India

Overweight *(no change)*

EMS

Sky high valuation catching up

- We expect a healthy 1QFY25F aggregate revenue growth of ~39%+ YoY and 43% PAT amongst all the 9 companies in our coverage universe
- However, declining EBITDA margins is becoming the new trend in the space, as companies look for newer avenues of growth to justify steep valuation.
- Firms with higher barrier to entry like Cyient DLM and those manufacturing at scale like Dixon are expected to command a premium over its peers due to relatively stable margins coupled with growth tailwinds.

Strong topline growth but declining margins in EMS space.

Although companies are showing good topline growth in EMS space, barring Dixon and Cyient DLM, all of them are expected to show some decline in margins in future. This is mainly because firms are looking for newer opportunities of growth, a lot of which is coming at the cost of margins. Firms like PGEL, Amber, Syrma are seeing an erosion of margins due to the changing mix of the business. This has made them an ideal derating candidate going ahead. For IKIO and Elin, the slowdown in lighting is hurting, but it is expected to persist in coming quarters. Furthermore, the valuation of IKIO doesn't leave any margin of safety, although risk to reward for ELIN looks quite favorable.

Firms switch to newer avenues to justify growth.

Firms like Amber, which are seeing headwinds in their main segment (RAC) are switching to PCB Assembly for growth opportunities. Similarly, Kaynes will enter OSAT, Dixon will enter the telecom space as evident in its deal with Nokia, Ikio is entering the GCC Market and Elin switching to medium appliances from small appliances. However, the critical thing to observe here would be Working Capital as the EMS space doesn't have any differentiator as such, hence cost advantage and working capital investment is the only way to get a foot in the door with new clients. However, worsening of working capital would most likely lead to fund raise, as most of these EMS companies are free cash flow negative.

Remain selective in EMS space with sky high valuations.

Out of the 9 stocks in our coverage universe, we only have an ADD rating on Cyient DLM, Dixon Syrma, and Elin. We believe even though the sector is showing good top-line growth, declining margins coupled with decreasing TAM could result in slow bottom line growth. This doesn't leave a significant margin of safety for the investors. Moreover, the changing mix of business is also leading to volatile margins which could lead to sharp price corrections. Stocks like PGEL, IKIO, Syrma could be classic examples of this scenario. Avalon also falls in this category, although its margin dilution is more to do with macro headwinds and operating deleveraging. Cyient DLM and Dixon remain our top picks, as the macro tailwinds in place for Cyient DLM and manufacturing at scale for Dixon gives us strong conviction in their outperformance relative to peers.

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Figure 1: Summary

Company	Rating	CMP	Sales (Rs m)		EBITDA (Rs m)		EBITDA Margin (%)		PAT (Rs m)	
		Rs	Jun-24	YoY	Jun-24	YoY	Jun-24	YoY (bps)	Jun-24	YoY
Dixon	ADD	12,483	51,713	58%	1,932	46%	3.7%	(30)	940	47%
Amber	HOLD	4,498	19,870	17%	1,600	21%	8.1%	30	662	42%
PGEL	REDUCE	3,706	7,860	16%	747	13%	9.5%	(21)	401	18%
Kaynes	HOLD	4,334	4,577	54%	664	65%	14.5%	95	542	120%
Syrma	ADD	495	8,853	47%	522	41%	5.9%	(24)	313	11%
Avalon	REDUCE	536	2,525	7%	179	11%	7.1%	20	91	29%
Cyient DLM	ADD	772	2,649	22%	207	3%	7.8%	(140)	100	87%
IKIO	REDUCE	311	1,279	18%	254	12%	19.9%	(109)	154	11%
Elin	ADD	202	3,135	23%	125	28%	4.0%	14	61	62%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarter preview

