

August 09, 2024

Padget Electronics Pvt. Ltd.: Long-term rating upgraded to [ICRA]AA & outlook revised to Stable from Positive; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	65.00	65.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- and outlook revised to Stable from Positive
Short-term – Non-fund based – Others	2675.00	2675.00	[ICRA]A1+; reaffirmed
Short-term – Fund-based – Others	740.00	740.00	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Unallocated	20.00	20.00	[ICRA]AA (Stable)/ [ICRA]A1+; long-term rating upgraded from [ICRA]AA- and outlook revised to Stable from Positive; short-term rating reaffirmed
Total	3,500.00	3,500.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of Dixon Technologies (India) Limited (DTIL), its subsidiaries (including Padget Electronics Pvt. Ltd. or PEPL), step-down subsidiaries, and associate companies, while assigning the credit ratings (together referred to as the Dixon Group viz., DTIL along with its subsidiaries/joint ventures or JVs), given the common management team and significant operational and financial linkages among the entities.

The long-term rating upgrade for DTIL factors in the sustained improvement in its scale of operations in the last few years (four-year CAGR of 42%, with YoY growth of 45% in FY2024) and improvement in leverage metrics with adjusted net TOL/TNW¹ likely to remain below 1.5 times over the medium term. ICRA expects the company to sustain the strong revenue growth momentum over the medium term driven by scale-up in new business segments and products (IT hardware, telecom and networking products, wearables, refrigerators, etc.), healthy and consistent order inflows along with customer diversification. In addition, the company has maintained comfortable debt coverage indicators with interest cover of over 8.0 times in FY2023 and FY2024 and is likely to sustain the same above 7.0 times over the medium term. ICRA estimates the operating margin (OPM) to moderate to 3.4-3.9% over the near to medium term, with the increasing share of prescriptive business. However, continued focus on backward integration and increase in the original design manufacturing (ODM) business are expected to support its profitability indicators to some extent. The RoCE is expected to remain comfortable due to relatively lower blockage of funds in the working capital under the prescriptive business model.

The ratings continue to derive comfort from the Dixon Group strong operating profile, characterised by an established track record as an electronic manufacturing services (EMS) player with presence in diversified product segments, leading position in its key product segments (like LED television, lighting, mobiles, washing machines, etc.) and established relationships with a reputed clientele. In the last two-three years, the Group has strengthened its relations with existing clients and onboarded several new ones across segments - Xiaomi (mobiles), Realme, Compal, Voltas and Bosch (home appliances), Airtel and Jio

¹ Adjusted net TOL/TNW ratio: For arriving at adjusted net TOL/TNW, the TOL has been adjusted by netting off cash balances and liquid investments and creditors which are either covered by BGs or where clients and suppliers are covered under back-to-back arrangement, and other back-to-back payables (to be paid only when corresponding payments are realised).

(telecom and networking products), Acer and Lenovo (IT hardware), among others. The Group is a beneficiary under the production-linked incentive (PLI) scheme for five segments – mobile phones, lightning, telecom and networking products, inverter controller boards for air conditioners and IT hardware, and has achieved the incremental investment and revenue thresholds for FY2024 for four PLIs barring IT hardware for which FY2025 is the first eligible year. A part of the incentives realised so far has also been shared with the clients. A conducive policy environment (thrust on Make in India initiative), healthy domestic demand (led by low penetration levels) and China+1 strategy of global manufacturers are expected to support a faster ramp-up of DTIL's scale of operations over the medium term. The Group's ability to effectively and efficiently manage the rapid scale-up in its operations, while maintaining a favourable cash conversion cycle and profitability, will remain crucial from a credit perspective.

DTIL has sizeable working capital requirements due to the lead time in imports and receivables realisation period. The same gets funded largely by the credit period from suppliers. This results in a relatively high TOL/TNW ratio and dependence on sizeable non-fund-based limits. However, ICRA notes that a part of DTIL's creditors for Xiaomi remains covered by bank guarantees (BGs) extended by the customers, which reduces the credit risk. Additionally, the company enters back-to-back payment arrangements with some of its suppliers, which are either a related party to its customers or are identified by the same. This mechanism, while lowering DTIL's working capital requirements as well as credit risks, results in creation of debtor and creditor for it from the same/related parties. Adjusted for such back-to-back arrangements, the company's adjusted net TOL/TNW stood at 1.4 times as on March 31, 2024 (1.5 times as on March 31, 2023). Given the strong revenue growth expectations, the creditors and consequently the total outside liabilities are expected to increase over the medium term. In this context, ICRA takes comfort from the company's past track record of managing lean working capital cycle (NWC/OI of 0-5% over the last three years; 1.3% in FY2024), its adequate liquidity profile and financial flexibility. While the Group plans to undertake sizeable capacity expansion (and remains open to inorganic growth opportunities – e.g. acquisition of Ismartu), a part of which is likely to be debt funded, ICRA expects that its growing scale, profits and accretion to reserves will keep the coverage and leverage metrics at a comfortable level.

