

DIXON TECHNOLOGIES (INDIA) LIMITED

Industry	Consumer Elect
Bloomberg	DIXON IN
BSE Code	540699
NSE Code	DIXON

Tuesday, September 11, 2018

RATING	BUY
CMP	2709
Price Target	3124
Previous Target	-
Potential Upside	15%

Stock Info

52wk Range H/L	4490/2381
Mkt Capital (Rs Cr)	3,080
Free float (%)	61%
Avg. Vol 1M (,000)	4425
No. of Shares (Crore)	1
Promoters Pledged %	NA

Backward to Forward All Strong

Key Highlights:

- ☑ Dixon is the largest home grown design-focused solutions company. The revenue for 1QFY19 stood at Rs 520 Cr seeing de-growth of 24% YoY whereas EBITDA grew by 21% YoY and PAT by 15% YoY.
- ☑ Dixon expanded its capacity in Tirupati plant of 2.4 million LED TV sets. Further expansion plan to 3.4 million sets is on and should be competing that by Q3 this fiscal. This is a complete backward integration of LCM also the SMT line installation will be done by September.
- ☑ Backward integration plan for PCBA is on and should be completed by August end-mid-September.
- ☑ In CCTV business, the production expansion from 1.5 lakhs to 5 lakhs digital cameras and the DVR would be completed by September.

1Q FY19 Result:

DIXON reported net sales of Rs. 520 Cr de-growth of 24%YoY in 1QFY19 which was due to Mobile division which lead to 75% de-growth. Despite de-growth in Revenue, EBITDA margin expanded by 182 bps in 1QFY19 with EBITDA being 24 Cr a growth of 21% YoY due to improvement in the Lighting segment EBITDA margin from 4% in Q1FY18 to 7.6% in Q1FY19. PAT increased to Rs 13 Cr resulting growth of 16% YoY expanding PAT margin by 82 bps. During the quarter company has added Syska and Orient to its lighting business and Lloyd in washing machine business.

View and Valuation:

Backward integration in Consumer electronics & Lighting segments and company's focus on increase ODM share will have a positive effect. Management is also focusing on to diversify its customer base to reduce single customer dependency. Full fledge operation at newly constructed Tirupati plant will help to remove double cost structure in consumer electronics and help to rationalize cost and this will result into improvement of EBITDA margin by 50-60 bps. We expect 17% CAGR revenue growth over FY18-20 with improvement in EBITDA margin driven by capacity addition, new client acquisition and backward integration. We value the stock at Rs. 3124 (33x FY20 EPS) and recommend BUY.

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	1391	2458	2846	3153	4066
EBITDA	59	91	113	138	202
EBIT	50	81	98	118	177
PAT	39	48	61	78	108
EPS (Rs)	127	43	54	69	95
EPS growth (%)	220	-66	24	28	38
ROE (%)	35	24	19	20	23
ROCE (%)	31	39	30	28	35
BV	367	179	278	339	422
P/B (X)			7	8	6
P/E (x)			34	39	29

* Listing year

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Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	685	879	680	598	520	-24.0%	-13.0%	2,457	2,842	15.7%
Other Income	1	2	0	2	1	68.4%	-20.5%	1	4	195.7%
COGS	608	782	591	506	438	-28.0%	-13.4%	2,180	2,487	14.1%
Gross Margin	11%	11%	13%	15%	16%	461 bps	34 bps	11%	12%	121 bps
Employee Cost	16	18	20	20	17	11.1%	-13.7%	64	73	13.8%
Other Expenses	40	44	41	45	39	-1.4%	-12.4%	122	169	38.9%
EBITDA	21	35	29	27	26	21.1%	-7.0%	91	113	23.5%
EBITDA Margin	3%	4%	4%	5%	5%	183 bps	32 bps	4%	4%	25 bps
Depreciation	3	4	4	4	4	53.3%	-2.7%	11	15	41.7%
EBIT	18	31	25	23	21	16.1%	-7.9%	81	98	21.1%
Interest	3	3	3	4	5	67%	21.9%	16	13	-13.4%
PBT	16	30	22	20	17	8.5%	-15.2%	66	88	32.9%
Exceptional	-	-	-	-	-	NA	NA	-	-	NA
Tax	5	9	7	6	5	-6.6%	-24.4%	19	27	45.2%
PAT	11	21	15	14	13	15.5%	-11.2%	48	61	28.0%
PAT Margin	2%	2%	2%	2%	2%	82 bps	5 bps	2%	2%	21 bps

Revenue Down but Margins Up:

Company reported de-growth of 24% in revenue due to significant drag in revenue on the Mobile side which de grew by 75% due to under performance of Gionee the major customer of Dixon. While revenue from Home Appliances which grew by 107% YoY followed by 35% growth in Consumer Electronics and modest growth in Lighting Products of 9%. Despite de-growth in revenue, EBITDA margin expanded by 182 bps in 1QFY19 with EBITDA being 24 Cr a growth of 21% YoY due to improvement in the Lighting segment EBITDA margin from 4% in Q1FY18 to 7.6% in Q1FY19. While, Home appliance margin has decline by 29 bps QoQ to 10.7% on account of increased commodity prices and rupee depreciation. On PAT side, company reported 16% growth from Rs 11 Cr to 13 Cr.

