

August 09, 2024

Dixon Electro Appliances Private Limited: Long-term rating upgraded; 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 – Others	20.00	20.00	[ICRA]AA (CE) (Stable); upgraded from [ICRA]AA- (CE); outlook revised to Stable from Positive
Long-term/ Short-term – Non-fund based – Letter of credit	200.00	200.00	[ICRA]AA (CE) (Stable)/ [ICRA] A1+ (CE); long-term rating upgraded from [ICRA]AA- (CE); outlook revised to Stable from Positive; short-term rating reaffirmed
Long-term – Fund-based – Term loan	50.00	50.00	[ICRA]AA (CE) (Stable); upgraded from [ICRA]AA- (CE); outlook revised to Stable from Positive
Total	270.00	270.00	

Rating Without Explicit Credit Enhancement

[ICRA]BBB+ /[ICRA]A2

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

The CE rating is supported by corporate guarantee from Dixon Technologies (India) Limited.

Rationale

The above rating is based on the strength of the corporate guarantee provided by Dixon Technologies (India) Limited (DTIL/the guarantor, rated [ICRA]AA (Stable)/[ICRA]A1+), one of the sponsors of Dixon Electro Appliances Private Limited (DEAPL), for the bank facilities. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, DTIL.

Adequacy of credit enhancement

The rating of the bank facilities is based on the credit substitution approach, whereby the rating of the guarantor has been translated into the rating of the said instruments. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated bank facilities and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by DTIL is adequately strong to lead to an enhancement in the rating of the said instrument to [ICRA]AA (CE) (Stable)/ [ICRA]A1+ (CE), against the rating of [ICRA]BBB+ / [ICRA]A2 without explicit credit enhancement. If the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument.

Salient covenants of the rated facility

- DTIL shall maintain majority shareholding and management control in the company through the tenor of facilities
- Financial covenants include:
 - Debt/ TNW - <1x from FY2025; Debt/ EBITDA - < 2.0x
 - Interest cover - > 2.5x; DSCR¹ - >1.75x; FACR² - >1.3x

¹ Debt Service Coverage Ratio

² Fixed Assets Coverage Ratio

- Unsecured loans shall not form more than 50% of the promoter contribution at any point in time

Key rating drivers and their description

Credit strengths

Corporate guarantee from DTIL; strong track record and financial profile of the promoter – The rated facilities are backed by a corporate guarantee from DTIL (rated at [ICRA]AA (Stable)/ [ICRA]A1+). The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated bank facilities and has a well-defined invocation and payment mechanism. DEAPL is a joint venture between DTIL (51%) and Beetel Teletech Limited (49%). Incorporated in 1993, DTIL is a diversified electronic manufacturing services (EMS) company with operations in the electronic products vertical such as consumer electronics, lighting, home appliance, mobile phones and IT hardware. It also undertakes manufacturing of other electronic products through JVs entered with reputed players. 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. Further, Beetel Teletech Limited (Beetel, formerly known as Brightstar Telecommunications Limited) is one of the oldest and reputed brands in the telecom industry, in the landline phone category. DTIL has also extended corporate guarantee for the bank facilities of DEAPL. Given the strong parentage, DEAPL is expected to receive requisite support from DTIL, as and when the need arises.

Licensed manufacturer of telecom and networking products under GoI's PLI scheme – DEAPL is licensed as a domestic manufacturer of telecom and networking products under the GoI's PLI scheme. While it witnessed a good start with Airtel as its anchor customer, the benefit under the scheme is expected to aid it in entering manufacturing agreements with other large brands. However, the company's eligibility to receive incentives under the PLI scheme depends on its ability to meet the dual targets of cumulative investment and cumulative sales as specified under the scheme and therefore, the same will remain a key rating monitorable. DEAPL has made the requisite investment and achieved the requisite revenue threshold in FY2023 and recently, realised the PLI incentive for the same. DEAPL, supported by ramp-up in business from existing and new clients, expects to meet the eligibility threshold for incentive in terms of incremental sales, while it has plans of making incremental investments in line with the requirement under the PLI scheme.

Strong and reputed clientele with low counterparty risk – The company's clientele in the past has been concentrated with almost entire revenue accruing from two customers – Bharti Airtel Limited (BAL) and Beetel. Both the customers are strong well-known brands in their respective industries and possess a healthy financial profile. In Q2 FY2024, DEAPL onboarded Reliance Jio as well, which is expected to augment revenues going forward. With the expansion planned over coming years, other domestic and international customers are expected to get on-board along with augmentation of the current product portfolio.

Credit challenges

Leveraged capital structure – DEAPL's leverage is high due to debt-funded capex with TD/ TNW at 3.0 as on March 31, 2024. Its working capital position of receivables, inventory, and creditors remained high with a TOL/TNW ratio of 16.73 times as on March 31, 2024, given a sharp ramp-up in operations. However, the company has arrangement with its majority of suppliers, wherein the credit period provided by the supplier is matching the conversion period for inventory and bill realisation from its clients, which reduces the risk related to high TOL.

