

Dixon Technologies

BSE SENSEX 79,117 S&P CNX 23,907

CMP: INR15,346 TP: INR17,500 (+14%) Buy

Dixon[®]

The brand behind brands

Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



Bloomberg	DIXON IN
Equity Shares (m)	60
M.Cap.(INRb)/(USDb)	921.8 / 10.9
52-Week Range (INR)	16000 / 5264
1,6,12 Rel. Per (%)	5/59/163
12M Avg Val (INR M)	5509

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	367.1	473.9	568.9
EBITDA	14.2	18.7	23.0
EBITDA Margin (%)	3.9	4.0	4.1
PAT	8.0	10.6	13.9
EPS (INR)	134.3	177.4	232.2
EPS Growth (%)	118.3	32.1	30.9
BV/Share (INR)	414.7	589.1	818.3

Ratios

Net D/E	-0.3	-0.5	-0.6
RoE (%)	38.5	35.3	33.0
RoCE (%)	41.9	38.6	35.9
Payout (%)	2.2	1.7	1.3

Valuations

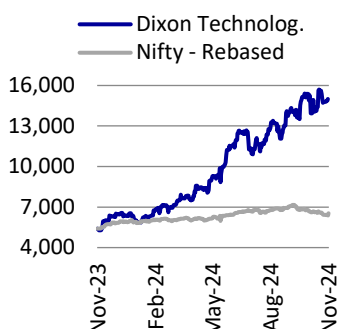
P/E (x)	114.3	86.5	66.1
P/BV (x)	37.0	26.1	18.8
EV/EBITDA (x)	64.3	48.1	38.5
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	32.9	33.2	33.8
DII	23.1	26.1	27.4
FII	22.7	19.3	15.7
Others	21.3	21.4	23.1

FII Includes depository receipts

Stock performance (one-year)



Growth drivers beyond PLI

Improved wallet share, new segments, backward integration to support growth

We assess Dixon's growth and margin profile beyond PLI in light of market concerns over its long-term growth and margins. In this note, we try to highlight that 1) despite PLI ending in FY26, the mobile segment will continue to deliver healthy growth, driven by client additions, improved wallet share, and export opportunities; 2) margins will be supported by company's initiatives for backward integration in the post-PLI period; and 3) scale-up in other segments will also support growth. We thus expect the company to continue to benefit from the scale-up in existing segments, the addition of new segments, backward integration, and ODM mix improvement. We maintain our estimates and TP of INR17,500. Reiterate BUY.

Assessing long-term growth of mobile and EMS segment beyond PLI

Dixon's mobile segment is witnessing a sharp ramp-up in revenues, led by improved volumes from existing clients as well as Ismartu integration. We expect the mobile and EMS segment to deliver a revenue CAGR of 63% over FY24-27, primarily driven by smartphones. Out of 150m mobile smartphones sold in India, the outsourcing opportunity is almost 85m-90m, and Dixon aims to capture 35-40% of this opportunity by FY27 which will grow further. Thus, despite the PLI scheme ending in FY26, we expect a CAGR of 16% in consolidated revenues beyond FY27, which will be driven by 1) incremental client additions in mobile through Longcheer tie-up; 2) scope of improving wallet share with existing clients to even up to 30-40%, with the exception being Motorola, where Dixon is taking care of its 80-90% of volumes; 3) shifting toward premium mobiles such as Compal; 4) potential export opportunities as Dixon would achieve a scale of nearly INR450b in mobile itself by FY27.

