

Industry  
Bloomberg  
BSE CODE

Consumer Elect  
DIXON IN  
540699

RATING	BUY
CMP	2999
Price Target	3984
Potential Upside	33%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	3230/1830
Mkt Capital (Rs Cr)	3397
Free float (%)	38%
Avg. Vol 1M (,000)	13759
No. of Shares (Crs)	1
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	2984	4699	5881
EBITDA	135	220	284
EBIT	113	190	251
PAT	63	127	161
EPS (Rs)	56	112	142
EPS Gr	0.0%	0.0%	0.0%
ROE (%)	16.7%	25.9%	25.5%
ROCE (%)	29.5%	36.8%	38.1%
BV	333.9	432.6	557.8
P/B (X)	7.1	6.9	5.4
P/E (x)	42.5	26.7	21.1

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## Continuous focus on client addition will keep revenue momentum up

### 2QFY20 Result Update

- Company reported robust Revenue of Rs 1402 Cr a growth of 90%YoY in 2QFY20 with all the segments contributing strongly.
- Mobile segment grew by 204% followed Consumer electronics growing by 105%, Lighting & Home appliance segments growing by 49/34% each.
- Commercial production for Samsung feature phone has been started in Oct 2019.
- ODM revenue share has increased to 84% from 65% in Lighting Products.
- EBITDA margin has remained stable at 4.5% in 2QFY20 with EBITDA being Rs 63 Cr a growth of 91% YoY.
- Interest expense is up by 82% YoY due to higher working capital requirement in Consumer electronics business.
- PAT increased to Rs 43 Cr resulting growth of 162% YoY on account of lower tax rate.

### Robust Revenue with Stable Margin

DIXON reported robust revenue growth of 90% YoY due to growth in all the segments. Revenue from Mobile segment grew by 204% with commencement of production of feature phone for Samsung. Revenue from consumer electronics grew by 105% led by the strong volume uptick by Xiaomi. Revenue from lighting business grew by 49% YoY and Home Appliances reported growth of 34% YoY. Revenue from Security system has jumped 3 fold to Rs 44 Cr. EBITDA margin of lighting business has improved by 230 bps to 8.1% on account of higher revenue share from ODM business (84% v/s 65%) and backward integration. Home appliance has come back to its normal margin range of 10.5-11%. Overall EBITDA margin remained stable at 4.5% while PAT margin has improved by 90 bps on account of lower tax rate.

### Continuous focus on client addition will keep revenue momentum up

In consumer electronic company is in advance stage of discussion with very large customer and expects production to start from Jan 2020. Also it has expanded its capacity of SMT to 1 mn units and further expanding it to 2.4 mn units by end of FY20 to meet the internal demand. Similarly in lighting segment, company is expected to start manufacturing for the one of the anchor customer for the global market. In home appliance company is in advance stage of talks Indian MNC for the contract manufacturing and production is likely to start from calendar year end. While the facility for the fully automatic top load washing machine will be ready by the Q3FY21 and by the time company will sign couple of MNC players which will consume 70% capacity. In mobile company has started production of feature phone for Samsung and expects 100% capacity to be utilized in 4QFY20. In order to meet the demand, company is continuously expanding its capacity across the verticals.

### View and Valuation:-

DIXON is reporting continuously strong numbers on back of robust growth across the segments, especially in consumer electronics, lighting and mobile business. The management's focus remained on the client addition, backward integration and capacity expansion to meet the growing demand. During the quarter company has acquired Samsung as client for mobile manufacturing and in advance stage of discussion with 2-3 large customers. Additionally with increased size and scale in lighting business company is targeting the global markets. We believe that the company's focus on client addition, backward integration will result into sustainable growth going ahead. We have increased our EPS estimates by 13/5% on account of better than expected result. We value the stock at Rs 3557 (25x FY21 EPS) and maintain our BUY rating.

## Improved Performance

### 2QFY20 Results

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	H1FY19	H1FY20	YoY %
Net Sales	739	794	859	1,147	1,402	90%	22%	1,332	2,549	91%
Other Income	2	1	2	1	3	55%	396%	3	3	3%
COGS	642	696	752	1,016	1,255	96%	24%	1,149	2,271	98%
Employee Exp	19	19	27	28	32	65%	11%	37	60	61%
Other Expenses	45	40	42	50	52	16%	5%	86	102	18%
EBITDA	33	39	38	53	63	91%	20%	59	116	96%
EBIT	28	33	31	45	55	96%	22%	49	100	102%
Interest	5	7	9	10	9	82%	-5%	10	19	83%
PBT	25	27	24	36	48	96%	35%	42	84	99%
Tax	8	10	8	12	5	-36%	-56%	13	17	34%
Except. Items	-	-	-	-	-			-	-	
Net Profit	16	18	17	24	43	162%	83%	29	67	128%

### Concall Highlights

- **Overview:**

- CapEx will be Rs 65-70 Cr in FY20 and FY21.
- Revenue is expected to grow by 30-35%. Growth in EBITDA is expected to be 40%.
- Net Working Capital will be in the range of -3 to 4 days.

