

INITIATING COVERAGE REPORT

15-December-2020



Dixon®
The brand behind brands

**Dixon
Technologies (India) Ltd**

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Brief Overview

CMP (INR) (As on 14-Dec-20)	12,901
Target (INR)	13,053
Upside(%)	~1.2%
Recommendation	HOLD

BSE Code	540699
NSE Code	DIXON
Reuters Ticker	DIXO.NS
Bloomberg Ticker	DIXON:IN

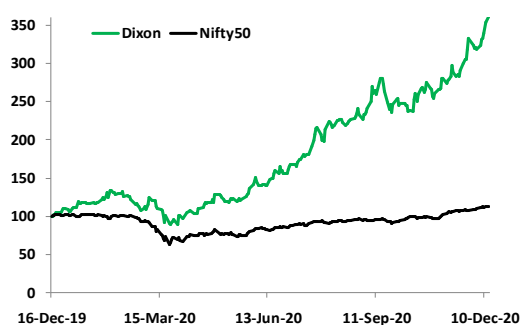
Stock Scan

Market cap (INR Mn.)	1,49,261
Outstanding Shares (Mn.)	11.6
Face Value (INR)	10.0
Dividend Yield(%)	0.03%
P/E (x) (Adjusted)	124x
P/B (x)	27.6x
Debt/Equity (x)	0.15x
Beta vs. Nifty	0.74x
52 Week High/ Low (INR)	13,396/ 2,991
1Yr-Avg. Daily Volume (NSE)	68,596

Shareholding Pattern (%)

	Sep 2019	Jun 2020	Sep 2020
Promoters	38.89%	36.11%	36.01%
Institutions	29.76%	34.21%	33.76%
Non-Institution	31.35%	29.68%	30.23%

Exhibit 1- Dixon vs. Nifty (Relative Returns)



Source: NSE, SMIFS Research

Dixon Technologies (India) Ltd.: Riding growth in EMS Industry

Dixon Technologies (India) Ltd is a leader in EMS (Electronic Manufacturing Services) OEM/ODM space in India. Since commencement of colour TVs in 1994, Dixon has expanded its operations to various sub-segments of electronics over the years.

Dixon provides design focused solutions in a) *Consumer Electronics*, b) *Lighting*, c) *Home Appliances*, d) *Mobile phones*, e) *Security devices* and f) *Reverse Logistics* to customers across the globe. Dixon's clientele includes leading global and domestic brands.

Dixon has 10 state-of-the-art manufacturing facilities located in Uttar Pradesh, Uttarakhand and Andhra Pradesh and 3 R&D centre in India and China.

Healthy relationship with its clients, backward integration of key segments and cost-effective pricing strategy on the back of global sourcing are some of key competitive advantage of Dixon which positions it well against peers.

Huge growth opportunity in EMS industry, potential upside from PLI scheme in mobile manufacturing, high growth potential in earnings, dominant position in industry and high return ratios strengthen our conviction on the stock.

We initiate coverage on Dixon with a "HOLD" rating and price target of Rs 13,053, valuing the stock at 40x on its FY23E EPS of Rs 326.3.

- **Dominant player in Indian EMS industry, with leading brands as clients:** Dixon is a market leader in LED TVs, LED lights and semi-automatic washing machines segment with leading domestic and global brands as clients. The company has continuously expanded its client base gradually adding new clients in all these segment.
- **Rising ODM manufacturing trend is positive:** The large, mid-sized and regional brands resorting to ODM manufacturing more to focus on their brand promotion, distribution and increasing market share. ODM model offers ~200-300bps higher margins. Dixon being a leading EMS ODM player is a clear beneficiary. Dixon's ODM share has improved from 24% in FY16 to 34% in FY20. While Washing Machine is already 100%, it is working towards increasing ODM share in LED TVs and Lighting.
- **PLI Scheme in mobile to provide huge upside:** As notified by MeitY on 06-Oct-20, Padget Electronics (Subsidiary) has been awarded one PLI scheme, which offers immense growth opportunity to Dixon. Dixon is already in discussion with 3 large global mobile brands. The revenue from mobile segment is expected to go up from Rs 5.4 billion in FY20 to Rs 48.3 billion by FY23E, while the segment revenue share is expected to increase to ~42% by FY23E from ~12% in FY20.
- **Strong balance sheet & high return ratios:** Dixon generated operating CF of ~Rs 2373 million in FY20 on strong profitability and efficient WC management. Dixon has net debt free balance sheet with strong return ratios (FY20-ROCE at ~33.7%).

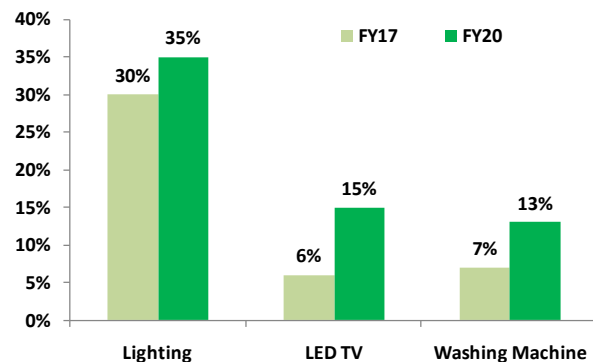
Exhibit 2 - Financial Performance at a glance (Consolidated)

Particulars (In Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	29,844	44,001	52,761	87,520	1,15,334
Growth %	5.0%	47.4%	19.9%	65.9%	31.8%
EBITDA	1,349	2,231	2,585	4,201	5,767
EBITDA Margin (%)	4.5%	5.1%	4.9%	4.8%	5.0%
Net Profit	634	1,205	1,453	2,599	3,776
Net Profit Margin (%)	2.1%	2.7%	2.8%	3.0%	3.3%
EPS (In Rs)	55.9	104.1	125.6	224.7	326.3
BVPS (In Rs)	334	468	581	782	1,072
P / E (x)	230.6x	123.9x	102.7x	57.4x	39.5x
P / BV (x)	38.6x	27.6x	22.2x	16.5x	12.0x
ROE (%)	18.3%	26.2%	23.9%	33.0%	35.2%
ROCE (%)	27.3%	33.7%	32.3%	43.2%	46.8%

Source: Company Data, SMIFS Research

Investment Rationales

Exhibit 3 - Segment-wise Market Share%



Source: Dixon Annual Report, SMIFS Research

In the mobile phone category, presently Dixon has a small presence on smart phone side. However, in the feature phone segment, Dixon manufactures ~2 million units a month against the Indian market size of ~8-9 million a month, thus having market share of ~25%.

Dominant player in Indian EMS industry, with leading MNCs and domestic brands as clients

Dixon is a market leader in LED TVs, LED lights and semi-automatic washing machines segment with leading MNCs and domestic brands as clients. The company has continuously expanded its client base gradually adding new clients in all these segment.

Lighting

Dixon is one of the **top global lighting solutions providers with product basket including LED bulbs, Ballast, Tube lights, Battens, Downlighters** etc. Dixon has **capacity to manufacture 250 mn LED bulbs p.a. which is the largest in India and is ~50% of the total market requirement**. Dixon has a **market share of ~30-35% in the LED bulb category, ~12-13% in Battens and 7-8% in Downlighters**. Dixon is **targeting to expand its market share to ~25%** in the Battens & Downlighters.

Within the lighting segment, **Dixon has leading foreign and domestic brands like Philips, Wipro, Bajaj, Anchor, Luker, Syska, Crompton, Surya etc as its customers**. With PLI expected to be announced for LED lighting, Dixon will be **able to service the global markets**.

LED TV

Dixon is the **largest manufacturer of TV sets in India at a single location**, catering to renowned brands. It manufactures Smart and Semi-smart LED TVs in 19 to 65 inches category with 2K, 4K and UHD technology.

Presently, Dixon has an installed capacity to manufacture **4.4 million TV sets, which is ~30% of domestic requirement**. It will further go up to 5.5 million by FY21 end, which will be able to cater to **~40% of total domestic demand**.

With a volume of 2.1 million TVs during FY20, Dixon has garnered **market share of ~15%**. We expected Dixon to further gain market share with import restrictions on LED panels (30-Jul-2020).

Dixon's clients includes renowned brands like Samsung, Xiaomi, Philips, Panasonic, etc. Recently, it has added Toshiba, Hisense and Nokia.

Washing Machine (WM)

In the Semi-automatic Washing Machine category, Dixon has the **largest capacity at 1.2 million units, which is ~28% of domestic requirement**.

In FY20, Dixon has done a **volume of 850k units of semi-automatic WM** against the Indian market size of ~3.3-3.4 million units for semi-automatic WM, thus capturing a **market share of ~26% for semi-automatic WM and ~13% for overall WM**.

Dixon has expanded its product variants for semi-automatic WM and has **added all major brands like Panasonic, Haier, Llyod, Samsung, Godrej, MarQ by Flipkart, Reliance Retail and Voltas Beko to its list**.

Investment Rationales

Exhibit 4 - Segment-wise ODM revenue share%

	Consumer Electronics	Lighting Solutions	Home Appliances
FY16	4.0%	40.0%	100.0%
FY17	11.8%	45.3%	100.0%
FY18	5.8%	39.8%	100.0%
FY19	9.0%	71.0%	100.0%
FY20	6.0%	87.0%	100.0%

Exhibit 5 - ODM Revenue Share increasing

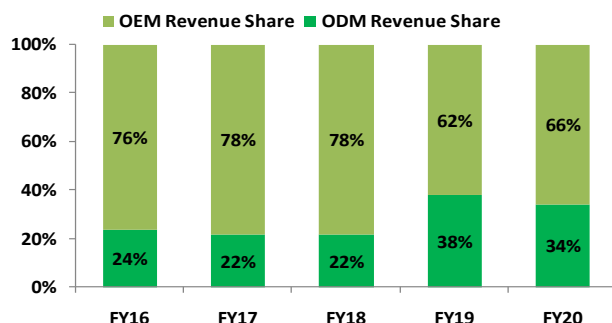


Exhibit 6 - Lighting Solutions ODM Revenue Share & OPM%

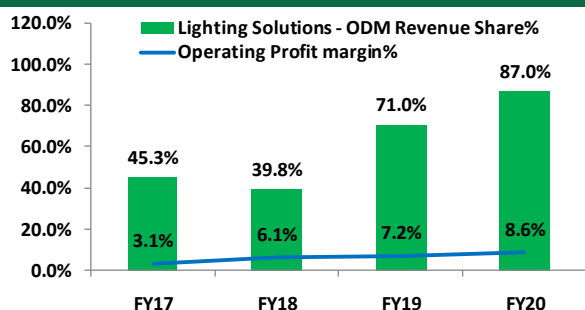
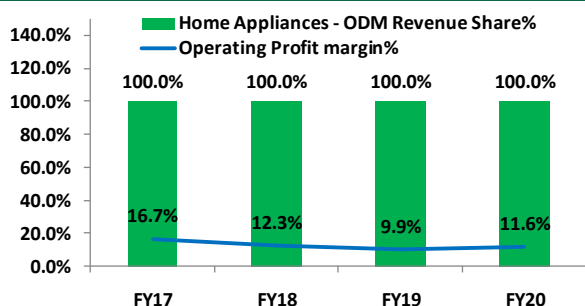


Exhibit 7 - Home Appliances ODM Revenue Share & OPM%



Source: Annual Report

Rising ODM manufacturing trend augurs well for Dixon; Gradual shift from OEM to ODM model to improve profit margins

Dixon provides the manufacturing services to its clients under **two business models, i.e., a) OEM model and b) ODM model**. Under the OEM model, design of the product and raw materials are provided by the OEM brands, while the **Dixon performs the assembly** according to specifications provided by the client.

However, under the ODM model, the activities like product designing and development, sourcing of raw material and manufacturing is done in-house by Dixon. The ODM model requires additional investment in R&D as well as working capital but provides higher margins as compared to the OEM model. Compared to OEM model, the **profit margins in the ODM business are higher by ~200-300 bps**. The ODM revenue share for the company has **increased from 24% in FY16 to 34% in FY20**, while the **EBITDA margins have improved 100bps over FY16 to 5.1% in FY20**.

The manufacturing of **washing machines are done 100% under the ODM model**. Thus, the profit margins are higher for the segment. For FY20, margins for the segment stood at **11.6% against 9.9% in FY19**. Currently, Dixon manufactures and supply semi-automatic WM only. It is **setting up a unit for top loading fully-automatic WM** at Tirupati, which is expected to be **ready by Q3FY21**. The manufacturing will be done on 100% ODM basis. With the start of high margin fully-automatic top loading WM, segment margins are expected to **improve further**.

Dixon has **improved its ODM share in the lighting solutions** significantly over the last few years. For FY20, ODM revenue share stood at **~87% for the segment**, almost double from **~45% in FY17**. The segment profit margins **improved 550bps from 3.1% in FY17 to 8.6% in FY20**.

