MIRAE ASSET Sharekhan

Stock Update

Result Update

Dixon Technologies (India) Ltd

Mobiles, electronics to drive growth

Capital Goods		Sharekhan code: DIXON		
Reco/View: Buy	⇔	CMP: Rs. 16,112	Price Target: Rs. 18,500	⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

3R MATRIX

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

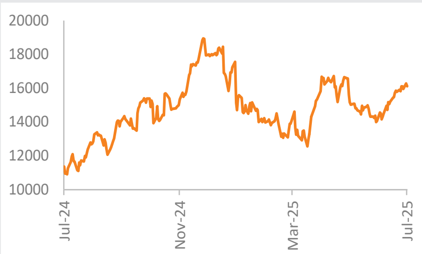
Company details

Market cap:	Rs. 95,970 cr
52-week high/low:	Rs. 19,149/10,613
NSE volume: (No of shares)	8.5 lakh
BSE code:	540699
NSE code:	DIXON
Free float: (No of shares)	4.2 cr

Shareholding (%)

Promoters	29.0
FII	20.6
DII	26.7
Others	23.8

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	8.5	7.2	-3.0	41.9
Relative to Sensex	8.5	6.7	5.9	39.8

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Overall revenue growth of 95% was led by strong performance in mobiles & EMS (125%) segments, offset by a 21% fall in consumer electronics and 17% fall in Lighting products segment. Operating profits rose 95% to Rs 483 crore, with OPM remaining flat at 3.8%. Adjusted PAT was higher by 102% to Rs 280 crore.
- Management has guided a revenue growth of 50% for FY26 and expects the mobile phone revenues to grow 15% QoQ in Q2FY26 and targets 42-43mn units in FY26 and around 60mn units in FY27.
- We expect mobile & electronics components ramp up to sustain high growth momentum in FY2026-27.
- We retain a Buy rating with a PT of Rs. 18,500 factoring in strong revenue/PAT CAGR of 43%/60% over FY25-FY27E. Stock trades at 70x/51x its FY206E/FY2027E earnings, respectively.

Revenue growth of 95% was impressive, led by strong performance in mobiles & EMS segments (revenues up 125% y-o-y). Smartphone volumes stood at of 9.66 million phones in Q1FY26 and Dixon targets 45 million /60 million units in FY26/27, respectively. This is expected to be supported by customer additions, wallet share gains and export expansion. The surge would be meaningfully contributed by their new JV with Vivo. Dixon has guided for a margin improvement of 100-120 bps by FY27 on a ramp-up in component manufacturing as a step to backward integration. The next growth lever would be value addition across segments. Significant steps towards backward integration such as a JV with HKC for display modules, acquisition of Qtech for camera modules and JV with Chongqing for mechanicals would be providing that spurt in margins and volumes. Dixon looks one step ahead and will be entering the Display Fabrication business and looks to invest $3 billion over time. Backward integration would enhance margins and value offerings to clients. Management guided for a capex outlay of Rs 1,200 crore for FY26. Consolidated operating profit/adjusted net profit grew 95% y-o-y/102% y-o-y to Rs. 482 crore/Rs. 280 crore.

Key positives

- Mobile & EMS divisions (91% revenue share) reported strong 125% y-o-y growth.
- Backward integrations via JV with Chongqing and acquisition of Qtech to improve margins by 100-120 bps.
- Order book for mobiles business looks strong at 11-12 million units and mobiles business to grow by 15% QoQ for Q2FY26.
- Dixon announced acquisition of 51% stake in Qtech India, among the top 5 players in manufacturing of camera and fingerprint modules for mobiles.
- Dixon also announced a JV with Chongqing Yuhai Precision for manufacturing of precision components for laptops, mobiles, IoT and automotives, where it will have a 74% stake.

Key negatives

- Consumer electronics and lightning business revenues fell 21% and 17% y-o-y respectively.

Management Commentary

- Mobile & EMS segments to be significant growth drivers. It expects volumes to scale current mobile manufacturing capacity from 25-30 million to 40-45 million pieces by 2026 and 60-65 million by 2027. Growth to be supported by rising orders from existing customers and manufacturing of Vivo phones under JV.
- IT hardware business to be a significant growth driver as top four global brands are in tie-up with Dixon for manufacturing of laptops. Commercial production of Asus and HP laptops has started from its Chennai facility. Dixon is targeting a revenue of Rs 4,500-5,000 crore by FY27.

Our Call

Valuation – Maintain Buy with a PT of 18,500: Onboarding of new major clients in IT hardware segment has set the floor for Dixon's exponential performance over coming years. Strong order books and strong client base representing the top most players of the industry gives a strong support to lead the growth in mobile and IT Hardware segments. Another leg of support will be provided by ramp-up in the IT and laptop segments. We retain a Buy rating on Dixon for a revised PT of Rs 18,500 modelling a revenue/PAT CAGR of 43%/60% over FY25-FY27E.

