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DEMOCRATIZING WEALTH CREATION

MID BRIDGE

THE MIDCAP MARVEL

February 2019

COMPANY NAME	:	**Dixon Technologies (India)**
BSE Code	:	**540699**
Time Duration	:	**1 year**
CMP	:	**₹2260 (as on 21 Feb., 2019)**
Target Price	:	**₹2912**

Dixon Technologies (India) Limited (DTIL), is our Mid-Bridge recommendation for the month of February. The company is engaged in manufacturing of consumer durables, lighting, mobile phones etc. It provides solutions to original equipment manufacturers (OEM) such as Panasonic, Phillips, Samsung, Lloyd, Wipro, Bajaj Electricals and others. DTL is increasing its focus in Original Design Manufacturer (ODM) model. This model focuses on complete manufacturing cycle from initial stages such as designing, planning, raw material procurement and final manufacturing.

DTIL's Q3FY19 revenue mix comprises of Consumer Electronics (36%), Lighting Products (29%), Home Appliances (12%), Mobile Phones (19%), Reverse Logistics (0.4%) and Security Systems (3%). This shows its diversified product portfolio in the electronic manufacturing industry.

Rise in ODM revenues

DTIL is design-focused Original Design Manufacturer (ODM) of products such as lighting, LED TVs and washing machines. This model has the advantage that many industry players lack capital power to enhance their research and development capabilities. Dixon Tech's ODM model will help the company gain market share.

The company's washing machine business, which is 100% ODM model-based, has already shown traction to grow at a faster pace with higher capacity utilization and healthy orderbook. With 1 lakh manufacturing capacity for this product, along with 140 different models, it controls around 30% of the total domestic market. For its businesses such as lighting and consumer electronics too, ODM revenue has started gaining traction. ODM revenue share for lighting and consumer electronics rose by 8% and 41%. On a consolidated revenue basis, ODM sales of the company posted a 41% CAGR over FY14-FY18 compared to a 24% CAGR in OEM sales. In FY18, ODM sales accounted for 21.8% of DTIL's total revenues.

LED business to shine further

In lighting business, the company has planned expansion to reach a total capacity of 20 million in LED bulb segment. Such an expansion has the potential to capture almost 55% to 60% market share in the domestic industry.

Favourable scenario for mobile industry

Dixon's mobile business also has a large scope for growth with new customers such as Gionee, Micromax and Intex. Union cabinet recently passed National Electronic Policy 2019. In this policy, government has set a target of US$ 400 billion turnover in this sector by 2025. Further, it also targets production of 100 crore (1 billion) mobile handsets till 2025. This will be a big boost for the industry and Dixon which has around 19% revenues coming from mobile manufacturing.

Management Commentary

The company has planned a capex of around Rs. 70-75 crore for FY19 for expansion. It has already spent Rs. 15 crore for consumer electronics segment, Rs. 10 crore for home appliances segment etc. Going ahead, for FY20, it has planned a capex of around Rs. 65 crore.

In addition to this, the company remains confident that its major competitor TCL, who also has major expansion plans, will not be a big challenge as TCL focuses on brand building. So it will not majorly affect a third-party manufacturer such as Dixon.

Financial Performance

On the financial front, the company has shown improvement. During uncertain times such as demonetisation and GST implementation, the industry saw a decline in demand which resulted in pressure on revenues. But as soon as these negative headwinds passed it was back on track and registered a robust revenue growth. The revenues grew to Rs. 794 crore for Q3FY19 from Rs. 675 crore for Q3FY17. The company's operating margins have expanded from 3.71% for Q3FY17 to 4.91% for Q3FY19. Though it had margin pressure in its washing machine and consumer durables, its backward integration has helped expand margins. Further, on an annual basis, the company registered compounded sales growth of 33% for the last three years. For FY18, it registered sales revenue of Rs. 2,842 crore which was more than double of what it achieved in FY16. The company registered a robust CAGR of 73% in terms of net profits. Net profit for FY18 stood at Rs. 61 crore.

As of September 2018, the company's balance sheet had a debt of Rs. 108.01 crore and cash of Rs. 50.82 crore. Debt was raised

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for capex in ODM model development. Management is optimistic that the net figure will keep coming down due to positive trend in ODM business.

Valuation and Outlook

Stock is currently trading at TTM EPS of Rs. 53.80 and PE multiple of 42x. After the recent correction, the stock's valuation has became reasonable. With debt to equity of 0.13, the stock has low risk of higher leverage and will help in higher PAT margins. In the last three quarters, the company has already shown signs of strong operational performance and volume growth. Net profit for FY19E can be estimated to reach Rs. 75.9 crore from Rs. 60.9 crore for FY18 which is higher by 24%. Which suggest FY19E EPS of Rs. 67. Hence at current valuations, we recommend a **BUY** the stock and add at dips for target price of Rs. 2912.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	2210.21	1644.86	1252.07	1115.16	1061.69
Total Income	2213.60	1645.81	1254.44	1117.48	1072.22
Total Expenditure	2103.74	1560.17	1213.00	1092.92	1044.28
PBIDT	109.86	85.64	41.45	24.56	27.93
PAT	57.01	43.73	21.43	9.20	10.29
Dividend %	20.00	60.00	125.00	10.00	30.00
Adj. EPS(Rs)	50.34	39.81	69.07	29.65	33.17

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Net Sales	617.32	664.15	-7.05	543.84	13.51
Total Expenditure	583.56	632.22	-7.70	516.48	12.99
PBIDT (Excl OI)	33.76	31.93	5.73	27.36	23.39
PAT	14.34	15.76	-9.01	15.03	-4.59
PBIDTM% (Excl OI)	5.47	4.81	13.72	5.03	8.75
PBIDTM%	5.55	5.03	10.34	5.04	10.12
PATM%	2.32	2.37	-2.11	2.76	-15.94
Adj. EPS(Rs)	12.66	13.91	-8.99	13.27	-4.60