The Group has dependence on a few large customers, which exposes its revenues to business plans and performance of its key clientele. The strong profile of its largest customers — Motorola Mobility LLC, Xiaomi Corporation [Moody's Baa2 (Stable)] and Samsung Electronics [Moody's Aa2 (Stable)], expanding customer base and DTIL's position as one of the largest and cost-efficient EMS players in India, partially mitigate the customer concentration risk. The ratings factor in the competitive and dynamic nature of the electronics manufacturing industry, which exposes the players to risk of technological obsolescence, foreign exchange fluctuation and regulatory changes. This, in turn, necessitates continuous upgrade of processes and products to sustain competitive advantage, requiring regular capital expenditure. Also, like other electronics manufacturers, DTIL has high dependence on imported raw materials/components and is susceptible to any significant supply-chain disruption.

The Stable outlook on the long-term rating reflects ICRA's expectations that DTIL will sustain its revenue growth even as profitability may moderate due to changing business mix in the near to medium term. Further, the outlook underlines ICRA's belief that the company will fund its incremental capex and investment requirements in a manner that allows it to maintain low leverage and strong debt protection metrics.

Key rating drivers and their description

Credit strengths

Established track record and market position in EMS business – DTIL has over two decades of experience in the EMS business and an established track record and leadership position in its key segments of operations, i.e., LED television, mobiles and EMS division, lighting, and home appliances. Over the years, the company 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 have helped DTIL add new principals and maintain healthy relationships with them, leading to repeat business. The ratings note the realisation of incentives under the mobile phone, telecom and networking products segment, along with achievement of

thresholds under PLIs for white goods, i.e., LED components and AC PCBs. It has also been declared as a beneficiary under PLI 2.0 for IT hardware, with FY2025 as the first eligible year of operation.

Diversified revenue streams across product segments with reputed clientele – The company’s revenues are diversified across consumer electronics (CE; mainly LED television), lighting, home appliances (mainly washing machines), mobiles, telecom and networking products and hearables and wearables. While the CE, lighting, and home appliances segments are catered to by DTIL, mobile phones and IT hardware manufacturing come under its wholly-owned subsidiary, Padget Electronics Private Limited (PEPL). Telecom and networking products, wearables and hearables as well as air conditioner–printed circuit boards (AC-PCBs) manufacturing is undertaken in JVs established with Beetel Teletech Limited, Imagine Marketing Limited and Rexxam Group, respectively. DTIL has ventures in product categories like refrigerators, strip and rope lighting and commercial displays. The presence across multiple product segments provides DTIL a diversified revenue stream and growth opportunities. The company’s clientele comprises reputed global brands such as Motorola, Xiaomi, Samsung, Intel, Airtel, Reliance Jio, Realme, Compal, Acer, Lenovo, etc. The addition of new clients has supported supply-chain diversification as well.

Robust growth in scale of operations with healthy coverage metrics and return indicators – DTIL’s financial profile remains strong, with healthy revenue growth (four-year revenue CAGR of ~42%), high RoCE (22-30% over last four years) and comfortable coverage metrics. In FY2024 and Q1 FY2025, it posted a 45% and 101% YoY revenue growth, respectively, primarily supported by scale-up in its mobile phones vertical. ICRA expects the DTIL Group’s scale to grow substantially over the next few fiscals on the back of demand under the PLI scheme and ventures into new segments. The company’s net worth stood strong at ~Rs. 1,700 crore (as on March 31, 2024), driven by healthy accruals from operations and fund raised through employee stock option programmes. Its reliance on external debt has remained limited, as reflected in interest coverage ratio of 8.7 times in FY2024 and Q1 FY2025. While the Group plans to undertake sizeable capacity expansion (and remains open to inorganic growth opportunities – e.g. acquisition of Ismartu), a part of which is likely to be debt funded, ICRA expects that its growing scale and profitability will keep the coverage metrics at a comfortable level.

