

India

Overweight (no change)**Highlighted Companies****Cyient DLM Ltd****ADD, TP Rs1049, Rs703 close**

European defence spending is robust amid the ongoing wars in Ukraine and Gaza, while India's defence expenditure serves as a positive factor. Additionally, a shortage of skilled labour in the US and Europe led companies like Thales to establish a presence in India. Moreover, the company's contract with Honeywell Anthem, intended for Advanced Air Mobility or air taxis, serves as a tailwind.

Dixon Technologies**ADD, TP Rs7000, Rs7635 close**

In the medium term, Dixon Technologies' mobile segment, driven by orders from Motorola and ramp-up of Xiaomi smartphone volume, will be the primary growth catalyst, especially with significant exports. Going ahead, the company has Lenovo as an anchor client for IT PLI 2.0, the production of which will begin by 2QFY25F. With expanding export opportunities and the potential in laptops and mobile phones, the company emerges as a compelling choice in the EMS sector.

Kaynes Technology**HOLD, TP Rs3120, Rs2518 close**

Kaynes Technology continues to focus on a low-volume, high-mix business with specialized product offerings. While margin contraction could be an issue, the business has good growth triggers, with its industrial segment in line with India's capex cycle ramp-up.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Cyient DLM Ltd	81.85	49.48	33.52
Dixon Technologies	114.29	78	59.99
Kaynes Technology	97.33	62.43	44.39

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Cyient DLM Ltd	5.77	5.17	4.48
Dixon Technologies	27.31	20.44	15.37
Kaynes Technology	6.38	5.79	5.12

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Cyient DLM Ltd	0%	0%	0%
Dixon Technologies	0.04%	0.05%	0.05%
Kaynes Technology	0%	0%	0%

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EMS 4QFY24 Preview**Low margins likely to impact profitability**

- We expect a 36% revenue growth in 4QFY24F led by improved segmental performance, better operating leverage, strong demand & business ramp-up.
- PCB EMS companies may post revenue/EBITDA/PAT growth of 33%/6%/9% while their consumer counterparts may register 36%/25%/33%, respectively.
- We have an ADD rating on Dixon, Syrma, Avalon Cyient DLM, a HOLD rating on Kaynes & Amber, and a REDUCE rating on PG Electroplast and IKIO.

Strong topline growth on the cards

We expect healthy revenue growth in 4QFY24F led by improved segmental performance, better operating leverage, strong demand, and business ramp-up. We expect overall aggregate revenue growth of ~36% YoY for all electronic manufacturing services or EMS companies in our coverage universe. In the case of printed circuit board or PCB assemblers, Syrma SGS and Kaynes Technology are likely to post the strongest topline growth at 42% and 54%, respectively. Cyient DLM is likely to post a healthy topline led by higher order inflow from clients like Thales and Rafael (Dassault Systemes). Moreover, increased Indian defence spending is also acting as a tailwind for the company. However, for Avalon Technologies, we expect a muted performance due to the high interest rate environment in the US while low personal savings with end-consumers is leading to lower discretionary spending.

Margin pressure remains a concern

Consumer EMS companies are expected to see a 36%/33% revenue/PAT growth in 4QFY24F. However, companies like PG Electroplast or PGEL and Amber Enterprises are witnessing erosion of margins due to a change in the business mix. For IKIO Lighting and Elin Electronics, the slowdown in the lighting business is expected to persist in the coming quarters as well. 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.

Govt incentives – a double-edged sword in the consumer EMS space

Recently, the government unveiled several incentives, including the white goods and information technology production-linked incentive or PLI schemes and the National Semiconductor Mission. However, the white goods PLI scheme had unintended consequences for room air-conditioner or RAC manufacturers, as major brands are establishing their own manufacturing facilities. This move by the brands like Voltas, Daikin, and Havells to double their RAC capacity directly impacts competitors such as Amber Enterprises and PGEL. Additionally, brands are exerting pressure on EMS players to share a significant portion of their PLI incentives - up to 75%. Hence, the anticipated benefits of the PLI scheme in the white goods sector have not materialized for EMS players. The National Semiconductor Mission has brought disappointment to Kaynes Technology as its OSAT (outsourced semiconductor assembly and testing) plant proposal failed to get government approval. With the onset of general elections and enforcement of the Model Code of Conduct, a further delay of up to one year is likely. Moreover, Kaynes Technology's OSAT technology partner, Globetronics, faces bankruptcy risk, adding further complexity to the situation.

