

# Dixon Technology (India) Ltd.

A legacy of delivering value by enduring excellence



## Accumulate

### Key Data

DATE	17-10-2023
Reco Price	5400-5450
Target	6870
Sector	Consumer Durables
BSE Code	540699
NSE Code	DIXON
Face Value (Rs.)	2
Market Cap (Mn)	3,24,627
52-week High/Low (Rs)	5,488/2,554

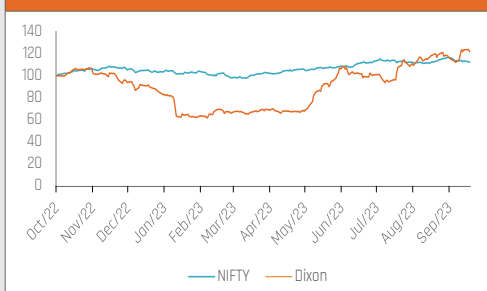
Source : NSE, BSE

### Shareholding pattern (June-2023)

	%
Promoters	34.04
DII's	24.61
FII's	15.00
Public	26.36
<b>Total</b>	<b>100.00</b>

Source : NSE, BSE

### Price Performance



Rebase to 100

### Retail Research

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## Dixon Technologies (India) Limited

### Company Background

**Dixon Technologies (India) Limited** was incorporated as a Public Limited Company on May 2, 2017. The company is the largest home-grown design-focused and solutions company engaged in manufacturing products in consumer durables, lighting, and mobile phone markets. Its diversified product portfolio includes (i) consumer electronics like LED TVs; (ii) home appliances like washing machines; (iii) lighting products such as LED bulbs, tube lights, downlighters, and CFL bulbs; (iv) mobile phones; and (v) CCTV & Digital Video Recorders (DVRs). Presently, the company has 21 manufacturing facilities and 1 R&D Center in India.

The company provides solutions in reverse logistics, i.e., repair and refurbishment services for Set-Top Boxes, Mobile Phones, and LED TV Panels. The company offers a fully integrated end-to-end product and solution suite to original equipment manufacturers (OEMs), covering global sourcing, manufacturing, quality testing, packaging, and logistics. It is also a leading Original Design Manufacturer (ODM) of lighting products, LED TVs, and semi-automatic washing machines in India. As an ODM, the company develops and designs products in-house at its R&D center. The company manufactures and supplies these products to well-known companies in India, which, in turn, distribute these products under their own brands.

### Outlook and Valuation

The company is well-positioned to harness the growth potential in the Indian EMS (Electronic Manufacturing Services) sector, particularly in IT applications, which constitute a significant portion of the global market. With the shift towards remote work, there is heightened demand for home-based electronic appliances, presenting a clear market opportunity. Additionally, the company should actively explore the evolving landscape of 5G technology, focusing on the mobility and communication sectors, through strategic partnerships and investments. Furthermore, an emphasis on cloud-based innovations, especially in redefining automotive infotainment systems, can solidify the company's position as a leader in cutting-edge technology. By adapting to these trends and investing in strategic initiatives, the company can not only stay competitive but also pioneer advancements in the rapidly evolving electronics industry.

We expect the company's revenue to grow at a CAGR of approximately 14.8% over FY23-FY26E, supported by the PLI scheme, robust growth, and stable margins. Therefore, we recommend an Accumulate rating on Dixon Technologies Limited with a target price of Rs 6870, based on FY26E EPS of Rs 80.8 and a forward PE valuation multiple of 85.

### Financial Snapshot (Consolidated)

Particulars (in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23 - FY26E)
Revenue	1,21,920.1	1,39,598.5	1,60,259.1	1,84,298.0	14.8%
EBITDA	5,162.5	6,002.7	6,971.3	8,109.1	16.2%
EBITDA %	4.23%	4.30%	4.35%	4.40%	
Adjusted PAT	2,555.2	3,330.3	3,985.7	4,811.5	23.5%
EPS (₹)	42.9	55.9	67.0	80.8	23.5%
ROCE%	23.1%	29.6%	29.5%	29.5%	