Credit challenges

Working capital-intensive nature of business – DTIL has sizeable working capital requirements due to the lead time in imports and receivables realisation period. Moreover, it has limited pricing flexibility and bargaining power with customers, as reflected in low margins (especially in segments like CE and mobiles), which limits surplus generation vis-à-vis requirements of a rapidly growing business. While the company’s working capital funding requirements are largely being met by the credit period from suppliers, it results in a relatively high adjusted net TOL/TNW ratio (1.4 times as on March 31, 2024 and 1.5 times as on March 31, 2023) and dependence on substantial non-fund based limits. Given the strong revenue growth expectations, the creditor and the total outside liabilities are likely to increase over the medium term. Nonetheless, ICRA takes comfort from the company’s past track record of managing a lean working capital cycle and maintaining adequate liquidity position.

Exposed to geopolitical risks and susceptibility of revenues to performance of key customers – Given DTIL’s import dependence for several key components (battery cells, other raw material for electronics), it remains vulnerable to geopolitical developments between India and RM exporting nations. Any change in regulations related to imports of components or supply-chain disruptions could likely impact its operations. The foreign exchange exposure due to sizeable imports is mitigated largely with its ability to pass on these variations to the customers under the prescriptive business (~60-70% of business currently). Further, DTIL’s revenues are closely linked to the business plan and performance of its customers. A major part of its revenues and operating profitability is derived from its top three customers – Motorola, Xiaomi and Samsung. However, ICRA derives comfort from DTIL’s long relationships with its top clients and the strong profile of the clientele. Moreover, with ramp-up in sales to new customers, added across segments over the last 12-18 months, the customer concentration is expected to reduce sequentially over the medium term. Given the dynamic nature of the industry and stiff competition from other players/in-house manufacturing capacities of principals, DTIL will need to remain focused on maintaining its cost competitiveness through consistent investments in contemporary new products and processes to ensure repeat business.

Liquidity position: Adequate

DTIL's liquidity is expected to remain adequate, driven by healthy cash flow from operations and supported by cash balance and liquid investments on books (Rs. 94 crore) and undrawn fund-based limits (around Rs. 1,470 crore at a consolidated level) as on June 30, 2024. The average fund-based limit utilisation had been less than 30% over the last one year. The company intends to undertake capex in the range of Rs. 500-600 crore over the 12 months, partly funded by external debt. The debt repayment obligations are estimated at ~Rs. 200 crore p.a. in FY2025 and FY2026. The company's cash flows from operations and liquidity buffers are expected to remain adequate to meet these funding obligations.

Environmental and social risks

Environmental considerations – The electronics manufacturing industry (and DTIL) remains exposed to litigation/penalties arising from issues related to waste and pollution management. As per the company's annual report of FY2023, it has been taking initiatives towards the use of sustainable technology and energy efficiency. It is continually augmenting the renewable energy contribution in the total energy mix. Nonetheless, DTIL's cash flows remain exposed to the increasing investment requirements to comply with stringent pollution norms (recycling or safe waste disposal).

Social considerations – Social risks in the industry stem from the health and safety concerns of employees involved in the manufacturing process. It also remains exposed to any major shift in consumer preferences, which is a key driver for demand, and accordingly may need to make material investments to realign its product portfolio.

Rating sensitivities

Positive factors – DTIL's ratings could be upgraded, if it is able to maintain the pace of revenue growth while sustaining the operating margin and improve its leverage, coverage metrics and liquidity profile. A specific credit metric that could lead to a rating upgrade is if adjusted net TOL/TNW is below 0.75 times, on a sustained basis.

Negative factors – Loss of major clients, significant slowdown in its key product segments, supply-chain disruption or higher-than-expected debt-funded capex/ investments that materially affects its leverage and coverage metrics may exert pressure on the ratings. Additionally, any asset-liability mismatch or deterioration in working capital intensity, which materially impacts liquidity position will be a credit negative. Adjusted net TOL/TNW increasing above 1.75 times or interest coverage falling below 7 times, on a sustained basis, can trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DTIL.

About the company

DTIL, incorporated in 1993 by Mr. Sunil Vachani, is a diversified electronic manufacturing services (EMS) company with operations in the electronic products vertical such as consumer electronics (CE), lighting, and home appliances (including washing machines, refrigerators). Besides, it undertakes manufacturing of mobiles phones through its wholly-owned subsidiary Padget Electronics Private Limited (PEPL). Lately, the company also entered JVs with other domestic and global players for manufacturing products under the telecom and networking, wearables and hearables, AC printed circuit boards (PCBs) segments, etc.