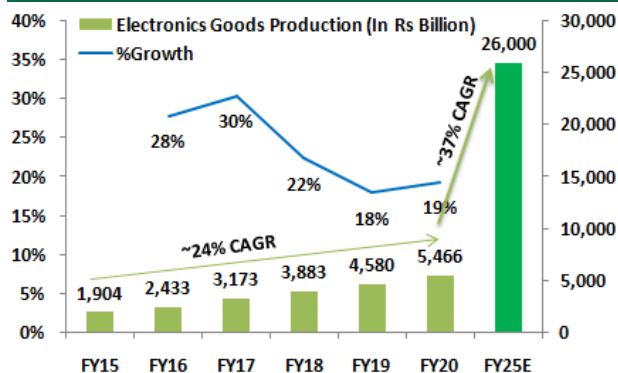
In the Consumer Electronics segment, where Dixon manufactures LED TVs, ODM revenue share was **~6% for FY20**. **It is closely working with key clients Samsung and Xiaomi for its own designed LED TVs, which will improve its ODM share. However, it will take some time to fructify.**

Dixon's strategic shift from the OEM model to ODM has brought **significant benefits** not only for the company, but also for its clients, specially the mid-sized, who rely on a EMS player like Dixon due to capital constraint for efficient manufacturing while keeping their focus on brand promotion and distribution.

Dixon has its **own R&D setup and technical team**, which has helped it to **establish as a leading ODM player** in some of the leading products in its basket. While the OEM sales continue to be a major source of revenue for Dixon, it **plan to gradually expand its share from ODM manufacturing**. There is a trend in certain product verticals wherein regional and private labels have been gaining market share and the ODM model allows Dixon to service this market as well.

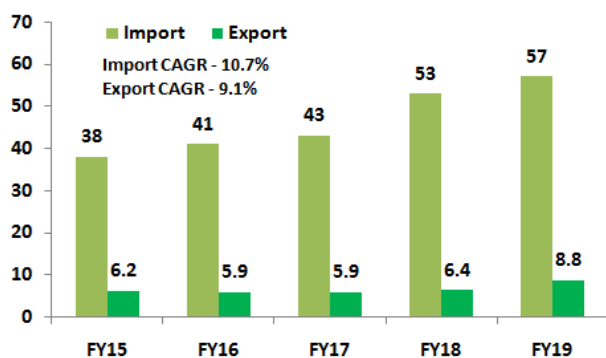
Investment Rationales

Exhibit 8 - Production of Electronic Goods in India is estimated to grow at 5Yr CAGR of ~37% over FY20-25E at Rs 2.6 trillion



Domestic demand for electronics hardware is expected to rise rapidly to ~Rs 26 lac crore (\$400 billion) by FY2025

Exhibit 9 - Import and Export of Electronic Goods (In USD billion)



The above data includes Consumer Electronics, Industrial Electronics, Computer Hardware, Mobile Phones, Strategic Electronics, Electronic Components, Light Emitting Diode (LED) Products

PLI Scheme for Large Scale Electronics Manufacturing

Background

In India, **electronics manufacturing has grown rapidly at a CAGR of ~24% during the last 5 years**. However, the actual growth potential has been curtailed due to **constraints like large capital investments and fast changes in technology**. Government has been actively working to create a conducive environment for manufacturing and to offer incentives comparable with those offered in other countries to attract investments into the manufacturing sector.

India's share in global electronics manufacturing has **grown from 1.3% in 2012 to 3.0% in 2018**. The domestic production of electronics hardware has increased substantially **from RS 1.9 trillion (\$29 billion) in FY2015 to Rs 4.6 trillion (\$70 billion) in FY2019, and to an estimated Rs 5.5 trillion in FY2020**. With the domestic **demand for electronics hardware expected to rise rapidly to ~Rs 26 trillion (\$400 billion) by FY2025**, India cannot afford to bear the rapidly increasing forex outgo on account of import of electronics. (Source: Ministry Of Electronics And IT)

The domestic electronics hardware manufacturing sector faces the **lack of a level playing field** against the competing nations. As per industry estimate (ICEA and ELCINA), **electronics manufacturing sector suffers from a disability of ~8.5-11%** on account of *lack of adequate infrastructure, domestic supply chain and logistics, high cost of finance, inadequate availability of quality power, limited design capabilities and focus on R&D by the Industry, and inadequacies in skill development*.

Given the limited relief expected for the electronics manufacturing sector under other schemes, there is need for a mechanism to compensate for the manufacturing disabilities compared to other countries.

The Ministry of Electronics and Information Technology (MeitY) in **April 2017 introduced a Phased Manufacturing Programme (PMP)** with the objective of reducing India's import dependency and increase domestic value addition. The **approach was for import substitution by putting custom duties** on parts and components to incentivize first assembly and progressively increase component localization.

India has been **incentivizing domestic assembly and manufacturers** by imposing duties on imported mobiles. India has been using a differential duty structure since 2015-16, which has been extended to the component level **via its Phased Manufacturing Programme (PMP)**.

The vision of NPE 2019 (National Policy on Electronics) is to position India as a global hub for Electronics System Design and Manufacturing (ESDM) by encouraging and driving capabilities in the country for developing core components, including chipsets, and **creating an enabling environment for the industry to compete globally**.

Investment Rationales

The mobile phone market size in India is estimated to rise to 75% of the total Consumer Electronics market size in FY21 from 67% in FY16.

(Source: Dixon DRHP)

“India’s GDP is less than 4% of the world and its consumption of mobile phones is ~4.5% of the world in terms of value and ~15% in volume. Import substitution is not a good model for India because it is a small market. India can grow by exporting to the world.”

Objective of PLI Scheme

India, so far, resorted to a strategy of import substitution with mobile phone assemblers largely catering to the low-end domestic market. That market may be saturating. To grow, Indian phone makers need an export nudge.

The **component ecosystem in India hasn't evolved yet**, thus making India's manufacturing largely ineffective leading to low investments and creation of poor quality jobs. Since imports are constantly increasing, it can't be concluded that 'Make-in-India' is satisfying the local demand. **Raising duties on imports doesn't help in expanding exports.** Thus, **India required creative policies like PLI scheme** to support 'Design-in-India' and expanding local component ecosystems, also because the WTO agreement prevents member nations from linking subsidies to mandatory exports and local content.

Mobile PLI Scheme launched in October-2020

In October-20 government has launched Production Linked Incentives (PLI) Scheme for mobile phone to boost the mobile phone manufacturing in India. Most global mobile players are looking at India as a regional hub for manufacturing and sales to cater not only India market but also for export markets.

The scheme extends an **incentive of 4% to 6% or Rs 40,951 crore on incremental sales** (over base year, i.e. FY2020) of goods manufactured under **i) Mobile phone (Invoice Value INR 15,000 and above) segment, ii) Mobile phone (Invoice Value less than INR 15,000) segment and iii) Specified Electronic Components segment** in India to eligible companies, for a period of five years (FY2021-25).

Exhibit 10 - Eligibility Threshold Criteria (PLI)

Segment	Proposed Incentive Rate (%)	Incremental Investment over Base Year (Cumulative minimum)	Incremental Sales of Manufactured Goods over Base Year (Rs crore)
Mobile (Invoice value of INR 15,000 and above) *		INR 1,000 Crore over 4 Years	Year 1: 4000
		Year 1: 250	Year 2: 8000
		Year 2: 500	Year 3: 15000
		Year 3: 750	Year 4: 20000
		Year 4: 1000	Year 5: 25000
Mobile - Domestic	Year 1: 6%	INR 200 Crore over 4 Years	Year 1: 500
	Year 2: 6%	Year 1: 50	Year 2: 1000
	Year 3: 5%	Year 2: 100	Year 3: 2000
	Year 4: 5%	Year 3: 150	Year 4: 3500
	Year 5: 4%	Year 4: 200	Year 5: 5000
Specified Electronic Components		INR 100 Crore over 4 Years	Year 1: 100
		Year 1: 25	Year 2: 200
		Year 2: 50	Year 3: 300
		Year 3: 75	Year 4: 450
		Year 4: 100	Year 5: 600

Source: MeitY

Investment Rationales

Exhibit 11 - Eligible Companies for PLI Scheme

Mobile Phone		Specified Electronic Components
Foreign Companies (Invoice Value INR 15,000 and above)	Domestic Companies (Invoice Value less than INR 15,000)	
Samsung	Lava	AT&S
Foxconn Hon Hai	Bhagwati (Micromax)	Ascent Circuits
Rising Star	Padget Electronics	Visicon
Wistron	UTL Neolyncs	Walsin
Pegatron	Optimus Electronics	Sahasra
		Neolync

Source: Company Data, SMIFS Research

Eligible Companies under Mobile PLI Scheme

The **Ministry of Electronics and Information and Technology (MeitY)** has approved 16 eligible applicants under the mobile **PLI Scheme** for Large Scale Electronics Manufacturing.

The **international mobile phone manufacturing companies** that are approved under **Mobile Phone (Invoice Value INR 15,000 and above) segment** are *Samsung, Foxconn Hon Hai, Rising Star, Wistron and Pegatron*. Out of these, Foxconn, Wistron and Pegatron are contract manufacturers for Apple iPhones. Apple (~37%) and Samsung (~22%) together account for ~60% of global mobile phone sales revenue. PLI scheme is **expected to increase their manufacturing base** in India.

Under the Mobile Phone (Domestic Companies) Segment, the Indian companies approved by MeitY are *Lava, Bhagwati (Micromax), Padget Electronics (a subsidiary of Dixon), UTL Neolyncs and Optimus Electronics*. These companies are expected to expand their manufacturing operations in a significant manner and grow into national champion companies in mobile phone production.

Under the Specified Electronic Components Segment, 6 companies have been approved which include *AT&S, Ascent Circuits, Visicon, Walsin, Sahasra and Neolync*.

Approved companies proposed a production value of ~Rs 10.5 lac crore over FY21-25E

The approved foreign companies (under the **Mobile Phone segment with Invoice Value INR 15,000 and above**) have **proposed a production of over Rs 9 trillion**, while the domestic companies have proposed a **production of about Rs 1.25 trillion**, and those under **Specified Electronic Components** segment have proposed a production of **over Rs 15,000 crore**.

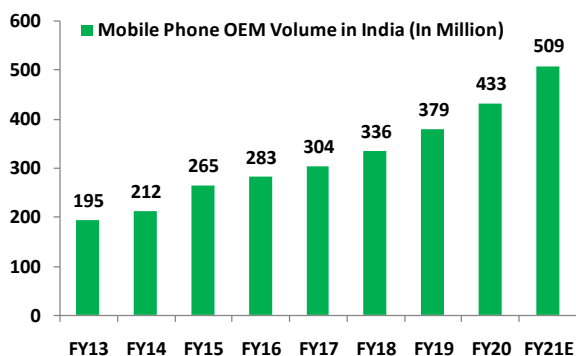
Thus, over FY2021-25, the approved companies are expected to do a **total production of more than Rs 10.5 lakh crore**. Out of this, **~60% or Rs 6.5 lac crore will be contributed by exports**.

Benefits to be garnered from mobile PLI scheme

The approved companies will bring additional investment in electronics manufacturing to the tune of **Rs 11,000 crore**. They are expected to generate **more than 2 lakh direct jobs and over FY21-25E** with creation of additional indirect jobs of 3 times the direct jobs.

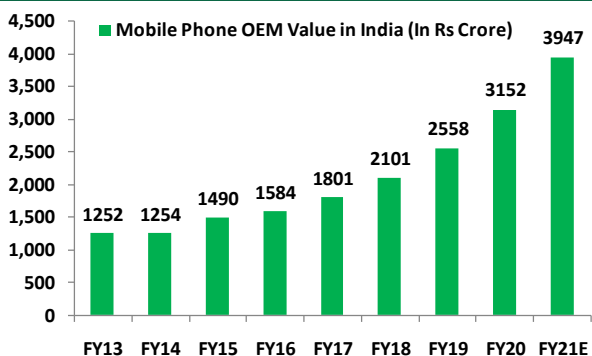
The domestic Value Addition is expected to grow from the current **15-20% to 35-40%** in case of Mobile Phones and **45-50%** for electronic components.

Exhibit 12 - Mobile Phone OEM Volume expected to grow at CAGR of ~13% over FY16-21



Source: Dixon DRHP

Exhibit 13 - Mobile Phone OEM value growth expected at CAGR of 20% over FY16-21



Source: Dixon DRHP

Investment Rationales

Mobile Phone is a fast growing market in India

Indian mobile phones market is **estimated to be worth Rs 1600 billion for FY20**, and is expected to grow to **Rs 2000 billion by FY23**, growing at **CAGR of ~6%**. With annual **volumes of ~ 150-160 million units**, India is **world's second-largest smartphone market**. It is growing faster than the global smartphone market. Most global mobile players are looking at India as a regional hub for manufacturing and sales to cater not only India market but also for export markets.

Exhibit 14 - Incentives and Capex for Domestic Mobile Manufacturers

Year	Total Incentives	Cumulative Investment	Incremental Sale Over Base Year	Revenue Ceiling	Incentive Rate%	Incentive for Domestic Companies
FY21	5334	50	500	2000	6%	120
FY22	8064	100	1000	4000	6%	240
FY23	8425	150	2000	6000	5%	300
FY24	11488	200	3500	8000	5%	400
FY25	7640	-	5000	10000	4%	400
	40951	-	-	-	-	1460

Source: MeitY, SMIFS Research

Under the **Production Linked Incentives (PLI) Scheme for mobile phone**, the Government plans to **provide incentives of up to Rs 40951 Crores over the next 5 years**. Out of that, Rs 1460 crore is earmarked for domestic manufacturers under Rs 15000 category mobile.

