

Dixon Technologies Ltd

Industry Consumer Elect
Bloomberg DIXON IN
BSE CODE 540699

Margin improves - Backward integration and stable commodity price

RATING	ACCUMULATE
CMP	2217
Price Target	2445
Potential Upside	10%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	2251/2190
Mkt Capital (Rs Cr)	2511
Free float (%)	37%
Avg. Vol 1M (,000)	13759
No. of Shares (Crore)	1
Promoters Pledged %	0%

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3QFY19 Result Update

- ❑ DIXON reported net sales of Rs. 794 Cr a growth of 17%YoY in 3QFY19 led by home appliance and consumer electronics which lead to 32% and 26% growth respectively.
- ❑ In mobile vertical revenue improved by 137% QoQ as the major customer (Gionee) returning and adding Micromax, Mobiset and Intex as new customers.
- ❑ ODM revenue share has increased to 11%/81% for Consumer Electronics and Lighting Products from 3.3%/39.5% respectively.
- ❑ EBITDA margin has expanded by 70 bps in 3QFY19 with EBITDA being Rs.39 Cr a growth of 37% YoY.
- ❑ Interest expense is up by 154% YoY due to higher working capital requirement in Consumer electronics business.
- ❑ PAT increased to Rs 18 Cr resulting growth of 16% YoY.
- ❑ During the quarter company has added Luker in lighting segment and expanded its LED bulb portfolio by adding 30, 40 & 50 watt LED bulbs.

View and Valuation

Backward integration in Consumer electronics & Lighting segments and stable commodity price has helped company to improve operating margin (up by 70 bps YoY). Company has witnessed sharp improvement in mobile business (up by 137% QoQ) as the main customer (Gionee) has come back with orders. Order book across the segment continues to remain strong but demand has slowed down in Consumer electronics business post Diwali. Considering the slow volume off take we have cut down our FY19/20E sales estimates by 4/1%. However, improvement in margin will partially offset the lower top line. **We value the stock at Rs. 2445 (33x FY20 EPS) and change our rating from BUY to ACCUMULATE.**

Key Risks to our rating and target

- ❑ Rupee depreciation making imports of raw material costly

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18*	FY19E	FY20E
Net Sales	1389	2457	2842	2966	3549
EBITDA	59	91	113	140	175
EBIT	50	81	98	121	149
PAT	39.5	47.6	60.9	67.9	83.9
EPS (Rs)	127	43	54	60	74
EPS growth (%)	220	-66	24	11	24
ROE (%)	34.7	24.1	19.3	18.1	18.7
ROCE (%)	30.8	38.9	30.2	29.6	29.5
BV	367	179	278	331	396
P/B (X)				6.7	5.6
P/E (x)				37.0	29.9

* Listing year

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3QFY19 Results

Improved Performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	9MFY18	9MFY19	YoY %
Net Sales	680	598	593	739	794	17%	7%	2,244	2,126	-5%
Other Income	0	2	1	2	1	190%	-68%	3	4	24%
COGS	591	506	507	642	696	18%	8%	1,982	1,845	-7%
Employee Exp	20	20	18	19	19	-1%	1%	53	57	7%
Other Expenses	41	45	41	45	40	-3%	-11%	124	126	1%
EBITDA	29	27	26	33	39	36%	18%	85	98	16%
EBIT	25	23	21	28	33	34%	18%	74	83	11%
Interest	3	4	5	5	7	155%	26%	9	17	85%
PBT	22	20	18	25	27	22%	10%	68	69	2%
Tax	7	6	5	8	10	36%	16%	21	23	7%
Except. Items	-	-	-	-	-			-	-	
Net Profit	15	14	13	16	18	16%	7%	47	47	0%

Revenue growth back on track

Company has reported revenue growth of 17% YoY led by Home appliance, Consumer Electronics, Lighting and mobile business. Revenue from lighting business grew by 18% YoY (excluding CFL 43% YoY growth) despite having higher base of 30% in 3QFY18. Also Consumer Electronics grew by 26% YoY and Home Appliances grew by 32% YoY. Major positive for the quarter was robust growth of 137% on QoQ in Mobile vertical, though it was down by 5% on YoY. In last quarter company's major customer (Gionee) in Mobile vertical has re-launched its new range of mobile phones. EBITDA margin during the quarter has expanded by 70 bps with EBITDA being Rs.39 Cr a growth of 37% YoY due to margin improvement in the Consumer Electronics, Lighting and Mobile segment. On PAT front, company has reported Rs 18 Cr at growth of 16% YoY.

