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

March 01, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	7.50	7.50	[ICRA]A+ (Stable); outstanding
Non-fund Based-Working Capital Facilities (Long term scale)	2.00	0.00	-
Fund-based - Working Capital Facilities	50.00	50.00	[ICRA]A1+; outstanding
Non-fund Based - Working Capital Facilities (Short term scale)	85.00	235.00	[ICRA]A1+; Assigned/ outstanding
Non-fund Based - Working Capital Facilities (Short term scale - Interchangeable) ^	150.00	150.00	[ICRA]A1+; outstanding
Unallocated Bank facilities	0.00	2.00	[ICRA]A+ (Stable)/[ICRA]A1+; Assigned
Commercial Paper	25.0	25.0	[ICRA]A1+; Outstanding
Total	**319.50**	**469.50**	

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

Rationale

The ratings take into account the healthy operating profile of Dixon Technologies (India) Limited (DTIL) characterised by its healthy scale of operations and, supported by repeat business from the existing clients as well as addition of new clients. Further, the ratings positively take into account the diversification of revenue stream and the recent backward-integration measures in the key business segments that have supported profitability. The ratings also consider DTIL's comfortable financial profile characterised by low gearing, healthy debt coverage and comfortable liquidity. Further, the ratings draw comfort from the extensive experience of DTIL's promoters and its established clientele in key business segments.

The long-term rating, however, is constrained by DTIL's dependence on its key clients which renders its revenues susceptible to business plans and performance of clients. The revenue concentration, though less than the past, continues to be high as the two key principals accounted for over 44% of revenues in 9M FY2019. However, the strong profile of these two principals abates the risks associated with concentration to some extent. Further, the risk is mitigated by the strong position of DTIL as one of the largest and cost-efficient electronic manufacturing services (EMS) player. This also provides opportunities for adding principals. The ratings also factor in the dynamic nature of the electronics manufacturing industry which exposes the players to risk of technological obsolescence, which in turn, necessitates continuous upgrade of processes and products to sustain competitive advantage. ICRA has taken note of the DTIL's increased working capital requirement with higher receivable days. ICRA notes that one of the company's joint-venture (JV) has sizeable stuck receivables from a client in the mobiles segment, though the same has similar amount of the outstanding payables against these sales to a group entity of this client. Nevertheless, the resolution of this will be crucial.

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 position 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

Extensive experience of promoters in the EMS business and established clientele: The promoters of DTIL have more than two decades of experience in the EMS business. The company has developed an established clientele, which provides it with enhanced repeat business.

DTIL's reputation as a one of the largest and cost-efficient EMS players helps in securing stable business: Over the years, DTIL has augmented its manufacturing capacities alongside acquiring cost competency to become one of the largest and cost-efficient EMS players in the country. These strengths provide DTIL opportunities to add new principals. In fact, this helped the company to withstand the loss of large client in the past.

Diversified revenue streams among Consumer Electronics, Lighting and Mobiles segments: DTIL's revenues are diversified into consumer electronics (CE), lighting, home appliances and mobiles segments. The company started manufacturing mobile phones under its JV, Padget Electronics in FY2016. The segment contributed to ~14% of revenues of DTIL in 9MFY2019. In FY2018, DTIL and Aditya Infotech Ltd formed a JV to set-up facilities for manufacturing security devices like surveillance camera etc. These factors have also resulted in a diversified revenue stream for DTIL.

Comfortable financial profile with strong debt coverage, low gearing and sufficient liquidity: The financial profile of the company moderated from FY2018 due to the requirement of higher fund-based working capital. However, it remains comfortable as reflected in low gearing ratio of 0.5 times at end of September 2018, comfortable debt coverage profile indicated by interest coverage ratio of 5.6 times and Debt Service Coverage Ratio of 4.1 times for 9M FY2019, and comfortable liquidity position.