Thin operating margin; stiff competition limits pricing flexibility – The company faces competition from other EMS players, besides exposure to in-house capacities of brands. These limit its pricing flexibility and bargaining power with customers, thereby putting pressure on the profit margin. The competition has increased following the entry of globally competitive contract manufacturing players in the domestic market in the recent years. The margin is also constrained due to the

prescriptive (original equipment manufacturer/OEM) nature of the business where the specifications are provided by the clients.

Dependence on customers' business plans and performance with risk of technological obsolescence – As is prevalent in the industry, the company's revenues are closely linked to the business plan and performance of its principals. Further, it faces revenue concentration risk, as the top two customers are expected to account for majority of its revenues in the medium term. Moreover, the consumer durable/electronic products/EMS industry is characterised by continuous 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. Further, DEAPL is vulnerable to risks pertaining to regulatory changes (like customs duty, taxation, etc.) and foreign exchange exposure, considering its sizeable imports. However, the forex risk is mitigated to an extent with its ability to pass on the variation.

Liquidity position: Adequate

Dixon Technologies (India) Limited – 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.

Dixon Electro Appliances Private Limited – Adequate

DEAPL's had free cash balance of Rs. 7 crore and healthy cushion (~Rs. 130 crore) in working capital facilities as on March 31, 2024. The company's liquidity is expected to remain adequate with cash flows from operations and liquidity available to meet annual repayment obligation of ~Rs. 1 crore and capex commitment of Rs. 50-55 crore planned for FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is an improvement in the credit profile of the guarantor, DTIL.

Negative factors – The ratings could be downgraded in case of any deterioration in the credit profile of the guarantor, DTIL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent company: Dixon Technologies (India) Limited The assigned ratings are based on the unconditional, irrevocable corporate guarantee extended by DTIL towards the bank facilities of DEAPL. The ratings also factor in the high likelihood of its parent, DTIL, extending financial support, given the strategic importance of DEAPL. ICRA expects DTIL to extend financial support to DEAPL out of its need to protect its reputation from the consequences of a Group entity's distress. DTIL has a track record of extending timely financial support to other subsidiaries, whenever needed.
Consolidation/Standalone	Standalone

About the company

DEAPL, incorporated on January 15, 2020, as a wholly-owned subsidiary of DTIL, is involved in manufacturing and trading of electronic goods and parts. On November 09, 2021, DTIL and Beetel (initially a Bharti Airtel group family company; stake transferred to Bharti Airtel group companies in FY2024) entered into an agreement to form a JV for manufacturing of telecom and networking products, including products that are manufactured in compliance with the production-linked scheme notified by the Ministry of Communications, Government of India. The company's customer profile is strong with Bharti Airtel Limited, Beetel and Reliance Jio as counterparties.

Beetel products are manufactured at a plant in Ludhiana, acquired by DEAPL from Beetel under slump sale. DEAPL has also set up a manufacturing facility in Noida, Uttar Pradesh, to manufacture telecom and networking products.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income (Rs. crore)	200.4	685.6
PAT (Rs. crore)	-0.9	3.7
OPBDIT/OI (%)	2.7%	3.5%
PAT/OI (%)	-0.4%	0.5%
Total outside liabilities/Tangible net worth (times)	5.5	16.7
Total debt/OPBDIT (times)	13.3	5.3
Interest coverage (times)	2.9	2.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; calculations are based on preference share capital classified as equity (as per Ind As). However, for analysis, ICRA's approach of hybrid instrument has been applied.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)						Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	09-AUG-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Others	Long-term	20.00	[ICRA]AA(CE) (Stable)	-	-	22-AUG-2023	[ICRA]AA-(CE) (Stable)	-	-	-	-
				-	-	08-DEC-2023	[ICRA]AA-(CE) (Positive)	-	-	-	-
Fund-based – Term loan	Long-term	50.00	[ICRA]AA(CE) (Stable)	-	-	22-AUG-2023	[ICRA]AA-(CE) (Stable)	-	-	-	-
				-	-	08-DEC-2023	[ICRA]AA-(CE) (Positive)	-	-	-	-

Non-fund based – Letter of credit	Long-term/Short-term	200.00	[ICRA]AA(CE) (Stable)/[ICRA]A 1+(CE)	-	-	22-AUG-2023	[ICRA]AA -(CE) (Stable)/[ICRA]A1+(CE)	-	-	-	-
				-	-	08-DEC-2023	[ICRA]AA -(CE) (Positive) / [ICRA]A 1+(CE)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based – Others	Simple
Non-fund based – Letter of credit	Very Simple
Fund-based – Term loan	Moderately Complex

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 No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based – Others	-	-	-	20.00	[ICRA]AA(CE) (Stable)
NA	Non-fund based – Letter of credit	-	-	-	200.00	[ICRA]AA(CE) (Stable)/ [ICRA]A1+(CE)
NA	Fund-based – Term loan	FY2023	-	FY2029	50.00	[ICRA]AA(CE) (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis- Not applicable

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