We expect ramp up of IT hardware, telecom, refrigerator and other segments to contribute to incremental revenues beyond mobile

Beyond mobile phones, we expect other segments, such as IT hardware, telecom, wearable and hearable, to also gain scale and contribute to incremental revenues. We expect Dixon to gradually scale up IT hardware revenues as it has already on-boarded 4 out of top 5 players in IT hardware segment. For IT hardware, the scale-up is expected in coming quarters, with production for Lenovo to begin in 3QFY25 and Asus in 4QFY25. Dixon's telecom segment revenues have grown from INR173m in FY22 to INR6.9b in FY24 and will grow further from incremental requirements from Bharti for set-top boxes and GPONs. In the telecom segment, Dixon has seen strong growth and plans to double its capacity in Noida. In wearables and hearables, Dixon clocked strong volumes of TWS and has a healthy order book. The majority of TWS production for BOAT is done by Dixon. Further, it will add smartwatches to its portfolio, which will boost revenue growth.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exploring new areas to further aid growth

Dixon is looking for opportunities in the EV sector, mainly focusing on manufacturing components such as electronic modules and PCB assembly. Further, the company is exploring opportunities to enter the industrial EMS sector and is in advanced discussions with major semiconductor brands to serve their requirements for PCB assembly. Dixon is also in discussion with large global ODMs to expand its product portfolio further to servers and AI-ready data centers, components of which will be a part of the updated government scheme, PLI 2.0, for IT hardware. Once these opportunities are finalized, we expect incremental growth in revenues.

Margins beyond PLI incentives will be supported by backward integration

With a dominant share of revenues coming from the low-margin mobile segment, we expect overall consolidated EBITDA margin of 3.9%/4.0%/4.1% for FY25/26/27. Even after PLI incentives end in FY26, we do not expect a sharp contraction in margins, adverse impact on margins will be offset by incremental contribution from backward integration toward components particularly display manufacturing (see Exhibit 7). Once component manufacturing commences, the company expects to earn double-digit margins on component sales. We expect the company to target a larger share of bill of material of mobile and LED TV after display manufacturing commences; hence, we factor in margin support from backward integration in our long-term assumptions.

Financial outlook

We maintain our estimates and expect a CAGR of 48%/49%/56% in revenue/EBITDA/PAT over FY24-FY27. The revenue growth would be mainly driven by EMS (including mobile and IT hardware), consumer electronics, and new emerging segments such as refrigerators, wearables and hearables, and telecom networking products. We expect an EBITDA margin of 3.9%/4.0%/4.1% for FY25/FY26/FY27, led by increased backward integration and the improving share of high-margin segments. This will result in a PAT CAGR of 51% over FY24-27. Further, we expect the working capital to remain comfortable at (-1) and a capex of INR5b every year over FY25-27. With efficient capital allocation, we expect RoIC to remain strong going forward.

Valuation and recommendation

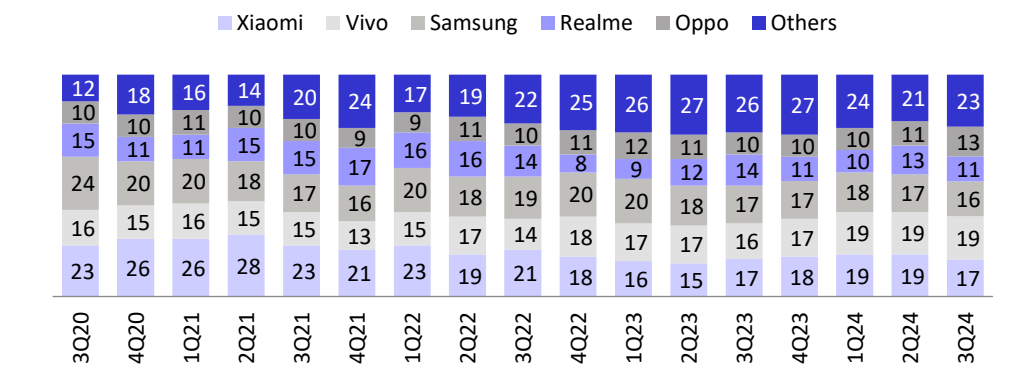
The stock is currently trading at 86.5x/66.1x P/E on FY26E/FY27E earnings. We maintain our estimates and reiterate BUY rating on Dixon with a DCF-based TP of INR17,500.

Key risks and concerns

The key risks to our estimates and recommendation would come from the lower-than-expected growth in the market opportunity, loss of relationship with key clients, increased competition, and limited bargaining power with clients.