PLI Scheme is a game changer for Dixon

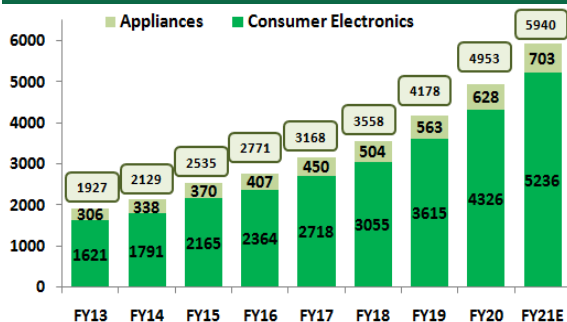
Domestic companies are incentivized better for **mobile phones in less than Rs 15,000 category** (ex-factory prices) with a **capex investment of Rs 200 Crores over 4 years**. Dixon's application made by its wholly owned subsidiary **Padget Electronics has been approved**. Dixon will be investing in the PLI scheme of mobile phones & expand capacity. It opens up lot of opportunities for Dixon in the less than Rs 15000 space.

Dixon is already in discussion with three global brands for mobile phone manufacturing outsourcing. It has also taken a factory on lease in Noida and is expected to commence production from mid-January 2021.

On the back of Mobile PLI scheme, Dixon management is expecting a revenue flow of **Rs 250-300 billion over FY20-25E**. The contribution from Mobile segment is likely to grow to **45-50% over FY20-25E** from **~12% in FY10**.

Industry Overview

Exhibit 15 - Indian CEA market size seen at Rs 5940 bn by FY21; CAGR of 16.5% over FY16-21



Source: Dixon DRHP, SMIFS Research

5Yr- CAGR (FY16-21)

Consumer Electronics - 17.2%

Consumer Appliances - 11.6%

Consumer Electronics product market includes Mobiles, AV Players, Camcorders and Digital camera, FPD TV, STB and Washing Machine.

Consumer Appliances product market includes AC, Refrigerator, Microwave oven, Water Purifier, Air coolers, Mixer grinders, Blenders, OTG, Electric kettle and rice cookers, Induction cooktop, Food processors, Juicer/Extractor, Electric shavers, etc.

Key factors contributing to the growth of the consumer electronics market:

- Exponential rise in use of mobile phones
- Increasing penetration of FPD TVs on replacement/ up gradation to LEDs
- Significant growth in consumer durable purchase in rural India
- Digitization regulation leading to uptake of Set-Top Boxes
- Competition among domestic and foreign players led to increased offering of product ranges at varied price points
- Easy financing and zero down payment schemes
- Growing penetration of ecommerce players

Indian Consumer Electronics and Appliances (CEA) Market

The Indian Consumer Electronics and Appliances (CEA) market size is estimated to reach **Rs 5940 billion by FY21**, growing at a CAGR of 16.5% over FY16-21. Within that, **Consumer Electronics CAGR is expected at ~17.2%**, while its share in total market is expected at ~88% or Rs 5236 billion. **Consumer Appliances market is expected to grow at CAGR of 11.6%** at Rs 703 billion over the same period. In comparison to global growth averages, this is **almost double that of other economies**.

Increasing brand and product awareness, affordable pricing, innovative products and high disposable incomes have resulted in strong growth in the CEA industry in India.

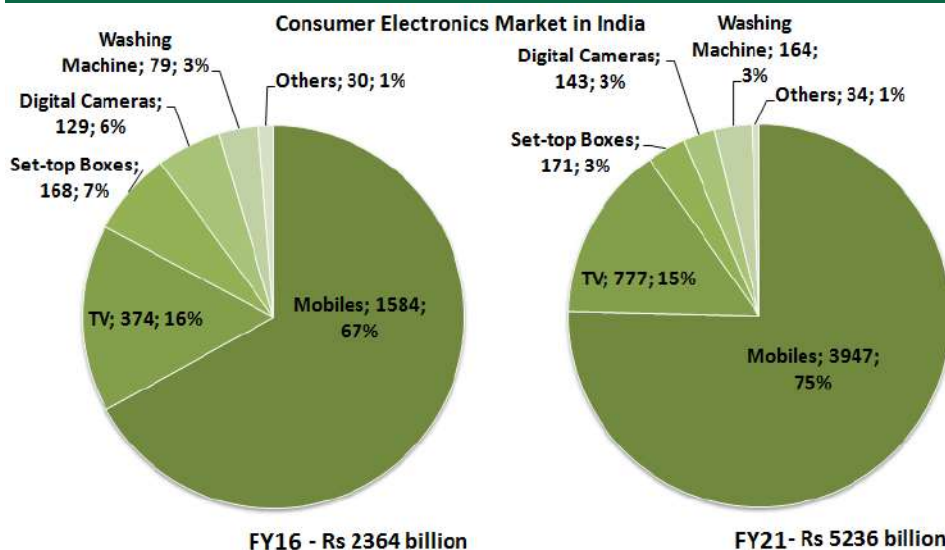
In urban areas, the **penetration level is high for consumer durables**, a **rapidly shrinking 'replacement cycle'** has lead to sustained demand. While in the rural areas, **low penetration rate and thus higher scope** for growth for consumer durables in rural area, is fuelling the demand.

Consumer Electronics Market

The Mobiles phones represent the largest category in the CE market. Apart from increasing penetration across rural and urban areas, the shortening replacement cycle, need for greater mobile phone data, better features and power management is driving sales of phones in the country.

Televisions the next big category as it enjoys an overall penetration of 60%. Despite the high penetration the market is expected to witness continued growth contributed by the replacement demand, increasing preference for a 2nd TV in households, up-gradation to a newer technology/ advanced model and more purchases in the rural regions.

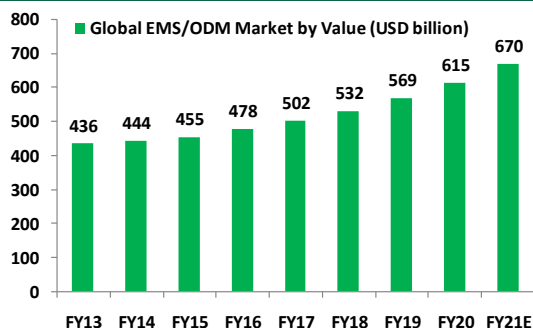
Exhibit 16 - Mobile phones are the biggest segment of consumer electronics



Source: Dixon DRHP, SMIFS Research

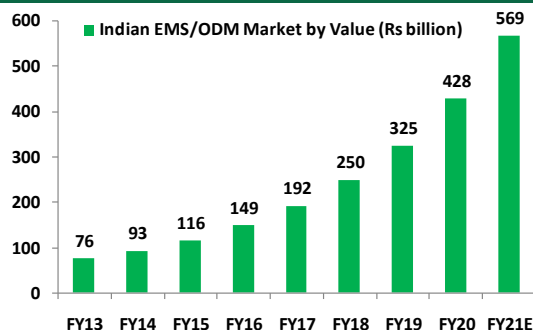
Industry Overview

Exhibit 17 - Global EMS/ODM Market expected to grow at CAGR of 7% over FY16-21



Source: Dixon DRHP

Exhibit 18 - Indian EMS/ODM Market expected to grow at CAGR of 31% over FY16-21



Source: Dixon DRHP

Indian EMS/ ODM market size at Rs 428 billion for FY20 is ~1% of the size of Global EMS/ ODM market.

Mobile phone share in total Consumer Electronics & Appliances market is ~70%. However, the local value addition is low at ~15-20%.

Manufacturing outsourcing to EMS/ODMs increasing; Global EMS/ ODM market size expected to grow to USD 670 billion by FY21, at CAGR of 7%

Technology and product dynamism in the electronics industry is increasingly **influencing OEMs to restrict their focus to their core competence areas of innovation, differentiation, marketing and distribution**. Innovation in business models aimed at enhancing productivity and profitability have been driving OEMs to outsource manufacturing to EMS players like Dixon. Economies of scale are also in favour of EMS companies and this is further encouraging OEMs to collaborate with EMS partners for their design, manufacturing and even reverse logistics requirements.

The global EMS market is estimated to reach USD 670.1 billion by FY21 from USD 478.0 billion in FY16, growing at a CAGR of 7%. **Growing demand, higher electronics consumption and faster time to market are some of the factors driving the dependency of OEMs on EMS/ODM companies.**

Indian EMS/ODMs market emerging; Expected to grow at higher CAGR of 31% over FY16-21 to INR 569 billion from INR 149 billion

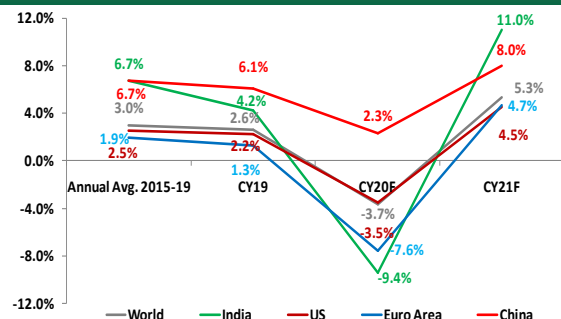
India is an emerging economy where **growth is driven by consumption**. The demand for consumer and industrial electronics is on an exponential rise. Which has cast the Indian EMS market into the limelight zone. The need for import substitution, domestic manufacturing of electronics in India has attracted immense attention from both industry and policy makers. **Favourable policy initiatives like Make in India, PMP (Phased Manufacturing Plan) and Aatmanirbhar Bharat, PLI (Production Linked Incentive) Scheme initiated recently**, along with the changing dynamics in global manufacturing landscape like **China+1 strategy** have **shifted the focus onto India for being a preferred destination** for electronics manufacturing investments.

The EMS market in India has benefitted from this **increased focus on manufacturing** along with **overall increased use of electronics in all spheres of life**, rising labor cost in other parts of the globe, practice of **bigger OEMs to outsource the manufacturing** instead of building their own infrastructure.

EMS market in India enjoys unique benefits of an explosive domestic demand and the migration of manufacturing from other manufacturing havens driven by multiplicity of factors. **These reasons have resulted in the Indian EMS market growing at a higher rate than average global market and is expected to intensify in the next decade.**

India Economy Overview

Exhibit 19 - World GDP Forecast



Source: FITCH Global Economy Outlook Report (Dec-2020)

Exhibit 20 - India GDP & GDP Growth

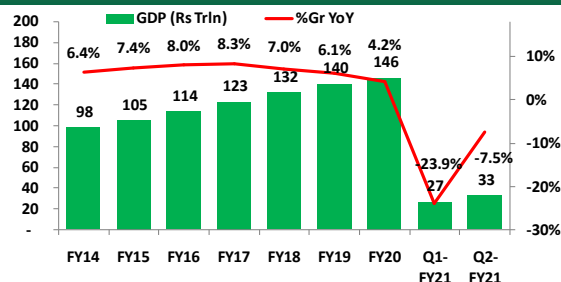


Exhibit 21 - Per capita income in India

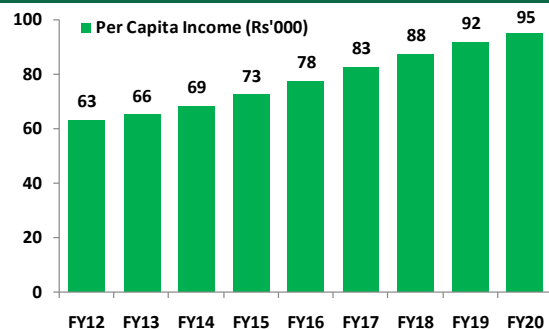
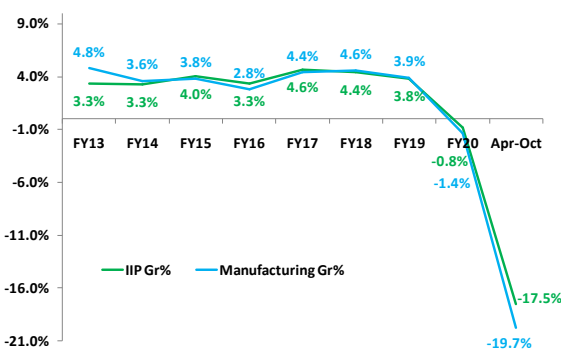


Exhibit 22 - Industrial Production



Source: MOSPI

CY20 GDP forecast revised upward for major economies

The rebound in **economic activities for Q3-CY20** across the countries, post easing of lockdowns were much **faster than expectations**. As we heading into CY2021, the Covid-19 led pandemic continues to impact most of the global economies including US & Europe, where the second wave of corona virus forcing lockdowns again. This might suppress the economic activities in Q4-CY20, **though at a lower pace as compared with Q2-CY20**. The **rollout of vaccine** for corona virus looks Imminent now, which will surely **ease the crisis by middle of CY2021** and will lead to a recovery in global economies.

Fitch has revised its **CY20 GDP forecast upwards slightly** for major global economies. The CY20 GDP for US and Euro Area are now expected to contract by -3.5% and -7.6%, respectively. China is expected to grow by 2.3% in CY20 and then 8% in CY21. **India's FY21 GDP is expected to contract by 9.4% in FY21, while a rebound is expected at 11% in FY22.**

India's Q2-FY21 GDP contraction was lower than estimates

Due to imposition of strict nationwide lockdown, India's Q1FY21 GDP saw record contraction of 23.9%. However, the Q2FY21 economic activities rebounded post easing of lockdowns and onset of festive season. **India's GDP fell 7.5% in Q2-FY21, against RBI's estimate of -8.6%.** It is expected to contract by 9.4% for FY21, while a rebound in at 11% expected for FY22.

