India

Overweight *(no change)*

Highlighted Companies

Amber Enterprises

ADD, TP Rs5000, Rs5154 close

The transition to in-house production in the AC industry has largely stabilized. Amber Enterprises continues to leverage favourable government initiatives like 'Make in India' and 'Atmanirbhar Bharat' to reduce the dependence on imports and capitalize on emerging market opportunities.

Cyient DLM

ADD, TP Rs1049, Rs699 close

Cyient DLM, which has a strong presence in the defence segment, 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. The air taxi business optionality could also play out by FY27F.

Dixon Technologies

ADD, TP Rs13400, Rs14805 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. The company expects strong volume growth in Motorola smartphones and a monthly order book of ~1m units, including export orders.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Amber Enterprises	126.48	58.49	40.67
Cyient DLM	90.7	45.92	29.67
Dixon Technologies	234.15	137.61	99.45

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Amber Enterprises	8.41	7.35	6.23
Cyient DLM	6.09	5.38	4.55
Dixon Technologies	52.24	38.28	27.86

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Amber Enterprises	0%	0%	0%
Cyient DLM	0%	0%	0%
Dixon Technologies	0.02%	0.03%	0.03%

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EMS

2Q preview: Sky-high valuations to sustain

- EMS companies to sustain their growth momentum with a 59% YoY growth in revenue led by Syrma (80% YoY), Kaynes (70% YoY) & Dixon (69% YoY).
- However, declining EBITDA margin is a new trend in this space as companies look for new avenues of growth to justify their steep valuations.
- Cyient DLM and Dixon are expected to command a premium over their peers due to relatively stable margins coupled with growth tailwinds.

The trend of healthy revenue growth with lower margin to continue

Electronics manufacturing services or EMS companies in our coverage universe are likely to sustain their growth momentum with a 59% YoY growth in revenue led by Syrma SGS (80% YoY), Kaynes (70% YoY) and Dixon (69% YoY), while the margin is likely to be lower for most companies as a lot of new of growth opportunities are coming at the cost of margin. Companies like PG Electroplast, Amber and Syrma SGS are seeing margin erosion due to the changing business mix. For IKIO and Elin, the slowdown in lighting business is hurting but it is expected to persist in the coming quarters. Also, the valuation of IKIO doesn't leave any margin of safety, although the risk-to-reward ratio for Elin looks quite favourable.

Newer avenues to justify growth

EMS companies are ready with their shopping list. In the current month itself, Cyient DLM acquired Altek Electronics, Kaynes bought Iskraemeco while Amber is leveraging on its recent acquisition. Amber and PG Electroplast are seeing strong tailwinds in the room AC or RAC industry, despite higher insourcing by brands, although 2Q is largely a lean quarter for them. The RAC industry is likely to grow 30-35% in FY25F, switching to printed circuit board or PCB assembly for growth opportunities, especially in the case of Amber. Similarly, Kaynes to enter the OSAT business, Dixon to enter the telecom space as is evident from its deal with Nokia, IKIO is entering the GCC market and Elin is switching towards manufacturing medium appliances from small appliances. However, the critical thing to observe here would be working capital needs as the EMS space doesn't have any differentiator as such and hence, cost advantage and AC investments are the only way to get a foot in the door of new clients.

We remain selective on the EMS space due to sky-high valuations

Out of nine stocks in our coverage universe, we have an ADD rating on Cyient DLM, Dixon, Amber, Syrma, and Elin. We believe that even though the sector is showing good top-line growth, falling margin could result in slow bottom-line growth. This doesn't leave a significant margin of safety for the investors. Moreover, the changing business mix is also leading to margin volatility, which could lead to a sharp price correction. Stocks like PG Electroplast IKIO, and Syrma 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 and Dixon are our top picks, as macroeconomic tailwinds in place for Cyient DLM and manufacturing at scale for Dixon gives us strong conviction in their outperformance relative to peers.