Customer Diversification a move to end Dependency:

As part of management's strategy company has added Syska and Orient to its lighting business during the quarter. With this addition company has all major lighting brands as its customer. In Washing machine business it has added Lloyd as its customer and further strengthening its customer base. Also company has reported that it has added a very large player (Xiaomi) in its LED TV segment for supplying 55,000 units of Mi TV every month. This strategic move will help DIXON to reduce dependency on single large customer and create base for sustainable growth. But in Security system business, company is depended on single customer, i.e. CP Plus. However, CP Plus is the one of the largest player with 24% market share which will ensure sustainable growth.

Backward integration will improve EBITDA margin:

To improve its margin further company is focused on backward integration. In LED TV company has expanded its capacity in Tirupati plant to 2.4 million sets with complete backward integration of LCM and SMT and management further expanding to 3.4 million units which will be completed by Q3FY19. In lighting segment, company has done a significant backward integration which has resulted in the improvement in margin for the Q1FY19 and will continue to do so. Washing machine has a complete backward integration but it has risk of foreign currency and commodity price increase. For mobile segment, PCB manufacturing will be started from end of September. This will strengthen Dixon position in the market. Also Company is on the move to increase its ODM in it's all the segments with Home Appliance already being 100% ODM. Backward integration and higher revenue share from ODM will help to improve margin going ahead.

Concall Highlights :

- ✓ Company is planning migrate to ODM in all segments. It Added Syska and Orient in the lighting vertical and added Wipro High Beam LED Bulb.
- ✓ Capacity in the Home Appliances segment expanded from 7.6 lacs in FY 17-18 to 1.2 mn in FY 18-19. Commenced production of LED TV's for iFFALCON is all set.
- ✓ Mobile business & Excise duty adjusted revenue growth of 33% YOY. Strong Working Capital cycle in Q1 FY18-19.
- ✓ H2 of the company will be better than H1 due to many facilities getting set up. FY20 is expected to see 20% to 25% growth.
- ✓ Receivables days Outstanding increased from 38 days to 57 days. Inventory Days Outstanding increase from 41 days to 52 and Payables days outstanding increase from 81 days to 111 days.
- ✓ Working Capital Days was affected due to Mobile Phones segment which has shown 75% YoY degrowth.
- ✓ In FY19, Capex is expected to be Rs 65 Cr to 70 Cr of which Cash element will be Rs 45 odd Cr.

Segmental Revenue:

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Consumer Electronics	245	174	166	466	228	214	223	35%	4%
Lighting Products	153	188	174	188	199	213	190	9%	-11%
Home Appliances	45	42	41	58	70	81	86	107%	6%
Mobile Phones	216	191	293	142	158	77	73	-75%	-5%
Reverse Logistics	16	17	14	25	22	12	14	2%	17%
Security Systems	-	-	-	-	-	0	7	NA	1271%

Segmental EBITDA Margin % :

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (bps)	QoQ (bps)
Consumer Electronics	3.3	2.5	3.5	2.4	1.5	1.38	1.21	(225)	(17)
Lighting Products	1.6	1.8	4.0	6.9	7.0	6.3	7.6	365	129
Home Appliances	23.6	18.7	11.3	11.7	12.0	13.6	10.7	(62)	(288)
Mobile Phones	0.6	0.3	0.5	1.7	1.1	1.1	1.1	60	(2)
Reverse Logistics	15.4	16.4	25.3	6.3	4.8	(3.4)	(4.5)	(2,981)	(112)
Security Systems						(87.8)	(6.8)	(685)	8,091

ODM Revenue Share % :

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (bps)	QoQ (bps)
Consumer Electronics	11.0	10.7	8.5	5.4	3.3	6.00	9.10	1	3
Lighting Products	51.9	57.3	46.5	36.2	39.5	36.8	34.1	(12)	(3)
Home Appliances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-