India's per capita income growth is steady at ~6%

India's GDP (at constant 2011-12 prices) was **estimated to be Rs 146 trillion (USD 2.06 trillion)** for FY20, growing 4.2% over FY19. It has grown at a healthy 6-Year CAGR of 6.8% over FY14-20.

At Rs 23.2 trillion, the manufacturing sector contributed ~17% to the GDP (against ~38% by the service sector).

The per capita income, a major indicator of income level, has **increased steadily at 6-Yr CAGR of 5.6% over FY14-20 to ~Rs 95000**. The growth in per capita income was highest during FY15-18, when it grew between 6.2-6.9%.

IIP growth during month of Oct-20 shows strong pickup, after turning positive in Sep-20

The IIP grew for the second consecutive month in Oct-20 at 3.6%, which was higher than estimates of ~1.1%. Before that, after **declining for six consecutive months**, IIP had turned positive during Sep-20 (+0.24%). The IIP growth for Apr-Oct'20 remained in negative zone at -17.5%, while the manufacturing growth stood at -19.7%.

For the period Oct-20 and Apr-Oct'20, the growth in Consumer durables was 17.6%/-31.7%, Capital Goods was 3.3%/-34.5%, Infrastructure/construction goods was 7.8%/-20.8%, while Consumer non-durable growth was 7.5%/-5.9%.

Key Risks

■ High dependency on certain key customers

The business model of Dixon Technologies is such that it is highly dependent on certain key customers for a significant portion of its revenues. In the event of loss of relationship with any of these customers might have an adverse impact on the profitability. There is no certainty that the company will be able to retain its existing key clients or maintain the current level of business with each of these customers. Also company is indirectly prone to systematic risks in the form of any slowdown in overall consumer electronics industry, which could impact the brand's revenue and leading to fewer orders for Dixon.

■ No firm and long-term bulk purchase commitments

Dixon don't obtain firm and long-term bulk purchase commitments from its customers. If a customers choose not to renew the existing agreements or stop to place orders, company's business will be adversely affected. The agreements for specific products manufacturing are generally valid for 1-3 years. However, there is no obligation on customers to continue to place orders with the company. Actual orders are based on purchase orders issued by customers and it may be amended or cancelled prior to finalization. The commitment from customer is short-term in nature and demand for their products varies. This can limit Dixon's ability to estimate future customer requirements, making it difficult to schedule production.

■ Shortages / rises in raw materials prices may adversely affect the business

Dixon's production depends on obtaining adequate supplies of raw materials/components on a timely basis. The company do not maintain large inventories of input components, rather it purchases from various local and overseas suppliers, as and when required. Since the company don't not have control of the schedules of its suppliers, there may be delay in receiving the required raw materials/ components. Such an event may hamper company's planning production and delay order execution, eventually affecting the business performance. Also because the company import the raw materials/ components, it is exposed to risk of fluctuations in exchange rate.

Company Overview

Dixon Technologies (India) Limited is a leader in EMS (Electronic Manufacturing Services) Original Equipment Manufacturing (OEM)/ Original Design Manufacturing (ODM) space in India. Founded in 1993 and commenced manufacturing of colour television in 1994, Dixon has expanded its operations to various sub-segments of electronics.

Dixon's diversified portfolio includes design focused solutions in a) Consumer Electronics like LED TVs, **b)** Lighting products like LED bulbs, tube -lights, downlighters and CFL bulbs **c)** Home Appliances like washing machine, **d)** Mobile phones and **e)** Security devices. Dixon also provides solutions in **f)** Reverse Logistics, i.e., repairing and refurbishment services of set top boxes, mobile phones, LED TV panels, etc.

Dixon's clientele includes leading global and domestic brands that it serve both as OEM and ODM. Dixon's key customers include Panasonic India Private Limited, Philips Lighting India Limited, Haier Appliance (I) Pvt. Ltd., Gionee, Surya Roshni Limited, Reliance Retail Limited, Intex Technologies (I) Ltd., Mitashi Edutainment Pvt. Ltd. and Dish Infra Services Private Limited.

Dixon has 10 state-of-the-art manufacturing facilities located in Uttar Pradesh, Uttarakhand and Andhra Pradesh and 3 R&D centre located in India and China.

Healthy relationship with the clients, backward integration of key segments and cost-effective pricing strategy on the back of global sourcing are some of key competitive advantage of Dixon which positions it well against peers.

Despite the ongoing challenges in the domestic economy, which have resulted in a subdued performance for the industry, **Dixon's performance have been above expectation due to multiple reasons.**

Company's shift towards ODM business model, backward integration of almost all products manufactured, additions of new customers with an enhanced product portfolio and focus on cost reduction has helped Dixon to establish itself as a leader in the Indian EMS OEM/ODM space.

Exhibit 23 - About The Company



Leading

Player in Electronic Manufacturing Service (EMS) space in India



Diversified

Product portfolio covering multiple electronic segments



Leading

Brands of electronics and home appliances as our clients



Integrated

Business model has helped derive greater operating efficiencies



Vision

To be the most preferred & trusted manufacturing & solution partner to brands operating across verticals

Company Overview

Exhibit 24 - Solutions provided by Dixon

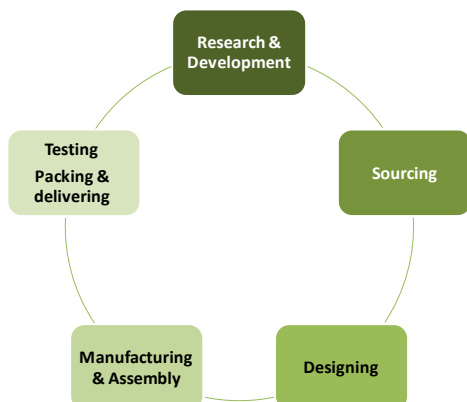


Exhibit 25 - Segment Revenue and Margins (FY20 end)

Segment	Revenue Share%	CAGR (FY16-20)	EBIT Share%	EBIT margin%
Consumer Electronics	47.6%	28.4%	22.6%	2.4%
Lighting Solutions	25.9%	27.6%	43.8%	8.6%
Home Appliances	9.0%	32.0%	20.7%	11.6%
Mobile Phones	12.2%	127.6%	8.6%	3.6%
Security Devices	4.9%	93.1%	3.2%	3.3%
Reverse Logistics	0.4%	-20.6%	1.2%	16.9%

With changing industry scenario over the years, Dixon has evolved itself in a right direction to capitalize the same. Dixon has constantly **developed new products** to meet end-user requirements. It has achieved this by **adding new capacity** regularly and upgrading the segment. Dixon continue to **garner a strong market share**, bringing cost-efficiencies for its existing anchor customers, while **adding new brands** during the year.

The investments in capacity expansion and de-bottlenecking existing capacities have helped deliver **desired results for diversifying its product portfolio**.

Dixon got listed in Sep-2017 after a successful IPO

In the year FY2018, Dixon came out with an IPO, selling 33,93,425 shares (which included fresh issue of 3,39,750 share and offer for sale of 30,53,675 shares) at Rs 1766 each raising ~Rs 6000 million. Dixon share in the funds raised from IPO was Rs 600 million. The shares got listed on NSE & BSE on 18-September-2017.

Exhibit 26 - Timeline

Year	Event
1993	Incorporation of Dixon Technologies
1994	Commenced manufacture of consumer electronics; i.e., colour televisions
1996	Established a manufacturing facility at B-14 and 15, Phase-II, Noida
2007	Commenced manufacturing of LCD TVs
2008	Started providing reverse logistics services
2008	Entered the lighting products segment with the manufacturing of CFL products
2008	Private equity investment by Indian Business Excellence Fund (IBEF) and Indian Business Excellence Fund I (IBEF 1)
2010	Started manufacturing LED TVs
2010	Subsidiary, Dixon Appliance Pvt Ltd (DAPL) started manufacturing semi-automatic washing machines
2009-10	Commenced commercial manufacturing in metal sheet and moulding segments by subsidiary, Dixon Bhurji Moulding Pvt Ltd (DBMPL)
2015	Acquisition of remaining stake in subsidiaries DAPL and DBMPL
2016	Increased product portfolio to LED products
2016	Commenced manufacturing of mobile phones through JV , Padget Electronics Pvt Ltd (PEPL)
2016	Granted approval by the Government of Andhra Pradesh for setting up a manufacturing facility in Tirupati
2017	Amalgamation of DAPL and DBMPL into the company
2017	Entering into a joint venture agreement with Aditya Infotech Ltd for the manufacture of security systems including CCTVs and DVRs, through JV company, AIL Dixon Technologies Pvt Ltd (ADTPL)
2017	Received listing approvals from BSE and NSE on 15th September, 2017 effective from 18th September, 2017
2018	Commence manufacturing of security systems
2018	Commenced production of Liquid Crystal Module
2020	Incorporated subsidiary Dixon Electro Appliances Pvt Ltd

Source: Dixon Annual Report

Exhibit 27 - Installed Capacity

Item		FY20			Planned capex
	Units	Installed capacity	Production	Capacity Utilization (%)	
a. Consumer Electronics					
LED TVs	In Mn	3.6	2.1	58.3%	Increased to 4.4 million units in Q2FY21; Plan to reach 5.5 million by Q4-FY21 end
b. Lighting Solutions					
Bulbs	In Mn	240.0	178.0	74.2%	Dixon plans to increase Battens & Downlighter’s capacity & target for ~25% market share.
Batens	In Mn	24.0	14.0	58.3%	
Downlighters	In Mn	6.0	4.8	80.0%	
c. Home Appliances					
Washing machine		1.2	0.8	66.7%	Setting up 0.6 million capacity for FTL WM; To be ready by Q3FY21 end
d. Mobile Phones	In Mn	11.0			
Mobiles		32.0	1.1	3.4%	Raised to ~40 million units during FY21
e. Security Devices					
CCTV		8.4	3.0	35.7%	
DVR		1.8			

Exhibit 28 - Plant Location on Map



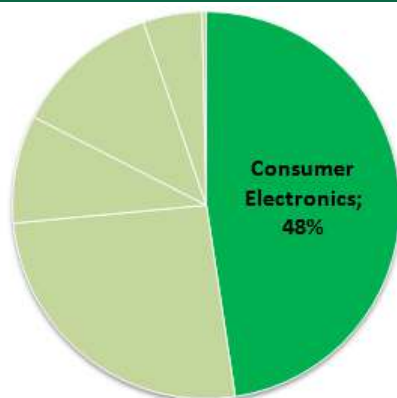
Exhibit 29 - Location-wise Product Manufactured Details

Location	Location Address	Products manufactured
Noida	B-14 and 15, Phase II, Noida, Gautam Buddha Nagar, UP- 201305	LED bulbs, PCB assembly of Airconditioners
	B-18, Phase II, Noida, Gautam Buddha Nagar, UP- 201305	Mobile phones
	Plot No. 6, Sector-90, Noida	Mobile Phones
	C-33, Phase II, Noida, Gautam Buddha Nagar, UP- 201305	Reverse Logistics LED Bulbs
	B-45, Phase II Extension, Noida, UP- 201305	LED bulbs and parts
Dehradun	Khasra No 1050, Central Hope Town, Selaqui Industrial Area, Dehradun, Uttarakhand	LED bulbs, Battens, T-LEDs, Down Lighter, Ballast, etc
	Plot No- C-3/1, Selaqui Industrial Area, Dehradun, Uttarakhand	Washing Machines
	Plot No. C-2/1, UPSIDC (SIDCUL), Industrial Area, Tehsil Vikas Nagar, Dehradun,	Washing Machine
	Plot No. 262M, Selaqui Industrial Area, Dehradun, Uttarakhand	Backward integration of plastic parts and sheet metal components
Tirupati	Shed No. 1 and 3, EMC II, Govindavaram, Chittoor- 517526	CCTVs and DVRs
	Shed No. 2, 4, 5, 6 and 7 EMC II, Govindavaram, Chittoor- 517526	LED TVs

Source: Dixon Annual Report

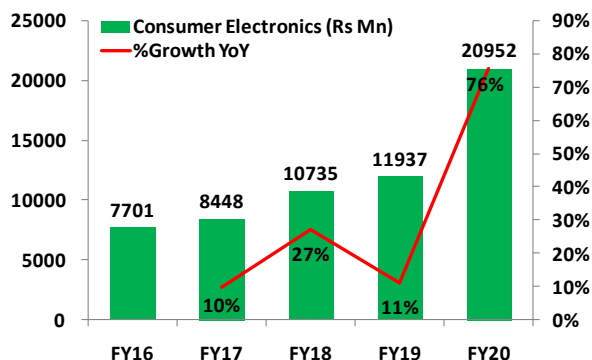
Product Profile

Exhibit 30 - Consumer Electronics is major contributor to revenues with 48% share



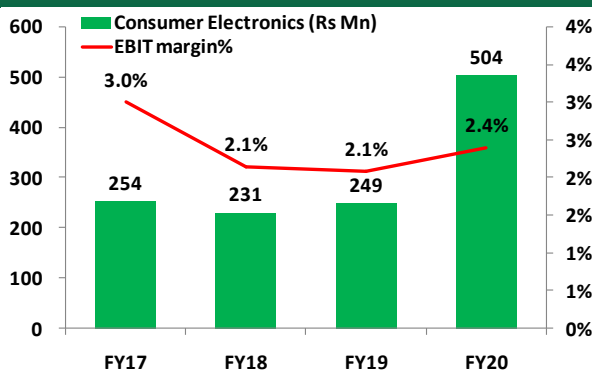
Source: Source: Dixon presentation, Annual Report

Exhibit 31 - Segment revenues have grown at CAGR of 28.4% over FY16-20



Source: Source: Dixon presentation, Annual Report

Exhibit 32 - EBIT margins ranges between 2-3%; increased in FY20 to 2.4%



Source: Dixon presentation, Annual Report

Consumer Electronics

Dixon is **largest manufacturer of TV sets in India at a single location**, catering to renowned brands. The product portfolios include 19 to 65 inches, ATV, 2K, 4K UHD, Smart, Semi-smart, Android certified and Linux based TV. Dixon provides end to end solution including Auto Insertion, SMT, and LCM Module Assembly. Besides TVs, it also **manufactures PCBs used in inverter ACs**.