Figure 1: Financial summary of our coverage universe

Company	BBG Ticker	Rating	CMP	Mkt cap	P/E (x)		P/BV (x)		EV/EBITDA (x)	
			Rs	(Rs bn)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Dixon	DIXON IN	ADD	14,805	882	96.6	69.4	30.4	21.3	59.3	44.1
Amber	AMBER IN	ADD	5,154	174	58.7	41.4	7.4	6.2	26.8	21.3
PG Electroplast	PGEL IN	REDUCE	619	161	84.9	77.0	13.1	11.1	47.9	43.9
Kaynes	KAYNES IN	HOLD	5,392	345	123.4	85.2	12.5	10.9	84.1	57.7
Syrma	SYRMA IN	ADD	409	72	41.7	27.4	4.0	3.5	26.7	18.8
Avalon	AVALON IN	REDUCE	574	38	84.1	48.9	6.4	5.6	43.5	28.9
Cyient DLM	CYIENTDL IN	ADD	699	55	45.1	29.1	5.3	4.5	28.7	19.5
IKIO	IKIO IN	REDUCE	287	22	40.0	32.0	3.8	3.5	24.3	19.7
Elin	ELIN IN	ADD	224	11	28.1	17.7	2.2	1.9	15.4	10.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 2QFY25 results preview

(Rs m)	Sep-2024	Sep-2023	YoY (%)	June-2024	QoQ (%)	Remarks
Dixon Technologies						
Net sales	83,372	49,432	68.7%	65,798	26.7%	We expect a healthy 69% YoY growth in revenue led by robust growth in the mobile segment, while the margin is likely to remain at sub-4% level. Dixon Technologies' mobile segment is going to be the main growth driver in medium term, and the telecom segment in the long run. India shipped 146m smartphones in CY23 and 60m feature phones. A significant ramp-up is expected here with the Nokia telecom deal as Nokia currently has Rs240bn revenue from India.
EBITDA	3,222	1,989	62.0%	2,479	30.0%	
EBITDA margin (%)	3.9%	4.0%	-16bp	3.8%	10bp	
PBT	2,438	1,461	66.9%	1,723	41.5%	
Core PAT	1,886	1,134	66.3%	1,397	35.0%	
Amber Enterprises						
Net sales	11,995	9,271	29.4%	24,013	-50.0%	Amber Enterprises is expected to register a topline growth of 29% and PAT of Rs52m from a net loss of Rs57m YoY. Increased insourcing in the RAC business, will erode TAM for the company. It is looking to diversify into other segments, particularly PCB assembly, with its acquisition of Ascent, which is 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 BoM from 18% currently to 25%.
EBITDA	780	596	30.9%	1,962	-60.3%	
EBITDA margin (%)	6.5%	6.4%	7bp	8.2%	-167bp	
PBT	71	-95	-175.0%	1,101	-93.5%	
Core PAT	52	-57	-191.9%	803	-94%	
PG Electroplast						
Net sales	6,354	4,604	38.0%	13,207	-51.9%	PG Electroplast is expected to see a slight margin decline in 2QFY25F as the effect of PLI scheme wanes. 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. The current growth targets factor in a 40% YoY RAC growth, which could be stabilize post FY25F.
EBITDA	491	376	30.8%	1,306	-62.4%	
EBITDA margin (%)	7.7%	8.2%	-43bp	9.9%	-216bp	
PBT	194	176	10.0%	1,011	-80.9%	
Core PAT	155	124	25.0%	837	-81.5%	
Kaynes Technology						
Net sales	6,122	3,608	69.7%	5,040	21.5%	Kaynes Technology is expected to report another strong quarter with 70% 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 13.5%.Kaynes Technology is one of the lowest employee expenses, as a percentage of sales, in the EMS industry, suggesting no such technical barriers to entry.
EBITDA	817	488	67.5%	669	22.2%	
EBITDA margin (%)	13.4%	13.5%	-17bp	13.3%	8bp	
PBT	676	394	71.6%	641	5.5%	
Core PAT	534	323	65.4%	508	5.2%	
Syrma SGS						
Net sales	12,835	7,117	80.3%	11,599	10.7%	Syrma SGS is expected to register 80% YoY revenue growth, highest in our coverage universe, but margin concerns will continue to impact the bottom-line. The company's transition to the lower end commoditized consumer segment, led to a huge reduction in the EBITDA margin which, we believe, will be witnessed in 2QFY25F. Working capital days remain a key monitorable as that is something which the company has disappointed in the past.
EBITDA	674	490	37.7%	446	51.3%	
EBITDA margin (%)	5.3%	6.9%	-163bp	3.8%	141bp	
PBT	501	383	30.7%	295	69.7%	
Core PAT	360	305	18.1%	203	77.1%	
Avalon Technologies						
Net sales	2,267	2,010	12.8%	1,995	13.7%	Avalon Technologies is expected to show double-digit revenue growth of 13% in 2QFY25F. The high-interest rate environment in the US, coupled with low personal savings of 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.
EBITDA	159	126	25.9%	44	262.9%	
EBITDA margin (%)	7.0%	6.3%	73bp	2.2%	481bp	
PBT	93	86	8.0%	-20	-560.6%	
Core PAT	68	73	-7.0%	-23	-393.5%	
Cyient DLM						
Net sales	3,881	2,918	33.0%	2,579	50.5%	Cyient DLM is expected to post a healthy topline in 2QFY25F, with a slight improvement in margin. However, European defence spending is in full flow, as the war in Ukraine and Gaza rages on. Indian defence spending is also acting as a tailwind. The company faced some supply chain problems from Israel in Apr 2024 in respect of sourcing of raw materials, which could have a temporary impact on growth prospects.
EBITDA	334	235	42.0%	200	67.2%	
EBITDA margin (%)	8.6%	8.1%	54bp	7.8%	86bp	
PBT	275	198	39.0%	142	94.0%	
Core PAT	206	147	40.6%	106	94.5%	
IKIO Lighting						
Net sales	1,429	1,179	21.2%	1,270	12.5%	IKIO Lighting is expected to post a 21% YoY growth in 2QFY25F, as the lighting industry grapples with a fall in costs 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 the yoy growth remaining flattish.
EBITDA	300	267	12.3%	167	79.6%	
EBITDA margin (%)	21.0%	22.7%	-166bp	13.2%	785bp	
PBT	291	261	11.5%	157	84.8%	
Core PAT	227	182	24.3%	124	83.3%	
Elin Electronics						
Net sales	3,170	2,733	16.0%	2,936	8.0%	Elin Electronics is expected to post a 16% 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, most of which will start in FY25F itself. Even in a 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	127	99	28.7%	133	-4.3%	
EBITDA margin (%)	4.0%	3.6%	39bp	4.5%	-51bp	
PBT	72	59	22.3%	81	-11.0%	
Core PAT	50	39	28.2%	59	-15.1%	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: InCred vs consensus estimates (Rs m)