Margin improve on back of backward integration and stable commodity price

EBITDA margin during the quarter was expanded by 70 bps on account of margin improvement in the Consumer Electronics, Lighting and Mobile segment. Consumer Electronic has reported margin of 2.1% compared to 1.5% on account of backward integration and higher ODM revenue share. It will be improve going ahead. Strong volume growth in lighting has helped to post margin improvement of 110 bps and stable and due to operating leverage benefit in Mobile vertical has led to 180 bps improvement in margin. Home appliance which was facing cost pressure due to rupee depreciation and higher commodity price has seen relief as both the parameter remain stable during the quarter and reported 270 bps improvement in operating margin on QoQ basis.

Sluggish demand despite Healthy order book

For the Dixon 2Q and 3Q are the main quarters in terms of revenue. Historically both quarters put to gather contributed around 60% of the total sales as both the quarters having festivals. Looking at the combined number of Consumer Electronics revenue, it was down by 6% to Rs.648 Cr compared to Rs.694 Cr despite the strong order book. Further management has also stated that the demand is sluggish post the festive season in Consumer Electronics and Home Appliances vertical. Though, the Samsung has doubled its order book in Home appliance business from January 2019. On lighting vertical company continue to witness strong demand and has started some production for International market. Mobile has witness sharp improvement in revenue during the quarter and it will be key monitorable going ahead.

Concall Highlights

➤ Overview:

- Growth was possible due to achievement in scale, higher migration to ODM, backward integration, customer acquisition and deepening customer relationship.
- Net debt is Rs 100 Cr.
- Working capital is 6 days due to Xiaomi coming in which needed upfront TVs and expected to go down to 2-3 days in Q4FY19.
- Capex is expected to be Rs 75Cr in FY19 and Rs 65Cr to 70Cr in FY20.
- Overall growth is expected to be 15% - 20% in revenue in FY 20.

➤ Segment Information

➤ Consumer Electronics:

- Revenue grew to Rs 288 Cr from 228 a growth of 26% due to Xiaomi and festive season.
- Xiaomi has achieved market share of 10% in India.
- Operating margins have expanded from 1.5% to 2.1% on account of backward integration and operating leverage. ODM revenue share has increase from 3% to 11%.
- Higher realization due to sales mix and also backward integration of LCM.
- 3.4mn unit is the new capacity which is 24% of the Indian market requirement.
- SMP line has been installed with capacity is of 1mn PCB and expanding it to 3mn.
- Large customers are converted to ODM.
- New addition was Lloyd and in discussion with other lager players.
- Management is extremely bullish on this business.
- 14 to 15 Mn is the TV market of India.
- Expect EBITDA margin of 3% to 3.3% in FY19.

➤ Home Appliance:

- Revenue grew by 29% to Rs 92Cr from Rs 72Cr with a volume growth of 12% and expecting 30% growth in FY19.
- Operating margin was an area of concern due to dollar and commodity prices in last quarter has been stabilized as margins have increased from 8.1% 2QFY19 to 10.8% in 3QFY19.
- Healthy order book in washing machine business, Samsung has doubled its order book from January 2019 and it is expected to increase from June 2019.
- Capacity of 1 lakh washing machine per month, almost 30% of Indian market where 60% to 70% is still outsourced.
- 140 models across the category making largest in the industry in ODM.
- Finalized top load fully automatic machines in 6Kg and 7Kg models with steal tub and plastic tub for which capacity will set up and fully operation from Diwali next year.
- Margins are expected to be 11% to 12%.
- Capex for Top load will be Rs 8 Cr to 10 Cr.
- 25% to 30% revenue growth is expected in FY20.

➤ Lighting Vertical:

- Grown 18% on revenue side from Rs 199 Cr in 3QFY18 to Rs 234 Cr in 3QFY19.
- Last year CFL contributed lager portion and now it has come to an end. Net off CFL growth is 43% in lighting.
- Margins expanded from 7% to 8.1% YoY due to operating leverage.
- ODM is 81% compared to 40% last year with 2000 models portfolio.
- Added 30, 40 & 50 watt LED bulb.
- Smart bulb prototype is ready & sample already shared with customers.
- Capacity expansion in LED Bulb from 14 mn to 18 mn per monthand in Batten (Lighting Portfolio) to 1mn / month.
- Qualified Ikea India Audit and supply to Ikea has started.
- Revenue to grow from 15% to 20% and margin to be 7% to 8% in FY20.
- LED and battens are complete ODM where as Tub lights and street lighting not yet ODM.