Consumer Electronics segment **contributed ~48% or Rs 20592 million to total revenues in FY20**. The segment revenue grew **76% YoY in FY20** due to a) strong sales of Xiaomi brand TVs, b) removal of import duty on open cells, which forms ~60% of the cost and c) 66% YoY growth in AC PCB revenues at Rs 1300 million.

During FY20, Dixon has done a volume of 2.1 million TVs against total Indian requirement of 14 millions, thus garnering a **market share of ~15%**. In FY20, Dixon **added Samsung as its client**. In the current FY21, it has **added three new customers, namely Toshiba, Hisense and Nokia**. The production has already started with **combined monthly order run-rate of ~60-70k units**.

Dixon has increased its installed capacity for TV sets **from 3.6 million units as on FY20 end to 4.4 million units in Q2FY21**, which is ~30% of domestic requirement as the order book continue to remain healthy. Dixon will further **expand the capacity to 5.5 million by Q4FY21**, which will be ~40% of total domestic demand.

Dixon has **doubled the capacity of PCBA lines to 1.9 million**. With this, it has become the **most vertically integrated, largest capacity LED TV facility in India**.

On 30-Jul-20, the Government **restricted import of TV sets including LCD TVs** (of screen size upto 63 cm). The move will boost the domestic manufacturing and accelerate the sourcing of domestically designed solutions. **India had imported Television sets worth ~\$781 million in FY20**, mainly from Vietnam and China.

In Jan-20, **Samsung has done an agreement with Dixon to resume LED TV manufacturing** in India, after closing its Chennai facility in Oct-18 and moving to Vietnam, following imposition of 5% import duty on open cells. This will reduce dependency on Xiaomi. It is in talks with major brands to foray in export market.

Indian LED TV market is expected to **grow at CAGR of 10%** from 14 million or Rs 220 billion in FY19 to 21 million or Rs 322 billion by FY23E, as demand is growing due to a) higher internet penetration, b) rising content consumption, c) cheaper content options, d) falling price of entry level TVs, d) low levels of multi-TV homes, e) replacement of CRT, Plasma TVs and f) reduction in replacement cycle.

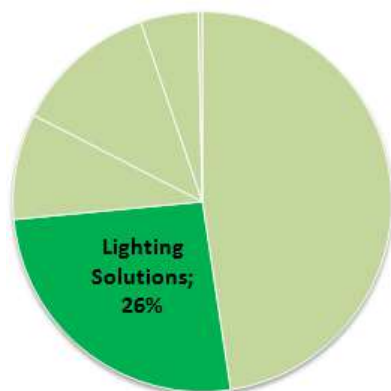
We expect the segment to growth at CAGR of ~24% over FY20-23E. Shift to large screen TVs, increase of ODM revenue share, expansion of PCB lines would

Exhibit 33 - Key Clients (LED TV)



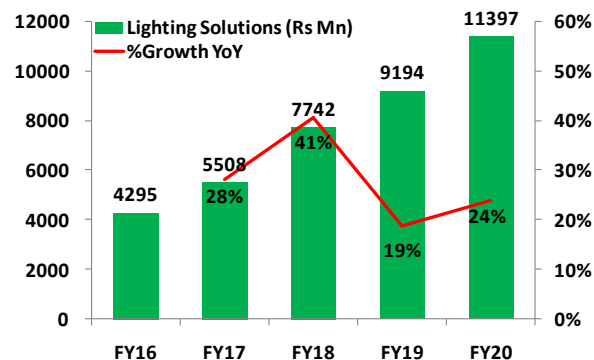
Product Profile

Exhibit 34 - Lighting Solutions is 2nd largest contributor to revenues with 26% share



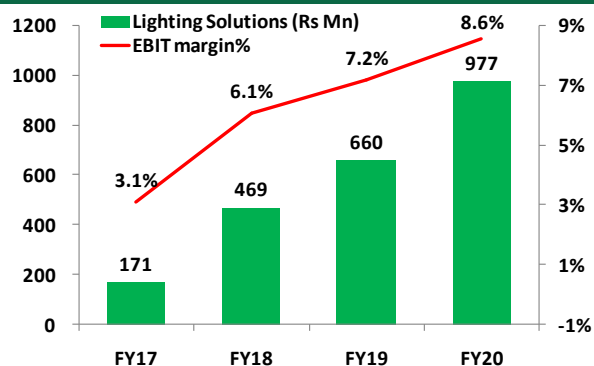
Source: Source: Dixon presentation, Annual Report

Exhibit 36 - Segment revenues have grown at CAGR of 27.6% over FY16-20



Source: Source: Dixon presentation, Annual Report

Exhibit 37 - EBIT margins have improved considerably over FY17-20



Source: Dixon presentation, Annual Report

Lighting Solutions

Dixon is one of the **top global manufacturers of indoor lighting and LED bulbs**, delivering large quantities of superior quality products, which includes LED bulbs, Ballast, Tube lights, Battens, Downlighters, emergency lights & LED drivers.

Dixon has **capacity to manufacture 250 mn LED bulbs p.a. which is largest in India and is ~50% of the total market requirement**, 24 million Battens and 6 million Downlighters on annual basis. It has a **market share of ~30-35% in the LED bulb category, ~12-13% in Battens and 7-8% in Downlighters**. Dixon plans to increase Battens & Downlighter's capacity & **target for ~25% market share**.

Almost **all the brands in lighting business are Dixon's customers**. Over the years, Dixon has **migrated more towards ODM business model**. The revenue share from **ODM business has increased from 40% in FY16 to ~90% in FY20**.

For FY20, lighting business **contributed ~26% to total revenues**. The **segment revenue grew ~24% YoY at Rs 11397 million in FY20**, while the **EBIT margins improved 140bps YoY at 8.6%** as the **ODM share improved to 87% from 71% YoY**. Dixon added new clients like Havells, HPL Electric and Reliance Retail in FY20.

Dixon has **strong R&D capabilities** enabling to develop new low cost innovative products & has **backward integration capabilities** in Sheet metal, Plastic Moulding & Wound components. With rising demand for smart solutions, Dixon has **developed smart LED bulbs and backend LED emergency bulbs** which are witnessing favourable demand. Dixon is also **foraying into commercial Lighting** with solutions of **LED street lights & Flood Lights**, expected to be launched in Q1FY21.

Dixon has **invested in process automation for key products to help reduce operational cost** and increase production significantly. The company has operating leverage and cost competitiveness for global markets. Dixon will start exporting to its anchor customers in US in the current year. It has already **started exports to countries like Malaysia, Indonesia and Mexico** with strategic tie-ups.

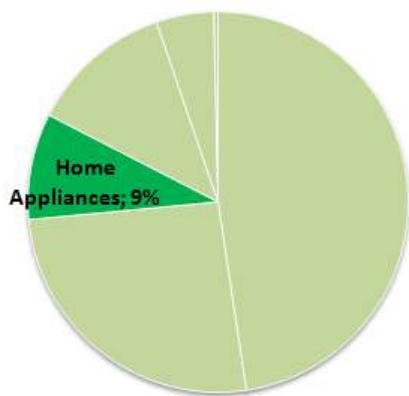
Indian **LED Lighting industry** is expected to touch **Rs 300 billion by FY23E** growing at **CAGR of ~12.5% from Rs 188 billion FY19**. The growth is expected to be driven by *a) rising awareness about cost, energy efficiency and eco-friendliness of LED lighting among the consumers and b) innovative & differentiated products*.

Exhibit 38 - Key Clients



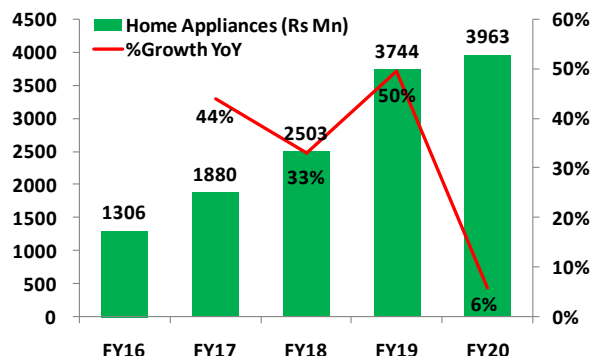
Product Profile

Exhibit 39 - Home Appliances accounted for 9% is 2nd largest contributor to revenues with



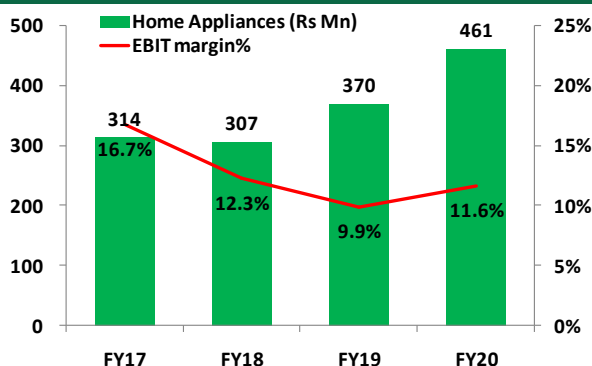
Source: Source: Dixon presentation, Annual Report

Exhibit 40 - Home Appliances revenues have grown at CAGR of 32% over FY16-20



Source: Source: Dixon presentation, Annual Report

Exhibit 41 - EBIT have margins seems to be stabilizing



Source: Dixon presentation, Annual Report

Home Appliances

Dixon **design and manufactures** a complete range of high performance washing machines equipped with advanced features **ranging from 6kg to 10kg**, with more than **140 models** in its portfolio. The company has the **largest capacity** of semi-automatic washing machines **at 1.2 million units p.a.**, which is **~28% of Indian market requirement**. The segment is **100% ODM** business model.

Dixon has expanded its capacities and product variants for semi-automatic WM in the last two years, thereby **adding all major brands to its client list**. The clientele includes brands like **Panasonic, Haier, Llyod, Samsung, Godrej, MarQ by Flipkart** and **newly added Reliance Retail (Kelvinator, BPL) and Voltas Beko**.

In FY20, Dixon has done a **volume of 850k units of semi-automatic WM** against the Indian market size of ~3.3-3.4 million units for semi-automatic WM and ~6.5-7 million units for overall WM (including automatic WM), thus capturing a **market share of ~26% for semi-automatic WM** and **~13% for overall WM**.

Home Appliances segment has **grown at a CAGR of 32% over FY16-20**. The segment accounted for **~9% of the FY20 total revenues**, which registered a **growth of 6% YoY at Rs 3963 million**.

In this segment, **only 30% of the Bill of Material is imported** as the company has backward integration capability in Plastic Moulding.

Dixon is setting up a unit for **top-loading fully automatic WM** in Tirupathi campus, **with capacity of 0.6 million units** which is ~25% of the Indian requirement, to be **ready by Q3FY21 end**. This will be completely ODM, with 30 variants ranging from 6 kg-9 kg. It has already made **tie-up with a large MNC brand** for this.

Indian washing machine market was estimated at ~7mn units or Rs 104 billion in FY20, **estimated to grow at CAGR of 12% to ~10 mn units or Rs 146 billion by FY23E**. Washing Machine market growth is driven by a) *growing working population*, b) *increasing in number of nuclear families*, c) *rising domestic help cost* and d) *rising trend of working women to drive urban consumption*.