- **Consumer Electronics:**

- Capacity expanded from 2.4 Mn to 3.6 Mn.
- Company has LCM capacity of 3.6 Mn.
- SMC capacity is 1 Mn and will expand it to 2.4 Mn by end of FY20.
- Company is in advance stage of discussion with very large client and expects production to start in Jan 2020.

- **Home Appliance:**

- Company is adding 10Kg washing machine by 1QFY21.
- Company is in talks with very large Indian Brand and execution will start from Dec 2019.
- Top load fully automatic washing machine will be manufactured at Tirupati and production will start from 3QFY21.
- Top load will have range from 6 Kg to 10 Kg with 30 models. 70% of the capacity will be consumed by 2 large MNC brands approximately 100K per year.
- Margins are expected to be in the range 10-10.5%.
- 75-80% of the capacity is utilized.

- **Lighting Vertical:**

- Company has expanded capacity in LED bulbs to 20 Mn per Month.
- Batten capacity has been expanded from 250k per month to 800k per month. In 1QFY21 it will be expanded to 1.5 mn per month.
- Batten is an important SKU for the clients whom company serves.
- Down lighters capacity has been expanded from 150k per month to 800k per month.
- Company will start exports for one of its clients from Dec 2019.

- **Mobile Vertical:**

- New Mobile facility has been set up in Noida and commenced operation. Combined capacity of Smart Phones is 1mn per month from 300 per month.
- Commercial production for Samsung feature phone has been started. In 4QFY20 100% of the capacity will be utilized 1.7-1.8 mn per month feature phone.

- **Security Systems:**

- Market is slightly under stress so the number in H2FY20 will be slightly better than H1FY20.
- Expect Rs 260-270 Cr of revenue with the EBITDA margin of 2.75-2.8%.

- **Reverse logistic:**

- Company has turnaround the profitability by focusing more on TV panel repairing, which is more profitable business and margin will be better form current level going ahead.

## Segmental Revenue

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Consumer Electronics	213.6	222.8	359.7	287.9	323.3	509.8	738.2	378.47	228.42
Lighting Products	213.2	189.9	190.4	234.1	304.9	324.3	283.9	93.50	-40.41
Home Appliances	81.0	85.7	103.8	92.3	92.6	98.8	139.1	35.29	40.36
Mobile Phones	77.2	73.2	63.7	151.1	66.9	143.7	193.4	129.72	49.69
Reverse Logistics	12.3	14.4	10.1	3.2	2.6	2.4	3.8	-6.27	1.43
Security Systems	0.5	6.7	11.1	25.4	68.7	67.9	43.5	32.41	-24.42

## Segmental EBITDA Margin %

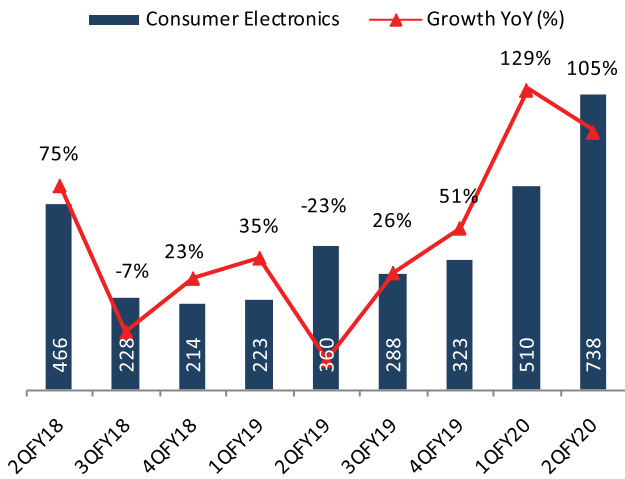
Fig in Rs Cr

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Consumer Electronics	2.9	2.7	12.9	6.0	4.1	11.4	17.7	4.86	6.37
Lighting Products	13.5	14.5	11.1	18.9	21.6	25.4	23.0	11.93	-2.41
Home Appliances	11.0	9.2	8.5	9.9	9.5	10.7	16.4	7.97	5.76
Mobile Phones	0.9	0.8	0.6	4.4	1.7	3.2	4.1	3.55	0.90
Reverse Logistics	(0.4)	(0.7)	0.1	(0.3)	(0.9)	(0.1)	0.7	0.60	0.83
Security Systems	(0.4)	(0.5)	(0.1)	0.1	1.6	2.0	1.1	1.18	-0.98

