Price Target: Rs. 16,800	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

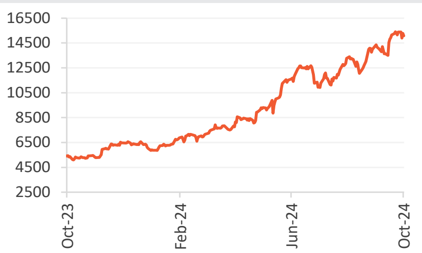
Company details

Market cap:	Rs. 82,645 cr
52-week high/low:	Rs. 15,598/5,080
NSE volume: (No of shares)	4.3 lakh
BSE code:	540699
NSE code:	DIXON
Free float: (No of shares)	4.0 cr

Shareholding (%)

Promoters	32.9
FII	21.6
DII	22.7
Others	22.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.3	12.5	33.6	182.0
Relative to Sensex	12.0	13.8	35.2	155.2

Sharekhan Research, Bloomberg

Summary

- Overall revenue growth of 133% was led by strong performance in mobiles & EMS (235%), home appliances (22%) and Lightning products (29%) division. Operating profits were higher by 114% to Rs 426 crore, with OPM falling 33 bps.
- OPM declined on higher contribution from low-margin Mobile & EMS segments. Consolidated Adjusted PAT grew by 78% led by growth in revenues.
- Expect the mobile & EMS division to sustain high growth momentum for FY2026-27 on the base of strong orders from existing clients, new client onboarding. Lighting remains affected by price erosion and market shrinkage.
- We upgrade Dixon Technologies to Buy with a revised PT of Rs. 16,800 factoring in strong revenue/ PAT CAGR of 66%/84% over FY24-FY27E. Stock currently trades at 62x/40x its FY206E/FY2027E earnings, respectively.

Dixon reported a humungous revenue growth of 133% backed by strong performance in the Mobiles & EMS segment (up 235% y-o-y). Mobile & EMS segment to be a significant growth driver. It aims to scale the current mobile manufacturing capacity from 25-30 mn to 40-45 million pieces by 2027. The growth would be supported by rising orders from existing customers and onboarding of new clients. The Ismartu acquisition is now stabilized and significantly contributes to the growth. IT and hardware segment where in company has onboarded four out of top five global laptop brands is expected to replicate the growth story of mobile and EMS division. To cater to upcoming demand, Dixon has setup a plant in Chennai with a capacity of 1.5 million units, which would be operational by Q4FY25. Dixon is targeting a revenue of Rs 4500-5000 crore in next 2-3 years under the IT & hardware business. Total capex outlay for Chennai unit is at ~Rs 150 crore. Consolidated operating profit/Adjusted net profit grew 134% y-o-y/78% y-o-y to Rs. 426 crore/Rs. 202 crore.

Key positives

- Mobile & EMS division (82% revenue share) reported strong 235% y-o-y growth and 82% q-o-q revenue growth with segment margins remaining flat.
- Home appliances and Lightning division grew by 22% and 29%, respectively.

Key negatives

- Consumer electronics reported a 2% y-o-y dip in revenues due to tepid demand in LED TV segment.

Management Commentary

- Mobile & EMS segments to be significant growth drivers. Expects the volumes to around 10% lower in Q3 and take It aims to scale the current mobile manufacturing capacity from 25-30 mn to 40-45 million pieces by 2026. Growth would be supported by rising orders from existing customers and onboarding of new clients. Ismartu acquisition is stabilising and is contributing significantly to growth.
- IT hardware business to be a significant growth driver as top four global brands are in tie up with Dixon for manufacturing of laptops. Dixon has already started manufacturing for Acer. To cater to upcoming demand, Dixon has setup a plant in Chennai with a capacity of 1.5 million units, which would be operational by Q4FY25. Dixon is targeting a revenue of Rs 4500-5000 crore by FY26. Total capex outlay for Chennai unit is at ~Rs 150 crore.
- Management is exploring to enter manufacturing of PCBs and is in discussion with few customers also expects a PLI scheme from the government in coming months.
- Company is further looking into deepen the level of manufacturing and looking to get into precision components, mechanical, and camera modules, and the same is under deep study, and are working on the possible partnerships. Backward integration would enhance margins and value offerings to clients.

Revision in estimates – We have meaningfully revised our estimates based on the robust performance for H1FY25.

Our Call

Valuation –Maintain Buy with a revised PT of Rs 16,800: Onboarding of new topmost major clients in IT hardware segment has set the floor for Dixon exponential performance over coming years. The industry is expected to post a strong growth of 35% CAGR over FY24-30 backed by various macro tailwinds and government support. Dixon Technologies reported healthy outperformance for Q2FY2025 led by sustained high growth momentum in the mobile & EMS division aided by improving OPMs. The segment is expected to remain the forerunner of growth as other verticals scale up. Another leg of support will be provided by ramp-up in the IT and laptop segments. We upgrade Dixon to a Buy rating for a PT of Rs 16,800 modelling revenues/PAT CAGR of 66%/84% over FY24-FY27E.

Key Risks

- Slowdown in consumer discretionary spending and discontinuation or delay in the finalisation of business from its key customers might affect revenue growth.
- Adverse raw material prices, a delay in passing on price hikes adequately and adverse forex fluctuations might affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	12,192	17,692	37,524	56,341	81,049
OPM (%)	4.2	3.9	4.0	3.9	4.1
Adjusted PAT	252	335	872	1,333	2,085
% y-o-y growth	31.9	32.8	160.6	52.9	56.4
Adjusted EPS (Rs.)	42.3	56.2	146.4	223.8	350.1
P/E (x)	329.3	247.9	95.1	62.2	39.8
EV/EBITDA (x)	161.6	118.7	55.5	37.6	24.6
RoCE (%)	23.2	25.8	46.6	48.5	51.4
RoNW (%)	22.1	22.5	41.0	41.5	42.4

Source: Company; Sharekhan estimates