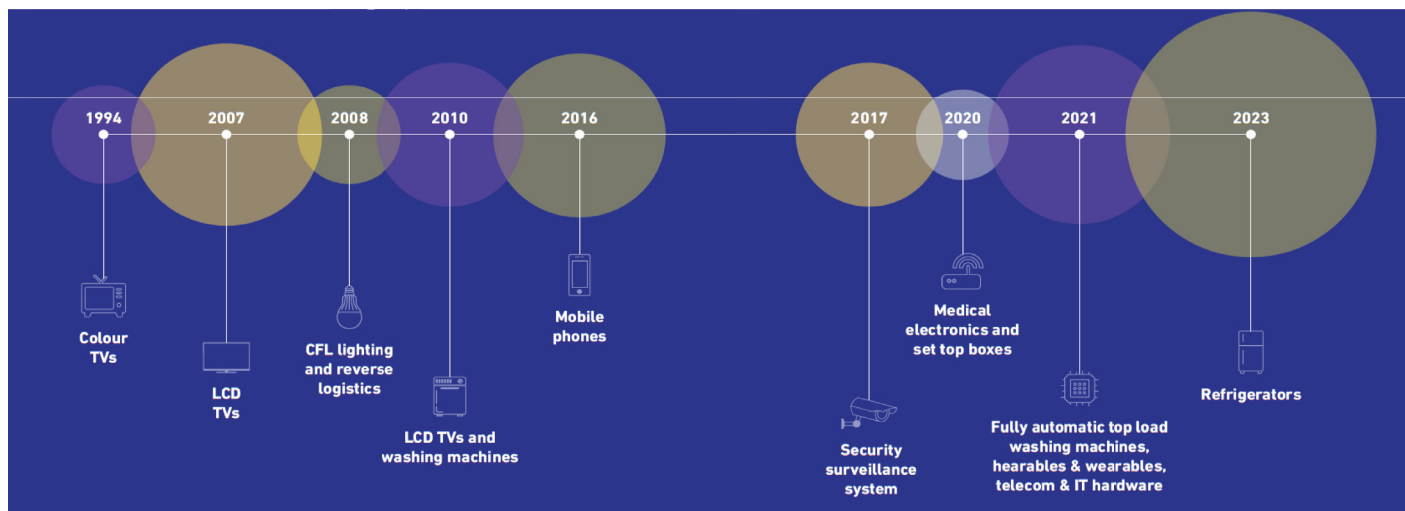
Source: Company, ACMIIL Retail Research

## Company at glance

- Diverse product portfolio across many categories
- Prominent EMS player with OEM/ODM manufacturing capabilities and expertise
- Focusing on Inorganic growth through Strategic partnerships & collaborations
- Beneficiary from Government policies & Reforms aims to promote manufacturing growth
- Quality Assurance & Customer satisfaction is strong pillar for growth

## Company & Business Overview

### Legacy of delivering value addition throughout its journey since Inception



Source: Company, ACMIIL Retail Research

## Business model

The Company engages in two distinct business categories:

ODM (Original Design Manufacturer)	OEM (Original Equipment Manufacturer)
<p><b>In-House Design:</b> The company conceptualizes its own designs. This means they have the creative freedom to develop products from the initial concept to the final design.</p>	<p><b>Client Directives:</b> The company follows the directives provided by the business client. This means the client is actively involved in the design, manufacturing, and packaging processes.</p>
<p><b>Client Approval Necessary:</b> Even in ODM, client approval is necessary. Although the company designs the product, the client's approval is still imperative. This suggests that while the company has creative freedom, client satisfaction is a priority.</p>	<p><b>Client Approval:</b> Client approval is crucial in the entire production process. The client has a significant say in how the product is developed, ensuring it aligns with their specific requirements and standards.</p>
<p><b>Innovation and Creativity:</b> ODM allows the company to showcase its innovation and creativity. They are not just manufacturing according to client specifications but creating new, original designs that could potentially attract a broader market.</p>	<p><b>Responsibility:</b> The company holds responsibility for translating the client's vision into the final product. The client specifies their needs, and the company executes the manufacturing process accordingly.</p>
<p><b>Responsibility for Design and Production:</b> The company is responsible for both the design conception and the production process. This means they have control over the entire product lifecycle, from the idea phase to the final product hitting the market.</p>	<p><b>Product Traceability:</b> Quality assurance measures, such as affixing QR codes, are implemented. This allows for product traceability, making it easier to address any issues that may arise after the product is in the market.</p>
<p><b>Quality Assurance:</b> Stringent quality assurance procedures are followed in both segments. This commitment to quality is highlighted by the use of QR codes for product traceability in the lighting segment, ensuring that high-quality products reach the customers.</p>	