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
Reserves	57	69	80	111	186	304	372	467
Networth	63	76	88	114	197	315	384	478
Debt	88	87	80	74	43	41	84	119
Other Non Current Liab	13	18	9	6	13	68	76	98
Total Capital Employed	151	163	168	188	240	356	468	598
Net Fixed Assets (incl CWIP)	85	84	97	112	139	195	236	218
Non Current Investments	7	6	6	-	-	-	-	-
Other Non Current Assets	1	0	-	9	12	14	14	14
Non Current Assets	106	107	120	125	151	214	255	236
Inventory	89	93	113	136	282	322	409	527
Debtors	42	46	54	89	280	296	329	424
Cash & Bank	6	5	7	7	15	44	53	64
Other Current Assets	1	2	1	21	30	62	68	88
Current Assets	171	184	205	274	638	772	909	1,178
Creditors	108	99	136	184	503	515	571	668
Provisions	1	5	4	1	3	4	4	5
Other Current Liabilities	13	18	9	6	13	68	76	98
Curr Liabilities	121	121	149	208	545	623	687	807
Net Current Assets	49	63	56	66	92	150	223	371
Total Assets	277	291	324	398	789	986	1,164	1,414

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	3,152	4,064
Change (%)	34%	43%	10%	16%	77%	16%	11%	29%
Other Income	1	3	2	2	1	4	1	1
EBITDA	20	26	32	59	91	113	138	202
Change (%)	291%	29%	24%	82%	55%	24%	23%	46%
Margin (%)	3%	2%	3%	4%	4%	4%	4%	5%
Depr & Amor.	5	5	7	8	11	15	20	24
EBIT	15	21	25	50	81	98	118	177
Int. & other fin. Cost	11	11	10	13	16	13	11	16
EBT	5	13	17	39	66	88	109	163
Exp Item	-	5	-	12	-	-	-	-
Tax	4	9	5	11	19	27	31	55
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1	9	12	39	48	61	78	108
Adjusted PAT	1	9	12	39	48	61	78	108
Change (%)	-117%	606%	38%	220%	20%	28%	28%	38%
Margin(%)	0%	1%	1%	3%	2%	2%	2%	3%

Financial Details

Key Ratios:

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E	FY20E
ROE	0.02	0.12	0.15	0.35	0.24	0.19	0.20	0.22
ROCE	0.14	0.18	0.20	0.31	0.39	0.30	0.28	0.35
Asset Turnover	9.05	12.99	12.38	12.41	17.74	14.57	13.35	18.68
Debtor Days	20	15	17	23	42	38	38	38
Inv Days	49	34	38	41	47	47	47	47
Payable Days	52	33	41	48	75	66	66	60
Int Coverage	1	2	3	4	5	7	11	11
P/E	-	-	-	-	-	34.0	39.3	28.5
Price / Book Value	-	-	-	-	-	6.6	8.0	6.4
EV/EBITDA	4.1	3.2	2.3	1.1	0.3	18.3	22.4	15.5
FCF per Share	54	19	67	69	92	144	107	35
Div Yield						0.0%	0.3%	0.4%

* Listing year

Cash Flow Statement:

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	5	18	17	51	66	88	109	163
(inc)/Dec in Working Capital	23	(20)	15	(11)	(24)	(27)	(63)	(118)
Non Cash Op Exp	5	5	7	8	11	15	20	24
Int Paid (+)	11	11	10	13	15	13	11	16
Tax Paid	(1)	3	(4)	(9)	(15)	(20)	(31)	(55)
others	2	(7)	0	(11)	(1)	(2)	-	-
CF from Op. Activities	45	10	45	42	53	68	46	29
(inc)/Dec in FA & CWIP	(9)	(8)	(22)	(27)	(39)	(76)	(61)	(6)
Free Cashflow	54	19	67	69	92	144	107	35
(Pur)/Sale of Inv	(1)	0	(2)	4	(7)	(30)	(1)	(19)
others	1	10	2	2	2	6	-	-
CF from Inv. Activities	(9)	1	(22)	(22)	(43)	(100)	(62)	(25)
inc/(dec) in NW	-	-	-	-	6	57	-	-
inc/(dec) in Debt	(25)	(1)	(11)	(3)	8	(1)	44	35
Int. Paid	(0)	(1)	(1)	(4)	(15)	(13)	(11)	(16)
Div Paid (inc tax)	(12)	(11)	(10)	(13)	(8)	-	(9)	(13)
others	-	-	-	-	1	(2)	-	-
CF from Fin. Activities	(37)	(13)	(22)	(20)	(8)	42	23	7
Inc(Dec) in Cash	(0)	(1)	(0)	1	1	10	7	11
Add: Opening Balance	3	2	1	1	3	2	44	53
Closing Balance	2	1	1	2	4	12	52	65

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