India

Overweight *(no change)*

Highlighted Companies

Cyient DLM Ltd

ADD, TP Rs1000, Rs627 close

Cyient DLM has a strong presence in the defence segment which is likely to benefit from policy tailwinds. The opportunities in the medical equipment segment, new client wins in the industrial segment and the acquisition of Altek Electronics will, in our view, lead to robust growth in the next couple of years.

Dixon Technologies

ADD, TP Rs17200, Rs16853 close

Dixon Technologies has increased its capacity to make 45m smartphones and 40m feature phones, which is ~65% to 70% of industry capacity. Another 10m capacity will come with the acquisition of Ismartu. An incremental 1m phones per month sales volume will come online. Further sales growth is likely in Motorola smartphones, including via export orders.

Kaynes Technology

ADD, TP Rs6000, Rs6732 close

Kaynes Technology consistently adds new capabilities across verticals and expands its customer base, with a specific focus on large customers and high-growth segments. The company is aiming to be a fully integrated electronic solutions provider across EMS, OSAT, and high-density interconnect boards.

Summary Valuation Metrics

P/E (x)	Mar25-F	Mar26-F	Mar27-F
Cyient DLM Ltd	60.2	35.6	27.2
Dixon Technologies	107.4	66.4	48.2
Kaynes Technology	121.8	84.0	62.7

P/BV (x)	Mar25-F	Mar26-F	Mar27-F
Cyient DLM Ltd	5.5	4.7	4.0
Dixon Technologies	28.8	20.2	14.3
Kaynes Technology	13.2	11.4	9.7

Dividend Yield	Mar25-F	Mar26-F	Mar27-F
Cyient DLM Ltd	0%	0%	0%
Dixon Technologies	0.03%	0.05%	0.07%
Kaynes Technology	0%	0%	0%

Research Analyst(s)

Arafat SAIYED
T (91) 22 4161 1542
E arafat.saiyed@incredresearch.com

Anirvan DIVAKERA
T (91) 02241611548
E anirvan.divakera@incredresearch.com

EMS

3Q: Yet another strong performance is likely

- EMS companies to sustain their growth momentum with a 67% YoY growth in revenue led by Dixon (90% YoY), Kaynes (61% YoY) & Cyient DLM (43% YoY).
- EMS companies are exploring newer opportunities, with Cyient DLM in the EV space. Dixon expects a lower volume in 3QFY25F, at ~2.3-2.4m units/month.
- Cyient DLM, Dixon and Kaynes are our top picks, with macroeconomic tailwinds in place for Cyient DLM & manufacturing at scale for Dixon & Kaynes.

The trend of healthy revenue growth is likely to continue

Electronics manufacturing services or EMS companies in our coverage universe are likely to sustain their growth momentum, with a 67% YoY growth in revenue led by Dixon Technologies or Dixon (90% YoY), Kaynes Technology (61% YoY) and Cyient DLM (43% YoY), while the margin is likely to be lower for most companies as a lot of new growth opportunities are coming at the cost of margin. Companies like IKIO Lighting, PG Electroplast (PGEL) and Cyient DLM are seeing margin erosion. For IKIO Lighting (IKIO) and Elin Electronics (Elin), the slowdown in the lighting business is hurting but it is likely to persist in the coming quarters. Also, the valuation of IKIO Lighting doesn't leave any margin of safety, although the risk-to-reward ratio for Elin Electronics looks quite favourable.

Newer avenues to justify growth

EMS companies are exploring newer opportunities, with Cyient DLM mulling expansion into the electric vehicle (EV) space, Dixon expects a lower volume in 3QFY25F, at ~2.3-2.4m units/month. However, it expects a recovery in 4Q, with the volume seen rising to 2.8-3m units per month. Amber Enterprises expects a strong year for the room air-conditioner (RAC) industry in FY25F, with a volume of 13m units. Despite muted sales growth in 2Q, Syrma SGS maintained its FY25F revenue guidance of Rs45bn (up 45%), with EBITDA at Rs3bn aided by a favourable order mix & operational efficiency. Kaynes Technology (Kaynes) maintained its revenue growth guidance at Rs30bn (+66%) for FY25F, with the EBITDA margin at ~14.5-15%. Kaynes to foray into OSAT business & Dixon to enter the telecom space as is evident from its deal with Nokia, IKIO is entering the GCC market & Elin is switching towards making medium appliances, from small appliances earlier.