Source: Company, ACMIIL Retail Research

## Product Portfolio with Segmental growth Outlook

### 1. Consumer Electronics

Dixon Specializes In The Design And Manufacture Of Led Tvs And Printed Circuit Boards (Pcbs). Projections Indicate A Sustained Growth Trajectory For The Industry, With An Expected Compound Annual Growth Rate (Cagr) Of 11% From Fy22 To Fy26e. Television Stands Out As One Of India's Rapidly Growing Consumer Electronics Sectors, With A Notable Penetration Level Of Approximately 65%, The Highest Among Various Consumer Electronics Products. The Increasing Prevalence Of Televisions In Indian Households Can Be Attributed To Reduced Manufacturing Costs And Enhanced Affordability For Consumers.

### 2. Home Appliances

The Home Appliance Sector Is One Of The Fastest-Growing Industries In The Indian Market, Driven By The Country's Emerging Economy And Evolving Consumer Lifestyles. Factors Such As The Increasing Number Of Working Individuals, The Prevalence Of Nuclear Families, Single-Person Households, And Increased Migration For Employment Have Led To A Growing Demand For Products That Offer Both Convenience And Comfort. Many Households Are Actively Seeking Appliances That Can Significantly Reduce The Time And Effort Invested In Daily Chores, Leading To A Preference For Various Types Of Appliances.

Within This Dynamic Landscape, The Company Specializes In The Design And Manufacturing Of Semi-Automatic And Fully Automatic Washing Machines, Employing An Original Design Manufacturing (Odm) Model. By Catering To The Changing Needs Of Consumers, The Company Aims To Provide Products That Align Seamlessly With Their Modern Lifestyles. The Industry Is Poised For Sustained Growth, With An Anticipated Compound Annual Growth Rate (Cagr) Of 4.5% From Fy22 To Fy26e.

### 3. Lighting Solutions

The Indian Led Lighting Market Is Poised For Substantial Growth, Projected To Achieve A Compound Annual Growth Rate (Cagr) Of 12% From Fy22 To Fy26e. This Expansion Can Be Attributed To Population Growth And Rapid Urbanization Observed Over The Past Decade. The Increasing Demand For Electricity Has Emphasized The Need For Environmentally Sustainable And Cost-Effective Lighting Solutions. Consequently, Led Lighting Has Emerged As A Dominant Force In India's General Lighting Market. The Company Specializes In The Design And Manufacture Of A Wide Range Of Lighting Products, Including Led Lights, Tube Lights, Indoor And Outdoor Drivers, Aligning With The Evolving Needs Of The Market.

### 4. Mobile Phones & Ems

The Indian mobile phone market, encompassing both feature phones and smartphones, is one of the world's fastest-growing smartphone sectors. The proliferation of smartphones in India is driven by their increasing utility, notably in digital payment systems and Internet of Things (IoT) applications. This trend is further fueled by the availability of new features at affordable prices and the rising disposable income among Indian consumers. Dixon is actively engaged in the manufacturing of mobile phones, along with associated products such as hearables & wearables for globally recognized brands. The mobile phone segment is expected to be a major growth area for the company, with new customer acquisitions and increased volumes from existing customers. Embracing innovation and meeting the evolving demands of the market, the company contributes to the industry's growth, which is anticipated to maintain a consistent Compound Annual Growth Rate (CAGR) of 14% from FY'22 to FY'26E.

### Emerging Businesses

- **Telecom & Networking Products:** It includes product categories like Modems, routers, set-top box, IoT devices, etc.
- **IT Hardware:** The Company is engaged in the production of laptops, desktops and tablets within this sector. In addition to serving the demands of the domestic market, they are proactively pursuing manufacturing prospects for IT hardware products to collaborate with prominent international brands.
- **Wearables and hearables:** In association with Imagine Marketing (Boat), they are designing and manufacturing wearables and hearables including TWS (True wireless stereo) and neckbands. With rising demand for wireless and connected devices, they have set up a new facility for manufacturing Bluetooth speakers and smartwatches.

