Angel Broking
Service Truly Personalized

IPO Note | Consumer Durable

Sep 5, 2017

Dixon Technologies Ltd

The trajectory of strong client base continues

Dixon Technologies (India) Ltd (DTIL) is the largest home grown design-focused and solutions company engaged in manufacturing products in the consumer durables, lighting and mobile phone segments in India. The company manufactures electronics products for Panasonic, Philips Lighting India, Haier Appliances, Gionee, Surya Roshni, Reliance Retail, Intex Technologies, Mitashi.

Leading market position, strong customer relations to propel growth: DTIL is the leading player in most of the verticals in which it operates and it enjoys market leadership in manufacturing in India. DTIL is focused on expanding its product basket, strengthening existing customer relationships and increasing customer base. Strong relationship would help the company to expand market share, develop new products and enter newer market.

Original Design Manufacturer (ODM) & Reverse Logistics (RL) segments to improve blended margin: EBITDA margin of DTIL has improved by 130bps over the last 4 years, primarily due to the growing contribution from ODM business (improved by 800bps), which has better margins than original equipment manufacturing(OEM). Considering the management's ability and execution skills, we believe that margin improvement would continue further. Moreover, many bigger brands in home appliance segment are expected to collaborate with DTIL. Further, the company is also focusing on RL, which has higher margin and is growing fast over last 3 years.

Sufficient capacity and expansion into CCTV & DVR: DTIL manufactures and assembles high growth products and has enough operating leverage, as its utilization levels remain comfortable (40-60%). This, we believe, is a near term lever to improve the operating margins. Dixon is also setting up a new capacity of CCD televisions, which will commission in September 2017 and will add a new revenue stream in its business.

Healthy financials and return ratio: DTIL has reported healthy top-line of 33.8% CAGR and bottom-line of 78.3% CAGR over FY2013-17. Further, the company had negligible debt (D/E-0.22), low working capital requirement and reported ROE and ROCE of 25.5% and 33.3% for FY17.

Outlook & Valuation: DTIL would continue to report higher revenue and improvement in margins owing to its presence in high growth segments, experienced management and growing share of ODM segment. Despite the company operating on thin margins, it has registered return on capital of a whopping 33.3% in FY2017. Further, it has been generating positive cash flow from operations over the last 5 years and negligible debt post IPO. At the upper end of the price band, the pre issue P/E multiples works out be 38.5x of FY2017 EPS, on P/B, it is valued at 9.8x of FY2017 book value. **We recommend 'SUBSCRIBE' on the issue for a mid-to-long term period.**

Key Financial

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017
Net Sales	1,094	1,201	1,389	2,457
% chg	43	10	16	77
Net Profit	14	12	43	50
% chg	171	(12)	259	18
EBITDA (%)	2	3	4	4
EPS (Rs)	12	11	39	46
P/E (x)	144	164	46	39
P/BV (x)	26	23	16	10
RoE (%)	18	14	35	25
RoCE (%)	13	15	25	33
EV/EBITDA	80	64	35	22

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: Sep 6, 2017
Issue Close: Sep 8, 2017

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹11cr

Offer for Sale: **0.30cr Shares

Fresh issue: ₹60cr

Post Eq. Paid up Capital: ₹11.3cr

Issue size (amount): *₹597cr -**600 cr

Price Band: ₹1760-1766

Lot Size: 8 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1993cr - **₹2000cr

Promoters holding Pre-Issue: 46%

Promoters holding Post-Issue: 35%

**Calculated on lower price band*

*** Calculated on upper price band*

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	35%
Others	65%

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Company background

Dixon Technologies (India) Limited (DTIL) was incorporated as 'Weston Utilities Limited' at Alwar, Rajasthan on January 15, 1993 under the Companies Act, 1956 as a public limited company. The company was converted to a public limited company pursuant to a resolution of the shareholders on April 18, 2017 and a fresh certificate was issued by the RoC on May 2, 2017 in the name of "Dixon Technologies (India) Limited".