Key Risks

- Slowdown in consumer discretionary spending and a discontinuation or delay in the finalisation of business from its key customers might affect revenue growth.
- Adverse raw material prices, a delay in passing on price hikes adequately and adverse forex fluctuations might affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Revenue	12,192	17,692	38,860	58,247	79,048
OPM (%)	4.2	3.9	3.9	4.0	4.0
Adjusted PAT	252	366	755	1,383	1,921
% y-o-y growth	32.4	45.2	106.5	83.2	38.9
Adjusted EPS (Rs.)	42.3	61.4	125.3	229.5	318.9
P/E (x)	381.0	262.4	128.6	70.2	50.5
EV/EBITDA (x)	187.0	137.2	64.4	41.3	30.2
RoCE (%)	23.2	27.8	38.4	40.7	41.8
RoNW (%)	22.1	24.5	32.1	37.4	36.0

Source: Company; Mirae Asset Sharekhan estimates

- **Outlook:** Management is confident of healthy growth in the long term, driven by ramp-up of manufacturing mobile phones for existing customers and in the mobile & EMS segments.
- **Consumer electronics:** Volumes of 2.3 million LED TV units was down 61% and revenues from TV sets were down 52%. Management highlighted that worldwide the TV industry volumes are subdued and the sector is under pressure. Part of decline is due to loosing of market share. Refrigerators and washing machines saw good growth.
- **Lighting:** Management has entered into JV with Signify to revamp the lighting business with the huge scale of business. The JV shall likely address the growth concerns and would skew the business more towards premiumization. Management expects the revenue to double over next two years from Rs 860 crore in FY25 to Rs 2000 crore in FY27. The company received a pilot order from large retain chain in the US for strip and rope lighting which will scale over time.
- **Phone volumes:** Management has clocked a total volume of 9.66 million smart phones in Q1FY26 and targets volumes of 45 million /60 million phones in FY26/27, respectively. The management guided the margin benefit of PLI would be compensated by operational efficiencies due to large scale of manufacturing and backward integration into the segments.
- **Capex:** A capex of Rs 1200 crore is planned for FY26.

Results (Consolidated) Rs cr

Particulars	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Revenue	**12,836**	**6,579**	**95.1**	**10,293**	**24.7**
Operating Expenses	12,353	6,332	95.1	9,850	25.4
Operating profit	**482**	**247**	**95.3**	**443**	**8.9**
Other Income	2	8	(79.5)	11.3	(85.1)
Interest	33	29	11.3	46	(29.6)
Depreciation	93	55	70.1	86	7.9
PBT	359	171	109.3	322	11.5
Tax	86	40	113.6	111	(23.0)
Reported PAT	280	139	101.7	465	(39.8)
Adjusted PAT	**280**	**139**	**101.7**	**215**	**30.5**
Adj. EPS (Rs.)	47.2	23.4	101.7	36.2	30.5
Margin			**BPS**		**BPS**
OPM (%)	3.8	3.8	0	4.3	(54)
NPM (%)	2.2	2.1	7	4.5	(234)
Tax rate (%)	23.8	23.4	48	34.5	(1,068)

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Promising long-term demand outlook

The Indian electronics & consumer durables industry are valued at ~Rs. 4,00,000 crore and proliferating. Manufacturing can be a significant growth driver from a medium to long-term perspective, providing enormous opportunities owing to the shift in manufacturing bases outside China and the government's incentives to enhance manufacturing through the Make in India initiative like the PLI scheme, which aims to kickstart the process, with strong industry participation.

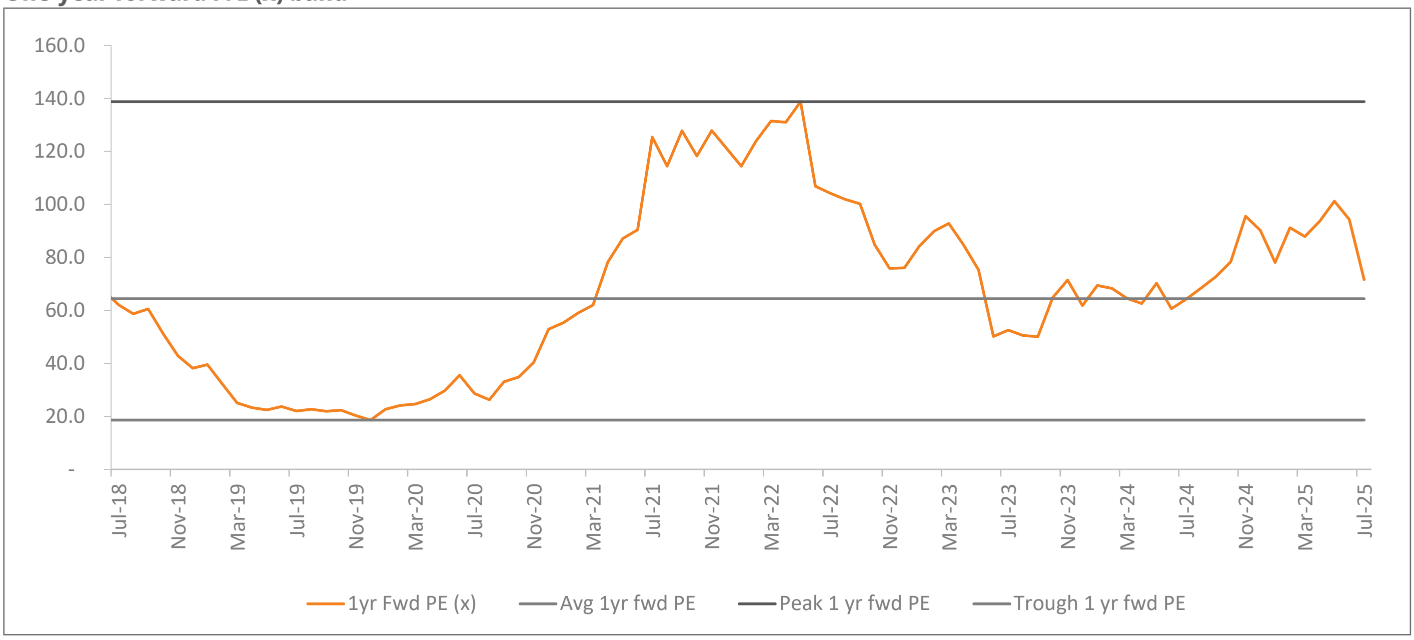
■ Company Outlook – Client addition, margin expansion to be key growth catalysts