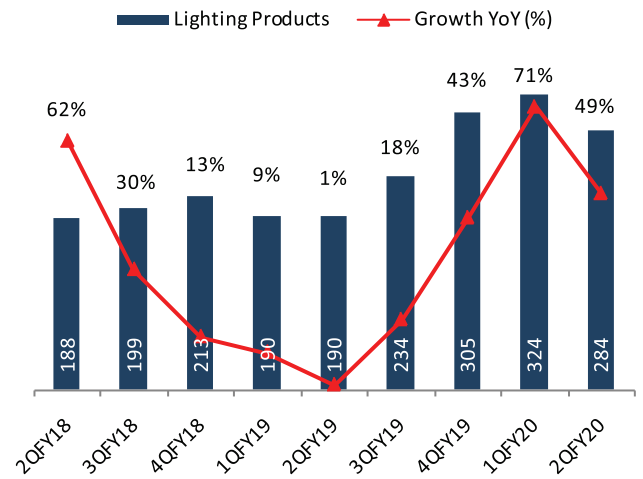
## ODM Revenue Share %

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Consumer Electronics	6.0	9.1	10.0	11.0	5.0	8.0	4.0	-6.00	-4.00
Lighting Products	36.8	34.1	65.0	81.0	89.0	83.0	84.0	19.00	1.00
Home Appliances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.00	0.00

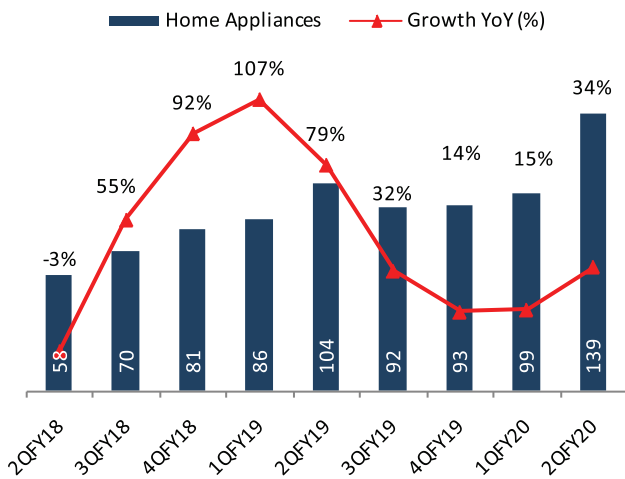
## Exhibit: Consumer Electronics Revenue & Growth