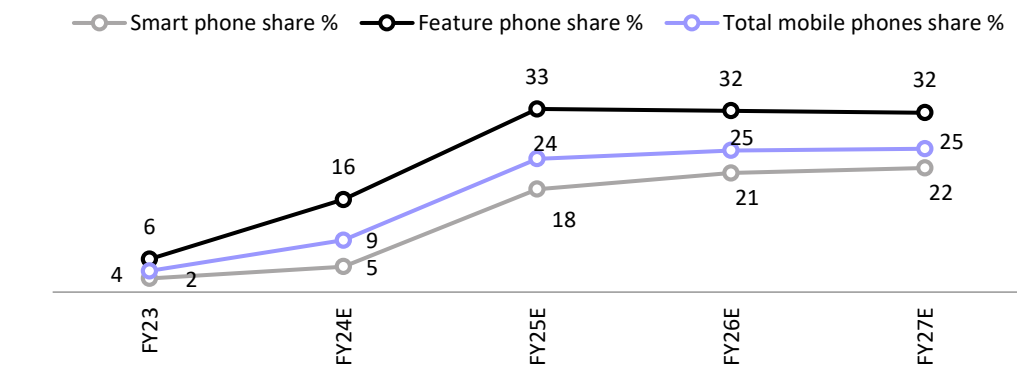
Smartphone market players' positioning in India

Exhibit 1: Market share trend of key players in the Indian smart phone market indicates that other players, beyond Xiaomi and Samsung, are gaining market share, and Dixon is catering to most other players too (%)



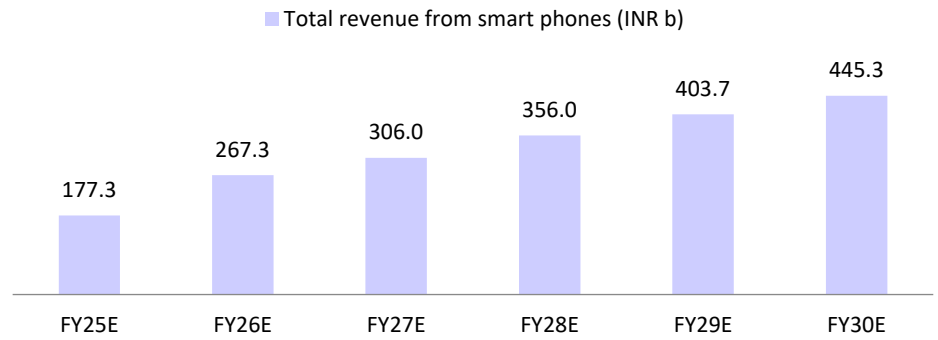
Source: IDC, MOFSL

Exhibit 2: With improved wallet share from existing clients and new client addition, we expect market share of Dixon to improve over next three years in mobile phone market (%)



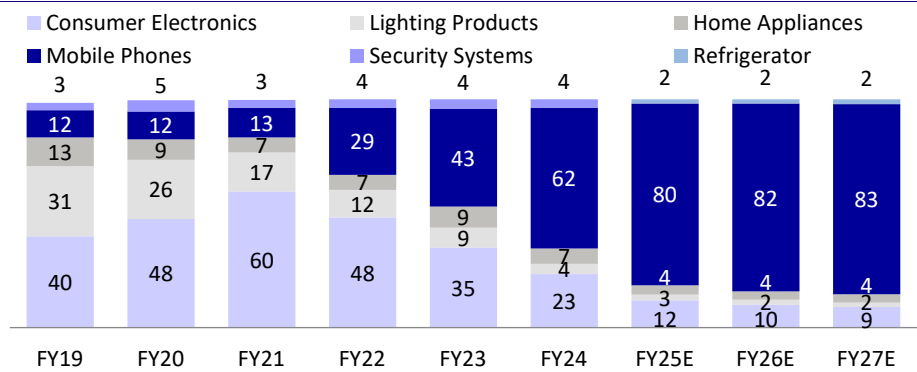
Source: Company, IDC, MOFSL

Exhibit 3: We expect feature phone revenues to be largely flat for Dixon beyond FY26, while smartphone revenue to keep on improving from incremental volumes (INR b)



