Dixon Technologies Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	768	725	5.91%	810	-5.17%	3681	2530	45.49%
PBT	40	21	91.57%	30	31.19%	142	84	69.31%
PAT	30	14	120.87%	22	36.93%	111	56	96.22%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	857	861	-0.39%	996	-13.89%	4405	2990	47.33%
PBT	37	24	52.64%	35	5.08%	157	94	67.11%
PAT	28	17	66.85%	26	4.87%	121	63	90.21%

Detailed Results:

1. The company had a mixed quarter so far with Q4 revenues remaining flat YoY and profits rising 67% YoY.
2. FY20 performance for the company was phenomenal with consolidated revenues rising 47% YoY and profits rising 90% YoY in the same period.
3. The EBITDA margins for the company have improved by 190 bps to 6.5% in Q4FY20.
4. PAT margins had a similar rise of 130 bps to 3.2% in the quarter.
5. Segment-wise Q4 Revenue performance is as follows:
    1. Consumer Electronics: Up 22% YoY (46% of current revenues)
    2. Lighting Products: Down 16% YoY (30% of current revenues)
    3. Home appliances: Down 3% YoY (10% of current revenues)
    4. Mobile Phones: Down 10% YoY (7% of current revenues)
    5. Security Systems: Down 20% YoY (6% of current revenues)
    6. Reverse Logistics: Up 84% YoY (0.5% of current revenues)
6. Segment-wise FY20 Revenue performance is as follows:
    1. Consumer Electronics: Up 76% YoY (48% of current revenues)

2. Lighting Products: Up 24% YoY (26% of current revenues)
3. Home appliances: Up 6% YoY (9% of current revenues)
4. Mobile Phones: Up 51% YoY (12% of current revenues)
5. Security Systems: Up 93% YoY (5% of current revenues)
6. Reverse Logistics: Down 48% YoY (0.4% of current revenues)

7. The company has a negative net debt of Rs 13.49 Cr on 31st March '20 vs a positive net debt of Rs 96.92 Cr on 31st March '19.
8. The company has a cash position of Rs 95.66 Cr and free cash flow from operations in FY20 of Rs 91.51 Cr.
9. The company had a negative cash conversion cycle of 4 days.
10. It had a ROCE of 33% and ROE of 26%.

Investor Conference Call Highlights:

1. The loss from lockdown in March was Rs 165 Cr in revenues and Rs 10 Cr in EBITDA.
2. The company saw margin expansion in all verticals in FY20.
3. The company has signed an MoU with Molbio for the manufacturing of the RT-PCR test device which is used for COVID-19 testing. This device provides results within 55 mins of taking a swab. This product is approved by ICMR and commercial production is expected from August onwards.
4. The company does not require any additional Capex for this product. The company will be using its DVR and security surveillance plant in Tirupati to make this product. This marks the foray of Dixon in the medical devices segment.
5. The company will increase its PCBA & assembly lines to increase LED TV capacity to 4.4 million. This is expected to be done by Q2.
6. The capacity utilization in the TV unit was 35% in May and is expected to be around 65% in June.
7. In the lighting division, the company has acquired Reliance private labels as a customer. It is also looking to add retail chains in the EU and the USA as customers.
8. The utilization in this unit was at 50% post lockdown. Labour availability is proving to be an issue in this unit.
9. The company is confident of adding the top-loading plant in the washing machine segment in Tirupati. The company also closed an agreement with a large MNC in this segment recently.
10. In the mobile phone segment, the company has reached only 70% utilization post lockdown due to labour constraints. Commercial production for Jio set-top boxes has started already.
11. The company is aggressively bidding for a production linked incentive (PLI) scheme in mobile phone manufacturing. It has already fled its application for it. The incentive here is from 4-6%. The company is also receiving big traction from large global brands for both the domestic markets and exports.
12. The demand for TV has not been down in the lockdown for the company as the anchor customer in this product segment has a huge online presence and has managed to sell big volumes in May. The order book for June and July is also quite strong according to the management.
13. Sales in washing machines, on the other hand, have gone down and demand is expected to normalize after a few months.
14. The company has added LG as a big customer and DishTV as a customer in set-top boxes.
15. Around 50-60% of foreign sales liability is hedged. Thus the company had to incur forex losses during the lockdown.