Dixon's leadership position is a key benefit in the electronics outsourcing business. The company's Tirupati facility is expected to add a new dimension to growth prospects as it will foray into new business verticals, expand the product portfolio of existing business verticals, and penetrate further into South India by forging alliances with OEMs and add them as clients. Expanded capacity in consumer electronics and home appliances, coupled with a PLI scheme license for mobile phones, will likely drive revenue growth momentum. In contrast, margins may expand due to the lighting business's economies of scale and automation. The company is also applying for PLI schemes in 1) IT (laptops, tablets, hardware) 2) Lighting (extrusions, batons, plastics, mechanicals), 3) AC components and 4) Telecom (modems, routers, IoT devices), which augurs well for long-term growth opportunities.

■ Valuation – Maintain Buy with a PT of 18,500

Onboarding of new major clients in IT hardware segment has set the floor for Dixon's exponential performance over coming years. Strong order books and strong client base representing the top most players of the industry gives a strong support to lead the growth in mobile and IT Hardware segments. Another leg of support will be provided by ramp-up in the IT and laptop segments. We retain a Buy rating on Dixon for a revised PT of Rs 18,500 modelling a revenue/PAT CAGR of 43%/60% over FY25-FY27E.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Founded by Mr Mr Sunil Vachani, Dixon is a leading manufacturer of products for key consumer durable brands in India. The company currently has ten state-of-the-art manufacturing units, four in Noida (Uttar Pradesh) and three each in Dehradun (Uttarakhand) and Tirupati (Andhra Pradesh). The company manufactures products with a capacity of 3.4 million LED TVs per year in the consumer durables segment, 20 million LED bulbs per month in the lighting segment, 1.2 million washing machines per year in home appliances, mobile phones, 7 lakh CCTVs, and 1.5 lakh DVDs per month in the security devices segment in India. The company also provides solutions in reverse logistics, i.e., repair and refurbishment services of STBs, mobile phones, and LED TV panels. Based on a report, 'Project Rise' by Frost & Sullivan India, Dixon is the a home-grown, design-focused products and solutions company.

Investment theme

Local manufacturing is expected to boost due to the increasing emphasis on Make in India and the Government's PLI scheme. The EMS industry is expected to witness a higher CAGR of 30.8% during the same period as players scale up their offerings from assembly-only to design-led manufacturing. Dixon benefits in the electronic outsourcing business with a leadership position in key business segments. The company is foraying into new business verticals and expanding its product portfolio of existing business verticals. Moreover, its eying export markets for its products augurs well for long-term growth. An increase in the share of ODM revenues would also lead to margin expansion, thereby setting a healthy growth trajectory for the long term.

Key Risks

- A delay in commissioning capex projects, the slowdown in consumer discretionary spending, and the discontinuation of business from key customers might affect revenue growth.
- Adverse raw-material prices, a delay in passing on price hikes adequately in time, and adverse forex fluctuation might affect margins.

Additional Data

Key management personnel

Name	Designation
Sunil Vachani	Executive Chairperson
Atul B. Lall	Executive Director
Saurabh Gupta	Chief Financial Officer
Abhijit Kotnis	Chief Operating Officer
Ashish Kumar	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Motilal Oswal Asset Management Co	5.43
2	Kotak Mahindra Asset Management Co	2.47
3	Vanguard Group Inc/The	2.32
4	Blackrock Inc	2.14
5	FundRock Management Co SA	2.02
6	Nippon Life India Asset Management	1.99
7	UTI Asset Management Co Ltd	1.47
8	HDFC Asset Management Co Ltd	1.32
9	Axis Asset Management Co Ltd/India	1.29
10	Life Insurance Corp of India	1.17

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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