We maintain Overweight stance on EMS sector

We remain overweight on the sector, and out of nine stocks in our coverage, we have ADD ratings on Dixon, Kaynes, Cyient DLM, Syrma SGS, and Elin. We believe that even though the sector is showing good top-line growth, falling margins could lead to slow bottom-line growth. This doesn't leave a significant margin of safety for investors. Moreover, the changing business mix is also leading to margin volatility, which could lead to a sharp price correction. Stocks like PGEL, IKIO, and Syrma SGS could be classic examples of this scenario. Avalon Technologies also falls in this category, although its margin dilution has more to do with macroeconomic headwinds and operating deleverage. Cyient DLM, Dixon and Kaynes are our top picks, as macroeconomic tailwinds are in place for Cyient DLM while manufacturing at scale for Dixon and Kaynes gives us strong conviction in their outperformance relative to peers.

Figure 1: Valuation summary of our coverage universe

Company	BBG Ticker	Rating	CMP Rs	Mkt cap (Rs bn)	P/E (x)		P/BV (x)		EV/EBITDA (x)	
					FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Dixon Technologies	DIXON IN	ADD	16,906	1,007	107.4	66.4	28.8	20.2	56.2	41.3
Amber Enterprises	AMBER IN	HOLD	7,791	263	74.3	44.0	8.9	7.4	28.1	23.6
PG Electroplast	PGEL IN	REDUCE	619	161	97.5	81.5	16.3	13.6	55.9	46.6
Kaynes Technology	KAYNES IN	ADD	5,392	345	121.8	84.0	13.2	11.4	86.7	56.2
Syrma SGS	SYRMA IN	ADD	409	72	47.2	27.0	4.0	3.5	27.7	18.4
Avalon Technologies	AVALON IN	REDUCE	574	38	115.0	63.9	9.5	8.3	59.8	39.9
Cyient DLM	CYIENTDL IN	ADD	699	55	60.2	35.6	5.5	4.7	34.3	23.1
IKIO Lighting	IKIO IN	REDUCE	287	22	35.6	31.7	3.3	3.1	22.4	19.3
Elin Electronics	ELIN IN	ADD	224	11	46.1	23.3	2.0	1.8	18.6	11.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 3QFY25F results expectations of our coverage universe