## Exhibit: Lighting Products Revenue & Growth



## Exhibit: Home Appliances Revenue & Growth



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>
Reserves	69	80	111	186	304	367	479	620
Networth	76	88	114	197	315	378	490	632
Debt	87	80	74	43	41	136	172	228
<b>Other Non Current Liab</b>	<b>18</b>	<b>9</b>	<b>6</b>	<b>13</b>	<b>68</b>	<b>28</b>	<b>44</b>	<b>56</b>
Total Capital Employed	163	168	188	240	356	514	662	860
Net Fixed Assets (incl CWIP)	84	97	112	139	195	260	296	329
Non Current Investments	6.3	6.0	-	-	-	-	-	-
Other Non Current Assets	0	-	9	12	14	8	8	8
Non Current Assets	107	120	125	151	211	423	311	344
<b>Inventory</b>	<b>93</b>	<b>113</b>	<b>136</b>	<b>282</b>	<b>322</b>	<b>408</b>	<b>644</b>	<b>854</b>
Debtors	46	54	89	280	299	517	772	967
Cash & Bank	5	7	7	15	44	37	-	-
Other Current Assets	2	1	21	30	62	79	125	157
Current Assets	184	205	274	638	754	1,069	1,573	2,017
Creditors	99	136	184	503	515	740	1,159	1,450
Provisions	5	4	1	3	4	3	5	7
Other Current Liabilities	18	9	6	13	68	28	44	56
<b>Curr Liabilities</b>	<b>121</b>	<b>149</b>	<b>208</b>	<b>545</b>	<b>602</b>	<b>799</b>	<b>1,236</b>	<b>1,540</b>
<b>Net Current Assets</b>	<b>63</b>	<b>56</b>	<b>66</b>	<b>92</b>	<b>152</b>	<b>270</b>	<b>337</b>	<b>477</b>
<b>Total Assets</b>	<b>291</b>	<b>324</b>	<b>398</b>	<b>789</b>	<b>966</b>	<b>1,492</b>	<b>1,885</b>	<b>2,361</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1,094</b>	<b>1,201</b>	<b>1,389</b>	<b>2,499</b>	<b>2,853</b>	<b>2,984</b>	<b>4,699</b>	<b>5,881</b>
Change (%)	43%	10%	16%	77%	16%	5%	57%	25%
Other Income	3	2	2	1	4	6	6	6
EBITDA	26	32	59	91	113	135	220	284
Change (%)	29%	24%	82%	55%	24%	20%	63%	29%
Margin (%)	2%	3%	4%	4%	4%	5%	5%	5%
Depr & Amor.	5	7	8	11	15	22	30	34
EBIT	21	25	50	81	98	113	190	251
Int. & other fin. Cost	11	10	13	16	13	25	31	41
EBT	13	17	39	66	88	94	165	215
Exp Item	5	-	12	-	-	-	-	-
Tax	9	5	11	19	27	30	38	54
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	9	12	39	48	61	63	127	161
Adjusted PAT	9	12	39	48	61	63	127	161
Change (%)	606%	38%	220%	20%	28%	4%	100%	27%
Margin(%)	1%	1%	3%	2%	2%	2%	3%	3%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18*	FY19	FY20E	FY21E
ROE	0.1	0.1	0.3	0.2	0.2	0.2	0.3	0.3
ROCE	0.2	0.2	0.3	0.4	0.3	0.3	0.4	0.4
Asset Turnover	13.0	12.4	12.4	17.7	14.6	11.5	15.9	17.9
Debtor Days	15.5	16.5	23.3	41.6	38.3	63.2	60.0	60.0
Inv Days	34.2	38.0	41.0	47.2	47.3	57.1	50.0	53.0
Payable Days	33.1	41.3	48.5	74.7	66.1	90.5	90.0	90.0
Int Coverage	2	3	4	5	7	5	6	6
P/E	-	-	-	-	61	42	27	21
Price / Book Value	-	-	-	-	12	7	7	5
EV/EBITDA	3.2	2.3	1.1	0.3	32.9	20.7	16.2	12.7
FCF per Share	60.8	214.5	223.3	83.7	126.9	68.5	126.1	142.5
Div Yield					-	0.0	0.0	0.0

\* Listing year

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	18	17	51	66	88	94	165	215
(inc)/Dec in Working Capital	(20)	15	(11)	(24)	(27)	(128)	(111)	(140)
Non Cash Op Exp	5	7	8	11	15	22	30	34
Int Paid (+)	11	10	13	15	13	25	31	41
Tax Paid	3	(4)	(9)	(15)	(20)	(18)	(38)	(54)
others	(7)	0	(11)	(1)	(2)	(3)	-	-
CF from Op. Activities	10	45	42	53	68	(3)	76	96
(inc)/Dec in FA & CWIP	(8)	(22)	(27)	(39)	(76)	(81)	(66)	(66)
Free Cashflow	19	67	69	92	144	78	143	161
(Pur)/Sale of Inv	0	(2)	4	(7)	(11)	11	8	-
others	-	0	0	-	-	-	-	-
CF from Inv. Activities	1	(22)	(22)	(43)	(100)	(64)	(59)	(66)
inc/(dec) in NW	-	-	-	6	57	-	-	-
inc/(dec) in Debt	(1)	(11)	(3)	8	(2)	(1)	36	56
Int. Paid	(1)	(1)	(4)	(15)	(13)	(25)	(31)	(41)
Div Paid (inc tax)	(11)	(10)	(13)	(8)	-	(3)	(15)	(19)
others	-	-	-	1	(1)	97	-	-
CF from Fin. Activities	(13)	(22)	(20)	(8)	42	69	(10)	(4)
Inc(Dec) in Cash	(1)	(0)	1	1	10	2	7	25
Add: Opening Balance	2	1	1	3	3	13	37	-
Closing Balance	1	1	2	4	13	14	44	25

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