In 1993, they commenced manufacturing of consumer electronics such as color televisions and in 2007, manufacturing of LCD TVs and subsequently progressed into manufacturing of LED TVs in 2010. They entered the lighting products segment in 2008 with the manufacturing of CFL products and gradually increased their product portfolio to LED products in 2016. In 2010, DTIL started manufacturing semi-automatic washing machines. They also started providing reverse logistics services in 2008. The most recent segment that DTIL has entered into is the manufacturing of mobile phones through a JV. They have continuously diversified their product portfolio to keep pace with changing consumer trends and development in technology.

In 2008, IBEF I and IBEF, whose investments are advised and managed by MOPE Investment Advisors Pvt Ltd., subsidiary of Motilal Oswal Financial Services Ltd, invested in the company. IBEF I and IBEF currently hold 13.16% and 10.52% of the pre-Offer Equity Share capital of the company respectively.

Exhibit 1: Long term business relationship with customers

Top five customers	Products purchased	% of total FY17 revenue attributable to such customer (%)	Duration of relationship with the Company, not less than
	Consumer Electronics	22.4	
Panasonic India	Home Appliances	1.6	4 years
	Reverse Logistics	0.01	
	Mobile Phones	14.4	
Philips lighting	Lighting	20.2	8 years
Gionee	Mobile Phones	16.6	1 Year
Intex Technologies	Consumer Electronics/Home Appliances/Reverse Logistics	4.4	2 Years
Reliance Retail Ltd	Consumer Electronics/Reverse Logistics	3.3	1 Year

Source: RHP, Angel Research

Issue Details

This IPO is a mix of OFS and issue of fresh shares. Issue would constitute fresh issue worth of ₹60cr and OFS worth of ₹539cr. OFS largely would offer exit to IBEF I and IBEF, whose investments are advised and managed by MOPE Investment Advisors Pvt Ltd., subsidiary of Motilal Oswal Financial Services Ltd, invested in the company. IBEF I and IBEF currently hold 13.16% and 10.52% of the pre-Offer Equity Share capital of the company respectively.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	50,75,040	46%	39,62,879	35%
Public	5910278	54%	73,62,190	65%
	1,09,85,318	100%	1,13,25,069	100%

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

- Repayment/pre-payment, in full or in part, of certain borrowings availed by the company (₹22cr)
- Setting up a unit for manufacturing of LED TVs at the Tirupati Facility (₹7.6cr)
- Finance the enhancement of backward integration capabilities in the lighting products vertical at the Dehradun I Facility (₹8.9cr)
- Up gradation of the information technology infrastructure of the company (₹10.6cr)
- General Corporate purpose

Key Management Personnel

Sunil Vachani is the Executive Chairman of the company. He is also the Promoter of the company and has been associated with it since inception. He has over two decades of experience in the EMS industry. He has been awarded as "Man of Electronics" by CEAMA in 2015. He also acts as Vice President for Consumer Electronics and Appliances Manufacturer Association.

Atul B. Lall is the Managing Director of the company. He has been associated with the company since inception. He is responsible for the company's overall business operations. He has more than 25 years of experience in the EMS industry.

Ramesh Chandra Chopra is a Non-Executive Independent Director of the company. He superannuated as Scientist 'G'-Group Coordinator from the Department of Information Technology (presently known at MeitY) and has over 32 years of experience in the electronics industry.

Investment Rationale

Leading market position, strong customer relations to propel growth

DTIL is the leading player in most of the verticals in which it operates and it enjoys market leadership in manufacturing in India. DTIL is focused on expanding its product basket, strengthening existing customer relationships and increasing customer base. Strong relationship would help the company to expand market share, develop new products and enter newer market.

