



Dixon Technologies

About the company

Dixon Technologies (India) (DTIL) is the largest home-grown, design-focused and Solutions Company engaged in manufacturing products in consumer durables, lighting and mobile phones in India. DTIL also provides solutions in reverse logistics i.e. repair and refurbishment services of set top boxes, mobile phones and LED TV panels. The key customers include Panasonic India, Philips Lighting India, Haier Appliance (I), Gionee, Surya Roshni, Reliance Retail, Intex Technologies (I), Mitashi Edutainment, Dish Infra Services, Vijay Sales etc. DTIL provides fully integrated end-to-end product and solution to Original Equipment Manufacturers (OEMs) ranging from Global Sourcing, Manufacturing, Quality Testing and Packaging to Logistics. They also are Original Design Manufacturer (ODM) of lighting products, LED TVs and semi-automatic washing machines in India. DTIL enjoys market leadership position in manufacturing of FPDTV/ Washing machine/ LED/CFL amongst EMS/ODM players in India.

Issue Details

Issue Opens	6 Sept 17
Issue Closes	8 Sept 17
Issue Size (Rs Cr.)	597.45 – 599.28 crore
Face Value	Rs 10
No. of Shares Offered	3,053,675 shares
Price Band(Rs)	1,760 – 1,766 per share
Market Lot	8 shares and in multiple thereafter
Listing	NSE,BSE

Financial Highlights

Y/E March (Rs in Cr)	FY2014	FY2015	FY2016	FY2017
Net sales	1,094	1,201	1,389	2,457
Net Profit	14	12	43	50
EBITDA%	2	3	4	4
EPS(Rs)	12	11	39	46
P/E (x)	144	164	46	39
P/BV	26	23	16	10
RoE (%)	18	14	35	25
EV/EBITDA	80	64	35	22

Investment Rationale

- Dixon is a leading player in most verticals it operates in. According to the Frost & Sullivan, it enjoys market leadership in FPD (Flat panel display) TVs (50.4% share), washing machines (42.6%), LED and CFL lights in India (38.9%). The company's experience in manufacturing, successful backward integration and design capabilities, strong relationships with its global suppliers and anchor customers has helped it achieve leading position in its key verticals. This enables the company to enhance its ability to diversify into related products and enter new geographies.

- Dixon has established and will continue to focus on strengthening its long standing relationships with well-known customers across product verticals. The company views these customers as its partners and seeks to provide them with quality end-to-end product solutions. Its relationships with them have enabled it to continuously develop, diversify and improve its product portfolio and plan production in anticipation of demand from retail customers.
- While OEM sales continue to be a major source of revenue (78.1% in FY17), the company plans to gradually expand its share of the ODM model of manufacturing. As an ODM, it controls the entire manufacturing cycle of a product from the initial stage of designing and is responsible for all the aspects of manufacturing, including planning and sourcing of raw materials and components. Under ODM, the company sells its products to companies who in turn distribute these products under their own brand to end users, however, warranties with respect to defects in raw materials and workmanship affecting normal use of products is provided by the company. The ODM model of business requires additional investment in R&D as well as working capital but provides higher margin in comparison to OEM model.

Risks

- The company is highly dependent on certain key customers for a substantial portion of its revenues. Top customer contributes 38.5%, while Top 5 customers account for around 83% of total consolidated revenue. Loss of relationship with any of these customers could have a material adverse effect on profitability and results of operation.
- The company does not obtain firm and long-term volume purchase commitments from its customers. If its customers choose not to renew their agreements or discontinue placing orders with the company, its operations would be adversely affected.
- The markets in which the company's customers compete are characterized by consumers and their rapidly changing preferences, advancement in technology. Any disruption in the industry could hamper the growth prospects.
- Shortages in, or rises in the prices of raw materials or components for products manufactured, which account for majority of costs, may adversely affect the business. Dixon works on just-in-time approach and does not maintain significant inventory. Hence delay in delivery could be an issue.

Outlook

At a price band of Rs 1,760-1,766, the Issue is valued at PE of 39.6x FY17EPS at upper price band. Dixon enjoys a dominant position in consumer electronic outsourcing business, so the Company would continue to deliver higher revenue and profit given the strong growth potential across business verticals. Investors can subscribe the issue for medium to long term holding.

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