SMART SYNC SERVICES

Dixon Technologies Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1897	810	134.20%	1473	28.78%	3836	2913	31.69%
PBT	76	30	153.33%	66	15.15%	145	103	40.78%
PAT	57	22	159.09%	48	18.75%	107	80	33.75%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	2183	996	119.18%	1639	33.19%	4339	3548	22.29%
PBT	82	35	134%	72	13.89%	156	120	30.00%
PAT	62	26	138%	52	19.23%	116	93	24.73%

Detailed Results:

1. The company had a phenomenal quarter with Q3 revenues rising 119% YoY and profits rising 138% YoY.
2. The EBITDA margin for the company has fallen by 80 bps to 4.6% in Q3FY21 & EBITDA has risen 89% YoY.
3. Segment-wise Q3 Revenue performance is as follows:
    1. Consumer Electronics: Up 199% YoY (62% of current revenues)
    2. Lighting Products: Up 26% YoY (16% of current revenues)
    3. Home appliances: Up 68% YoY (5% of current revenues)
    4. Mobile Phones: Up 114% YoY (14% of current revenues)
    5. Security Systems: Up 10% YoY (3% of current revenues)
    6. Reverse Logistics: Down 3% YoY (0.2% of current revenues)

4. The company had a cash conversion cycle of 1 day.
5. It had a ROCE of 31.7% and ROE of 23.8%.

Investor Conference Call Highlights:

1. The EBITDA margin contraction in Q3 was primarily driven by a substantial change in the segment mix with a higher increase in the share of business during the quarter from LED TVs and due to certain input price increases.
2. The management expects the cost pressure to continue in the near to medium term.
3. The company has completed the automation of 1/3 of its capacity for LED bulbs.
4. It has also decided to expand capacity at a new site in Dehradun in an adjacent plot of land for semi-automatic washing machines from 1.2 million to almost 1.6 million.
5. The plant in the Tirupati campus for fully automatic top loading is almost complete. The lines are being laid, and the trials will begin in February and early March. It will have a capacity of 600,000 units.
6. Dixon has closed agreements with new global customers Motorola and Nokia. The commercial production for Nokia has already started.
7. The capacity for smartphones is expected to be at 20 million units per year for the next 2 years which should yield sales of Rs 25000-28,000 Cr in the next 5 years.
8. In set-top boxes, Dixon manufactured 9 lakhs set-top boxes for Jio, DISH, and SITI Cable in Q3. It has an order book for 3-4 lac units per month for the next few quarters.
9. The order book and the forecast given by Motorola is consuming almost all of the ceiling that the government offers in the mobile phone PLI scheme.
10. The management has stated that the business should become sustainable by the time the PLI scheme is over in 2025 as the goal of the scheme is to create a stable environment for local companies to be able to compete globally.
11. The management expects TV volumes sold to be at least 20-25% up from last year.
12. The main issue in the TV business is not the demand but it is the supply chain challenges like the availability of open cell in glass.
13. The company is already near full utilization in the new capacity in battens and downlighters.
14. The LED TV market in India has shifted from 32 inches to 43 inches. Thus unit sale value has gone up by 14-15k in last 2 quarters.
15. The wearables market in India is expected to be at Rs 5000 Cr. Dixon has tied up with boAt to create a new brand in this space.
16. In Q3, in the mobile business, 75% of revenues have come from Xiaomi and Samsung. Rest 25% came from all other brands.

17. The management expects sales volumes for Samsung to reach 0.7 million in the next fiscal year.
18. The set top box market opportunity is expected to be around Rs 350-400 Cr for Dixon. This is mainly from domestic sales and the company is not looking at export options for it at the moment.
19. The management shouldn't have any problems sourcing the components for the mobile phones as they are sourced and procured by the brand owner.
20. The company is not expected to be affected by the rise in duty for some input materials for PCBs as the rise in duty is for a small part of the overall PCB and this minor cost increase will anyway be passed on to the customer.
21. The company has done capex of Rs 104 Cr in 9M, most of which was for the full auto washing machine plant and the mobile PLI project. The overall capex for Fy21 is expected to be around Rs 145-155 Cr.
22. In terms of sales volumes, the company sold 6 Cr light bulbs, 45 lac battens, 14 lac downlighters, 46-47 lac of other lighting products. It also sold 2.4 lac washing machines and 75 lac phones of which 72 lac were feature phones and 3 lac were smartphones. It also sold 9 lac CCTVs and 9 lac set top boxes.
23. Given the company's capabilities in the lighting business, the management feels that it can venture into export markets. The company already has a full portfolio of lighting options and is already #3 or #4 in terms of LED bulb volumes in the world.
24. The global lighting market is around $8 billion and the company will be aiming for a $500 million slice of this pie in the next 4-5 years.
25. The management has guided that EBITDA margins should be at 4.5% at least in FY22.
26. The main international competition other than China for contract manufacturing for India are Vietnam, Thailand, and Philippines according to the management.

Analyst's View:

Dixon Technologies is one of the foremost leaders in the electronics manufacturing and outsourcing industry in India. The company had a phenomenal quarter with revenues and profits doubling from last year. Demand has come back fast in all of its segments and the company has already acquired Motorola and Nokia as customers for mobile phones whose volumes should help Dixon reach the volume ceiling for the PLI scheme easily. Despite the issues of components shortage for the TV industry, Dixon is confident of being able to complete its commitments without many hiccups. It remains to be seen whether the company will be able to expand aggressively as it has done in the recent past 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.

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