Credit challenges

Dependence on customer's business plans and performance; however, strong patronage of its key principals abates the associated risks to some extent - As is prevalent in the industry, the company's revenues are closely linked to the business plan and performance of its principals. 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 – over nine years and Panasonic – over five years) and their strong patronage. While the risks of customer loss and obsolescence of products remain, the company has a demonstrated track record of withstanding such losses in the past. Nevertheless, it 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.

Stiff competition from other contract manufacturers 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 CE and mobiles. The competition has increased following the entry of globally competitive contract manufacturing players in the domestic market in the recent years.

Increasing working capital requirements: DTIL's working capital requirement have increased over the years on account of its increasing scale of operations and higher receivable cycle. While, it has been able to manage these partly by higher credit period from its suppliers, the overall working capital intensity had witnessed an increase. Further, ICRA has noted that the financial profile of one of the clients in the mobiles segment had deteriorated, leading to long-pending receivables. Given the back-to-back arrangement in place, the payables against these remain outstanding, which in turn exposes DTIL to risk. However, comfort is derived from the interlinkages between the debtor and the creditor parties. Further, ICRA notes that the dues pertain to a JV of DTIL.

Risk of technological obsolescence necessitates continuous upgrade of processes and products to sustain competitive advantage: 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 upgrades to sustain competitive advantage.

Liquidity position:

DTIL has a comfortable liquidity profile as reflected in the unencumbered cash balance of Rs. 8.6 crore at end of December 31, 2018 and sizable cushion in utilisation of fund-based working capital limits of over Rs. 70.0 crore from drawing power at the end of December 31, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on consolidated financial statements of the issuer which includes its subsidiaries and Joint-Ventures

About the company

Dixon Technologies (India) Limited (DTIL), incorporated in 1993 by Mr. Sunil Vachani, is a diversified EMS player with operations in various subsegments of the electronics vertical. DTIL has operations in the CE, lighting, home appliance 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 Electronics Private Limited (a 50% JV with the Jaina Group), and AIL Dixon Technologies Private Limited (a 50% JV with Aditya Infotech Ltd).

TV manufacturing, part of the CE vertical, is the largest segment for DTIL. This segment has significantly supported the revenue growth in the recent years. In the home appliances segment the company has range of 100% original design manufacturing (ODM) products. This segment and backward integration in the lighting segment has supported profitability improvements in the 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 the 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 (OI) of Rs. 2,841.6 crore compared with a net profit of Rs. 47.6 crore on an OI 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:

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
					March 2019	September 2018	October 2017	February 2017	September 2016	January 2016
1	Fund-based - Term Loan	Long Term	7.50	6.2 cr as on 31.12.2018	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non-Fund-based - Working Capital Facilities	Long Term	0.00	-	-	[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]A1	[ICRA]A2+
4	Non-fund Based-Working Capital Facilities	Short Term	235.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+
5	Non-fund Based-Working Capital Facilities (Interchangeable)	Short Term	150.00	-	[ICRA]A1+	[ICRA]A1+	-	-	-	-
6	Unallocated bank facilities	Long Term/ Short term	2.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+					
7	Commercial Paper	Short Term	25.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1		

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	Fund-based - Working Capital Facilities	NA	NA	NA	50.00	[ICRA]A1+
NA	Non-fund Based-Working Capital Facilities (short term)	NA	NA	NA	235.00	[ICRA]A1+
NA	Non-fund Based-Working Capital Facilities (short term; Interchangeable) ^	NA	NA	NA	150.00	[ICRA]A1+
NA	Long Term/ Short term Unallocated bank facilities	NA	NA	NA	2.00	[ICRA]A+ (Stable)/[ICRA]A1+
NA	Commercial Paper	*	*	*	25.0	[ICRA]A1+

** Commercial paper not placed as of January 31, 2019; ^ between non-fund based and fund based*

Source: DTIL, Annual Report

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dixon Global Private Limited	100.00%	Full Consolidation
Padget Electronics Private Limited	50.00%	Equity Method
AIL Dixon Technologies Private Limited	50.00%	Equity Method

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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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