Source: Company, MOFSL

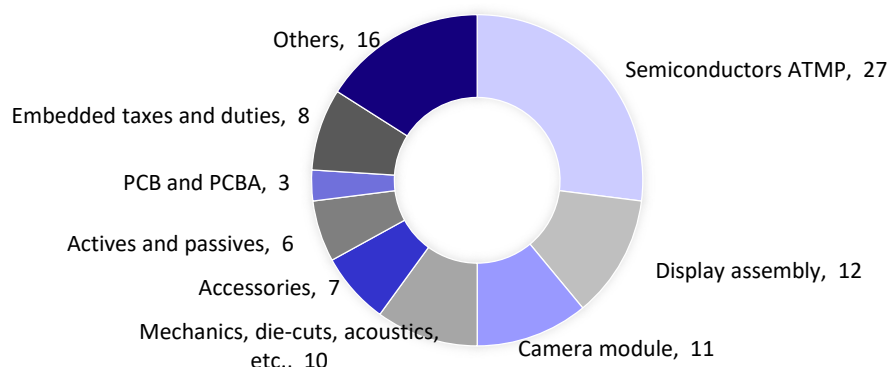
Exhibit 4: We expect mobile and EMS segment to continue to account for a dominant share of overall revenues for Dixon over FY24-27 (%)



Source: Company, MOFSL

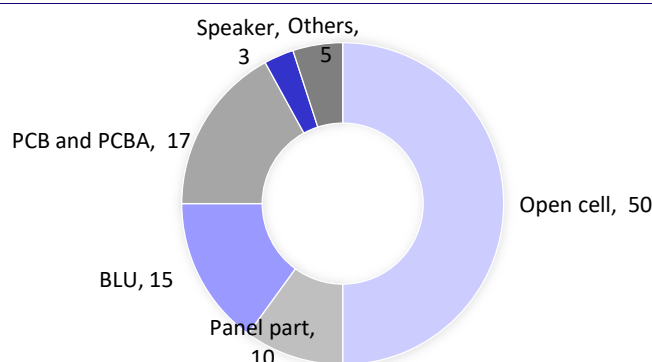
Assessing the impact on margins from component manufacturing

Exhibit 5: Displays, camera module, mechanicals, etc. form nearly 33% of BoM of mobile. Dixon is currently expanding for displays and plans to enter into camera module and mechanicals (%)



Source: Industry, MOFSL

Exhibit 6: Display forms nearly 10% of BoM for LED and Dixon is in discussion with other players to enter into open cell manufacturing for LED TV (%)



Source: Industry, MOFSL

Exhibit 7: Assessment of potential margin improvement from Dixon's own manufacturing of components such as displays, camera modules, mechanicals for mobile. Similar improvement possible for TV displays (INR m)

Incremental benefit from components	FY26E	FY27E	FY28E
Mobile revenues of Dixon	3,25,116	3,73,116	4,29,083
BoM of overall mobile - 97% of mobile revenue (a)	3,15,363	3,61,923	4,16,211
BoM share that can be taken up by Dixon by display, camera mod, components (%) (b)	10	20	20
Value of cost that can be potentially covered by Dixon by new components (a)* (b) = (C)	31,536	72,385	83,242
Acceptance by customers of Dixon's displays and camera modules (%) (d)	25	60	70
Revenue made by Dixon from displays and camera modules (C) * (d)	7,884	43,431	58,270
Margin made by Dixon on components provided - @12%	946	5,212	6,992
EBITDA ex PLI	16,920	20,315	23,043
EBITDA margin ex PLI (%)	3.6	3.6	3.5
Incremental addition from components	946	5,212	6,992
Overall EBITDA ex PLI but with component margin	17,867	25,526	30,035
EBITDA margin (%)	3.8	4.5	4.5
Potential improvement in margin from components (bps)	20	92	106