### 5. Security Surveillance systems

Dixon is India's first company to manufacture cameras & DVRs. This segment is a joint venture between Dixon and Aditya Infotech Limited to manufacture security devices under the brand name of AIL Dixon Technologies Private Limited ("ADTPL").

## Leading Clientele of different categories

Segment	Customers
Consumer Electronics	
Home Appliances	
Lighting solutions	
Mobile phone & EMS	

Source: Company, ACMIIL Retail Research

## Investment Rationale

### Leading electronic manufacturing (EMS) provider across all product categories

It is a leading electronics manufacturing services (EMS) provider and has established itself as a formidable player in various product categories of the EMS industry. As the first Indian Original Design Manufacturer (ODM) to acquire Sub-Licensing rights for Android and Google TV, Dixon has pioneered innovative solutions in the television market. Additionally, the company has achieved significant milestones as the 4th largest LED lamp manufacturer globally, holding a commanding 50% manufacturing market share in LED lamps in India. Dixon's expertise extends to the home appliances sector, where it has secured its position as the largest washing machine manufacturer in India. Furthermore, the company has successfully entered the mobile phone manufacturing domain, producing 2G, 4G, and 5G phones. In the realm of security surveillance, Dixon has emerged as the largest manufacturer in the Indian market, serving as the exclusive producer for leading CCTV brands in India and capturing a substantial 25% market share in manufactured surveillance equipment.

### Driving Growth through Strategic Partnerships and Diversification

The company has fortified its market position through strategic collaborations and diversified ventures in the electronics industry, reflecting a pivotal role in India's digital transformation. The company has secured substantial orders from major players like Jio Bharat Phones and Reliance Jio, manufacturing internet set-top boxes and feature phones at a large scale. Collaborations with Nokia, global ODMs, and Motorola have further expanded its product portfolio, including Android set-top boxes and various electronic devices for domestic and international markets. Venturing into IT hardware with ACER and partnering with Bharti Group, Dixon has broadened its industry scope. Additionally, joint ventures with Rexam focus on manufacturing critical components for air conditioners, showcasing Dixon's commitment to market exploration, strategic alliances, and proactive adaptation in the dynamic electronics industry.

### Innovation, collaborations and Global Expansion are key strategies to drive future growth

Dixon, a forward-thinking manufacturing company, is dedicated to driving innovation in the industry. With a focus on tailored solutions, it aims to meet customer needs and is set for significant growth, targeting a doubling of revenue in the next few years. Through strategic moves like Original Design Manufacturing (ODM) and export opportunities, including deals in Germany and ongoing discussions in the US and UK, Dixon has improved its margin profile. The company is expanding its product range, venturing into consumer electronics with Android-based solutions and collaborations with industry leaders like Samsung. It is also innovating in the lighting sector and diversifying into telecom, networking, laptops, tablets, wearables, and security surveillance. Dixon emphasizes innovation, growth, and market adaptation, evident in its recent joint ventures for manufacturing wireless audio solutions and security surveillance equipment in India.

## **Competitiveness through diversified revenue streams & preferred choice as a reliable partner for the clients**

The company is a prominent player in the electronics industry, boasting diversified operations and revenue streams. The company's earnings come from a wide array of products, including LED televisions, lighting solutions, home appliances, mobile devices, and security equipment. Dixon has expanded its reach through subsidiaries and joint ventures, managing mobile phone production and collaborating on security devices and set-top boxes. The company's strategic expansion plans include entering markets like decorative lighting, wearables, and fully automatic washing machines. With a strong industry presence and a key position in the global supply chain, the company continues to be a reliable partner for leading electronic brands, ensuring its growth and competitiveness in the market.

