Dixon Technologies Q2FY21

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1473	1167	26.22%	466	216.09%	1939	2103	-7.80%
PBT	66	42	57.14%	2	3200.00%	69	73	-5.48%
PAT	48	38	26.32%	2	2300.00%	50	58	-13.79%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1639	1405	16.65%	517	217.02%	2156	2552	-15.52%
PBT	72	48	50.00%	2	3500.00%	74	84	-11.90%
PAT	52	43	20.93%	2	2500.00%	54	67	-19.40%

Detailed Results:

1. The company had a great quarter so far with Q2 revenues rising 17% YoY and profits rising 21% YoY.
2. The EBITDA margin for the company has fallen by 80 bps to 5.5% in Q2FY21 & EBITDA has risen 36% YoY.
3. Segment-wise Q2 Revenue performance is as follows:
    1. Consumer Electronics: Up 30% YoY (59% of current revenues)
    2. Lighting Products: Up 4% YoY (18% of current revenues)
    3. Home appliances: Up 4% YoY (9% of current revenues)
    4. Mobile Phones: Up 2% YoY (12% of current revenues)
    5. Security Systems: Down 9% YoY (2% of current revenues)
    6. Reverse Logistics: Down 5% YoY (0.2% of current revenues)

4. The company had a cash conversion cycle of 0 days.
5. Net Debt was at Rs 17.13 Cr with net debt to equity at 0.03 times.
6. It had a ROCE of 26.9% and ROE of 20.7%.

Investor Conference Call Highlights:

1. Dixon hopes to achieve an ROCE of 30%+ and an ROE of 25%+ in forthcoming quarters and years.
2. LED TV revenues were at Rs 957 Cr vs Rs 738 Cr last year, strong growth of 30% YoY. Operating profit margins also expanded from 2.4% to 2.8% YoY on the back of the scale, a higher level of backward integration, the expansion of PCB capacity, and improved sales mix towards larger sizes of above 43 inches.
3. Dixon completed the capacity expansion to 4.4 million TVs including backward integration and LCM which is around 30% of the Indian LED TV market. This capacity is expected to be increased to 5.5 million units by the end of FY21.
4. The decision to increase LED TV capacity was taken due to the imports on complete LED televisions being shifted to the prohibited category.
5. The latest customer addition in the customer portfolio of LED television is Vu, which is a significant domestic player in LED television. The production for Vu is going to start in November.
6. Another new customer in the LED TV category is OnePlus. Production for OnePlus will start from Q4.
7. Dixon already has a capacity of almost 200 million to 250 million LED bulbs, which is more than 40% of the Indian requirement.
8. Dixon has expanded its capacity of battens from 250,000 in Phase 1 to 1.5 million. In downlighters, capacity has expanded from 150,000 per month to 600,000 per month and will go up to 1.2 million per month by Q1FY22.
9. Around 1/3rd of LED bulbs will be made through automation from Oct onwards.
10. Dixon presently has 40-odd models in washing machines and has an annual capacity of 1.4 million in 6 kgs to 10 kgs. In Q3, Dixon will be launching a new 10 kg model and also an electronic panel model.
11. The expansion plan for a fully automatic top loading washing machine is on track in the Tirupati location.
12. There are approximately 30 variants in the fully automatic category to start with and the annual capacity is at 6 lakhs. Commercial production should start in Q4.
13. The details of the mobile phone PLI scheme are:
    1. Domestic companies are incentivized for mobile phones of less than $200, that's INR 15,000, which is a special carve-out for domestic companies with a CapEx investment of INR 200 crores over 4 years.
    2. Eligibility will be subject to thresholds of incremental sale of manufactured goods.
    3. Incremental sales of manufactured goods over the base year for the financial year '21 is INR 500 crores, financial year '22 is INR 1,000 crores, financial year '23 is INR 2,000 crores, '24 is INR 3,500 crores and '25 is INR 5,000 crores.
    4. The revised ceilings for '21 is INR 2,000 crores, '22 is INR 4,000 crores, '23 is INR 6,000 crores. For financial year '24 is INR 8,000 crores and the financial year '25 is INR 10,000 crores.

14. Dixon is planning to increase mobile phone capacity from the current 3 million to 15-16 million in the next 2 years.
15. According to management, this PLI development should generate cumulative revenues of Rs 28,000-30,000 Cr in the next 5 years.
16. The company has already delivered 5.2 lakh cable and hybrid set-top boxes for Jio dish and SITI Cable and has generated revenues of Rs 35 Cr. It has a strong order book of almost 0.3 million per month from October onwards.
17. In medical devices, Dixon dispatched its first set of 40 machines.
18. Margin profile in set-top boxes is around 3-3.2%. in medical devices, the company expects to earn margins of 20-22%.
19. Margin profile for mobile phones was higher on account of anchor customers for 2G phones.
20. The operating margin in the mobile phone business should be at 3%.
21. The company expects Vu & OnePlus to have volumes of 0.8 million to 0.9 million TVs per annum.
22. The management has stated that the existing 3 customers should be enough for meeting the ceiling numbers under the PLI.
23. The mobile phone capacity is fungible with a 1:3 ratio for smartphones:2G respectively.
24. The company can also make set-top boxes and medical devices using the same line as mobile phones.
25. The topmost customer contributes around 30-32% of revenues and the 2nd one does around 17% of revenues.
26. Utilization in lighting in Q2 was at 81% and for LED TV it was at 78%. In-home appliances it was 80%, in mobile phones on the 2G side, it was almost 68%, and on the smartphone side, it was 35%.
27. ODM share in lighting was at 90% while in home appliances it was at 100%.
28. The management remains confident of reaching Rs 1000 Cr in set-top boxes in FY22 given the current order book. The management expects this business to have revenues of Rs 400-450 Cr in H2.
29. In AC PCB, Dixon is supplying to Daikin and has partnered with Rexxam Japan, which is a global partner of Daikin.
30. Volume growth in TVs was at 14% YoY while in lighting, the company did 571 lakh units as against 508 lakh units last year.
31. In mobile phones, volumes were at 96 lakhs phones vs 16 lakhs a year ago.
32. In CCTV, Dixon did around 6.6 lakh units as against 6 lakhs last year.
33. The LED TV business is OEM and all cost increases are passed on with no lag to customers.
34. Debtor days were almost unchanged at 58 days while inventory days fell to 28 days from 45 days. Creditor days were at 86 days from 93 days in June.
35. QoQ growth in washing machines was at 15%+.
36. 100% of the new customer business from Vu and One Plus will be coming to Dixon.

<u>Analyst's View:</u>

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 including Vu & OnePlus in Q2. The current quarter was good for the company despite the production shutdown during the lockdown. Demand has 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 remains confident of reaching the ceiling numbers for the PLI scheme from its existing customers. It remains to be seen whether the company will be able to expand aggressively in the medical devices space and what obstacles it will face that may threaten to halt its growth momentum in its emerging segments. 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.