Dixon Technologies (India) Limited (erstwhile Dixon Technologies (India) Private Limited)

September 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	13.30	7.50	[ICRA]A+ (Stable); Reaffirmed
Non-fund Based-Working Capital Facilities (Long term scale)	2.00	2.00	[ICRA]A+ (Stable); Reaffirmed
Fund-based - Working Capital Facilities	41.00	50.00	[ICRA]A1+; Reaffirmed
Non-fund Based-Working Capital Facilities (Short term scale)	85.00	85.00	[ICRA]A1+; Reaffirmed
Non-fund Based-Working Capital Facilities (Short term scale - Interchangeable) ^	0.00	150.00	[ICRA]A1+; Reaffirmed
Unallocated bank facilities	6.70	0.00	-
Commercial Paper	25.00	25.00	[ICRA]A1+; Reaffirmed
Total	**173.00**	**319.50**	

**Instrument details are provided in Annexure-1*
^ between non-fund based and fund based

Rating action

ICRA has reaffirmed the long -term rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 9.50-crore (reduced from Rs. 15.30 crore) fund-based bank facilities and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 285.00-crore (enhanced from Rs. 132.70 crore) fund based and non-fund-based bank facilities and the Rs. 25.00-crore[1] Commercial Paper Programme of Dixon technologies (India) Limited (DTIL or the company)[2]. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation takes into account the healthy operating profile of DTIL characterised by revenue growth across segments, except mobiles, supported by repeat business from existing clients as well as addition of new clients. Further the ratings also positively take into account the diversification of revenue stream and backward integration in key business segments over the years that has supported profitability improvements. The ratings also take into account the comfortable financial profile of DTIL characterised by low gearing, healthy debt coverage and comfortable liquidity. Further the ratings also draw comfort from the long-standing experience of promoters in the segment and DTILs established clientele in key business segments.

The long-term rating is however constrained by DTIL's dependence on its key clients which renders its revenues susceptible to business plans and performance of its clients. In this regard, ICRA has taken note of the weak performance

[1] *100 lakh = 1 crore = 10 million*

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

in the mobiles segment in the last one year due to weak performance of one of its key client in the segment. Further, DTIL's operating income has concentration on two key principals (which accounted for over 60% of revenues in FY2018); however, strong profile of these two principals abates the risks associated with concentration to some extent. Further, the risk is also mitigated by the strong positioning of DTIL as a one of the largest and cost-efficient Electronic Manufacturing Services (EMS) player that provides opportunities for adding new principals. The ratings also factor in the dynamic nature of the electronics manufacturing industry which exposes the players to risk of technological obsolescence, which, inturn, necessitates continuous upgradation of processes and products to sustain competitive advantage.

Outlook: Stable

ICRA believes DTIL will continue to benefit from the extensive experience of its promoters in the EMS business, its strong clientele and its positioning as a cost-efficient EMS player. The outlook may be revised to Positive if the company maintains its pace of revenue growth while achieving sustainable improvement in profitability and greater customer diversification. The outlook may be revised to 'Negative' if the company undertakes any major debt funded capital expenditure or if a stretch in the working capital cycle weakens its liquidity.

Key rating drivers

Credit strengths

Long standing experience of promoters in the Electronic Manufacturing Services (EMS) business and established clientele: The promoters of DTIL have more than two decades of experience in the EMS business. Over the years, the company has developed an established clientele, that has provided it with enhanced repeat business.

Strong positioning of DTIL as a one of the largest and cost-efficient EMS player helps DTIL is securing stable business from existing clients as well as addition of new clients: Over the years, DTIL has augmented it manufacturing capacities, while acquiring cost competency to become one of the largest and cost-efficient EMS players in the country. These strengths provide DTIL opportunities for adding new principals. This inturn had also helped the company to withstand loss of large client in the past.

Diversification of the revenues stream among Consumer Electronics, Lighting and Mobiles segments: DTIL's revenues are diversified across multiple segments. Over the years, DTIL has also added new segments which has further helped in further diversifying its revenue stream. DTIL started manufacturing mobile phones under its joint-venture (JV) Padget Electronics in FY2016. The segment scaled up rapidly, and despite some decline in FY2018 contributed to ~24% of revenues of DTIL. Recently, in FY2018, DTIL in JV with Aditya Infotech Ltd, has set-up facilities for manufacturing security devices like surveillance camera etc. These factors have resulted in a diversified revenue stream for DTIL.

Comfortable financial profile with strong debt coverage, low gearing and sufficient liquidity: DTIL has a comfortable financial profile which is reflected in low gearing ratio, of 0.4 times at end of FY2018, strong debt coverage profile, which is reflected in the Interest cover of 8.4 times and Debt Service Coverage Ratio of 5.4 times for FY2018, and comfortable liquidity.