(Rs m)	Jun-24	Jun-23	YoY (%)	Mar-24	QoQ (%)	Remarks
Dixon						
Net Sales	51,713	32,715	58.1%	46,580	11.0%	We expect healthy 58% YoY growth in revenue led by robust growth across segments especially Mobile and Consumer. We expect operating leverage and pricing benefits to aid EBITDA margin by leading to strong 40% YoY growth in PAT. Dixon's mobile segment is going to be the main growth driver in medium term, and telecom segment in the longer term. India shipped 146 Million smartphones in CY23 and 60 Million feature phones. Out of total feature phones shipped, Itel has 40% market share ie 27 million phones. This is largely untapped for Dixon and hence going forward, with the stake of Dixon in Itel, this could be a significant growth driver for the firm. Significant ramp here is expected with the Nokia telecom deal as Nokia currently has Rs. 24,000 cr revenue coming from India. It is to be noted that global EMS manufacturers like Sanmina, Jabil, Flextronics already do EMS for telecom giants like Ericcson
EBITDA	1,932	1,319	46.5%	1,825	5.9%	
EBITDA margin(%)	3.7%	4.0%	-30 bps	3.9%	-18 bps	
PBT	1,253	870	44.0%	1,267	-1.1%	
Core PAT	940	642	46.5%	973	-3.4%	
Amber						
Net Sales	19,870	17,020	16.7%	28,054	-29.2%	Amber is expected to register a topline growth of 17% and PAT growth of 41% for 1QFY25F. Increased insourcing in the RAC business, will erode TAM for the firm. It is looking to diversify in other segments particularly PCB, with its acquisiton of Ascent, which is a end to end PCB Manufacturer. The biggest growth trigger in the medium term could be the firm's mobility business. Under Sidwal subsidiary, it is expanding its footprint to metro rail doors and is likely to increase the Bill of Material (BoM) from ~5% currently to 20%. Including Vande Bharat trains, Surat & Pune metro rail, and mainline rail over the next five-to-six years, there is an addressable market size of ~Rs800bn and the company aims to address ~20% of this market.
EBITDA	1,600	1,319	21.3%	2,218	-27.9%	
EBITDA margin(%)	8.1%	7.8%	30 bps	7.9%	14 bps	
PBT	882	627	40.6%	1,401	-37.0%	
Core PAT	662	467	41.8%	1,013	-35%	
PGEL						
Net Sales	7,860	6,776	16.0%	10,766	-27.0%	PGEL is expected to see slight margins decline in 1QFY25F as the effect of PLI incentive wanes off. Majority of the growth for PGEL is again expected to come from the RAC segment, as the TV industry is suffering from overcapacity and all the major laptop OEMs have already tied up with major EMS partners. The current growth targets factor in 40% YoY RAC growth, which could be steep with insourcing and reduced volume growth expected post FY25F.
EBITDA	747	658	13.4%	1,165	-35.9%	
EBITDA margin(%)	9.5%	9.7%	-21 bps	10.8%	-132 bps	
PBT	507	424	19.6%	905	-44.0%	
Core PAT	401	338	18.4%	716	-44.0%	
Kaynes						
Net Sales	4,577	2,972	54.0%	6,373	-28.2%	Kaynes is expected to show strong growth in 1QFY25F. The EMS business has good growth triggers, with the Industrial segment, in-line with India's capex cycle ramping up. We expect margin to remain at above 14% . Kaynes has one of the lowest employee expenses as a %age of sales in the EMS industry, suggesting as such no technical barriers to entry.
EBITDA	664	403	64.8%	952	-30.3%	
EBITDA margin(%)	14.5%	13.5%	95 bps	14.9%	-44 bps	
PBT	699	319	119.4%	1,019	-31.4%	
Core PAT	542	246	119.7%	813	-33.3%	
Syrma						
Net Sales	8,853	6,013	47.2%	11,341	-21.9%	Syrma is expected to register a 47% topline growth, however margin concerns will continue to weigh the stock price. Syrma's transition to lower end, commoditized consumer segment, has led to huge reduction in EBITDA margins, which we expect to continue for 1QFY25F. Working Capital days remains the key monitorable as that is something which the company has disappointed in the past.
EBITDA	522	369	41.4%	737	-29.1%	
EBITDA margin(%)	5.9%	6.1%	-24 bps	6.5%	-60 bps	
PBT	418	413	1.0%	612	-31.8%	
Core PAT	313	283	10.6%	452	-30.7%	
Avalon						
Net Sales	2,525	2,351	7.4%	2,168	16.5%	Avalon is expected show a flat growth in 1QFY25F. The high interest rate environment in US coupled with low personal savings with end consumers, is leading to lower discretionary spending. Avalon's clients like Lunar Energy , which sells solar energy solutions to retail consumers, is seeing drop in demand coupled with inventory destocking. The solar industry data for 1QCY24 is also not very encouraging, as solar installations in the residential segment declined by 25% YoY.
EBITDA	179	162	10.6%	172	4.3%	
EBITDA margin(%)	7.1%	6.9%	20 bps	7.9%	-83 bps	
PBT	125	105	19.3%	99	25.5%	
Core PAT	91	71	28.9%	71	29.0%	
Cyient DLM						
Net Sales	2,649	2,172	22.0%	3,618	-26.8%	Cyient DLM is expected to post healthy topline in 1QFY25F. Margins might remain slightly subdued, due to higher employee costs. However, European defense spending is in full flow , as the war in Ukraine and Gaza rages on. Indian defense spending is also acting as a tailwind. The company faced some supply chain issues from Israel, in April, for sourcing of raw materials, which could have a temporary impact on growth prospects.
EBITDA	207	200	3.4%	380	-45.7%	
EBITDA margin(%)	7.8%	9.2%	-140 bps	10.5%	-272 bps	
PBT	135	70	93.0%	307	-56.1%	
Core PAT	100	54	86.9%	227	-55.9%	
IKIO						
Net Sales	1,279	1,084	18.0%	948	34.9%	IKIO is expected to show a 18% YoY growth in 1QFY25F, as the lighting industry grapples with decrease in costs and low consumer demand. The key growth trigger for the firm remains RV business in the medium term and GCC markets in the longer term. However, ramp up in RV exports is not happening as quickly as expected, with yoy growth remaining flattish.
EBITDA	254	227	11.9%	170	50.1%	
EBITDA margin(%)	19.9%	21.0%	-109 bps	17.9%	202 bps	
PBT	207	187	10.7%	150	38.1%	
Core PAT	154	138	11.2%	95	61.7%	
Elin						
Net Sales	3,135	2,538	23.5%	2,778	12.8%	Elin Electronics is expected to post a 23% growth YoY in topline, due to impact of lower base. The lighting business is facing a lot of headwinds due to price erosion and lower consumer demand, however the firm is trying to combat that with new product launches most of which will start contributing to the topline in FY25F. Moreover, even in the downcycle, the firm is able to protect its gross margins, which suggests some sort of pricing power, with its clients. Secondly, the revoking of exclusivity contract with Signify, allows it to expand its lighting segment client base.
EBITDA	125	98	28.0%	124	1.1%	
EBITDA margin(%)	4.0%	3.9%	14 bps	4.5%	-47 bps	
PBT	82	49	67.0%	51	61.1%	
Core PAT	61	38	61.6%	35	72.0%	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: InCred vs consensus