## **Benefitted from Government policies & Reforms to boost manufacturing through Make in India initiatives**

The "Make in India" initiative benefits Dixon Technologies in several ways. By manufacturing products locally, Dixon reduces production costs and establishes a stable supply chain, leading to increased efficiency. This initiative also aligns Dixon with government policies, making them eligible for incentives and subsidies, further boosting their financial health. Products made under this initiative gain preference in the domestic market, fostering brand loyalty and trust among consumers. Additionally, the initiative enhances Dixon's global reputation, making it an attractive prospect for international collaborations and export opportunities. Overall, embracing the "Make in India" concept enhances Dixon's competitiveness, solidifies its market presence, and ensures sustainable growth both domestically and internationally. The Indian government, recognizing the need for strategic interventions, has implemented key initiatives to boost medium-term growth. Reforms in the Foreign Direct Investment (FDI) policy have been instrumental in stimulating economic activity by encouraging foreign investments. Furthermore, the PLI scheme has catalyzed the promotion of a robust local component ecosystem, significantly reducing dependence on imports and enhancing the overall competitiveness of Dixon's offerings. The company and its subsidiaries/JVs have received approvals under the production-linked incentive (PLI) scheme for five segments - mobile phones, lightning, telecom and networking products, inverter controller boards for air conditioners and IT hardware.

## **Empowering India's IT Hardware Industry through PLI Scheme**

India introduced the Production Linked Incentive (PLI) Scheme 2.0 for IT Hardware, offering incentives to companies manufacturing IT products like laptops, PCs, tablets, and servers within the country. International companies like Lenovo, HP, Dell, and Acer have shown keen interest, with 32 firms submitting proposals. The scheme aims to boost local production, create jobs, and reduce reliance on imports. The government allocated a budget of Rs 17,000 crore (\$20 billion) for the program, expecting an investment of Rs 2,430 crore (\$299 billion) and production worth Rs 3.35 lakh crore (\$40 billion). The initiative aligns with India's goal of self-reliance (Atmanirbhar) and promoting domestic manufacturing (Make in India). The recent government proposal to require global certification for licence-free imports for IT Hardware products & moving forward striker rules for importers to obtain license for importing IT hardware products. Such kind of government policies to reduce import dependency & boost manufacturing of IT Hardware Products under Make in India will be a significant opportunity for the company.

The company is strategically focusing on exploring manufacturing opportunities for IT hardware products mainly on notebooks along with desktops & tablets. With a proactive approach, the company is keen on establishing collaborations with leading international brands. This initiative not only strengthens the company's global presence but also aligns with the vision of expanding its footprint in the competitive IT hardware industry. Through this endeavor, the company aims to leverage its expertise and resources to contribute significantly to the global IT hardware market while ensuring high-quality products and innovative solutions for its customers worldwide.

## **Investments in capacity expansion & backward integration**

In FY24, Dixon Technologies plans a capex of INR 4000-4200 million for expanding manufacturing capacities and implementing backward integration. Of this, INR 1100 million has already been utilized in the first quarter, and the remaining capex will be completed in the rest of the year. The Capex is mainly allocated towards a mobile expansion, refrigerator projects, and a semi-automatic washing machine facility Construction, and fulfilling commitments under the Production Linked Incentive (PLI) scheme for IT hardware and telecom sectors. In washing machines, Dixon offers 160 models with an annual capacity of 2.4 million units and has established an in-house Tool Room for Mould Manufacturing. As a major LED TV manufacturer, the company produces 6.5 million units annually, fulfilling 30% of India's demand. Dixon holds ODM sub-licensing rights with Google for Android and Google TV, covering 60-65% of the Indian market. The company is also investing in injection molding and expanding its LED bar SMT line to deepen its manufacturing capabilities and industry leadership.

## **ESG Focus:**

The company places a strong emphasis on Environmental, Social, and Governance (ESG) factors, integrating sustainability into its core operational activities. The company is dedicated to preserving the environment and maintaining a labor-friendly workplace. By incorporating solar panels and transitioning to cleaner fuel sources, Dixon actively reduces its environmental footprint and minimizes greenhouse gas emissions. Additionally, the company prioritizes worker safety, ensuring optimal workplace conditions for its factory workers. Dixon's commitment extends beyond profit-making; it focuses on delivering high-quality products while safeguarding the environment and fostering positive relationships with local communities. This holistic approach reflects Dixon's dedication to sustainable practices and responsible corporate citizenship.

## Industry Overview & key growth drivers

### Global EMS Industry

The global EMS (Electronics Manufacturing Services) market was worth \$880 billion in 2021. It's expected to grow at 5.4% annually, reaching \$1,145 billion by 2026. The industry had steady growth until 2018 due to increased outsourcing and more electronics in products.