Credit challenges

Dependence on business plans and performance of customers - As is prevalent in the industry, the company's revenues are closely linked to the business plan and performance of its principals. Further, risks of customer loss and obsolescence of products remain. However, the company has a demonstrated track record of withstanding such losses in the past. Nevertheless, the company needs to make continuous efforts to maintain its cost competitiveness and upgrade to new products given the dynamic nature of the product segment. Despite the long-standing relationships, the company's ability to get repeat business is linked to the performance and plan of the clients and the technology involved.

High revenue concentration from key principals, i.e., Panasonic and Philips; however, strong patronage of these principals abates the associated risks to some extent: A major part of DTIL's revenues and operating profitability is derived from its top two customers – Philips, and Panasonic. However, ICRA derives comfort from the long relationship with the clients (Phillips – 9 years and Panasonic – 5 years) and their strong patronage.

Competition from other assembly players and in-house manufacturing capacities of OEMs: The company faces competition from other EMS players besides exposure to inhouse capacities of brands, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on margins in segments like Consumer Electronics and Mobiles.

Risk of technological obsolescence, which necessitates continuous upgradation of processes and products to sustain competitive advantage, especially in mobiles segment: The electronic products industry is characterised by continues product and process innovation and rapid adoption of new technology. Given the risk of technological obsolescence, the industry players are required to undertake continuous upgradation to sustain competitive advantage.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Dixon Technologies (India) Limited (DTIL or Dixon), incorporated in 1993 by Mr. Sunil Vachani, is a diversified Electronic Manufacturing Services player having operations in various subsegments of the electronics vertical. DTIL has operations in the Consumer Electronics (CE), Lighting, home Appliances segments and also undertakes reverse logistics operations. Besides the company undertakes manufacturing of Mobiles and Security Surveillance equipment (CCTV camera and DVR) through its two JV companies, Padget Electronic Pvt. Ltd., a 50% Joint Venture with the Jaina Group and AIL Dixon Technologies Private Limited, 50% Joint Venture with Aditya Infotech Ltd respectively.

Tele-Vision (TV) manufacturing, part of (CE) vertical is the largest segment for DTIL. This segment has significantly supported the revenue growth in recent years. In the Home Appliances segment the company has range of 100% Original Design Manufacturing (ODM) products. This segment and backward integration in lighting segment has supported profitability improvements in recent years. DTIL has manufacturing facilities in Noida (Uttar Pradesh), Dehradun (Uttarakhand), and Tirupathi (Andhra Pradesh).

In September 2017, the company came out with an IPO worth ~Rs. 600 crore, which involved ~Rs. 60 crore of fresh equity issuance and remaining as offer for sale from promoter/investors. In FY2018, the company reported a net profit of Rs. 60.9 crore on an operating income of Rs. 2,841.6 crore, as compared to a net profit of Rs. 47.6 crore on an operating income of Rs. 2,457.0 crore in the previous year.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	2,457.0	2,841.6
PAT (Rs. crore)	47.6	60.9
OPBDIT/OI (%)	3.7%	4.0%
RoCE (%)	32.5%	30.2%
Total Debt/TNW (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.6	1.2
Interest coverage (times)	5.9	8.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 February 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2016 January 2016
1	Fund-based -Term Loan	Long Term	7.50	*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non-Fund-based - Working Capital Facilities	Long Term	2.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Fund-based - Working Capital Facilities	Short Term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4	Non-fund Based- Working Capital Facilities	Short Term	85.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+
5	Non-fund Based- Working Capital Facilities (Interchangeable)^	Short Term	150.00	-	[ICRA]A1+	-	-	-	-
	Commercial Paper	Short Term	25.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	-	-

**Rs. 8.42 crore as on March 31, 2018; ^ between non-fund based and fund based*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based -Term Loan	18-Nov-2015	NA	30-Sep-2020	7.50	[ICRA]A+ (Stable)
NA	Non-Fund-based - Working Capital Facilities (Long term)	NA	NA	NA	2.00	[ICRA]A+ (Stable)
NA	Fund-based - Working Capital Facilities	NA	NA	NA	50.00	[ICRA]A1+
NA	Non-fund Based-Working Capital Facilities (Short term)	NA	NA	NA	85.00	[ICRA]A1+
NA	Non-fund Based-Working Capital Facilities (short term; Interchangeable) ^	NA	NA	NA	150.00	[ICRA]A1+
NA	Commercial Paper	*	*	*	25.00	[ICRA]A1+

** Commercial paper not placed as of August 31, 2018; ^ between non-fund based and fund based*
Source: DTIL, Annual Report

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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