➤ Mobile Vertical:

- Revenue grew from 64 Cr in 2QFY19 to Rs 151 Cr in 3QFY19 a 137% growth due to higher capacity utilization from Gionee coming in along with Micromax, Intex and Mobistar being added.
- Capacity of 350K in smart phone and 750K in featured phone.

➤ Security Systems:

- CCTV capacity expanded from 1.5L camera a month to 8L camera a month, from 30K DVR to 1.5L DVR.
- From January 300K camera will be produced and 85K to 90K DVR run rate for the 4QFY19.

➤ Reverse logistic:

- Cutting down on expenses and focusing on panel repair for Xiaomi and Panasonic.

Segmental Revenue (Rs in Cr)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Consumer Electronics	165.6	466.1	228.2	213.6	222.8	359.7	287.9	59.74	-71.80
Lighting Products	173.7	188.1	199.2	213.2	189.9	190.4	234.1	34.92	43.72
Home Appliances	41.4	58.1	69.8	81.0	85.7	103.8	92.3	22.48	-11.59
Mobile Phones	292.6	141.7	158.4	77.2	73.2	63.7	151.1	-7.25	87.43
Reverse Logistics	14.0	24.8	22.3	12.3	14.4	10.1	3.2	-19.12	-6.95
Security Systems	-	-	-	0.5	6.7	11.1	25.4	25.41	14.31

Segmental EBITDA Margin %

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Consumer Electronics	5.7	11.2	3.4	2.9	2.7	12.9	6.0	2.67	-6.83
Lighting Products	6.9	12.9	14.0	13.5	14.5	11.1	18.9	4.91	7.82
Home Appliances	4.7	6.8	8.4	11.0	9.2	8.5	9.9	1.55	1.46
Mobile Phones	1.5	2.4	1.8	0.9	0.8	0.6	4.4	2.63	3.80
Reverse Logistics	3.6	1.6	1.1	(0.4)	(0.7)	0.1	(0.3)	-1.33	-0.38
Security Systems	(0.5)	-	-	(0.4)	(0.5)	(0.1)	0.1	0.08	0.20

ODM Revenue Share %

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Consumer Electronics	10.0	5.4	3.3	6.0	9.1	10.0	11.0	7.70	1.00
Lighting Products	47.6	36.2	39.5	36.8	34.1	65.0	81.0	41.50	16.00
Home Appliances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.00	0.00

Segmental Sales Volume (in '000)

	2QFY18	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)
Consumer Electronics	630	390	670	450	0.15	-0.33
Lighting Products	31,340	40,200	36,250	43,200	0.07	0.19
Home Appliances	130	170	210	180	0.06	-0.14
Mobile Phones	320	770	390	1,070	0.39	1.74
Reverse Logistics	310	203	150	47	-0.77	-0.69
Security Systems	-	-	130	510	NA	2.92

Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	3	3	3	3	11	11	11	11
<i>Reserves</i>	57	69	80	111	186	304	363	437
<i>Networth</i>	63	76	88	114	197	315	375	449
<i>Debt</i>	88	87	80	74	43	41	90	132
Other Non Current Liab	13	18	9	6	13	68	30	35
<i>Total Capital Employed</i>	151	163	168	188	240	356	464	581
<i>Net Fixed Assets (incl CWIP)</i>	85	84	97	112	139	195	246	286
<i>Non Current Investments</i>	6.5	6.3	6.0	-	-	-	-	-
<i>Other Non Current Assets</i>	1	0	-	9	12	14	14	14
<i>Non Current Assets</i>	106	107	120	125	151	214	265	305
Inventory	89	93	113	136	282	322	398	476
<i>Debtors</i>	42	46	54	89	280	296	471	389
<i>Cash & Bank</i>	6	5	7	7	15	44	38	61
<i>Other Current Assets</i>	1	2	1	21	30	62	64	77
<i>Current Assets</i>	171	184	205	274	638	772	1,025	1,059
<i>Creditors</i>	108	99	136	184	503	515	748	700
<i>Provisions</i>	1	5	4	1	3	4	4	5
<i>Other Current Liabilities</i>	13	18	9	6	13	68	30	35
Curr Liabilities	121	121	149	208	545	623	817	776
Net Current Assets	49	63	56	66	92	150	208	283
Total Assets	277	291	324	398	789	986	1,289	1,364