EMS: 3QFY25 quarterly results expectatiosn (Rs m)	Dec-2024	Dec-2023	YoY (%)	Sep-2024	QoQ(%)	Remarks
Dixon Technologies						
Net sales	91,653	48,184	90.2%	1,15,341	-20.5%	We expect a healthy 90% YoY growth in revenue led by robust growth in the mobile phone segment, while the margin is likely to remain at 3.7% level. Dixon Technologies' mobile phone segment is going to be the main growth driver in medium term, and the telecom segment in the long run. The company's joint venture with Vivo will help it to increase its share of the smartphone assembly business to ~22- 23%. Vivo sells ~30m smartphones per annum
EBITDA	3,374	1,846	82.8%	4,264	-20.9%	
EBITDA margin (%)	3.7%	3.8%	-15bp	3.7%	-1bp	
PBT	2,331	1,240	88.0%	3,167	-26.4%	
Core PAT	1,835	980	87.2%	2,021	-9.2%	
Amber Enterprises						
Net sales	18,049	12,948	39.4%	16,847	7.1%	Amber Enterprises is expected to register a topline growth of 39% and PAT of Rs187m, after a net loss of Rs5m YoY. It is looking to diversify into other segments, particularly PCB assembly, with its acquisition of Ascent, an end-to-end PCB manufacturer. The biggest growth trigger in the medium term could be the company's mobility business. Under Sidwal subsidiary, it is expanding its footprint to making metro rail doors and is likely to increase the Bill of Materials (BoM) from 18% currently to 25%.
EBITDA	1,155	785	47.1%	1,137	1.6%	
EBITDA margin (%)	6.4%	6.1%	34bp	6.8%	-35bp	
PBT	249	3	8321.3%	263	-5.1%	
Core PAT	187	-5	N/A	236	-21%	
PG Electroplast						
Net sales	7,659	5,319	44.0%	6,713	14.1%	PG Electroplast is expected to see a slight margin decline in 3QFY25F. Most of the growth for the company is again expected to come from the RAC segment, as the TV industry is suffering from overcapacity and all major laptop OEMs have already tied up with major EMS partners.
EBITDA	590	420	40.6%	564	4.6%	
EBITDA margin (%)	7.7%	7.9%	-19bp	8.4%	-70bp	
PBT	341	260	31.2%	301	13.4%	
Core PAT	259	192	35.1%	193	34.0%	
Kaynes Technology						
Net sales	8,211	5,093	61.2%	5,721	43.5%	Kaynes Technology is expected to report another strong quarter with a 61% revenue growth led by orders for smart meters. The EMS business has good growth triggers within the industrial segment, in line with India's capex cycle ramping up. We expect the margin to remain at 14.2%. Kaynes Technology enjoys one of the lowest employee expenses, as a percentage of sales, in the EMS industry, indicating no such technical barrier to entry.
EBITDA	1,166	699	66.9%	821	42.0%	
EBITDA margin (%)	14.2%	13.7%	48bp	14.4%	-15bp	
PBT	1,173	585	100.5%	849	38.1%	
Core PAT	856	452	89.5%	602	42.2%	
Syrma SGS						
Net sales	9,296	7,067	31.5%	8,327	11.6%	Syrma SGS is expected to register a 31% YoY revenue growth, while margin is likely to expand by 110bp to 6.6%. Working capital days remain a key monitorable. Syrma SGS spent Rs1.3bn in 1HFY25, with a large part of it utilized for the new campus facility in Pune. With this, a major portion of the capex is already behind, and it is looking to incur another Rs300-500m in 2HFY25F.
EBITDA	610	388	57.2%	710	-14.0%	
EBITDA margin (%)	6.6%	5.5%	107bp	8.5%	-196bp	
PBT	444	270	64.8%	507	-12.3%	
Core PAT	333	203	64.3%	396	-16.0%	
Avalon Technologies						
Net sales	2,866	2,143	33.7%	2,750	4.2%	Avalon Technologies is expected to show a healthy revenue growth of 33% in 3QFY25F. Management has given 16-24% FY25F revenue growth guidance, with the uptick expected in 2HFY25F. The company aims to continue expanding its manufacturing footprint and investment in technological advancements. The US production facility has been transferred to India, reducing the US manufacturing plant's contribution to 11% from 27% at the start of FY24.
EBITDA	298	165	80.1%	301	-1.1%	
EBITDA margin (%)	10.4%	7.7%	267bp	11.0%	-56bp	
PBT	234	91	158.3%	234	0.0%	
Core PAT	169	66	156.5%	175	-3.5%	
Cyient DLM						
Net sales	4,596	3,210	43.2%	3,895	18.0%	Cyient DLM is expected to post a healthy topline in 3QFY25F, with a margin of 8.9%. The recent acquisition of Altek Electronics is likely to enhance Cyient DLM's capabilities and market position, especially in the North American region, in medical and industrial segments. The acquisition is expected to be EBITDA-accretive. Starting from 3QFY25F, Cyient DLM expects to see a noticeable improvement in its overall business performance
EBITDA	410	293	39.6%	316	29.5%	
EBITDA margin(%)	8.9%	9.1%	-23bp	8.1%	79bp	
PBT	330	246	34.3%	209	57.9%	
Core PAT	246	183	34.2%	155	59.0%	
IKIO Lighting						
Net sales	1,343	1,168	15.0%	1,250	7.4%	IKIO Lighting is expected to post a 15% YoY growth in 3QFY25F, as the lighting industry grapples with the fall in prices and low consumer demand. The key growth trigger for the company remains its RV business in the medium term and GCC markets in the long run. However, ramp-up in RV exports is not happening as quickly as expected, with yoy growth remaining flattish.
EBITDA	262	262	-0.1%	222	17.9%	
EBITDA margin (%)	19.5%	22.4%	-294bp	17.8%	174bp	
PBT	202	247	-18.3%	165	22.3%	
Core PAT	158	189	-16.5%	129	22.0%	
Elin Electronics						
Net Sales	2,762	2,367	16.7%	3,046	-9.3%	Elin Electronics is expected to post a 17% YoY growth in revenue. The lighting business is facing a lot of headwinds due to price erosion and lower consumer demand, but the company is trying to combat that with new product launches. Even in the downcycle, the company can protect gross margin, which indicates some sort of pricing power. Secondly, the revoking of the contract with Signify allows it to expand its client base in the lighting segment.
EBITDA	116	85	36.7%	113	2.6%	
EBITDA margin (%)	4.2%	3.6%	61bp	3.7%	49bp	
PBT	65	38	70.9%	64	0.3%	
Core PAT	47	26	78.2%	53	-11.1%	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Figure 3: InCred estimates versus consensus estimates (Rs m)