Exhibit 3: Time-line of product evolution

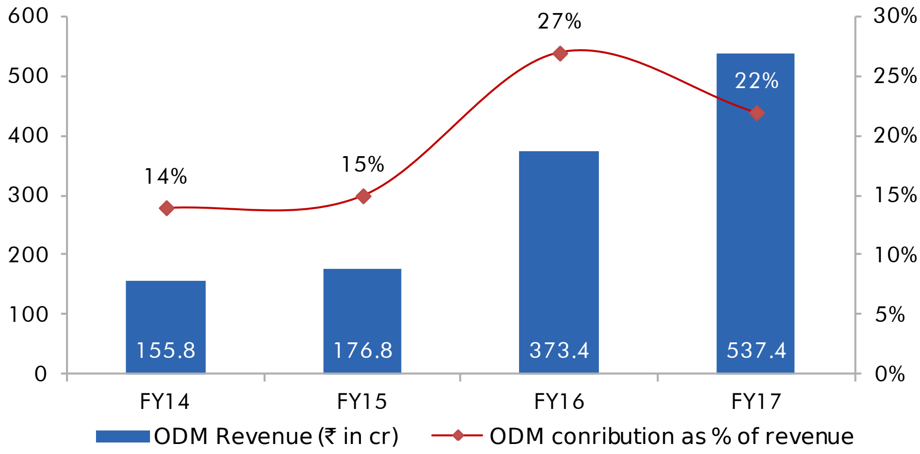
1994	Color TV
2007	LCD TV
2008	CFL Lighting, Reverse Logistics
2010	LED TV, Washing Machine
2016	Mobile Phones
2017	CCTV, Digital Video Recorder

Source: RHP, Angel Research

Original Design Manufacturer (ODM) & Reverse Logistics (RL) segments to improve blended margin

EBITDA margin of DTIL has improved by 130bps over the last 4 years, primarily due to the growing contribution from ODM business (improved by 800bps), which has better margins than original equipment manufacturing(OEM). Considering the management's ability and execution skills, we believe that margin improvement would continue further. Moreover, many bigger brands in home appliance segment are expected to collaborate with DTIL. Further, the company is also focusing on RL, which has higher margin and is growing fast over last 3 years.

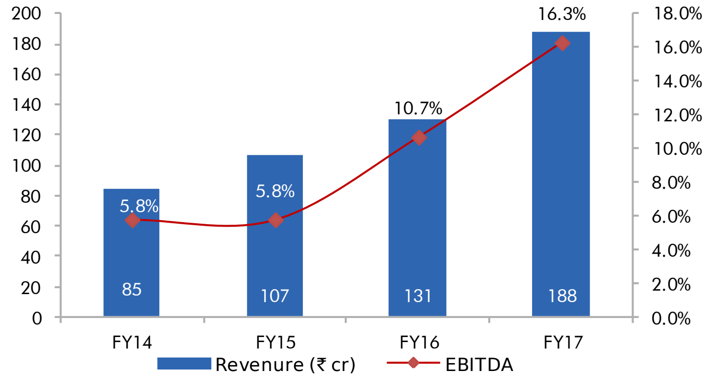
Exhibit 4: Increasing ODM share in overall business



Source: RHP, Company, Angel Research

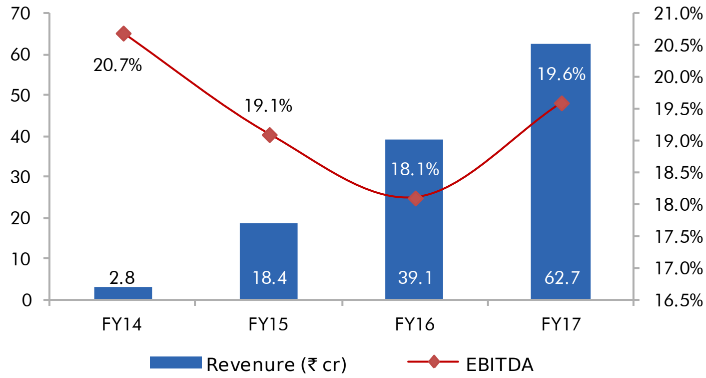
Over the last 4 years, the revenue trend of home appliance ODM business has witnessed a surge and the EBITDA margin has improved by improved 1100bps (Exhibit 5). In Home appliance, Dixon manufactures semi washing machine for Panasonic, Haier and Intex. Considering the management's experience and ability to develop new products, we believe that bigger brands would also collaborate with Dixon.