16. The major Capex for FY21 is for capacity expansion in washing machines where Rs 45-50 Cr is already committed. The other one is for expansion in the TV segment which was mentioned earlier. The company needs this expansion on TV as it has added 3 new customers in Toshiba, Hisense and Nokia and also a big order from Xiaomi.
17. The company is also looking to do Capex into automation to reduce dependence on labour. This will include Rs 200 Cr over 4 years. Total CapEx for FY21 will be around Rs 90-120 Cr.
18. The management guides for margins of 8-8.5% from the lighting segment.
19. The first order book for the RT-PCR device is of Rs 130 Cr for 1000 devices. This machine is expected to be in very high demand as it can be used to test 4 samples at a time and it can be used to test for 27 infectious diseases.
20. The management is confident of qualifying for the PLI scheme. The incentive provided for the first year of the scheme is 6% of revenues.
21. Net debt levels are expected to rise in the next 2 months due to working capital requirements and the company will start bringing them down after the festive season.
22. Margins in the washing machine segment are expected to be severely impacted in Q1 due to the negative forex impact from sales to Samsung. But the management expects volumes to sustain going forward due to the addition of Voltas and Reliance private labels (Kelvinator and BPL) as customers in this segment.
23. The management does not expect the margins of >10% in the lighting segment to be sustainable. This is because of the CAPEX to be done in automation in this segment and the increased costs from implementing social distancing in the production line.
24. The company is aiming to become a complete solutions provider in the TV ODM segment and capture the market here is the same way as it has done in the lighting segment in the future.
25. The company sees a lot of potential in the mobile phone segment mainly due to the addition of Samsung, LG, and Infocus (in-house brand of Foxconn) as customers. It is also aiming to add large global customers and take advantage of the PLI scheme here.
26. The company is currently making feature phones for Samsung. It will start making smartphones for Samsung from July onwards.
27. Market share of the company in various products is:
    1. LED Bulbs: 30%
    2. Light batons: 12-13%
    3. Downlighter: 7-8%
    4. Bulbs: 30-35%
    5. TV: 15%
    6. Washing Machines: 27-28% (semi-automatic) (12% Overall)
    7. Mobile Phones: 25% (excluding smartphones)
28. In the lighting segment, the automation implementation is expected to be done in 8-9 months and is expected to improve productivity from 32 per man-hour to 55 per man-hour.
29. The requirements for the PLI scheme are being a domestic company, a CAPEX of Rs 50 Cr, and threshold sales of Rs 500 Cr or above in the sub $200 mobile segment. Currently, Dixon is one of the few players in the market who can fulfill all these criteria.
30. Apart from cost reduction exercises, the company is focussing on converting most of its fixed costs to the variable cost structure.
31. The CAPEX for Q4 was higher than normal and thus FCF for 9M and FY20 turned out to be similar.
32. The order book increase from the addition of 3 new customers on TV is expected to be around 60,000-70,000 units per month.

33. The management expects all labour issues to be normalized by the end of July.
34. The smartphone customers added recently are all for the mid to high-end category.
35. The total mobile phone volumes can scale up to 2 million feature phones and 0.3-0.4 million smartphones.

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 company has done well to keep up the growth momentum in its existing segment by acquiring new customers. It is also investing in automation of its labour-intensive lines which is a good sign of passive productivity increase over the long term. The company has also forayed into medical devices by signing an MoU with Molbio for manufacturing of RT-PCR test device which can deliver COVID-19 test results in just 55 minutes. This represents a big opportunity for the company as testing for COVID019 is expected to ramp up fast in the near future. Additionally, this device can test for 27 other infectious diseases which ensure that demand for the product remains steady in post COVID times. It remains to be seen whether the labour issue the company is facing in a specific segment will be resolved as the management has envisaged 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.

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