Company	InCred				Consensus				Diff. (%)			
	Revenue	EBITDA	PAT	EBITDA Margin (%)	Revenue	EBITDA	PAT	EBITDA Margin (%)	Revenue	EBITDA	PAT	EBITDA Margin (bp)
Dixon Technologies	83,372	3,222	1886	4%	86,605	3,157	1,842	3.6%	-3.7%	2.1%	2.4%	22
Amber Enterprises	11,995	780	52	6%	11,657	776	-29	6.7%	2.9%	0.5%	-278.6%	(16)
PG Electroplast	6,354	491	155	8%	6,363	509	195	8.0%	-0.1%	-3.5%	-20.6%	(27)
Kaynes Technology	6,122	817	534	13%	5,986	856	633	14.3%	2.3%	-4.5%	-15.6%	(94)
Syrma SGS	12,835	674	360	5%	9,962	608	286	6.1%	28.8%	10.9%	26.2%	(85)
Avalon Technologies	2,267	159	68	7%	2,275	155	58	6.8%	-0.3%	2.2%	16.4%	17
Cyient DLM	3,881	334	206	9%	3,874	339	203	8.8%	0.2%	-1.4%	1.8%	(14)
IKIO Lighting	1,429	300	227	21%								
Elin Electronics	3,170	127	50	4%								

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Aggregate results expectations (Rs m)

Aggregate	Dec-2024F	Dec-2023	YoY (%)	Sep-2024	QoQ(%)
Revenue	1,46,435	87,499	67.4%	1,63,890	-10.7%
EBITDA	7,981	4,943	61.5%	8,449	-5.5%
EBITDA margin	5.5%	5.6%	-20bp	5.2%	29bp
PAT	4,089	2,286	78.9%	3,961	3.2%
Aggregate (PCB)	**Dec-2024F**	**Dec-2023**	**YoY (%)**	**Sep-2024**	**QoQ(%)**
Revenue	24,969	17,513	42.6%	20,693	20.7%
EBITDA	2,483	1,546	60.7%	2,149	15.6%
EBITDA margin	9.9%	8.8%	112bp	10.4%	-44bp
PAT	1,604	904	77.5%	1,328	20.8%
Aggregate (Consumer products)	**Dec-2024F**	**Dec-2023**	**YoY (%)**	**Sep-2024**	**QoQ(%)**
Revenue	1,21,465	69,986	73.6%	1,43,197	-15.2%
EBITDA	5,497	3,397	61.8%	6,300	-12.7%
EBITDA margin	4.5%	4.9%	-33bp	4.4%	13bp
PAT	2,485	1,382	79.8%	2,633	-5.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited
Research Analyst SEBI Registration Number: INH000011024
Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051
Phone: +91-22-6844-6100
Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051
Phone: +91-22-4161-1500
Name of the Compliance Officer: Mr. Yogesh Kadam
Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539
For any queries or grievances, you may contact the Grievance Officer.
Name of the Grievance Officer: Mr. Rajarshi Maitra
Phone no. +91-022-41611546
Email ID: rajarshi.maitra@incredresearch.com
CIN: U74999MH2016PTC287535

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.