We expect a revenue CAGR of ~18% over FY20-23E for the segment. The company enjoys high margins in the segment as it is operating completely on ODM basis. With the increase in capacity and start of high margin top loading

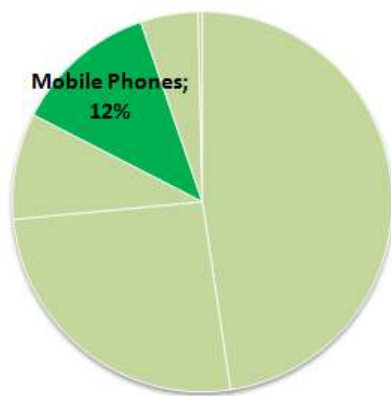
Exhibit 42 - Key Clients



Product Profile

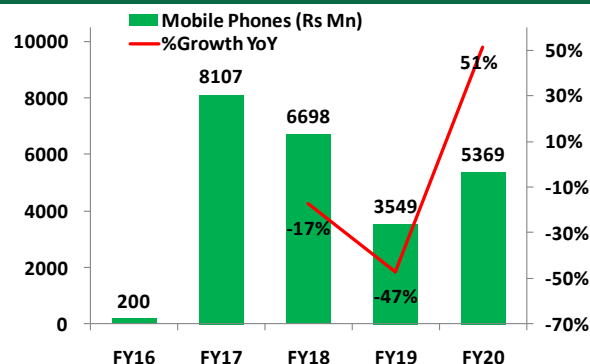
Mobile Phones

Exhibit 43 - Mobile Phones contributed ~12% to revenues in FY20



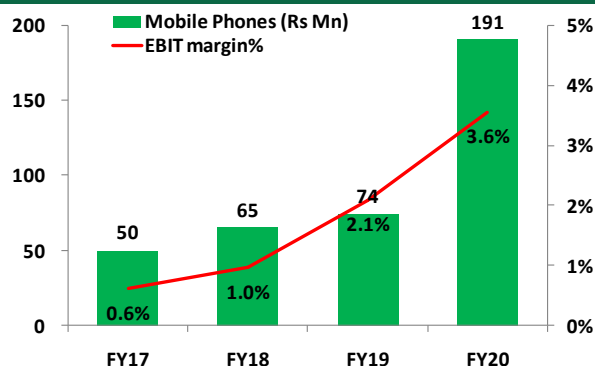
Source: Source: Dixon presentation, Annual Report

Exhibit 44 - Home Appliances revenues have grown at CAGR of 32% over FY16-20



Source: Source: Dixon presentation, Annual Report

Exhibit 45 - EBIT have margins seems to be stabilizing



Source: Dixon presentation, Annual Report

Dixon commenced manufacturing of mobile phones in the year 2016 through a 50:50 JV, Padget Electronics Pvt Ltd (PEPL), which the company bought out in early FY20 and converted into a wholly owned subsidiary.

The increasing penetration of internet has led to a surge in mobile phone demand, leading to a significant rise in production. Dixon currently manufacture feature phones, smart phones, PCBA for mobiles with a backward integration framework (350K/ month for smart phones and 700k/ month for feature phones). The mobile phone production is 100% under OEM model for all major brands.

As on FY20 end, Dixon had a capacity to manufacture 32 million mobile phones, which has been now raised to ~40 million per annum. On the smart phone side, Dixon is a small player. However, on the feature phone side, it is at a level of 2 million/ month against the Indian market size of ~8 to 9 million/ month. Thus having ~25% market share in that segment.

During FY20, Dixon has added Samsung, LG and Samsung as customer. For Samsung, it will manufacture feature mobile phones for domestic and export market. Other major customers in this segment are Gionee, Panasonic, Karbonn etc.

The Mobile segment accounted for ~12% of the revenues in FY20. The revenue growth has remained volatile in past for the segment. The FY20 revenue grew 51% YoY at Rs 5369 million, after declining for two consecutive year as the mobile phone sales for Karbonn and Gionee witnessed decline. However, the profit margins have improved gradually in past few years. The FY20 margins stood at 3.6% against 0.6% reported in FY16.

Going forward, Mobile Phone segment is expected to drive the future growth in revenues as the company start deriving the benefits of mobile PLI scheme, launched by the Government recently. In October-2020, India shortlisted 5 domestic and 11 global electronics makers under the PLI (performance-linked incentive) scheme. Padget Technologies, a subsidiary of Dixon, is among the domestic companies shortlisted. Government will provide Incentives upto Rs 40951 crore over next 5 years to the mobile manufacturers covered under the scheme.

Dixon is in discussion with three global brands for mobile phone outsourcing. Company has already taken a factory on lease in Noida and is expected to commence production from mid-January 2021.

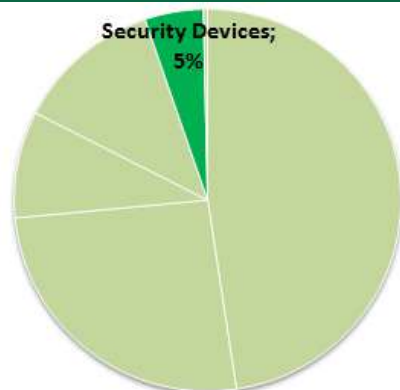
Over FY20-23E, Dixon is expected to earn revenue of ~88.6 billion from the mobile PLI scheme. The contribution from Mobile segment is likely to grow to

Exhibit 46 - Key Clients



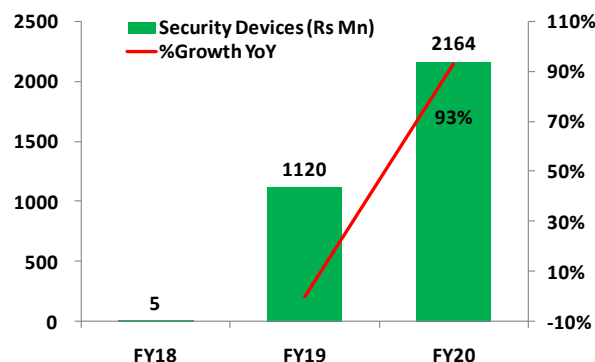
Product Profile

Exhibit 47 - Security Devices, started in FY18, accounts for ~5% of the total revenues



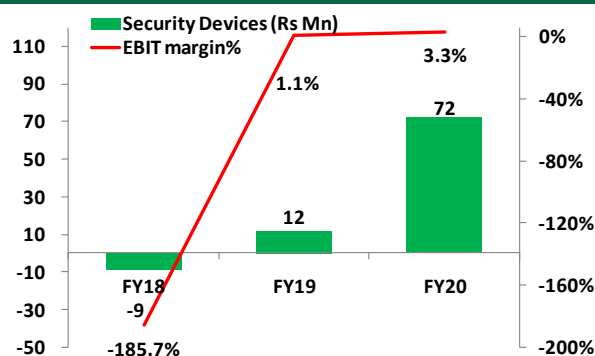
Source: Source: Dixon presentation, Annual Report

Exhibit 48 - Security Devices revenues have almost doubled in FY20 over previous year



Source: Source: Dixon presentation, Annual Report

Exhibit 49 - Reported positive EBIT in 2nd year of operations; margins improved in FY20



Source: Dixon presentation, Annual Report

Security Devices

Dixon is a pioneer in manufacturing security devices such as **CCTV, IP Cameras & Digital Video Recorders (DVRs)**. The company started manufacturing Security surveillance systems in 2018 through a JV with Aditya Infotech Ltd. **CP Plus**, trademark owned by Aditya Infotech Ltd is one of the leading industry players with a **market share of ~24%**. Dixon has a **installed capacity for CCTV is 8.4 million**, while for **DVR is 1.8 million units per annum**.

Since the launch of the segment, the company has significantly improved the manufacturing of security surveillance systems, ramped up production and added new customers. Company does **100% of the production under OEM model** for all major brands.

The Security Devices segment **contributed 5% to the total revenues in FY20**. The segment **revenue grew 93% YoY** from Rs 1120 million in FY19 to Rs 2164 million in FY20. The EBIT margins improved from 1.1% in FY19 to **3.3% during FY20**.

Growth would be aided due to government initiatives leading to rise in demand for security equipment. Public safety has emerged as an important function for Governments. As cities continue to grow, security surveillance becomes the primary tool to monitor population movement and to fight crime as well.

Since the security surveillance system is a discretionary item, the order book continues to remain under pressure.

Dixon has **forayed into a medical diagnostic segment** through Joint venture Company- AIL Dixon Technologies Private Limited. The company has signed MoU with Molbio Diagnostics, one of the leading diagnostic companies to **manufacture Truelab Quattro Real Time Quantitative micro PCR Analyzer machines**.

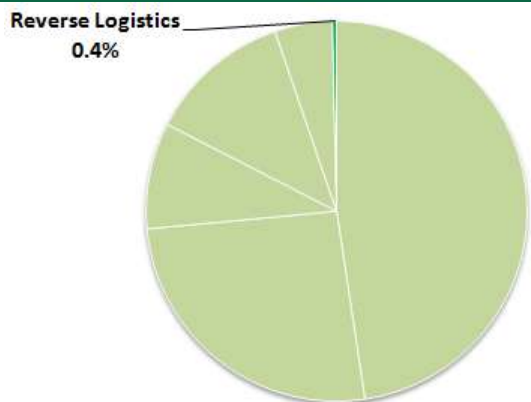
The portable technology driven device is capable of performing multiple tests per day of critical infectious diseases including Covid-19 & will be manufactured at our Tirupati plant. It has been recently validated and approved by Indian Council of Medical Research (ICMR) to conduct Covid-19 tests. There is a strong demand for this machines from Government hospitals, private diagnostic laboratories & Global Markets. Dixon has **received huge order** for the same. Considering the sensitive nature of the equipment, Dixon has upgraded its facilities to meet the requirements of medical grade components. There will be no additional capex required for this project and will be done in company's DVR plant at Tirupathi campus. Dixon plans to ramp up its capacity to 300 medical units per month.

The **key growth drivers** for the Security Devices are a) *increase in organized real estate sector*, b) *rise in threat perception*, c) *growing crime rates*, d) *data thefts*, e) *remote monitoring*, f) *growth of public infrastructure*.

We expect the segment to grow at CAGR of ~16% over FY20-23E as the order book expected to remain weak given the discretionary nature of the Security Devices business. However, profit margin is expected to improve as the Medical Device business ramp up, which is a high margin business (~20-22%) and due to shift in demand for IP cameras from conventional Analog cameras.

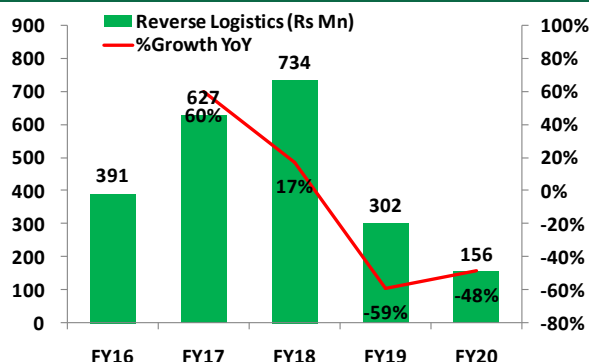
Product Profile

Exhibit 50 - Reverse Logistics contribution to revenues have remained small



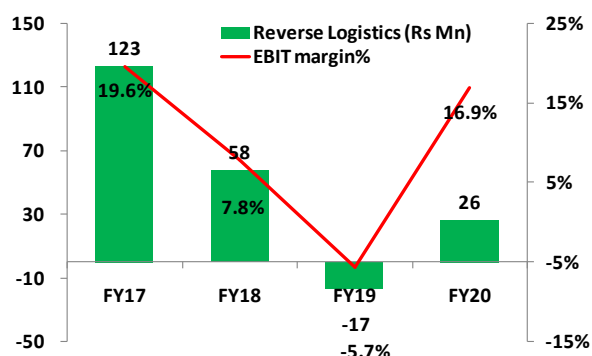
Source: Dixon presentation, Annual Report

Exhibit 51 - Segment revenues have witnessed decline in last 2 years



Source: Source: Dixon presentation, Annual Report

Exhibit 52 - EBIT have improved in FY20 after decline in previous year



Source: Dixon presentation, Annual Report

Reverse Logistics

Within the Reverse Logistics business, Dixon provides repair & refurbishment services for set top boxes, LCD/ LED TVs & panels & mobile phones. It is one of the few companies to have Panel Repairing and LED TV refurbishment facilities. This business is more strategic in nature, enhances stickiness with the customers & provide them end-to-end solution.

Besides, Dixon also provides repair and refurbishment services for products like currency-counting machines and PoS terminals (Card machines).

Dixon has made an alliance with renowned a TV brand to address repair and refurbishment queries.

Set Top boxes

Set Top boxes is the new line of business. The underutilized capacity of mobile phone plant was strategically modified (with a minor capex) to manufacture set-top boxes. The company expects strong contribution from set-top boxes towards revenue and profitability starting FY21. Dixon is manufacturing Set Top Boxes for leading set top box brands. It has added Dish TV and Jio as new client.

Dixon has received large order (~0.5 million set-top boxes) from Jio for cable set top boxes to be supplied to Den and Hathway. The commercial production for the same has started.

Dixon has an order book of ~0.5 million set-top boxes a month. Which has the potential to go up-to ~0.8-1 million a month, generating revenue of ~Rs 1000 crores in FY22. The company has also started manufacturing hybrid set-top boxes for Jio at Tirupati plant, which has better margins.

