

Dixon Technologies Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1841	768	139.71%	1897	-2.95%	5677	3681	54.22%
PBT	62	40	55.00%	76	-18.42%	206	142	45.1%
PAT	45	30	50.00%	57	-21.05%	152	111	36.94%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	2111	857	146.32%	2183	-3.30%	6450	4405	46.42%
PBT	61	37.0	65%	82	-26%	217	157	38%
PAT	44	28	57%	62	-29.03%	160	121	32.23%

Detailed Results:

- The company had a phenomenal quarter with Q4 revenues rising 146% YoY and profits rising 57% YoY.
- The EBITDA margin for the company has fallen by 270 bps YoY to 3.8% in Q4FY21 & EBITDA has risen 45% YoY.
- Segment-wise Q4 & FY21 Revenue performance is as follows:
 - Consumer Electronics: Up 200% YoY in Q4 & 83% YoY in FY21 (60% of FY21 revenues)
 - Lighting Products: Up 50% YoY in Q4 & down 3% YoY in FY21 (17% of FY21 revenues)
 - Home appliances: Up 63% YoY in Q4 & 9% YoY in FY21 (7% of FY21 revenues)
 - Mobile Phones: Up 381% YoY in Q4 & 56% YoY in FY21 (13% of FY21 revenues)
 - Security Systems: Up 100% YoY in Q4 & 1% YoY in FY21 (3% of FY21 revenues)
 - Reverse Logistics: Down 18% YoY in Q4 & 14% YoY in FY21 (0.2% of FY21 revenues)

4. The company had a cash conversion cycle of 0 day.
5. It had a ROCE of 31.4% and ROE of 25%.
6. Total cash as of 31st March 2021 was at Rs 63.94 Cr.
7. Total cash flow from operations in FY21 was at Rs 170.11 Cr.
8. The company has negative net debt of Rs 8.05 Cr.
9. The company announced a final dividend of Rs 1 per share for FY21.

Investor Conference Call Highlights:

1. Gross & EBITDA margin contraction was primarily driven by an increase in the share of business during the quarter from LED TVs, which is an OEM business with a lower margin, and from steep price increases on the commodity side.
2. In the ODM business also, there was a negative impact from commodity price increases as there is a lag in passing on the price increases to the customer.
3. Dixon currently has a capacity of 4.4 million TV sets, including backward integration in both LCM and SMT, which is the largest capacity in India. It has already started production of large-screen TVs like 70, 75 inches, and 85 inches for its anchor customers.
4. Dixon is adding a new automated 65-inch integrated line with LCM and FA and increasing the total capacity to 5.5 million units.
5. Dixon's PCB capacity with the new line of SMT is going to further increase from 1.8 million to 2.8 million.
6. It has also tied up with 2 large global brands for manufacturing LED monitors. And the production will commence from Q3 of FY22. Dixon is aiming to set up a capacity of 1 million LED monitors by the start of Q3. The operating margin in this space is expected to be at 2.7-2.9%.
7. Dixon is in the process of developing outdoor lighting solutions, namely street lights, and commercial lights, and these will be launched in Q2FY22.
8. The company has 140-odd models and the largest product portfolio ranging from 6 to 12 kgs across the semi-automatic category. It is also increasing its capacity from 1.2 million to 1.5 million units.
9. The new facility for fully automatic top loading in Tirupati has been set up already. Commercial production should start here by the start of Sep with nearly 40 models in the range of 6-10 kgs. Samples have been submitted to the anchor customer Bosch for approval already.
10. Dixon commenced production for Motorola in mid-March and for Nokia in Feb. It has a strong order book from Motorola with 60-65% of these orders for exports.
11. Dixon is the first Indian mobile manufacturing company, which has an Indian infrastructure and is capable of building the 5G phone as per any global requirement according to the management.
12. Dixon made 6 lakhs set-top boxes in the last quarter and 21 lakhs in the whole year. The order book in this vertical looks very healthy with almost 0.5 million set-top boxes per month. But due to a shortage of components, Dixon will only be able to deliver around 0.35 million per month starting Q2.
13. In Medical and electronics, Dixon made almost 550-odd units of RT-PCR machines.

14. The company has decided to go ahead with the refrigerator product in the direct cool categories. It will initially be creating a capacity of 0.6 million which will be ramped up to 1 million. The category will be 170-220L. the target for production commencement in Q3FY23.
15. Dixon has entered into a JV with Bharti Enterprises to make telecom and network application products. The JV will be owned 74% by Dixon and 26% by Bharti.
16. The company is targeting to start exporting the 5G phone to the U.S. for Motorola from August or September.
17. The revenue potential of the set-top box business is around Rs 450-500 Cr with a reduced delivery capacity of 0.35 million units per month. The company is supplying to Jio, Den, hatchway, SITI & DishTV in this space.
18. The medical devices revenue potential should be around Rs 12-13 Cr per year according to the management.
19. The company is looking to participate in the PLI schemes for lighting, IT hardware, network products & AC components.
20. The total capex for FY21 was at Rs 167 Cr. The capex for FY22 will be much higher than FY21 as the company will be looking to participate in different PLI schemes.
21. The total capex for refrigerators is expected to be at Rs 100 Cr in the next 1.5 years.
22. The mobile sales in Q4 were marginally lower due to the shortage of chipsets and displays and other supply chain issues.
23. The management expects the deliveries to Bosch to start around Oct and the formal launch of the products by Bosch by Dec or Jan. the initial deliveries will be in the 6-8 kgs category.
24. The total capacity for fully automatic washing machines is around 6 lacs and the company will be targeting to reach sales of Rs 550-600 Cr in the next 2-2.5 years considering 80% capacity utilization. Operating margins in this segment will be in the low double digits.
25. The company is going to look into backward integration for lighting products in the direction of plastics. It will require a capex of Rs 50-60 Cr across 4-5 years and should help in margin appreciation of 2-6%. By this time, the batten capacity is expected to rise to 5 million units.
26. The company has a tie-up with boAt for wearables and it will be pursuing this segment aggressively as this is a high growth space in India.
27. The market opportunity for Dixon in the telecom and network products space is around Rs 1600-1800 Cr per year.
28. The current business in AC PCBs is around Rs 110-120 Cr.
29. The management expects the overall margin profile to be in the range of 4-4.5%.

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 rising 146% YoY and profits rising 57% YoY from last year. The company is looking to start exporting 5G smartphones for Motorola from Sep this year already. It is also looking to apply for 4 PLI schemes which are Mobile Phones, AC components, Lighting, and Telecom & Network Products. 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 like refrigerators & street lighting. 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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