	InCred				Consensus				Diff			
Company	Revenue (Rs m)	EBITDA (Rs m)	PAT (Rs m)	EBITDA Margin (%)	Revenue (Rs m)	EBITDA (Rs m)	PAT (Rs m)	EBITDA Margin (%)	Revenue (%)	EBITDA (%)	PAT (%)	EBITDA Margin (bps)
Dixon	51,713	1,932	940	4%	54,695	1,957	994	3.6%	-5.5%	-1.3%	-5.5%	16
Amber	19,870	1,600	662	8%	21,564	1,877	767	8.7%	-7.9%	-14.7%	-13.7%	(65)
PGEL	7,860	747	401	9%								
Kaynes	4,577	664	542	15%	4,867	663	469	13.6%	-6.0%	0.1%	15.6%	88
Syrma	8,853	522	313	6%	8,763	510	182	5.8%	1.0%	2.5%	71.8%	8
Avalon	2,525	179	91	7%	2,221	189	83	8.5%	13.7%	-5.0%	9.1%	(139)
Cyient DLM	2,649	207	100	8%								
IKIO	1,279	254	154	20%								
Elin	3,135	125	61	4%								

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Aggregate result expectations

Aggregate	Jun-24	Jun-23	YoY (%)	Mar-24	QoQ (%)
Revenue	1,02,460	73,640	39.1%	1,12,626	-9.0%
EBITDA	6,230	4,756	31.0%	7,742	-19.5%
EBITDA margin	6.1%	6.5%	-38 bps	6.9%	-79 bps
PAT	3,263	2,277	43.3%	4,395	-25.8%
Aggregate (PCB)	**Jun-24**	**Jun-23**	**YoY (%)**	**Mar-24**	**QoQ (%)**
Revenue	18,604	13,507	37.7%	23,500	-20.8%
EBITDA	1,572	1,134	38.6%	2,242	-29.9%
EBITDA margin	8.4%	8.4%	5 bps	9.5%	-109 bps
PAT	1,046	654	59.9%	1,563	-33.1%
Aggregate (Consumer)	**Jun-24**	**Jun-23**	**YoY (%)**	**Mar-24**	**QoQ (%)**
Revenue	83,856	60,133	39.5%	89,126	-5.9%
EBITDA	4,658	3,622	28.6%	5,501	-15.3%
EBITDA margin	5.6%	6.0%	-47 bps	6.2%	-62 bps
PAT	2,217	1,623	36.6%	2,833	-21.7%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Valuation summary

Company	BBG Ticker	Recom.	Mkt cap		P/E (x)			P/BV (x)			EV/EBITDA (x)
			(US$ m)	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Dixon	DIXON IN	ADD	8,924	127.6	80.3	58.2	28.5	21.3	15.7	69.1	46.7	35.3
Amber	AMBER IN	HOLD	1,820	91.5	43.9	31.1	6.1	5.3	4.6	27.1	19.9	15.9
PGEL	PGEL IN	REDUCE	1,158	47.4	35.2	32.8	6.3	5.3	4.5	26.1	20.1	18.5
Kaynes	KAYNES IN	HOLD	3,326	107.3	71.8	51.6	7.9	7.1	6.3	72.7	47.8	34.1
Syrma	SYRMA IN	ADD	1,051	55.1	35.7	25.1	4.3	3.8	3.3	37.8	24.0	17.4
Avalon	AVALON IN	REDUCE	423	114.4	55.4	33.6	5.8	5.3	4.6	53.1	30.9	20.7
Cyient DLM	CYIENTDL IN	ADD	735	89.1	45.1	29.1	6.0	5.3	4.5	46.1	28.7	19.5
IKIO	IKIO IN	REDUCE	289	37.1	40.0	32.0	4.1	3.8	3.5	22.9	24.3	19.7
Elin	ELIN IN	ADD	120	54.5	18.4	11.6	1.5	1.4	1.3	18.5	9.9	6.4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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