Exhibit 5: Home Appliance revenue & EBITDA trend



Source: Company, Angel Research

Exhibit 6: Reverse Logistic revenue & EBITDA trend



Source: Company, Angel Research

DTIL commenced the reverse logistics vertical in the year 2008 with a view to complement their portfolio offerings and provide end-to-end solutions in the industry they operate. This is extension of their existing skill set of manufacturing electronics, and DTIL has been able to acquire new customers in this vertical as well as expand the scope of their offerings to the existing customers.

DTIL currently offers repair and refurbishment services for STBs and repair of mobile phones, LCD and LED TVs, LED panels, home theatres, printers, etc. The reverse logistics vertical provides high return on capital employed and has a higher potential for growth. As per a Frost & Sullivan Report, average return rates in reverse logistics of electronic items are - mobile phones (9%), set top box (16%), FPD TV (8%), washing machines (8%), and computer peripherals (10%).

Currently DTIL focuses only on B2B reverse logistics and does not have consumer facing service centers which is in-line with their strategy of building relationships with brand owners and OEMs.

Sufficient capacity and expansion into CCTV & DVR: DTIL manufactures and assembles high growth products and has enough operating leverage as its utilization levels remain comfortable (40-60%). This, we believe is a near term lever to improve the operating margins. Dixon is also setting up a new capacity of CCD televisions, which will commission in September 2017 and will add a new revenue stream in its business.

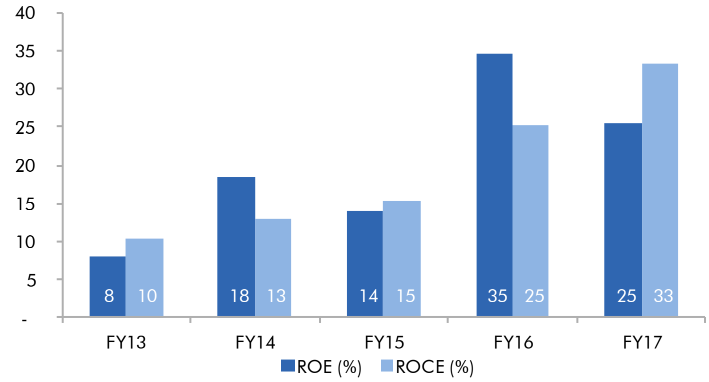
Exhibit 7: Capacity Utilisation rate

Key Products / Vertical	Aggregate annual installed capacity as on 31.12.2017	Capacity Utilized		
		Fiscal 2017	Fiscal 2016	Fiscal 2015
LED TVs	12,00,000	62.60%	48.09%	51.76%
Lighting Products	26,04,00,000	53.48%	54.00%	59.28%
Washing Machines	5,50,000	68.12%	52.86%	45.33%
Mobile Phones	1,00,80,000	34.31%	7.32%	
Reverse Logistics	36,60,000	37.49%	61.09%	52.17%

