PICK OF THE MONTH
February 2023

Dixon Technologies (India) Ltd.

Recommendation	Time Period	CMP	Target	Potential Upside
BUY	12-18 Months	INR 2690.90	INR 3200	19%

Dixon Technologies (India) Ltd., an electronic manufacturing service provider was founded in 1993 in Noida, India. The company boasts of a diversified portfolio of products, to cater to various clients, like LED TVs, home appliances like washing machines, lighting products like LED bulbs, battens, and down lighters. Dixon boasts of a large market share across its various business segments. Like in the consumer electronics segment Dixon has the largest capacity in India with annual capacity of 6 million sets, including backward integration in LCM and SMT lines and addressing almost 35% of India's requirement. Dixon is also India's largest ODM player in lighting with a capacity of 300 million, which represents 45% of Indian requirement. Dixon also expanded the annual capacity in battens to 15 million and downlighters to 18 million to address the growing demand for LED lighting products across the country.

We expect Dixon Technologies' bottomline to benefit as margins improve to 4-4.5% from 3-3.5% currently. The boost in performance will be led by change in its sales mix, operating leverage, cost optimization and strategic price hikes across its' ODM business of washing machine and lighting to fend off inflation. Dixon's strategy to boost its margin growth is already reflecting in its last reported earnings of Q3FY23. While the company reported a fall of 22% in the year over year revenue growth, its consolidated EBITDA margins expanded by 10% year over year to INR114 crores.

Another important factor is its generation of free cash flow of INR 114 crores in the 9MFY23. The company also deleveraged its balance sheet extensively by INR 223 crores in the same period with net debt of INR 68 crores which brings the net debt to equity at INR 0.06 as on 31st December 2022. The company is targeting to reduce its debt further by INR 50 crores before March 31, FY23 which will save the company interest costs of INR 22 crores annually thus improving its margins in the coming quarters. The company successfully generated ROCE and ROE of 26.3% and 22.3% in the last reported quarter

The GOI in its recent Union budget reduced its custom duty on specific parts like open cells of TV panels and camera lens from 5% to 2.5% and 2.5% to 0% respectively. This will help Dixon in reducing its operating expenses to manufacture its various home appliance products. Also the government's recent AtmaNirbhar Bharat initiatives has boosted PLI schemes in 14 different sectors which will increase production by ₹30lk crore during the next 5 years. Dixon has already applied for PLI incentives and expected to receive the same in the coming months.

Dixon is looking to diversify its product portfolio further and grow its customer base by launching new products like starting strips and rope lighting, which will be launched in March 23. Dixon is also looking to launch protection lighting by FY24. The company's first supply of its newly launched products is against exports to a new customer in UAE which was already executed in Q3 and the company received repeat orders for Q4. The company has increased its customer base expansively in the third quarter across its various offerings which will be positively impacting its revenue base in the coming quarters. In fully automatic category, Dixon has a capacity of 0.6 million with 96 variants across 6.5 to 11kg with Bosch as its primary customer. Dixon also started manufacturing for Lloyd, Croma, TCL, Akai, Onida, Acer, and Japanese customer, SHARP. Due to a sharp increase in customers Dixon is targeting more than 100% growth in this business segment in the next financial year.

As raw material availability- specially semi-conductor availability improves- and the global economies return to normalcy, we expect Dixon's revenues in FY24 to grow by ~50% YOY and EPS to grow by ~100% to INR 80 riding upon strong topline and margin growth, increase in customer base and diversification and expansion in product offerings. We recommend a buy on the stock with a price target of INR 3200 in 12 months implying a p/e of 40x FY24E earnings.

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