Figure 1: 4QFY24F expectations

Company	Rating	Price Rs	Target Price Rs	Sales (Rs m)		EBITDA (Rs m)		EBITDA Margin (%)		PAT (Rs m)	
				Mar-24	YoY	Mar-24	YoY	Mar-24	YoY (bps)	Mar-24	YoY
Dixon	ADD	7,661	7,000	50,166	64%	2,326	49%	5%	(46)	1,230	56%
Amber	HOLD	3,751	3,810	33,240	11%	2,240	10%	7%	(4)	1,211	12%
PGEL	REDUCE	1,805	1,612	11,379	37%	933	23%	8%	(94)	550	37%
Kaynes	HOLD	2,647	3,120	5,597	54%	785	32%	14%	(225)	526	27%
Syrma	ADD	493	600	9,678	42%	693	17%	7%	(155)	426	1%
Avalon	ADD	518	610	2,592	-5%	239	-42%	9%	(589)	122	-46%
Cyient DLM	ADD	704	1,049	3,328	20%	311	-3%	9%	(216)	218	73%
IKIO	REDUCE	311	297	1,185	0%	264	2%	22%	28	175	25%
Elin	ADD	152	191	3,225	20%	119	35%	4%	40	54	233%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Outlook and valuation

We have an ADD rating on Dixon Technologies, Syrma SGS, Avalon Technologies and Cyient DLM, a HOLD rating on Kaynes Technology & Amber Enterprises and a REDUCE rating on PGEL and IKIO Lighting. Despite the sector demonstrating promising topline growth, the combination of shrinking margins and a diminishing TAM (total addressable market) may lead to sluggish profitability. Lack of significant margin of safety poses concerns for investors. Also, the evolving business mix contributes to volatile margins, potentially resulting in abrupt price corrections, as observed in the case of PGEL, IKIO Lighting and Syrma SGS. Avalon Technologies also faces similar challenges, but its margin erosion is more attributable to macroeconomic headwinds and operational deleveraging. Cyient DLM and Dixon Technologies remain our top picks. Macroeconomic conditions favour Cyient DLM, while Dixon Technologies' robust manufacturing capabilities at scale instil confidence in its potential to outperform peers.