Source: Company, Angel Research

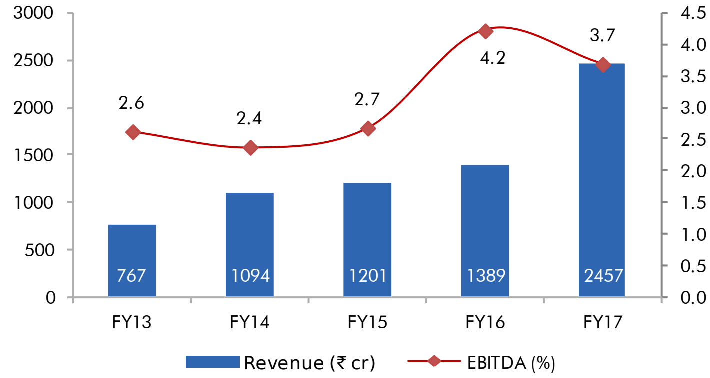
Healthy financials and return ratio: DTIL has reported healthy top-line of 33.8% CAGR and bottom-line of 78.3% CAGR over FY2013-17. Further, the company had negligible debt (D/E-0.22) in FY2017 and low requirement of working capital. For FY2017 the company has reported ROE and ROCE of 25.5% and 33.3% respectively.

Exhibit 8: Return ratios improving



Source: Company, Angel Research

Exhibit 9: Revenue and EBITDA margin trend



Source: Company, Angel Research

Outlook and Valuation

DTIL would continue to report higher revenue and improvement in margins owing to its presence in high growth segments, experienced management and growing share of ODM segment. Despite the company operating on thin margins, it has registered return on capital of a whopping 33.3% in FY2017. Further, it has been generating positive cash flow from operations over the last 5 years and negligible debt post IPO. At the upper end of the price band, the pre issue P/E multiples works out be 38.5x of FY2017 EPS, on P/B, it is valued at 9.8x of FY2017 book value. **We recommend 'SUBSCRIBE' on the issue for a mid-to-long term period.**

Key risks

Client concentration

The company is dependent on certain customers who have contributed to a substantial portion of its total revenues. In the aggregate, top five customers accounted for 82.93%, 79.43%, 73.28%, 76.95% and 79.67% of revenue from operations (net) for the years ending March 31, 2017, 2016, 2015, 2014 and 2013 respectively. Being dependent on specific clients holds a risk to revenue flow.

No clarity on renewal agreement with existing customers

The company enters into agreements with customers for specific products. The agreement is generally valid for one to three years, and is renewed on a regular basis if both the parties decide to do so. There is always an uncertainty regarding the renewal of the agreement.

Changing preferences, advancement in technology

The markets in which company's customers compete are characterized by consumers and their rapidly changing preferences, advancement in technology and other related factors including lower manufacturing costs. Hence, the company may be affected by any disruptions in the industry.

Exhibit 10: Consolidated Income Statement

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
Total operating income	**1,094**	**1,201**	**1,389**	**2,457**
% chg	43	10	16	77
Total Expenditure	**1,068**	**1,169**	**1,331**	**2,366**
Raw Material	996	1,084	1,212	2,180
Personnel	32	37	55	64
Others Expenses	39	48	63	122
EBITDA	**26**	**32**	**59**	**91**
% chg	29	24	82	55
(% of Net Sales)	**2**	**3**	**4**	**4**
Depreciation& Amortisation	5	7	8	11
EBIT	**21**	**25**	**50**	**80**
% chg	34	23	99	59
(% of Net Sales)	2	2	4	3
Interest & other Charges	11	10	13	13
Other Income	3	2	2	2
(% of Sales)	0	0	0	0
Extraordinary Items	-	-	-	-
Share in profit of Associates	-	-	-	-
Recurring PBT	**13**	**17**	**39**	**69**
% chg	153	35	125	77
Tax	4	4	8	18
PAT (reported)	**14**	**12**	**43**	**50**
% chg	171	(12)	259	18
(% of Net Sales)	1	1	3	2
Basic & Fully Diluted EPS (Rs)	**12**	**11**	**39**	**46**
% chg	171	(12)	259	18

