Dixon Technologies India Private Limited

Instrument	Amount	Rating action
	In Rs. Crore	As on September 2016
Term loans	13.3 (earlier nil)	[ICRA]A; Upgraded from [ICRA]A- Outlook: stable
Long term non fund based	2.0	
Short term fund based	69.0 (earlier 77.0)	[ICRA]A1; Upgraded from [ICRA]A2+
Short term non fund based	50.0 (earlier 30.0)	
Unallocated	0.7 (earlier 6.0)	

ICRA has upgraded the long term rating assigned to the Rs. 15.3 crore (earlier Rs. 2.0 crore) bank facilities of Dixon Technologies India Private Limited (Dixon) from [ICRA]A- (pronounced ICRA A minus) to **[ICRA]A** (pronounced ICRA A)[1]. ICRA has also upgraded the short term rating assigned to the Rs. 119.7 crore (earlier Rs. 113.0 crore) bank facilities (including unallocated limits) of Dixon from [ICRA]A2+ (pronounced ICRA A two plus) to **[ICRA]A1** (pronounced ICRA A one). The outlook on the long term rating is '**stable**'.

The revision in ratings factor in continued improvement in Dixon's operating profitability in FY16 and current financial year led by increased value added offering with shift towards Completely Knocked-down (CKD) and Original Design Manufacturer (ODM) business model, and traction in its refurbishing business. Improved operating profitability along with growing scale of operations and modest working capital intensity has resulted in lower dependence on external borrowings and improvement in Dixon's credit metrics. The rating action also positively factors in the conversion of convertible debentures (held by the Private Equity players) into equity shares, thereby improving the net-worth of the company and also eliminating the risk of any debt-funded exit being provided by the company. The ratings also take comfort from company's entry into newer products/segments and addition of new customers which has increased diversification of its operations. The ratings continue to be supported from the promoter's long experience and track record in Electronic manufacturing services (EMS) business, its reputed clientele, diversified product portfolio, and presence in excise free zone.

The ratings are, however, constrained by concentration of Dixon's revenues on few customers, which makes it dependent on the business plans and performance of its key customers. In the recent past, one of Dixon' large customer (Toshiba) had changed its India related business plans resulting in loss of business volumes from this principal; though Dixon was able to reduce the impact by adding new customers. ICRA has taken comfort from the long relationship with its key clients and their strong financials and market position.

The ratings also factors in limited period of excise duty exemption (in two units which are valid till FY17 and FY20), the uncertainty regarding the excise exemptions post implementation of Goods and Services Tax (GST) and sustainability of its profitability post the expiry of the excise duty exemptions. Nevertheless, ICRA believes that Dixon will remain competitive with its lean cost structure, long track record, and ability to adapt with the rapid technology upgradation in the consumer electronics/durable space which requires continuous process alterations and improvements.

While revising the ratings, ICRA has factored in Dixon's capex plans to enhance value addition and capacities; however, these are to be funded primarily from the internal accruals. In case of Dixon using sizeable debt to fund capex, the credit metrics could get impacted and would remain a key rating sensitivity. Apart from this, Dixon's ability to diversify its client base, scale up its operations, improve its profitability and debt coverage indicators will be the key rating sensitivities. Dixon's ability to maintain its profitability post the expiry of the excise duty exemptions will also be a key rating sensitivity.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Company Profile
Dixon Technologies (India) Private Limited (Dixon), incorporated in 1993 by Mr Sunil Vachani, is engaged in the manufacture of consumer durables which comprise mainly of televisions, Lighting, and washing machines. The company operates as a contract manufacturer for consumer electronics majors like Philips, Panasonic, etc. Dixon has manufacturing facilities in Noida (Uttar Pradesh) and Dehradun (Uttarakhand) which have capacities for assembly of Printed circuit boards, CTVs, LED/LCD TVs, ballasts, CFLs, LEDs, set top boxes, washing machines, energy meters etc. Recently, the company had entered into joint venture with Karbonn group for manufacturing of mobile phones.

Recent Results
As per the financials for the first four months of current financial year (4mFY17), Dixon (on consolidated level) had operating income (provisional) of Rs 642 crore and a profit before tax of Rs 19.3 crore. In FY16, on consolidated basis, the company reported operating income of Rs. 1388.3 crore and net profit of Rs. 27.4 crore.

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