Figure 2: 4QFY24F results expectations

(Rs m)	Mar-24F	Mar-23	Dec-23	YoY(%)	QoQ(%)	FY24F	FY23	YoY (%)	Remarks
Dixon Technologies									
Net Sales	50,166	30,655	48,184	63.7%	4.1%	1,80,497	1,21,920	48%	We expect a healthy 64% YoY growth in revenue led by robust growth across segments, especially the mobile segment. We expect operating leverage, easing commodity prices and pricing benefits to aid its EBITDA margin by leading to a strong 56% YoY growth in PAT. The opening up of export opportunities, coupled with opportunities in laptops and mobile phones, makes Dixon Technologies a strong bet in the EMS space.
EBITDA	2,326	1,563	1,846	48.8%	26.0%	7,480	5,127	46%	
EBITDA margin (%)	5%	5%	4%	-46 bp	81 bp	4%	4%	-6 bp	
PBT	1,689	1,105	1,240	52.9%	36.3%	5,260	3,431	53%	
Core PAT	1,230	790	980	55.6%	25.5%	3,986	2,534	57%	
Amber Enterprises									
Net Sales	33,240	30,026	12,948	10.7%	156.7%	72,478	69,271	5%	Amber Enterprises is expected to register a topline growth of 11% and a PAT growth of 12% in 4QFY24F. Increased insourcing in the RAC business will erode TAM for the company. It is looking to diversify in other segments, particularly PCB, with its acquisition of Ascent, which is an end-to-end PCB manufacturer. The company has good growth prospects in the mobility space, with orders coming in from Indian Railways.
EBITDA	2,240	2,035	785	10.1%	185.3%	4,940	4,179	18%	
EBITDA margin (%)	7%	7%	6%	-4 bp	68 bp	7%	6%	78 bp	
PBT	1,615	1,459	3	10.7%	-	2,151	2,197	-2%	
Core PAT	1,211	1,081	-5	12.1%	NA	1,617	1,638	-1%	
PG Electroplast									
Net Sales	11,379	8,282	5,319	37.4%	113.9%	28,078	21,491	31%	PG Electroplast is expected to witness margin erosion in 4QFY24F, as its TV business ramps up. We expect its margins to decline by 165bp YoY. The company is expected to face strong headwinds in the RAC space due to increased insourcing of brands. Moreover, with no tie-ups with leading brands, gaining a foothold in the TV space is a challenge.
EBITDA	933	757	420	23.2%	122.4%	2,387	1,652	44%	
EBITDA margin (%)	8%	9%	8%	-94 bp	31 bp	8%	8%	81 bp	
PBT	746	489	260	52.7%	187.1%	1,606	975	65%	
Core PAT	550	402	192	36.8%	186.6%	1,204	774	55%	
Kaynes Technology									
Net Sales	5,597	3,646	5,093	53.5%	9.9%	17,271	11,261	53%	Kaynes Technology is expected to show strong growth in 4QFY24F. However, the failure to get government approval for its OSAT business will weigh on the stock price. The EMS business has good growth triggers, with its industrial segment in line with India's capex cycle ramp-up. However, sustaining the margins at ~14% level could be a challenge.
EBITDA	785	594	699	32.3%	12.4%	2,375	1,683	41%	
EBITDA margin (%)	14%	16%	14%	-225 bp	31 bp	14%	15%	-120 bp	
PBT	675	537	585	25.6%	15.4%	1,972	1,260	56%	
Core PAT	526	413	452	27.5%	16.5%	1,548	952	63%	
Syrma SGS									
Net Sales	9,678	6,795	7,067	42.4%	36.9%	29,876	20,484	46%	Syrma SGS is expected to register a 37% topline growth in 4QFY24F, but concerns over margins will continue to weigh on the stock price. The company's transition to the lower end and the commoditized consumer segment led to a huge reduction in the EBITDA margin which, we believe, will continue in 4QFY24F. However, the acquisition of Johari, a medical devices company, is expected to do well for the company. The ramp-up will take some time as the medical devices space is highly regulated.
EBITDA	693	592	388	17.0%	78.6%	1,940	1,878	3%	
EBITDA margin (%)	7%	9%	5%	-155 bp	167 bp	6%	9%	-267 bp	
PBT	568	681	270	-16.6%	110.7%	1,634	1,787	-9%	
Core PAT	426	423	203	0.8%	110.0%	1,231	1,231	0%	
Avalon Technologies									
Net Sales	2,592	2,718	2,143	-4.7%	21.0%	9,095	9,446	-4%	Avalon Technologies is expected to post a decline in 4QFY24F. The high interest rate environment in the US, coupled with low personal savings with end-consumers, is leading to lower discretionary spending. The company's clients like Lunar Energy, which sells solar energy solutions to retail consumers, is seeing a drop in demand coupled with inventory destocking. This has severely affected the company's US division, which accounts for around 50-60% of its current order book.
EBITDA	239	411	165	-41.8%	44.6%	693	1,127	-39%	
EBITDA margin (%)	9%	15%	8%	-589 bp	151 bp	8%	12%	-431 bp	
PBT	163	302	91	-46.0%	79.7%	444	726	-39%	
Core PAT	122	227	66	-46.2%	85.9%	331	524	-37%	
Cyient DLM									
Net Sales	3,328	2,774	3,210	20.0%	3.7%	11,628	8,320	40%	Cyient DLM is expected to post healthy topline growth in 4QFY24F. European defence spending is in full flow, as the wars in Ukraine and Gaza rage on. India's defence spending is also acting as a tailwind. The company's contract with Honeywell Anthem, which will be used in Advanced Air Mobility or air taxis, could be a gamechanger for the company as it is one of the two globally selected manufacturers of this equipment.
EBITDA	381	319	293	19.4%	29.8%	1,110	878	26%	
EBITDA margin (%)	11%	12%	9%	-6 bp	230 bp	9.5%	11%	-101 bp	
PBT	361	172	183	109.7%	97.1%	874	432	103%	
Core PAT	271	126	183	115.1%	47.9%	654	317	106%	
IKIO Lighting									
Net Sales	1,185	1,180	1,168	0.4%	1.5%	4,616	3,588	29%	IKIO Lighting is expected to post flatish growth in 4QFY24F, as the lighting industry grapples with the fall in costs and low consumer demand. Further, the TAM for IKIO Lighting is already saturated, with the company having a 45% wallet share with Signify, which is not expected to increase much. The company's industry-leading EBITDA margin is also a cause of concern.
EBITDA	264	260	262	1.7%	0.7%	1,021	775	32%	
EBITDA margin (%)	22%	22%	22%	28 bp	-17 bp	22%	22%	52 bp	
PBT	249	180	247	38.6%	0.7%	944	658	43%	
Core PAT	175	140	189	24.9%	-7.3%	685	500	37%	
Elin Electronics									
Net Sales	3,225	2,687	2,367	20.0%	36.2%	10,863	10,754	1%	Elin Electronics is expected to post a 20% growth YoY in 4QFY24F topline. The lighting business is facing a lot of headwinds due to price
EBITDA	119	89	85	34.5%	40.5%	401	646	-38%	

EBITDA margin (%)	4%	3%	4%	40 bp	11 bp	4%	6%	-232 bp	erosion and lower consumer demand, but the company is trying to
PBT	73	23	38	216.8%	92.7%	219	352	-38%	combat that with new product launches, most of which will start
Core PAT	54	16	26	232.6%	103.7%	157	265	-41%	contributing to the topline in FY25F.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Aggregate EMS sector results snapshot

