SMART SYNC SERVICES

Dixon Technologies Q1FY21

Financial Results & Highlights

Brief Introduction:

Dixon Technologies (India) Limited is the largest home grown design-focused and solutions company engaged in manufacturing products in the consumer durables, lighting and mobile phones markets in India. Its diversified product portfolio includes Consumer electronics like LED TVs, Home appliances like washing machines, Lighting products like LED bulbs and tubelights, downlighters and CFL bulbs, Mobile phones like feature phones and smartphones, Security Surveillance Systems like CCTV & DVRs. The company manufactures and supplies these products to well-known companies in India who in turn distribute these products under their own brands.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	466	936	-50.21%	768	-39.32%
PBT	2	31	-93.55%	40	-95.00%
PAT	2	20	-90.00%	30	-93.33%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	517	1147	-54.93%	857	-39.67%
PBT	2	36	-94.44%	37	-94.59%
PAT	2	24	-91.67%	28	-92.86%

Detailed Results:

1. The company had a dismal quarter so far with Q1 revenues remaining falling 55% YoY and profits falling 92% YoY.
2. The EBITDA margins for the company have fallen by 130 bps to 3.3% in Q1FY21.
3. Segment-wise Q1 Revenue performance is as follows:
    1. Consumer Electronics: Down 32% YoY (67% of current revenues)
    2. Lighting Products: Down 76% YoY (15% of current revenues)
    3. Home appliances: Down 76% YoY (5% of current revenues)
    4. Mobile Phones: Down 63% YoY (10% of current revenues)
    5. Security Systems: Down 80% YoY (3% of current revenues)
    6. Reverse Logistics: Down 42% YoY (0.3% of current revenues)
4. The company had a positive cash conversion cycle of 9 days. The cash conversion cycle was distorted due to weak revenues in Q1. This expected to normalize in Q2.
5. It had a ROCE of 26.1% and ROE of 20.8%.

Investor Conference Call Highlights:

1. The company had 0 revenues in April and was back to 70% of normalized revenues in June.
2. The company has a strong order book in LED TVs which is greater than its current capacity. Post capacity expansion, the company expects to service 33-34% of the total demand of 14 million in India.
3. In Lighting, the company is back to 85-90% of normal levels currently. In July, it sold almost 13 million LED bulbs and almost 1 million battens.
4. In Washing Machines, the company has an order book of almost 120,000 machines a month.
5. The third line for washing machines is expected to be operational within August.
6. The company has a cash balance of Rs 64 Cr.
7. The company has filed 2 applications for the PLI scheme for smartphones.
8. Dixon has acquired new customers in LED TVs like Samsung, Nokia, Toshiba, Hisense, and the private label of Flipkart.
9. The company expects to offer full solutions in the smart category soon to a very large brand.
10. The capacity expansion on the PCBA side is expected to be completed within August.
11. The company has completed capacity expansion in the lighting division. It has added a major customer in the private label of Reliance in this segment in Q1.
12. The company's expansion and the new factory in the Tirupati campus for fully automatic top loading is on schedule. The company expects to complete trials in this location by December.
13. The company has built up an order book of almost 800,000 to 1 million set-top boxes per month which is expected to generate a revenue of almost Rs 1,000 Cr next year.
14. The company is expected to start making Quattro RT-PCR analyzer machine for COVID-19 within August.
15. The budgetary allocation of incentive in the mobile PLI scheme is around Rs 41,000 Cr to be distributed within 5 companies. The turnover limits in this scheme are around Rs 500 Cr to Rs 2000 Cr with a 6% incentive. Despite TCL setting a factory in Tirupati, the management is not worried and is confident of Dixon maintaining cost competitiveness.
16. The management remains confident that the company should be able to set up the plant and get it running within the next 4 months and achieve the threshold turnover and cross-sell within the next 7 months.
17. The management expects to see a slight improvement in margins in the coming quarters in lighting and TV segments. This is primarily due to the ongoing shift towards larger screen sizes.
18. The company already is installing 7 automated lines in the Lighting segment currently at its Noida plant. The margin improvement from these new lines is expected to be around 1.5-2%.
19. The net debt as of the end of Q1 was at Rs 55+ Cr. Gross debt is at Rs 125+ Cr.
20. The normal capex run rate for Dixon is at Rs 80-90 Cr per year. If the company gets approved for the PLI scheme, then these figures shall rise to Rs 130-140 Cr.
21. The company will raise additional debt if it fails to meet the higher capex run-rate using internal cash generation.
22. The management expects to see significant growth in ROCs coming mainly from this mobile strategy from next year.
23. If the company gets approved for 1 PLI scheme, then it expected to make around 50-60% for exports. The end product mix shall then shift towards high-end phones.
24. The management expects to generate smartphone sales of Rs 3000-4000 Cr by year 4 or so.

25. The impact on working capital was mainly from delay on shipments, which led to a delay in production and delay in booking the sales. All this started due to a delay in custom clearances for both Samsung and Xiaomi.
26. The company is not looking to do any capex to expand the Set-top box segment.
27. The 7 automated lines in lighting in Noida are expected to account for 1/3rd of the total volumes going forward.
28. Jio remains a strategic customer for Dixon and it will be looking to explore further opportunities with Jio in the future. Currently, it has contracts to make only set-top boxes for Jio. It is doing both the hybrid set-top box and the cable set-top box now.
29. The expansion in the fully automated washing machine is expected to be completed by Q3 with trials in December. The company is launching 40-45 models here and has already gotten an anchor customer for this line.
30. The company has already shipped its first consignment for anchor customers in LED exports to the USA & Indonesia. It is also in talks with large retail chains. The management remains confident of wins in the coming quarters in lighting exports.
31. Per unit realization for sub $200 mobiles for the company remains at around Rs 5000-6000.

Analyst's View:

Dixon Technologies is one of the foremost leaders in the electronics manufacturing and outsourcing industry in India. The company has done well to scale up its different diverse divisions: lights, consumer appliances, mobiles, etc. It has also acquired many marquee customers along the way. The current quarter was dismal for the company mainly due to production shutdown during the lockdown. Demand is expected to come back fast in all of its segments and the company is also hopeful of expansion in mobiles on the back of the PLI scheme and LED exports. The company has also successfully installed 7 fully automated production lines in Lighting in Noida plant which should margin appreciation in the future. It remains to be seen whether the company will qualify in its application for the PLI scheme and what obstacles it will face that may threaten to halt its growth momentum. Nonetheless, given the list of marquee customers that the company has gained and retained over the years and its continuous efforts to expand existing capacities like consumer electronics and adding new product lines like disruptive medical devices, Dixon Technologies is cementing its place as a good growth-story in the outsourced manufacturing sector in India.