Exhibit 11: Consolidated Balance Sheet

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
SOURCES OF FUNDS				
Equity Share Capital	3.1	3.1	3.1	11.0
Reserves& Surplus	70.5	81.7	119.7	186.7
Shareholders Funds	**73.6**	**84.8**	**122.8**	**197.7**
Minority Interest	2.1	3.0	-	-
Total Loans	86.9	79.9	77.1	42.9
Other Liab & Prov	7.4	7.9	9.6	14.2
Total Liabilities	**169.9**	**175.6**	**209.4**	**254.8**
APPLICATION OF FUNDS				
Net Block	**84.2**	**97.0**	**123.6**	**139.1**
Capital Work-in-Progress	-	-	-	-
Investments	6.3	6.0	0.1	-
Current Assets	184.2	204.7	271.3	636.7
Inventories	93.3	113.0	136.3	282.2
Sundry Debtors	46.4	54.4	87.6	279.3
Cash	4.6	6.9	7.5	15.3
Loans & Advances	38.0	29.4	39.4	58.6
Other Assets	1.9	1.0	0.6	1.2
Current liabilities	121.3	148.8	207.8	544.3
Net Current Assets	**62.9**	**55.9**	**63.5**	**92.4**
Other Non Current Asset	16.5	16.6	22.2	23.2
Total Assets	**169.9**	**175.6**	**209.4**	**254.8**

Exhibit 12: Consolidated Cash Flow Statement

Y/E March (₹cr)	FY14	FY15	FY16	FY17
Profit before tax	**18.2**	**17.3**	**50.6**	**68.8**
Depreciation	5.3	6.9	8.4	10.6
Change in Working Capital	(19.6)	14.5	(10.7)	(23.5)
Interest / Dividend (Net)	(0.8)	(0.9)	(0.9)	(1.2)
Direct taxes paid	2.5	(4.1)	(8.7)	(15.5)
Others	(4.8)	(10.8)	(3.5)	(15.3)
Cash Flow from Operations	**10.4**	**44.5**	**42.3**	**54.6**
(Inc.)/ Dec. in Fixed Assets	(8.5)	(22.1)	(27.0)	(39.1)
(Inc.)/ Dec. in Investments	-	0.5	17.6	0.1
Cash Flow from Investing	**1.2**	**(22.3)**	**(21.6)**	**(43.1)**
Issue of Equity	-	-	-	43.6
Inc./(Dec.) in loans	(0.8)	(11.3)	(2.7)	4.6
Others	12.0	11.0	17.4	58.6
Cash Flow from Financing	**(12.8)**	**(22.3)**	**(20.1)**	**(10.4)**
Inc./(Dec.) in Cash	(1.1)	(0.0)	0.6	1.0
Opening Cash balances	**2.2**	**1.1**	**1.1**	**1.7**
Closing Cash balances	**1.1**	**1.1**	**1.7**	**2.7**

Exhibit 13: Key Ratios

Y/E March	FY14	FY15	FY16	FY17
Valuation Ratio (x)				
P/E (on FDEPS)	143.6	163.6	45.6	38.5
P/CEPS	130.7	148.9	41.5	35.1
P/BV	26.4	22.9	15.8	9.8
Dividend yield (%)	0.0	0.0	0.2	0.3
EV/Sales	1.9	1.7	1.5	0.8
EV/EBITDA	80.0	64.3	35.1	22.3
EV / Total Assets	12.2	11.8	9.8	8.0
Per Share Data (Rs)				
EPS (Basic)	12.3	10.8	38.7	45.9
EPS (fully diluted)	12.3	10.8	38.7	45.9
Cash EPS	13.5	11.9	42.6	50.4
DPS	0.3	0.3	3.5	6.0
Book Value	67.0	77.2	111.8	180.0
Returns (%)				
ROCE	12.9	15.4	25.1	33.3
Angel ROIC (Pre-tax)	13.0	15.6	26.3	33.7
ROE	18.4	14.0	34.7	25.5
Turnover ratios (x)				
Asset Turnover (Gross Block)	9.3	9.0	8.9	13.0
Inventory / Sales (days)	31	34	36	42
Receivables (days)	15	17	23	41
Payables (days)	33	41	49	75
Working capital cycle (days)	14	10	10	8

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