In 2020, there was a 3.4% decline, but certain factors helped, including demand for medical devices, work-from-home needs (like smartphones and laptops), and the push for climate change solutions, which increased demand for digital products that support sustainability efforts. The structural shift in the EMS industry occurred after 2020 due to digitalization and is expected to continue in the coming years. This ongoing transformation will create further opportunities for both direct and indirect players involved in this industry.

### Indian EMS Market

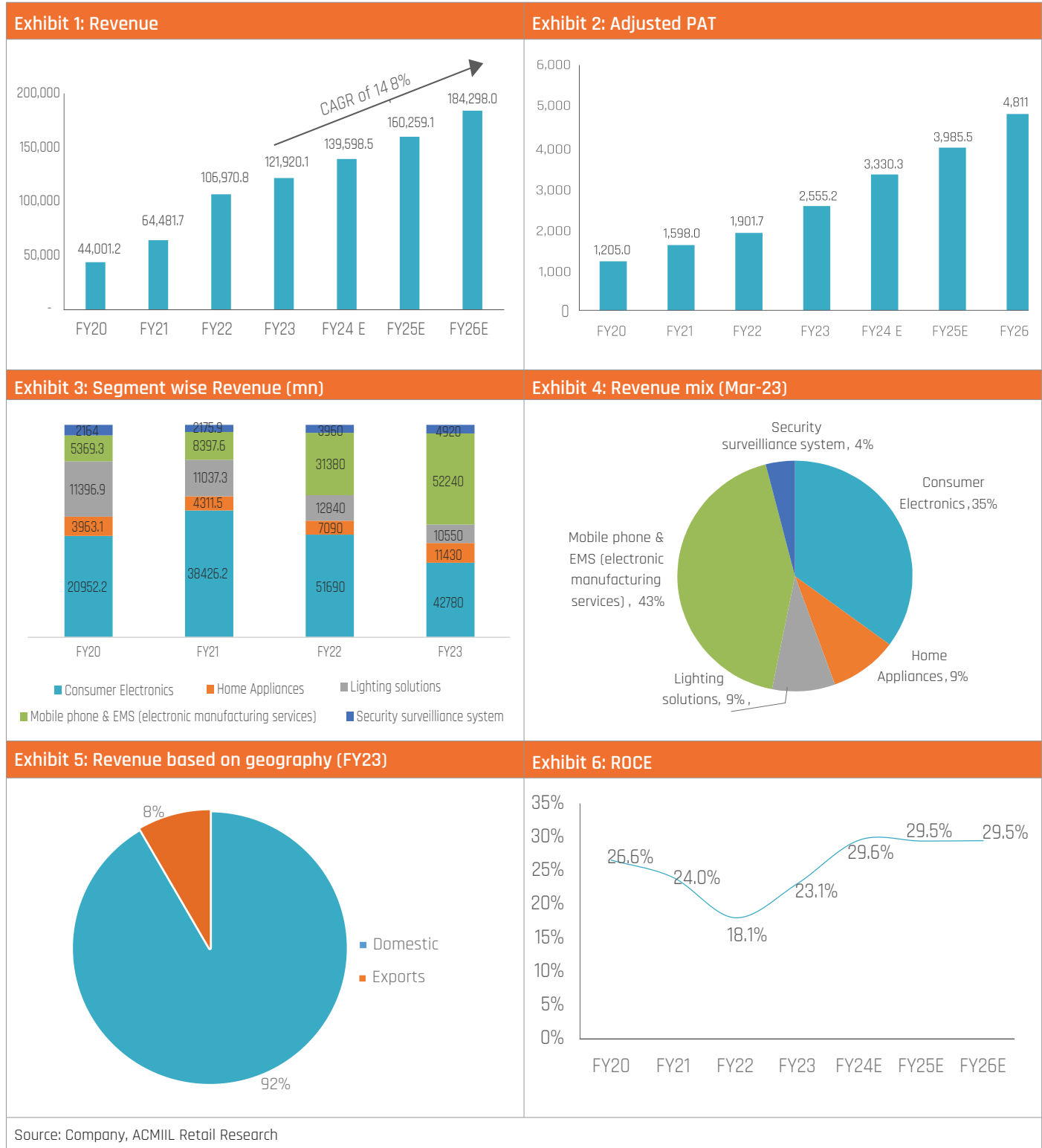
In the fiscal year 2022, the total addressable EMS (Electronics Manufacturing Services) market in India was valued at ₹3,372 billion (\$45 billion). It's anticipated to grow significantly to ₹7,504 billion (\$101 billion) by fiscal year 2026, with a CAGR of 22%.