Source: Company, MOFSL

Segmental Financial Outlook

Exhibit 8: Segmental financial outlook across segments for DIXON

INR m	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Consolidated										
Revenue	28,416	29,844	44,001	64,482	1,06,971	1,21,920	1,76,909	3,67,070	4,73,873	5,68,929
Growth YoY (%)	15.7	5.0	47.4	46.5	65.9	14.0	45.1	107.5	29.1	20.1
EBITDA	1,120	1,349	2,231	2,866	3,791	5,128	6,976	14,166	18,720	23,043
EBITDA margin (%)	3.9	4.5	5.1	4.4	3.5	4.2	3.9	3.9	4.0	4.1
RoCE	23.4	18.5	25.9	23.8	19.1	20.4	25.6	40.2	38.8	36.1
Consumer Electronics										
Revenue	10,735	11,937	20,952	38,426	51,695	42,780	41,480	43,800	47,515	51,558
Growth YoY (%)	27.1	11.2	75.5	83.4	34.5	-17.2	-3.0	5.6	8.5	8.5
EBITDA	222	252	503	1,028	1,246	1,306	1,410	1,620	1,900	2,165
EBITDA margin (%)	2.1	2.1	2.4	2.7	2.4	3.1	3.4	3.7	4.0	4.2
Lighting Products										
Revenue	7,742	9,194	11,397	11,037	12,841	10,546	7,870	9,232	10,169	11,203
Growth YoY (%)	40.6	18.8	24.0	-3.2	16.3	-17.9	-25.4	17.3	10.2	10.2
EBITDA	473	660	977	974	881	904	592	648	755	854
EBITDA margin (%)	6.1	7.2	8.6	8.8	6.9	8.6	7.5	7.0	7.4	7.6
Home Appliances										
Revenue	2,503	3,744	3,963	4,311	7,088	11,435	12,050	14,868	17,530	20,596
Growth YoY (%)	33.1	49.6	5.9	8.8	64.4	61.3	5.4	23.4	17.9	17.5
EBITDA	308	370	461	397	541	1,094	1,301	1,635	1,963	2,306
EBITDA margin (%)	12.3	9.9	11.6	9.2	7.6	9.6	10.8	11.0	11.2	11.2
Mobile Phone and EMS										
Revenue	6,698	3,549	5,369	8,395	31,383	52,243	1,09,190	2,92,671	3,90,159	4,73,572
Growth YoY (%)	-17.4	-47.0	51.3	56.4	273.8	66.5	109.0	168.0	33.3	21.4
EBITDA	65	74	191	394	971	1,671	3,550	9,808	13,465	16,818
EBITDA margin (%)	1.0	2.1	3.6	4.7	3.1	3.2	3.3	3.4	3.5	3.6
Security Surveillance Systems										
Revenue	5	963	2,164	2,178	3,964	4,918	6,330	0	0	0
Growth YoY (%)			124.7	0.7	82.0	24.1	28.7	NA	NA	NA
EBITDA		8	72	63	151	144	119	0	0	0
EBITDA margin (%)		0.8	3.3	2.9	3.8	2.9	1.9	NA	NA	NA
Refrigerator										
Revenue								6,500	8,500	12,000
Growth YoY (%)									30.8	41.2
EBITDA								455	638	900
EBITDA margin (%)								7.0	7.5	7.5

Source: Company, MOFSL

Financials and Valuation

Consolidated - Income statement

(INR m)