DTIL, headquartered in Noida, has around 22 manufacturing facilities (at a consolidated level) across Noida (Uttar Pradesh), Dehradun (Uttarakhand), Ludhiana (Punjab), and Chittoor (Andhra Pradesh). In the last few years, the company and its

subsidiaries/JVs have received approvals under the production-linked incentive (PLI) scheme for five segments - mobile phones, lightning, telecom and networking products, inverter controller boards for air conditioners and IT hardware.

PEPL is 100% subsidiary of DTIL and is engaged in manufacturing/ assembly of mobile handsets and IT Hardware (STB). The production of mobiles commenced in November 2015 and currently there are three manufacturing facilities located in Noida.

An application made by PEPL for license as a domestic manufacturer of mobile phones, under the India's Government's PLI scheme, was accepted in October 2020. It is one of the few companies to achieve the eligibility criteria and receive the incentive for the first two years, and has also achieved the incremental investment and revenue thresholds for FY2024. The company has entered into the manufacturing agreement with global brands like Motorola, Xiaomi, Intel, Realme and Nokia for production of mobile phones for sales in both domestic as well as export markets.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income (Rs. crore)	12192.0	17690.9
PAT (Rs. crore)	253.5	364.7
OPBDIT/OI (%)	4.2%	4.0%
PAT/OI (%)	2.1%	2.1%
Total outside liabilities/Tangible net worth (times)	2.8	3.2
Total debt/OPBDIT (times)	1.2	1.1
Interest coverage (times)	8.1	8.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)				Chronology of rating history for the past 3 years					
		Amount Rated (Rs Crore)	09-AUG-2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	65.00	[ICRA]AA (Stable)	18-APR-2024	[ICRA]A A- (Positive)	29-NOV-2023	[ICRA]A A- (Positive)	30-JUN-2022	[ICRA]A A-(CE) (Stable)	-	-
				-	-	-	-	17-JAN-2023	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]A A- (Stable) assigned	-	-

									simultaneously		
Unallocated	Long-term/ Short-term	20.00	[ICRA]AA (Stable)/ [ICRA]A1+	18-APR-2024	[ICRA]A A- (Positive)/[ICRA]A1+	29-NOV-2023	[ICRA]A A- (Positive)/ [ICRA]A 1+	-	-	-	-
Fund-based – Others	Short-term	740.00	[ICRA]A1+	18-APR-2024	[ICRA]A 1+	29-NOV-2023	[ICRA]A 1+	-	-	-	-
Non-fund based – Others	Short-term	2675.00	[ICRA]A1+	18-APR-2024	[ICRA]A 1+	29-NOV-2023	[ICRA]A 1+	30-JUN-2022	[ICRA]A 1+(CE)	-	-
				-	-	-	-	17-JAN-2023	[ICRA]A 1+ (CE) withdrawn and [ICRA]A 1+ assigned simultaneously	-	-
Fund-based – Others	Long-term			-	-	-	-	17-JAN-2023	[ICRA]A A- (Stable)		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Short-term – Non-fund based – Others	Very Simple
Short-term – Fund-based – Others	Simple
Long-term/ Short-term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Term loan	Feb 14, 2020	NA	Feb 28, 2025	65.00	[ICRA]AA (Stable)
NA	Non-fund based – Others	NA	NA	NA	2675.00	[ICRA]A1+
NA	Fund-based – Others	NA	NA	NA	740.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	20.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dixon Global Private Limited	100%	Full Consolidation
Padget Electronics Pvt. Ltd.	100%	Full Consolidation
Dixon Electro Manufacturing Private Limited	100%	Full Consolidation
Dixon Technologies Solutions Private Limited	100%	Full Consolidation
Dixtel Communications Private Limited	100%	Full Consolidation
Dixtel Infocom Private Limited	100%	Full Consolidation
Dixon Infotech Private Limited	100%	Full Consolidation
Dixon Electro Appliances Private Limited	51%	Full Consolidation*
Califonix Tech and Manufacturing Private Limited	50%	Full Consolidation^
Rexxam Dixon Electronics Private Limited (formerly known as Dixon Devices Private Limited)	40%	Equity Method

Source: Company, ICRA Research, *Corporate guarantee given for 100% amount; ^Considered as subsidiary during FY2024 on the basis of control obtained.

Note: The entire stake (50%) in AIL Dixon Technologies Private Limited has been divested to Aditya Infotech Limited, in consideration of 6.5% stake of the AIL.

Note: ICRA has taken a consolidated view of the parent (DTIL), its subsidiaries and associates while assigning the ratings.

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