Aggregate (Rs m)	Mar-24F	Mar-23	Dec-23	YoY (%)	QoQ(%)	FY24F	FY23	YoY (%)
Revenue	1,20,391	88,763	87,499	35.6%	37.6%	3,64,403	2,76,536	32%
EBITDA	7,911	6,619	4,943	19.5%	60.0%	22,275	17,945	24%
EBITDA margin	6.6%	7.5%	5.6%	-89 bp	92 bp	6.1%	6.5%	-38 bp
PAT	4,513	3,618	2,286	24.7%	97.4%	11,359	8,737	30%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PCB EMS companies' snapshot

Aggregate - PCB (Rs m)	Mar-24F	Mar-23	Dec-23	YoY (%)	QoQ(%)	FY24F	FY23	YoY (%)
Revenue	21,196	15,933	17,513	33.0%	21.0%	67,870	49,511	37%
EBITDA	2,028	1,916	1,546	5.9%	31.2%	6,047	5,566	9%
EBITDA margin	9.6%	12.0%	8.8%	-245 bp	74 bp	8.9%	11.2%	-233 bp
PAT	1,293	1,189	904	8.8%	43.1%	3,712	3,025	23%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Consumer EMS companies' snapshot

Aggregate - Consumer (Rs m)	Mar-24F	Mar-23	Dec-23	YoY (%)	QoQ(%)	FY24F	FY23	YoY (%)
Revenue	99,195	72,830	69,986	36.2%	41.7%	2,96,533	2,27,025	31%
EBITDA	5,882	4,704	3,397	25.1%	73.2%	16,228	12,380	31%
EBITDA margin	5.9%	6.5%	4.9%	-53 bp	108 bp	5.5%	5.5%	2 bp
PAT	3,220	2,429	1,382	32.5%	133.0%	7,648	5,712	34%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Valuation table

Company	BBG Ticker	Recom.	CMP		Mkt cap (US\$ m)	P/E (x)				P/BV (x)			EV/EBITDA (x)		
			Rs	Rs		FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	
Dixon Technologies	DIXON IN	ADD	7,661	7,000	5,476	103.9	69.0	53.0	24.8	18.5	13.8	55.4	41.0	31.9	
Amber Enterprises	AMBER IN	HOLD	3,751	3,810	1,517	72.5	42.5	31.5	5.7	5.0	4.3	25.0	19.5	15.6	
PG Electroplast	PGEL IN	REDUCE	1,805	1,612	564	40.3	40.3	31.3	4.5	3.7	3.0	20.4	19.5	16.3	
Kaynes Technology	KAYNES IN	HOLD	2,647	3,120	2,031	111.5	66.5	47.4	6.9	6.2	5.5	66.4	42.8	30.9	
Syrma SGS	SYRMA IN	ADD	493	600	1,046	74.7	47.0	30.6	5.5	4.9	4.3	48.5	31.3	21.1	
Avalon Technologies	AVALON IN	ADD	518	610	406	95.1	38.0	27.7	5.5	4.8	4.1	43.5	23.0	17.6	
Cyient DLM	CYIENTDL IN	ADD	704	1,049	670	99.1	58.4	39.2	6.2	5.6	4.9	51.4	33.2	23.1	
IKIO Lighting	IKIO IN	REDUCE	311	297	289	50.2	41.0	33.4	4.9	4.5	4.1	27.9	22.8	18.3	
Elin Electronics	ELIN IN	ADD	152	191	91	40.7	17.6	11.2	1.5	1.4	1.2	15.4	8.8	5.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Incred estimates vs. Bloomberg consensus estimates

Company	InCred				Consensus				Diff			
	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 (bp)
Dixon Technologies	50,166	2,326	1,230	5%	51,346	1,977	1,061	3.9%	-2.3%	17.6%	15.9%	79
Amber Enterprises	33,240	2,240	1,211	7%	32,202	2,314	1,191	7.2%	3.2%	-3.2%	1.8%	(45)
PG Electroplast	11,379	933	550	8%	10,782	906	656	8.4%	5.5%	3.0%	-16.2%	(20)
Kaynes Technology	5,597	785	526	14%	6,445	1,012	705	15.7%	-13.2%	-22.4%	-25.4%	(167)
Syrma SGS	9,678	693	426	7%	9,832	824	462	8.4%	-1.6%	-15.9%	-7.8%	(122)
Avalon Technologies	2,592	239	122	9%	2,234	236	119	10.6%	16.0%	1.5%	2.5%	(132)
Cyient DLM	3,328	311	218	9%	3,802	417	252	11.0%	-12.5%	-25.4%	-13.4%	(162)
IKIO Lighting	1,185	264	175	22%	NA	NA	NA	NA	NA	NA	NA	NA
Elin Electronics	3,225	119	54	4%	NA	NA	NA	NA	NA	NA	NA	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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