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	44,001	64,482	1,06,971	1,21,920	1,76,909	3,67,070	4,73,873	5,68,929
Change (%)	47.4	46.5	65.9	14.0	45.1	107.5	29.1	20.1
Raw Materials	38,602	57,697	97,792	1,10,207	1,60,390	3,32,794	4,29,623	5,15,803
Gross Profit	5,399	6,785	9,178	11,713	16,520	34,276	44,250	53,126
Employee Cost	1,180	1,371	1,978	2,517	3,327	7,577	9,782	11,744
Other Expenses	1,989	2,548	3,409	4,069	6,217	12,533	15,747	18,339
Total Expenditure	41,771	61,616	1,03,180	1,16,793	1,69,933	3,52,904	4,55,152	5,45,886
% of Sales	94.9	95.6	96.5	95.8	96.1	96.1	96.0	95.9
EBITDA	2,231	2,866	3,791	5,128	6,976	14,166	18,720	23,043
Margin (%)	5.1	4.4	3.5	4.2	3.9	3.9	4.0	4.1
Depreciation	365	437	840	1,146	1,619	2,285	2,744	3,207
EBIT	1,865	2,429	2,952	3,981	5,357	11,882	15,976	19,836
Int. and Finance Charges	350	274	442	606	747	1,123	1,184	1,213
Other Income	52	16	38	56	226	378	915	1,623
PBT bef. EO Exp.	1,568	2,170	2,548	3,432	4,836	11,137	15,707	20,245
EO Items	0	0	0	0	0	-2096	0	0
PBT after EO Exp.	1,568	2,170	2,548	3,432	4,836	13,233	15,707	20,245
Total Tax	363	572	644	897	1,189	2,756	3,863	4,964
Tax Rate (%)	23.1	26.4	25.3	26.1	24.6	20.8	24.6	24.5
Profit Share of Associates/JV	0.0	0.0	-0.6	16.2	102.4	307.2	337.9	371.7
Minority Interest	0	0	2	-4	72	1,001	1,573	1,767
Reported PAT	1,205	1,598	1,902	2,555	3,677	9,784	10,608	13,885
Adjusted PAT	1,205	1,598	1,902	2,555	3,677	8,029	10,608	13,885
Change (%)	90.2	32.6	19.0	34.4	43.9	118.3	32.1	30.9
Margin (%)	2.7	2.5	1.8	2.1	2.1	2.2	2.2	2.4

Consolidated - Balance Sheet

(INR m)

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	116	117	119	119	120	120	120	120
Total Reserves	5,298	7,256	9,849	12,730	16,829	24,679	35,108	48,813
Net Worth	5,413	7,373	9,968	12,849	16,949	24,798	35,227	48,933
Minority Interest	0	0	6	-3	276	1,277	2,850	4,618
Total Loans	828	1,513	4,580	1,826	1,550	3,005	3,005	3,005
Deferred Tax Liabilities	148	184	201	224	240	240	240	240
Capital Employed	6,389	9,070	14,754	14,897	19,015	29,321	41,323	56,796
Gross Block	3,982	5,269	9,586	12,291	20,633	25,633	30,633	35,633
Less: Accum. Deprn.	825	1,170	1,815	2,641	3,958	5,947	8,367	11,216
Net Fixed Assets	3,157	4,099	7,771	9,649	16,675	19,685	22,266	24,416
Goodwill on Consolidation	82	82	303	303	303	303	303	303
Capital WIP	96	724	224	1,197	683	683	683	683
Total Investments	0	953	1,410	442	200	200	200	200
Curr. Assets, Loans & Adv.	13,635	22,600	33,064	35,203	52,034	1,10,150	1,48,309	1,87,290
Inventory	4,978	7,433	11,557	9,579	16,950	35,170	45,403	54,511
Account Receivables	5,151	10,891	13,564	17,155	23,179	48,094	62,087	74,542
Cash and Bank Balance	1,002	689	1,823	2,292	2,087	10,127	19,984	33,701
Loans and Advances	0	25	4	0	20	41	54	64
Other Current Asset	2,504	3,563	6,116	6,178	9,799	16,718	20,781	24,473
Curr. Liability & Prov.	10,580	19,387	28,017	31,898	50,881	1,01,702	1,30,439	1,56,098
Account Payables	9,391	17,097	23,137	24,519	40,652	84,349	1,08,892	1,30,735
Other Current Liabilities	1,081	2,146	4,664	7,121	9,952	16,777	20,806	24,473
Provisions	109	144	216	258	277	575	742	891
Net Current Assets	3,054	3,213	5,047	3,306	1,153	8,448	17,870	31,192
Appl. of Funds	6,389	9,070	14,754	14,897	19,015	29,321	41,323	56,796

