HIGH ON PLI

How the govt's production-linked incentive scheme is fuelling Dixon's global dreams

Sunil Vachani, executive chairman, Dixon, is raking in laptop contracts but is also present in four other PLI segments

SURAJEET DAS GUPTA
New Delhi, 19 December

Dixon Technologies right now is a beehive of activity. It is building a new facility in Noida to make 1.3 million laptops for Taiwanese PC maker Acer. The facility must be up and running in four months.

The pace of activity will only increase. Last week Dixon won a similar contract from Lenovo, the Chinese personal computer maker and the third largest information technology (IT) hardware brand in India, to assemble laptops and notebooks.

Though the clientele in these two cases is Taiwanese and Chinese, Dixon is a company reaching for the stars with its feet planted firmly in the Indian government's policy. Both the contracts are under the revamped production linked incentive scheme for IT products.

And reaching for the stars it is.

Sunil Vachani, executive chairman, says he hopes to end this calendar year with Dixon as the world's 15th or 16th largest EMS (electronic manufacturing services) player, rising to the top 10 in five years, and top five in 10 years. Dixon was number 21 in 2022.

Based on Statista, Dixon is the second largest EMS player in India, behind Bharat FIH, part of Foxconn.

"We have leveraged the PLI (performance-linked incentive) scheme to build scale and it is a stepping stone for Dixon to become a global champion, selling locally as well as exporting from India," Vachani told *Business Standard*.

The stock market seems to appreciate the reasoning. Dixon's stock price on the Bombay Stock Exchange has risen from ₹2,929 on March 1 this year to ₹6,377 on Tuesday. With a commitment of ₹48,000 crore of production revenues under the PLI scheme in six years, Kotak Institutional Research projects that Dixon is targeting a 17 per cent share of the IT products market by 2030.

"With the Indian laptop market estimated to be around $10 billion annually, even if we take a 10 per cent share, it would be a ₹10,000 crore business for us every year," Vachani told *Business Standard*.

But he is not content with laptops. Dixon straddles five of the 14 PLIs where it is eligible: mobile devices, IT products, refrigerators, LED components, and telecom networks.

Eye on PLI

Vachani learnt the ropes of the electronics business from his father, Sunder T Vachani, who founded Weston Electronics, and was the first assembler of colour televisions in India with South Korean brand LG (then called Lucky Gold Star). Weston shrunk under the onslaught of multinationals.

Vachani's father gave him three things to help him start on his own: A small capital, the name Dixon, and his blessings. Vachani took the three and made Dixon into an EMS company that gradually notched up revenue milestones: From under ₹3,000 crore in the pre-PLI year of FY19 to an estimated ₹18,000 crore in the current financial year.

Before PLI, Dixon used to assemble 100,000 phones a month. But, with the new plant getting ready and others already running, it will have a capacity to make 70 million phones annually, of which 40 million will be feature phones and 30 million smartphones. With an annual demand of 180 million phones in the country annually, Vachani says, Dixon controls more than 35 per cent of the total capacity.

With new contracts to assemble phones sealed with Xiaomi and Itel, and ongoing contracts with Reliance Jio Bharat phones (it has already assembled 1.5 million of those) and Nokia (1 million a month), Vachani expects Dixon to be at full capacity by the end of next year. It is also making phones for exports, worth ₹1,200 crore last year, and aims to increase it to ₹2,000 crore this financial year. ICICI Securities projects that mobile phones will account for 60 per cent of Dixon's revenues by FY26, from 50 per cent currently.

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The second plank of Dixon's strategy is to build the domestic supply chain, which would reduce costs, and will be especially crucial in a post-PLI scenario. "We want to be future-safe even after PLI is over," says Vachani.

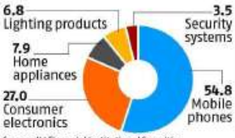
PECKING ORDER

Rank by revenues	Company (country)	EMS sales in 2022 ($ bn)	Number of plants
1	Foxconn (Taiwan)	215	65
2	Pegatron (Taiwan)	47	15
3	Jabil (US)	34	86
4	Wistron (Taiwan)	33	13
5	Flex (US)	29	81
6	BYD Electronics (China)	13	15
7	USI (China)	10	38
8	Sanmina (US)	8.4	27
9	Celestica (Canada)	7.2	23
10	New Kinpo Group (Taiwan)	6.9	24
11	Venture (Singapore)	3.86	12
12	Plexus (US)	3.81	14
13	Benchmark Electronics (US)	2.8	17
14	Shenzen Kaifa (China)	2.7	9
15	Fabrinet (Cayman Island)	2.47	7
16	Zollner Zandt (Germany)	2.46	23
17	SIIX CORP (Japan)	2.1	11
18	DBG (China)	1.8	5
19	Sumitoronics (Japan)	1.53	29
20	Kimball Electronics (US)	1.58	12
21	Dixon Technologies (India)	1.53	21

Source: Manufacturing Market Insider March 2023 and companies

WHERE REVENUES COME FROM

(% share of Dixon's net sales in Q1FY24)



Source: JM Financial Institutional Securities

Some components will be made in-house, others through joint ventures, and some will be sourced from third parties. Vachani says it is a misconception that EMS players do not localise. In automated washing machines, he says, Dixon's localisation is already 75 per cent, in refrigerator components it is 85 per cent, and in LED lighting 60 per cent.

"In China, mobile value-addition is 40 per cent. In India we are at 18 per cent in three years. That is because 50 per cent of the bill of materials is semiconductors, which have to be imported," says Vachani.

Dixon, he says, will surely participate in the proposed PLI scheme for non-semiconductor components.

Up against big boys

Dixon's global ambition will inevitably bring it toe-to-toe against global giants, which are expanding their footprint in India. Foxconn, the largest contract manufacturer of iPhones, already does $10 billion in annual business, 4 per cent of its global revenues, in India through 30 factories. It has announced further investments of $1.5 billion in the country to build more mobile making and component capacity, get into wearables and hearables (Dixon's verticals) and assemble electric vehicles, apart from foraying into chip making on its own.

Dixon is projected to earn $2.16 billion in revenues in FY24, which would place it 15th or 16th in the world among EMS players. The number 10, New Kinpo Group in Taiwan, has revenues of $6.9 billion. Flex, at number five, had revenues of $29 billion in 2022.

What Dixon has going for it is the large and growing market for EMS in ICTE (internet, communications, telecom and electronics), which is already at $900 billion globally, while India accounts for only 2.3 per cent of it. Yet the domestic demand for such products was $110 billion last year and would treble in five years. So there is room to grow, says Vachani.

What has differentiated Dixon from many other home grown companies is that it has never defaulted on the PLI pre-conditions for getting incentives: A minimum yearly investment for three to four years and a yearly threshold production value for five to six years. In mobile devices, three out of the five home grown companies have failed to meet these targets for all the three years.

Vachani says he wants to ensure that anyone in the ICT space, who is looking at India for an EMS partner, should first think of Dixon. That can be an incentive scheme on its own.