March 31, 2021

Dixon Technologies (India) Limited (erstwhile Dixon Technologies (India) Private Limited): [ICRA]A1+ assigned for enhanced amount; ratings reaffirmed for existing limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	175.00	175.00	[ICRA]A1+; Reaffirmed
Fund-based -Term Loan	52.70	52.70	[ICRA]AA- (Stable); Reaffirmed
Fund-based - Working Capital Facilities	145.00	145.00	[ICRA]A1+; Reaffirmed
Non-fund Based - Working Capital Facilities (Short-term scale)	635.00	1,095.00	[ICRA]A1+; Assigned/ Reaffirmed
Interchangeable^ Working Capital Facilities (Short-term scale)	250.00	250.00	[ICRA]A1+; Reaffirmed
Unallocated Bank facilities (Short-term scale)	47.34	47.34	[ICRA]A1+; Reaffirmed
Total	**1,305.04**	**1,765.04**	

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

Rationale

The ratings take into account the robust performance of Dixon Technologies (India) Limited (DTIL) in the recent past. Despite the disruption in operations due to the Covid-19 pandemic-related lockdown, the company has witnessed a strong recovery in business post easing of the restrictions as reflected in the 22% YoY growth in revenues in 9M FY2021 along with stronger operating profitability and debt coverage metrics. The ratings continue to take into account the healthy operating profile of DTIL, characterised by its 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, etc.) and its well-established relationship with a reputed clientele. The ratings also consider DTIL's healthy financial profile characterised by moderate leverage, strong return on capital employed and healthy debt coverage indicators. Further, the ratings positively take into account the backward-integration measures in the company's key business segments, which have supported its growth and profitability improvement over the years.

The long-term rating, however, is constrained by DTIL's dependence on a few large clients, which renders its revenues susceptible to the business plans and performance of the same. Nonetheless, the revenue concentration has reduced over the years, with business from the top three clients decreasing to 58% in H1 FY2021 from 71% in FY2018. The strong profile of the large principals—Xiaomi [Moody's Baa2 (Stable)] and Samsung [Moody's Aa3 (Stable)]—and DTIL's position as one of the largest and cost-efficient EMS players in India, partially abates the risk of business loss from any large client. The rating also factors 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. DTIL, like other electronics manufacturers, has a high dependence on imported raw materials/components and is susceptible to any significant supply-chain disruption. In this context ICRA notes the shortage in global supply chain of semiconductors, which is an important component of electronics products. The profitability impact of the event on DTIL is expected to be low, given the prescriptive nature of the most operations. However, the impact on sales volumes will be a key rating monitorable.

DTIL's operations have sizeable working capital requirements (both fund-based and non-fund based) due to lead time in imports and receivables realisation period. The same gets funded to a large extent by the credit period from suppliers, resulting in relatively high TOL/TNW ratio and dependence on sizeable non-fund-based limits (letter of credit or LC). However, ICRA notes that part of DTIL's creditors are covered by bank guarantees (BGs), which reduces the credit risk. Additionally, the company enters into back-to-back payment arrangement with some of its suppliers, which are either a related party to its principals 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. In the past, the company was allowed to knock-off both debtors and creditors related to Gionee transactions when the latter got into financial trouble. Taking the same into cognisance, ICRA has adjusted such creditors as well as netted off lease obligations, cash balances and liquid investments from DTIL's TOL for evaluating the adjusted TOL/TNW ratio, which remains comfortable at 1.8 times as of September 30, 2020. The financial metrics of DTIL, however, remain critically dependant on the prudent management of its working capital requirements. In this context, ICRA takes comfort from the company's past track record, its healthy liquidity position and financial flexibility.

The Stable outlook on the rating reflects ICRA's expectation that DTIL will continue to report a healthy growth in its scale of operations, along with diversification in customer profile, product profile and supply chain.

Key rating drivers and their description

Credit strengths

Established track record and market position in EMS business – DTIL has more than two decades of experience in the EMS business and has an established track record as well as leadership position in the key segments in which it operates, i.e. LED television, lighting, and washing machine. 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 in adding new principals as well as maintaining healthy relationship with its clients, resulting in repeat business.