However, the current contribution of Indian EMS companies is 44% of the total market, valued at ₹1,469 billion (\$20 billion) in FY22. This share is expected to grow rapidly at a CAGR of 32% and reach ₹4,502 billion (\$60 billion) by FY26.

India is positioned as a destination for high-quality design work, not merely as a low-cost alternative. Many multinational companies have established and expanded captive centres in the country. Many EMS players are gradually expanding to provide complete design services in addition to contract manufacturing/ original equipment manufacturing. Embracing ODM model of partnership with EMS partners coupled with venturing into new product segments is propelling brands to pursue EMS engagement. High volumes will influence EMS/ODM to bring in the component ecosystem locally and enhance domestic capabilities of component sourcing thus making the electronics ecosystem stronger.

In the face of global economic challenges, the Indian economy has proven to be remarkably resilient, a testament to its robust macroeconomic foundations. Despite a worldwide slowdown, India has emerged as a beacon of stability among emerging economies, showcasing leadership amidst adversities. Notably, the country's status as a significant export hub and investment destination, especially in the manufacturing and services sectors, has bolstered its economic standing on the global stage.

## Story in Charts (Values in Mn.)





## Financial Statements

### Consolidated Profit & Loss Statement:

Particulars (Rs. in Mn.)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	44,001.2	64,481.7	106,970.8	121,920.1	139,598.5	160,259.1	184,298.0
Expenses	41,725.8	61,563.0	103,127.7	116,757.6	133,595.8	153,287.8	176,188.8
<b>EBITDA</b>	<b>2,275.3</b>	<b>2,918.7</b>	<b>3,843.1</b>	<b>5,162.5</b>	<b>6,002.7</b>	<b>6,971.3</b>	<b>8,109.1</b>
<b>EBITDA%</b>	<b>5.17%</b>	<b>4.53%</b>	<b>3.59%</b>	<b>4.23%</b>	<b>4.30%</b>	<b>4.35%</b>	<b>4.40%</b>
Other Income	52.0	15.8	37.5	72.3	64.3	65.3	66.3
Interest	394.4	327.2	494.0	640.7	394.9	360.9	346.5
Depreciation	365.3	437.2	839.5	1,146.3	1,237.7	1,367.6	1,419.4
<b>PBT</b>	<b>1,567.7</b>	<b>2,170.1</b>	<b>2,547.1</b>	<b>3,447.8</b>	<b>4,434.5</b>	<b>5,308.1</b>	<b>6,409.5</b>
Tax	362.7	572.1	643.8	897.0	1,108.6	1,327.0	1,602.4
<b>PAT</b>	<b>1,205.0</b>	<b>1,598.0</b>	<b>1,903.3</b>	<b>2,550.8</b>	<b>3,325.9</b>	<b>3,981.1</b>	<b>4,807.1</b>
<b>Adjusted PAT<sup>^</sup></b>	<b>1,205.0</b>	<b>1,598.0</b>	<b>1,901.7</b>	<b>2,555.2</b>	<b>3,330.3</b>	<b>3,985.5</b>	<b>4,811.5</b>
EPS*	20.8*	27.3	32.0	42.9	55.9	66.9	80.8
ROCE%	26.6%	24.0%	18.1%	23.1%	29.6%	29.5%	29.5%

\*Note: FY20 EPS adjusted for comparison to arrive stock split effect  
<sup>^</sup> Note: Adjusted PAT is after considering Minority interest  
 Source: Company, ACMIL Retail Research

## Risks and concerns

- Slowdown in economy affects the company's business & financials.
- The Indian electronics sector is under intense competition from electronic items imported from China.
- The business in which Dixon deals in is affected by rapid changes in technology

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