

Dixon Technologies

5th September, 2017

Rating:



Issue Summary:

Price band (Rs)	1760-1766
Face Value (Rs)	10
Market Lot	8 shares
Opens	6 th Sept, 2017
Closes	8 th Sept, 2017
Issue Size (Rs)	599.3 Cr
Listing	NSE

Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

Book Running Lead Managers:

➤ IDFC BANK LTD
➤ IIFL HOLDINGS LTD
➤ MOTILAL OSWAL
➤ YES SECURITIES (INDIA) LTD

Registrar

➤ KARY COMPUTERSHARE PVT LTD

Company & Business Profile

Dixon Technologies is one of 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 (a) consumer electronics like LED TVs, (b) home appliances like washing machines, (c) lighting products like LED bulbs and tubelights, downlighters and CFL bulbs and (d) mobile phones. It provides solutions in reverse logistics i.e. repair and refurbishment services of set-top boxes, mobile phones and LED TV panels.

The company has a strong customer base that includes companies like Panasonic India Private Limited, Philips Lighting India Limited, Haier Appliance (I) Private Ltd., Gionee, Surya Roshni Limited, Reliance Retail Limited, Intex Technologies (I) Ltd., Mitashi Edutainment Private Ltd., and Dish Infra Services Private Limited. The company provides a fully integrated end-to-end product and solution suite to original equipment manufacturers (OEMs) ranging from global sourcing, manufacturing, quality testing and packaging to logistics. It is also an original design manufacturer (ODM) of lighting products, LED TVs and semi-automatic washing machines in India. As an ODM, it develops and designs products at its R&D centre.

It has six state-of-the-art manufacturing facilities that are located in the states of Uttar Pradesh and Uttarakhand, meeting the quality requirements of its customers, including global brands. Out of these six manufacturing facilities, three are located in Noida in the state of Uttar Pradesh for the manufacturing of CFL as well as LED lamps and drivers and mobile phones, while the other three are located at Dehradun in the state of Uttarakhand to manufacture CFL as well as LED lamps and drivers, electronic ballasts, LED TVs, and washing machines. The backward integration process like plastic moulding, sheet metal, wound components and LED panel assembly are carried out at the manufacturing facilities in Dehradun, which is in the process of setting up a new manufacturing facility at Tirupati, Andhra Pradesh.

Objects of the Issue:

The company proposes to utilize the net proceeds towards funding the followings objects:

- Repayment/pre-payment, in full or in part, of certain borrowings availed by the company.
- Setting up a unit for manufacturing of LED TVs at Tirupati Facility.
- Enhancement of backward integration capabilities in the lighting products vertical at Dehradun Facility
- Upgradation of the information technology infrastructure of the company.
- General corporate purposes.

Investment Positives:

Leading market position in key verticals

Dixon is a leading player in most verticals it operates. According to the Frost & Sullivan report, the company enjoyed market leadership in manufacturing of FPD TVs, washing machines, LED, and CFL lights in India in FY16. The company's strong experience in manufacturing, successful backward integration and design capabilities, and robust relationships with global suppliers and anchor customers has resulted in achieving a leading position in its key verticals.

Risks Factors

1. The company is highly dependent on certain key customers for a substantial portion of its revenue. Loss of relationship with any of these customers may impact adversely.
2. The company does not obtain firm and long-term volume purchase commitments from their customers.
3. The company's business and results of operations are dependent on the contracts that they are entering. Any breach of the conditions under these contracts may adversely impact business.
4. Any rise in raw material prices and the company's inability to pass it on to customers may adversely affect business operations.
5. Any failure to keep technical knowledge and process know-how confidential may result into loss of competitive advantage.

Valuation

The company has shown strong financial performance over the past five years. Its debt-equity ratio is much lower. On the upper price band of Rs 1,766 with FY17's EPS of Rs 42.64, its P/E works out at 41.41x. But as it has no listed peers in the industry, we cannot determine if it is over or under priced. The demand for electronic appliances is growing day-by-day due to changing modern lifestyle and high consumer spending, which would be beneficial for the company. We expect the company to grow and continue to show a robust financial performance. It has been paying dividends regularly from the past five years. We expect investors to benefit from this investment in the long run. Therefore, we recommend readers to SUBSCRIBE for this IPO. We have **"4 star"** rating for the issue.

Financials (Rs. in Crores)

Particulars (Rs In Cr)	FY13	FY14	FY15	FY16	FY17
Revenue	726.33	1065.05	116.82	1253.65	1645.66
EBITDA Margins	2.77%	2.68%	2.83%	4.35%	3.75%
PAT	1.93	10.96	9.81	36.4	46.48
Growth		468%	-10%	271%	28%
EPS	1.8	10.35	9.19	34.77	42.64
RONW	3.10%	15.18%	12.05	32.14%	24.40%

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