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	767	1,094	1,201	1,389	2,499	2,853	2,966	3,549
<i>Change (%)</i>	34%	43%	10%	16%	77%	16%	4%	20%
<i>Other Income</i>	1	3	2	2	1	4	4	4
EBITDA	20	26	32	59	91	113	140	175
<i>Change (%)</i>	291%	29%	24%	82%	55%	24%	25%	25%
<i>Margin (%)</i>	3%	2%	3%	4%	4%	4%	5%	5%
<i>Depr & Amor.</i>	5	5	7	8	11	15	20	26
EBIT	15	21	25	50	81	98	121	149
<i>Int. & other fin. Cost</i>	11	11	10	13	16	13	25	26
EBT	5	13	17	39	66	88	100	127
<i>Exp Item</i>	-	5	-	12	-	-	-	-
Tax	4	9	5	11	19	27	32	43
<i>Minority Int & P/L share of Ass.</i>	-	-	-	-	-	-	-	-
Reported PAT	1	9	12	39	48	61	68	84
Adjusted PAT	1	9	12	39	48	61	68	84
<i>Change (%)</i>	-117%	606%	38%	220%	20%	28%	11%	24%
<i>Margin(%)</i>	0%	1%	1%	3%	2%	2%	2%	2%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E	FY20E
ROE	0.0	0.1	0.1	0.3	0.2	0.2	0.2	0.2
ROCE	0.1	0.2	0.2	0.3	0.4	0.3	0.3	0.3
Asset Turnover	9.1	13.0	12.4	12.4	17.7	14.6	12.1	12.4
Debtor Days	19.9	15.5	16.5	23.3	41.6	38.1	58.0	40.0
Inv Days	49.0	34.2	38.0	41.0	47.2	47.3	49.0	49.0
Payable Days	51.6	33.1	41.3	48.5	74.7	66.1	92.0	72.0
Int Coverage	1	2	3	4	5	7	5	6
P/E	-	-	-	-	-	61	37	30
Price / Book Value	-	-	-	-	-	12	7	6
EV/EBITDA	4.1	3.2	2.3	1.1	0.3	32.9	18.2	14.8
FCF per Share	172.9	60.8	214.5	223.3	83.7	127.0	109.3	131.5
Div Yield						-	0.0	0.0

* Listing year

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	5.1	18.2	17.3	50.7	66.4	88.2	99.7	127.2
(inc)/Dec in Working Capital	23	(20)	15	(11)	(24)	(27)	(60)	(53)
Non Cash Op Exp	4.7	5.3	6.9	8.4	10.7	15.2	19.9	25.5
Int Paid (+)	11	11	10	13	15	13	25	26
Tax Paid	(1.4)	2.5	(4.1)	(8.7)	(15.5)	(20.1)	(31.8)	(43.2)
others	1.6	(7.3)	0.1	(10.5)	(0.6)	(1.6)	-	-
CF from Op. Activities	44.9	10.4	44.5	42.3	52.9	68.0	52.7	83.1
(inc)/Dec in FA & CWIP	(8.7)	(8.5)	(22.1)	(27.0)	(39.1)	(75.8)	(71.0)	(65.8)
Free Cashflow	53.6	18.9	66.6	69.3	92.0	143.8	123.8	148.9
(Pur)/Sale of Inv	(0.8)	0.0	(1.8)	3.6	(6.7)	(30.0)	(3.9)	-
others	0.9	9.7	1.6	1.9	2.4	6.1	-	-
CF from Inv. Activities	(8.6)	1.2	(22.3)	(21.6)	(43.4)	(99.7)	(74.9)	(65.8)
inc/(dec) in NW	-	-	-	-	6.1	57.1	-	-
inc/(dec) in Debt	(25.1)	(0.8)	(11.3)	(2.7)	8.2	(0.7)	48.9	42.6
Int. Paid	(0.0)	(0.7)	(1.1)	(4.2)	(15.5)	(13.3)	(25.1)	(26.4)
Div Paid (inc tax)	(11.6)	(11.3)	(9.9)	(13.1)	(8.4)	-	(8.1)	(10.1)
others	-	-	-	-	1.1	(1.5)	-	-
CF from Fin. Activities	(36.7)	(12.8)	(22.3)	(20.1)	(8.4)	41.7	15.7	6.1
Inc(Dec) in Cash	(0.4)	(1.1)	(0.0)	0.6	1.0	10.0	(6.5)	23.3
Add: Opening Balance	2.7	2.2	1.1	1.1	2.7	1.7	44.1	38.0
Closing Balance	2.2	1.1	1.1	1.7	3.8	11.6	37.6	61.3

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