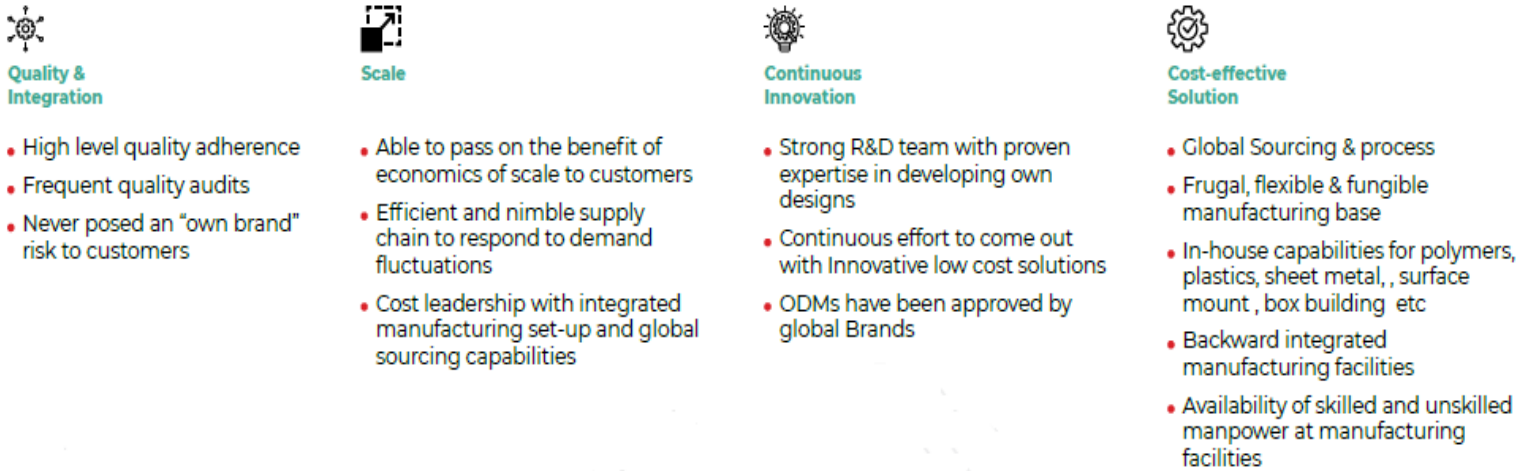
Reverse logistics business accounted for just 0.4% of the total FY20 revenues. The business has witnessed continuous de-growth for the last 2 year. For FY20, the revenue declined 48% YoY at Rs 156 million, following a 59% YoY decline in FY19. However, the business has reported healthy margin at 16.9%.

Dixon has successfully turned around its Reverse Logistic segment to a profit making business from a loss making one. Healthy orders for LED TV panel repairs helped the company to achieve this target. The segment revenues are expected to grow at a CAGR of ~33% over FY20-23E.

Exhibit 53 - Key Clients

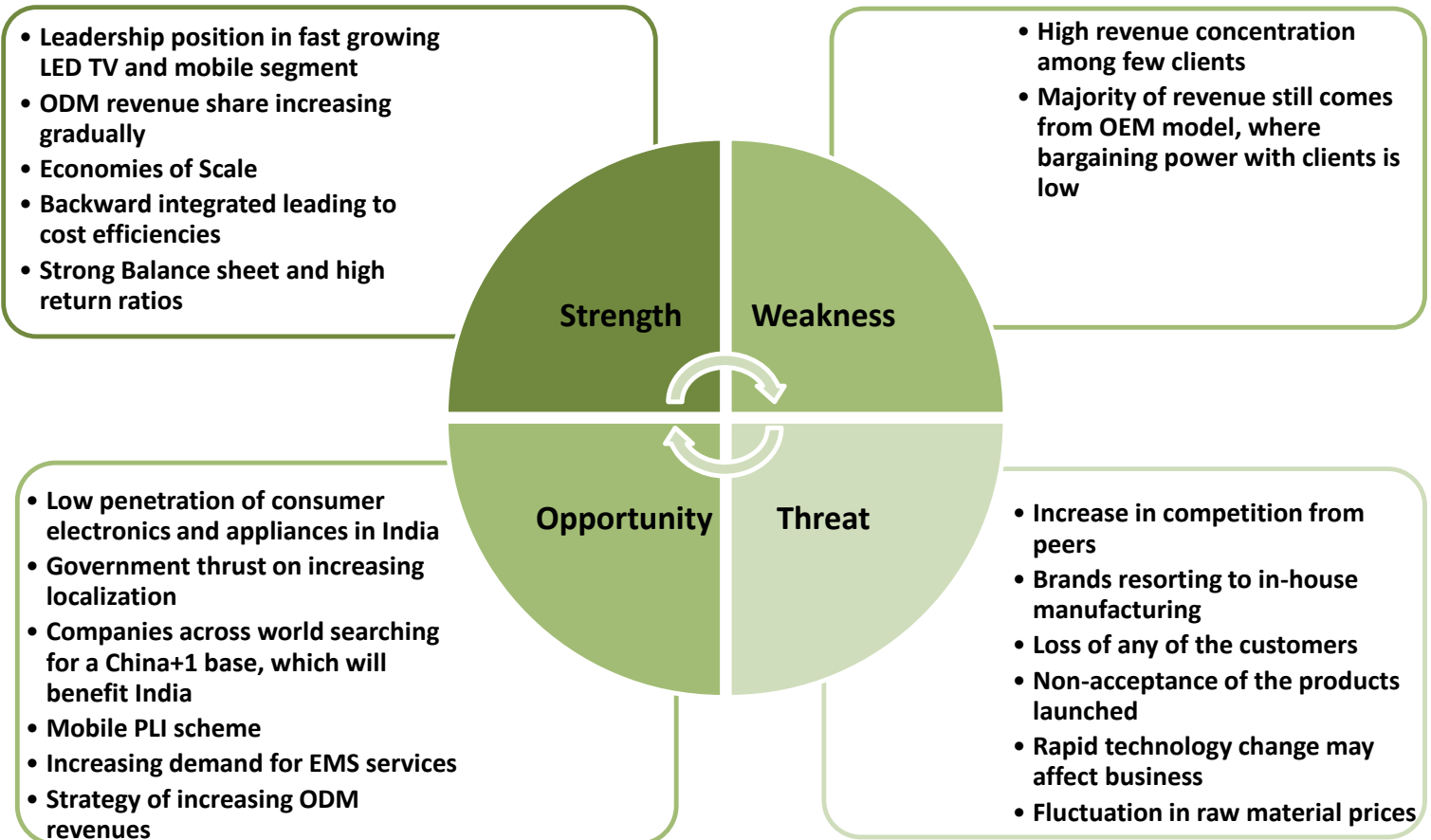


Exhibit 54: Focus On Value Proposition For Customers



Source: Dixon presentation

Exhibit 55: SWOT Analysis



Source: SMIFS Research

Key Management Team

■ Mr. Sunil Vachani, Executive Chairman

Mr. Sunil Vachani is Executive Chairman of the Company. He holds a degree of Associate of Applied Arts in business administrations from the American College in London. He is also the Promoter of the Company and has been associated since inception. He is responsible for Company's growth and business development. He has over 28 years of experience in the EMS industry. He has been awarded the "Man of Electronics Award" by CEAMA in 2015, the "Outstanding Citizen Award 2012" by the Sindhi Chamber of Commerce and one of the "Top 100 people influencing EMS" in 2012 by the ventureoutsource.com. He has held positions like chairman of the Electronics and Computer Software Export Promotion Council of India and Co-Chair of the CII ICTE Committee. He is currently the vice president of CEAMA.

■ Mr. Atul B. Lall, Managing Director

Mr. Atul B. Lall, is Managing Director of Company. He holds a master's degree in management studies from the Birla Institute of Technology and Science, Pilani. He has been associated with the Company since inception. He is responsible for Company's overall business operations. He has more than 26 years of experience in the EMS industry. He has served as a member of the Technical Evaluation Committee for Electronic Manufacturing Services under M-SIPS (Electronic Manufacturing Services-EMS) constituted by the DeitY and served as a representative of ELCINA on the Committee for Reliability of Electronic and Electrical Components and Equipment (LITD. 02) of the BIS.

■ Mr. Saurabh Gupta, CFO

Saurabh Gupta, is the Chief Financial Officer of the company. He holds a Bachelor's Degree in Commerce from Delhi University. He is an associate of the Institute of Chartered Accountants of India & an MBA (Executive Program) from MDI, Gurgaon. He has also passed the final examinations conducted by Institute of Company Secretaries of India. He has an experience of over 15 years in the field of finance & strategy. He has experience in raising capital from Banks & Investors, handling Investor Relations, Corporate Finance, Management Reporting, Budgeting, Strategic Planning, Fund deployment, M&A/Deal Evaluation & Structuring, Restructuring (Buy Back, Demerger & Amalgamation), Investment Management & Treasury Management etc. He has been honoured with Business World-Yes Bank most promising Future CFO in Large Corporates category.

Key Performance Indicators

Exhibit 56: Revenue CAGR expected at ~38% (FY20-23E)

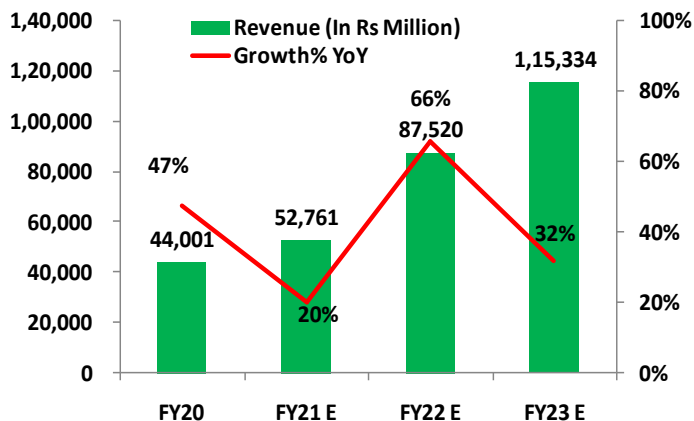


Exhibit 57: EBITDA expected to grow at ~37% CAGR (FY20-23E)

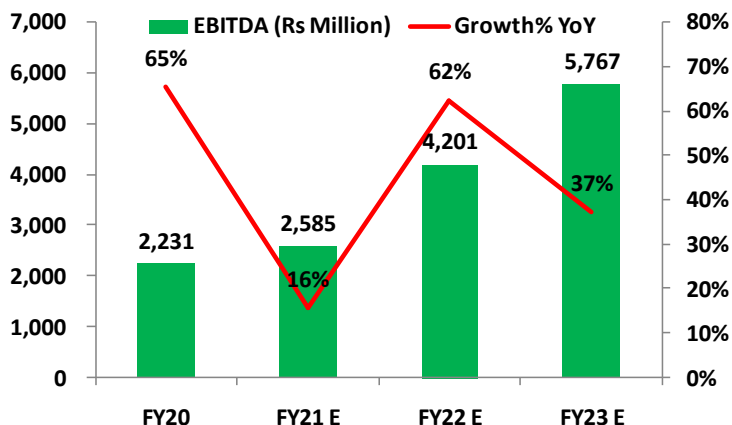


Exhibit 58: EPS expected to grow at CAR of ~46% (FY20-23E)

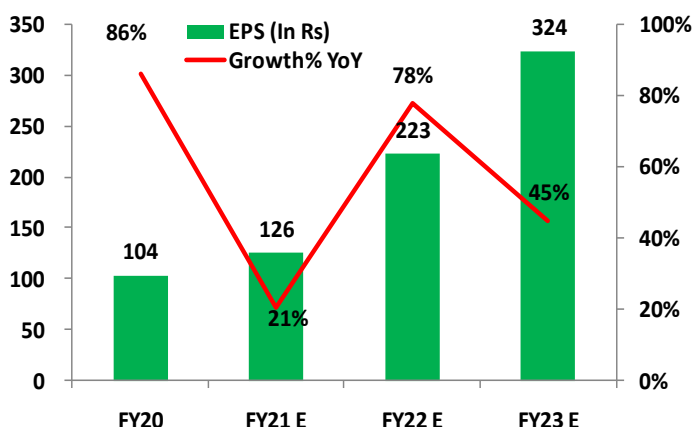


Exhibit 59: Return Ratios to improve substantially by FY25E

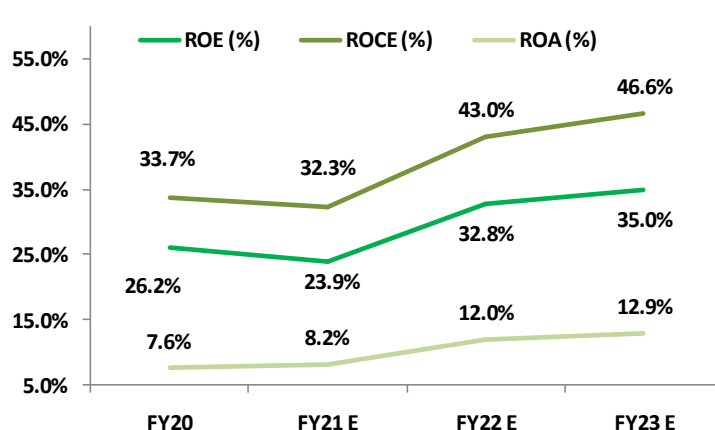


Exhibit 60: Cash conversion days to improve marginally

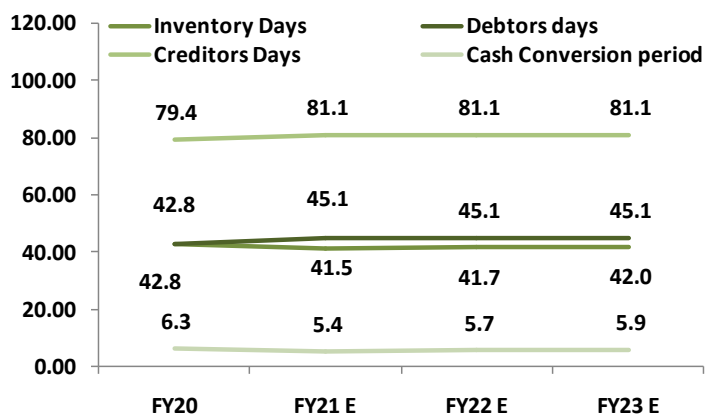
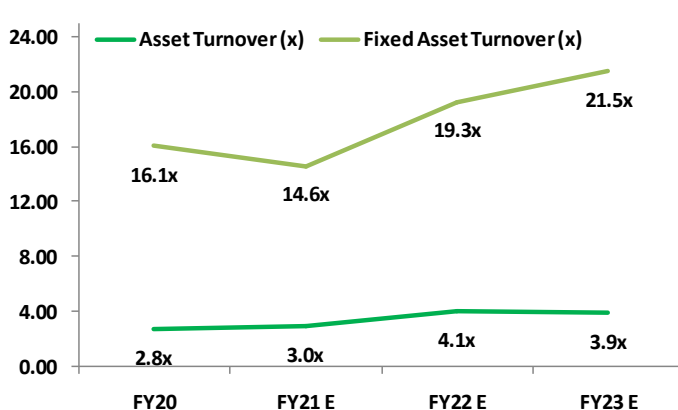