Financials and Valuation

Ratios								
Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	20.6	27.3	32.0	42.9	61.5	134.3	177.4	232.2
Cash EPS	26.8	34.7	46.2	62.1	88.6	172.5	223.3	285.8
BV/Share	92.4	125.9	168.0	215.7	283.4	414.7	589.1	818.3
DPS	1.2	1.0	2.0	3.0	3.0	3.0	3.0	3.0
Payout (%)	5.7	3.7	6.3	7.0	4.9	2.2	1.7	1.3
Valuation (x)								
P/E	746.0	562.5	479.0	357.8	249.6	114.3	86.5	66.1
Cash P/E	572.5	441.7	332.3	247.0	173.3	89.0	68.7	53.7
P/BV	166.1	121.9	91.4	71.1	54.2	37.0	26.1	18.8
EV/Sales	20.4	14.0	8.5	7.5	5.2	2.5	1.9	1.6
EV/EBITDA	402.9	314.0	241.0	178.2	131.5	64.3	48.1	38.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	22.1	0.4	-24.4	46.3	2.6	119.6	166.2	228.5
Return Ratios (%)								
RoE	26.2	25.0	21.9	22.4	24.7	38.5	35.3	33.0
RoCE	25.9	23.8	19.1	20.4	25.4	41.9	38.6	35.9
RoIC	28.8	29.8	24.5	26.4	29.9	54.8	62.2	70.2
Working Capital Ratios								
Fixed Asset Turnover (x)	11.0	12.2	11.2	9.9	8.6	14.3	15.5	16.0
Asset Turnover (x)	6.9	7.1	7.3	8.2	9.3	12.5	11.5	10.0
Inventory (Days)	41	42	39	29	35	35	35	35
Debtor (Days)	43	62	46	51	48	48	48	48
Creditor (Days)	78	97	79	73	84	84	84	84
Leverage Ratio (x)								
Current Ratio	1.3	1.2	1.2	1.1	1.0	1.1	1.1	1.2
Interest Cover Ratio	5.3	8.9	6.7	6.6	7.2	10.6	13.5	16.4
Net Debt/Equity	0.0	0.0	0.1	-0.1	0.0	-0.3	-0.5	-0.6

Consolidated - Cashflow Statement

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
(INR m)								
OP/(Loss) before Tax	1,568	2,170	2,546	3,452	4,867	10,443	14,472	18,850
Depreciation	365	437	840	1,146	1,619	2,285	2,744	3,207
Interest & Finance Charges	350	274	442	606	747	1,123	1,184	1,213
Direct Taxes Paid	-429	-549	-540	-820	-1,218	-2,415	-3,863	-4,964
(Inc)/Dec in WC	423	-743	-641	2,764	-88	714	401	357
CF from Operations	2,277	1,590	2,646	7,148	5,927	12,150	14,938	18,662
Others	97	111	81	109	-83	0	0	0
CF from Operating incl EO	2,374	1,701	2,728	7,258	5,843	12,150	14,938	18,662
(Inc)/Dec in FA	-1,081	-1,680	-4,174	-4,502	-5,686	-5,000	-5,000	-5,000
Free Cash Flow	1,293	22	-1,446	2,755	157	7,150	9,938	13,662
(Pur)/Sale of Investments	-118	-978	-446	992	346	0	0	0
Others	28	8	-25	-45	31	-50	-55	-61
CF from Investments	-1,171	-2,649	-4,645	-3,556	-5,309	-5,050	-5,055	-5,061
Issue of Shares	457	269	642	336	469	0	0	0
Inc/(Dec) in Debt	-570	688	3,026	-2,776	-276	1,455	0	0
Interest Paid	-378	-322	-567	-737	-494	-1,123	-1,184	-1,213
Dividend Paid	-83	0	-59	-119	-179	-179	-179	-179
Others	6	0	0	0	-220	1,001	1,573	1,767
CF from Fin. Activity	-568	635	3,043	-3,296	-700	1,154	209	375
Inc/Dec of Cash	634	-313	1,126	406	-166	8,255	10,092	13,976
Opening Balance	367	1,002	689	1,823	2,292	2,086	10,127	19,984
Other Bank Balances	0	0	8	63	-40	-214	-235	-259
Closing Balance	1,002	689	1,823	2,292	2,086	10,127	19,984	33,701

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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