	InCred				Consensus				Diff. (%)			
Company	Revenue	EBITDA	PAT	EBITDA Margin (%)	Revenue	EBITDA	PAT	EBITDA Margin (%)	Revenue	EBITDA	PAT	EBITDA Margin (bp)
Dixon	83,372	3,222	1886	4%	86,605	3,157	1,842	3.6%	-3.7%	2.1%	2.4%	22
Amber	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	6,122	817	534	13%	5,986	856	633	14.3%	2.3%	-4.5%	-15.6%	(94)
Syrma	12,835	674	360	5%	9,962	608	286	6.1%	28.8%	10.9%	26.2%	(85)
Avalon	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	1,429	300	227	21%								
Elin	3,170	127	50	4%								

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Aggregate result expectations (Rs m)

Aggregate	Sep-2024	Sep-2023	YoY (%)	Jun-2024	QoQ (%)
Revenue	1,31,424	82,873	58.6%	1,28,436	2.3%
EBITDA	6,905	4,666	48.0%	7,405	-6.8%
EBITDA margin	5.3%	5.6%	-38bp	5.8%	-51bp
PAT	3,538	2,270	55.8%	4,014	-11.9%
Aggregate (PCB)	**Sep-2024**	**Sep-2023**	**YoY (%)**	**Jun-2024**	**QoQ (%)**
Revenue	25,105	15,654	60.4%	21,212	18.4%
EBITDA	1,985	1,339	48.2%	1,359	46.1%
EBITDA margin	7.9%	8.6%	-65bp	6.4%	150bp
PAT	1,168	848	37.9%	794	47.1%
Aggregate (Consumer)	**Sep-2024**	**Sep-2023**	**YoY (%)**	**Jun-2024**	**QoQ (%)**
Revenue	1,06,319	67,219	58.2%	1,07,224	-0.8%
EBITDA	4,920	3,326	47.9%	6,047	-18.6%
EBITDA margin	4.6%	4.9%	-32bp	5.6%	-101bp
PAT	2,369	1,423	66.6%	3,220	-26.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Valuation summary

Company	BBG Ticker	Rating	CMP	Mkt cap	P/E (x)		P/BV (x)		EV/EBITDA (x)	
			Rs	(Rs bn)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Dixon	DIXON IN	ADD	14,805	882	96.6	69.4	30.4	21.3	59.3	44.1
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SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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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.

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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.