Exhibit 61: Asset Turnover to improve significantly



Financial Details

Income Statement - Consolidated (Quarterly)

In Rs Mn

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	11469	14020	9938	8574	5169	16387
Cost of goods sold	10162	12553	8666	7222	4550	14447
% of Revenue	88.6%	89.5%	87.2%	84.2%	88.0%	88.2%
SG&A expenses	781	837	757	793	451	1046
% of Revenue	6.8%	6.0%	7.6%	9.3%	8.7%	6.4%
EBITDA	526	631	515	559	169	894
EBITDA margin%	4.6%	4.5%	5.2%	6.5%	3.3%	5.5%
Depreciation	76	82	98	109	93	109
Interest	99	94	81	77	57	69
EBT	351	455	336	373	20	716
Other Income	6	28	18	0	2	3
PBT	357	483	355	373	22	718
Provision for tax	121	53	92	97	6	195
% Tax rate	33.9%	11.0%	25.8%	26.0%	25.9%	27.1%
Consolidated Net Profit	236	430	263	276	16	524
Net profit margin%	2.1%	3.1%	2.6%	3.2%	0.3%	3.2%
EPS (In Rs)	20.4	37.2	22.7	23.8	1.4	45.3

Segment Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Consumer Electronics	5098	7382	4543	3930	3473	9569
Lighting Solutions	3243	2839	2767	2548	777	2957
Home Appliances	988	1391	684	900	241	1454
Mobile & EMS	1437	1934	1395	603	531	1974
Security Devices (50%)	679	435	503	546	134	397
Reverse Logistics	24	38	46	47	14	36
	11469	14020	9938	8574	5170	16387

Revenue Mix (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Consumer Electronics	44%	53%	46%	46%	67%	58%
Lighting Solutions	28%	20%	28%	30%	15%	18%
Home Appliances	9%	10%	7%	10%	5%	9%
Mobile & EMS	13%	14%	14%	7%	10%	12%
Security Devices (50%)	6%	3%	5%	6%	3%	2%
Reverse Logistics	0.2%	0.3%	0.5%	0.5%	0.3%	0.2%

Source: Company Data, SMIFS Research

Outlook and Valuation

The domestic **production of electronics hardware** has increased substantially from **RS 1.9 trillion in FY15 to an estimated ~Rs 5.5 trillion in FY20**, and further expected to rise rapidly to **~Rs 26 trillion by FY25**. India cannot afford to bear the rapidly increasing forex outgo on account of import of electronics, and it has to increase its manufacturing share substantially over next few years.

Indian electronic manufacturing sector is at a nascent stage, which offers immense growth opportunities for domestic players. Indian EMS/ ODM market size estimated at Rs 428 billion for FY20, which is ~1% of the size of Global EMS/ ODM market. While the mobile phone's share in total Consumer Electronics & Appliances market is ~70%, the local value addition just ~15-20%. Overall, Indian electronics manufacturing sector suffers from a disability of ~8.5-11% for many reasons.

The India Government has recently taken several measures to promote local manufacturing and discourage imports through initiatives like **Make In India, Aatmanirbhar Bharat, increase in import duties** and recently announced **PLI Schemes** for several sectors including mobile phone. Apart from this, many countries started **adopting China+1 strategy** post Covid led pandemic, to diversify their business with other countries. **The Indian EMS OEM/ ODM players are expected to benefit from this.**

Dixon Technologies (India) Ltd is a leader in EMS OEM/ODM space in India, with its presence in various sub-segment of electronics manufacturing, like **Consumer Electronics, Lighting, Home Appliances, Mobile phones, Security devices and Reverse Logistics.**

Dixon occupies a **dominant position in some of its segment** with largest domestic capacities spread across its state of art 10 manufacturing units in India, catering to several MNCs and leading domestic brands like **Samsung, Philips, Xiaomi, Panasonic, Wipro etc.**

Dixon is India's **top global lighting solutions providers** with a capacity to manufacture 250 mn LED bulbs, which is ~50% of the total market requirement. Dixon is the **largest manufacturer of TV sets** in India with installed capacity to manufacture 4.4 million TV sets, which is ~30% of domestic requirement. With a volume of 2.1 million TVs during FY20, Dixon has garnered market share of ~15%. Dixon to further gain market share with recent import restrictions on LED panels. In the Semi-automatic Washing Machine category, Dixon has the **largest capacity at 1.2 million units, which is ~28% of domestic requirement.** Dixon to start offering FTL WM from FY22 beginning.

Healthy relationship with its clients, backward integration of key segments and **cost-effective pricing strategy** on the back of global sourcing are some of key competitive advantage of Dixon. It has **continuously expanded its client base** in all segment.

The brands are resorting to ODM manufacturing to focus more on their brand promotion, distribution and increasing market share. Dixon being a **leading EMS ODM player is a clear beneficiary.** Dixon's ODM share has improved from 24% in FY16 to 34% in FY20. While Washing Machine is already 100%, it is working towards increasing ODM share in LED TVs and Lighting.

On 06-October-20, Government has **launched PLI Scheme for mobile phone** to boost the mobile phone manufacturing in India. Dixon has already **got approval for one mobile PLI** through subsidiary Padget Electronics. Dixon is already in **discussion with 3 large global mobile brands for manufacturing tie-ups.** PLI scheme could be a **game changer for Dixon** as the revenue from mobile segment is expected to go up substantially from Rs 5.4 billion in FY20 to Rs 48.3 billion by FY23E.

Dixon's overall Revenue, EBITDA and PAT are expected to grow at a CAGR of ~38%, ~37% and ~46% over FY20-23E at Rs 115,334 million, Rs 5767 million and Rs 3776 million, respectively.

Dixon generated **operating cash flow of ~Rs 2373 million in FY20** on strong profitability and efficient WC management. Dixon has **net debt free balance sheet** with strong return ratios (FY20 end ROE, ROCE at ~26%, ~34%). The **ROCE is further expected to expand to ~47% by FY23E.**

Huge growth opportunity in EMS industry, potential upside from PLI scheme in mobile manufacturing, high growth potential in earnings, dominant position in industry and high return ratios strengthen our conviction on the stock. We initiate coverage on Dixon with a "HOLD" rating and price target of Rs 13,053, valuing the stock at 40x on its FY23E EPS of Rs 326.3.

Financial Details

Income Statement (Consolidated)

In Rs Mn

Particulars (Y/E March)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	29844	44001	52761	87520	115334
COGS	26093	38602	46561	77455	101840
Gross Profit	3752	5399	6199	10065	13494
SG&A	2403	3168	3614	5864	7727
EBITDA	1349	2231	2585	4201	5767
Depreciation & Amortisation	217	365	460	563	667
Other Income	56	52	103	126	142
EBIT	1188	1917	2228	3763	5242
Interest Cost	250	350	290	297	208
PBT	938	1568	1937	3466	5034
Tax Expenses	305	363	484	866	1259
PAT	634	1205	1453	2599	3776

Balance Sheet (Consolidated)

In Rs Mn

Particulars (Y/E March)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	113	116	116	116	116
Reserves & Surplus	3669	5298	6611	8932	12289
Networth	3782	5413	6727	9047	12405
Total Borrowings	1361	828	828	828	110
Net deferred tax liability	144	148	148	148	148
Other non-current liabilities	1630	959	970	1033	1077
Trade payables	7397	9391	9463	13780	19922
Other Current Liabilities	594	231	602	827	1110
Total Equity & Liabilities	14908	16970	18738	25662	34771
Net Block+CWIP	2550	3209	4095	4974	5750
Intangible assets	47	1027	967	907	846
Other non-current assets	1618	271	308	488	672
Inventories	4084	4978	4839	7087	10304
Trade Receivables	5167	5151	5973	8659	12522
Cash and Cash Equivalents	367	1002	942	803	1153
Other Current assets	1076	1331	1613	2744	3525
Total Current Assets	10694	12462	13367	19293	27504
Total Assets	14908	16970	18738	25662	34771

Source: Company Data, SMIFS Research

Financial Details
Cash Flow Statement (Consolidated)
In Rs Mn

Particulars (Y/E March)	FY19	FY20	FY21E	FY22E	FY23E
PBT	938	1568	1937	3466	5034
Depreciation & Amortisation	217	365	460	563	667
Interest & dividend Income	-22	-27	-62	-58	-53
Interest expense	250	350	290	297	208
Changes in working capital	-1275	423	-547	-1641	-1575
Taxes Paid	-183	-429	-484	-866	-1259
Others	44	124	0	0	0
Cash Flow from Operating Activities	-31	2373	1594	1761	3022
Capital Expenditure	-790	-1081	-1286	-1382	-1382
Other Investments	130	60	0	0	0
Interest & Dividend Received	22	27	62	58	53
Cash Flow from Investing Activities	-638	-993	-1224	-1323	-1328
Net issuance of equity	0	457	0	0	0
Net borrowings	964	-570	0	0	-718
Dividend paid (including tax)	-27	-83	-139	-279	-418
Interest expense	-251	-377	-290	-297	-208
Others					
Cash Flow from Financing Activities	686	-574	-430	-576	-1344
Net change in cash	18	807	-59	-139	349
Opening cash balance	127	144	957	897	758
Cash of acquired subsidiary	0	6	0	0	0
Closing Cash Balance	144	957	897	758	1108

Segment Revenue Mix (%)

	FY19	FY20	FY21E	FY22E	FY23E
Consumer Electronics	40%	48%	47%	37%	35%
Lighting Solutions	31%	26%	24%	16%	14%
Home Appliances	13%	9%	9%	6%	6%
Mobile Phones	12%	12%	15%	37%	42%
Security Devices	4%	5%	5%	3%	3%
Reverse Logistics	1%	0.4%	0.4%	0.3%	0.3%

Financial Details

Key Ratios (Consolidated)

Particulars (Y/E March)	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)					
Net Revenue	5%	47%	20%	66%	32%
Gross Profit	13%	44%	15%	62%	34%
EBITDA	20%	65%	16%	62%	37%
PAT	4%	90%	21%	79%	45%
Margins (%)					
Gross Margin	12.6%	12.3%	11.8%	11.5%	11.7%
EBITDA Margin	4.5%	5.1%	4.9%	4.8%	5.0%
PBT Margin	3.1%	3.6%	3.7%	4.0%	4.4%
PAT Margin	2.1%	2.7%	2.8%	3.0%	3.3%
Per Share Data (In Rs)					
EPS	55.9	104.1	125.6	224.7	326.3
BVPS	334.0	467.9	581.4	782.0	1,072.1
CFS	-2.7	205.1	137.8	152.2	261.2
DPS	2.0	6.0	10.0	20.0	30.0
No. of Shares	11.3	11.6	11.6	11.6	11.6
Profitability Ratios (%)					
RoE	18.3%	26.2%	23.9%	33.0%	35.2%
RoCE	27.3%	33.7%	32.3%	43.2%	46.8%
RoA	5.2%	7.6%	8.1%	11.7%	12.5%
Valuation Ratios (x)					
P/E	230.6	123.9	102.7	57.4	39.5
P/BV	38.6	27.6	22.2	16.5	12.0
EV/ EBITDA	111.4	66.8	57.7	35.5	25.7
P/CFS	-4768.9	62.9	93.6	84.8	49.4
Turnover Ratios (x)					
Inventory Turnover	7.1	8.5	8.8	8.8	8.7
Debtors Turnover	7.3	8.5	8.1	8.1	8.1
Creditors Turnover	4.2	4.6	4.5	4.5	4.5
Working Capital Turnover	18.6	18.2	18.0	19.5	15.7
Asset Turnover	2.4	2.8	3.0	3.9	3.8
Fixed Asset Turnover	14.4	16.1	14.6	19.3	21.5

Du-Pont Analysis (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
PAT Margin	2.1%	2.7%	2.8%	3.0%	3.3%
Asset Turnover(x)	2.4	2.8	3.0	3.9	3.8
Financial Leverage(x)	3.5	3.5	2.9	2.8	2.8
ROE	18.3%	26.2%	23.9%	33.0%	35.2%

Source: Company Data, SMIFS Research

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