Diversified revenue streams across product segments with reputed clientele – The company's revenues are diversified across product segments like consumer electronics (CE; mainly LED television), lighting, home appliances (mainly washing machines), mobiles and security devices. In FY2021, it has ventured into manufacturing of set-top boxes and medical electronics. While the CE, lighting, and home appliances segments are catered to by DTIL, mobile phones and medical electronics manufacturing come under its subsidiary, Padget Electronics Private Limited (PEPL; erstwhile JV). Security devices and set-top boxes manufacturing is undertaken under another subsidiary, AIL Dixon Technologies Private Limited (JV with Aditya Infotech Limited). The presence across multiple product segments provides DTIL a diversified revenue stream and growth opportunities. The company's clientele comprises some strong and reputed global brands like Xiaomi, Samsung, Panasonic, Phillips, etc. The addition of a new clients has also supported supply chain diversification.

Healthy financial profile with moderate leverage and healthy debt coverage metrics – DTIL's financial profile remains healthy with robust improvement in Q2 FY2021 and Q3 FY2021, despite a challenging environment, supported by increased volumes in the CE vertical, profitability improvement supported by backward integration, moderate leverage and healthy debt coverage indicators. The company's net worth has also improved on the back of healthy accruals from operations and issuance of employee stock option programme; external borrowing has remained limited. The credit profile remains healthy as reflected in interest coverage ratio of over 10 times in 9M FY2021. The liquidity position remains comfortable with adequate cushion in fund-based working capital limits. While the nationwide lockdown and labour/logistic challenges impacted its performance in Q1 FY2021, the performance improvement in Q2 FY2021 and Q3 FY2021 is supported by a robust recovery since June 2020. One of DTIL's subsidiaries—PEPL—made an application under the PLI scheme, which was approved by the MeitY in October 2020. This is expected to provide significant boost to DTIL's scale of operations and profits, given the incentive available under the scheme. The company plans to undertake debt-funded capex, which is likely to increase its long-term borrowings. However, its increased scale and profitability is expected to keep coverage profile healthy.

Credit challenges

Dependence on customers' business plans and performance; however, strong patronage of key principals abates associated risks to an 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 three customers—Xiaomi, Samsung and Panasonic. However, ICRA derives comfort from the company's long relationship with its top clients (Panasonic – over five years) and strong patronage of the clients. While the risks of customer loss and product obsolescence 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 its 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.

Competition and risk of technological obsolescence necessitates continuous upgrade of processes and products – 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. 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 margins in segments like CE and mobiles, which face relatively more competition. The competition has increased following the entry of globally competitive contract manufacturing players in the domestic market in the recent years. Further, the company is exposed to risks pertaining to regulatory changes (like custom duty, taxation, etc.) and foreign exchange exposure, given its sizeable imports. However, the forex risk is abated to an extent with the company's ability to partly pass on the variation.

High TOL/TNW due to high creditors and working capital requirements; however, adjusted TOL/TNW ratio remains comfortable – DTIL's business calls for sizeable dependence on supplier's credit, though most of these have back-to-back arrangements with the corresponding clients. The company's operations require sizeable working capital limits (fund-based and non-fund based). It imports over 60% of its raw material/component requirements. A sizable portion of these imports are backed by usance LCs. Typically, the usance period covers the cash conversion cycle, i.e. the lead time in imports and receivables, production, and realisation period. Therefore, at any given point in time, the company has sizable utilisation of non-fund based limits. Further, it utilises fund-based facilities like bill discounting and other working capital borrowings to meet its working capital requirements. There is an empirical mild cyclicality in working capital requirement, given the high sales of electronic products near the festive season, resulting in higher TOL during mid-financial year. However, ICRA has noted that some of the creditors are covered by bank guarantees, which reduces the risk. Additionally, some creditors are related party to the client and have back-to-back arrangements between receivables and payables. ICRA has adjusted such creditors as well as netted off lease obligations, cash balances and liquid investments from the TOL for evaluating adjusted TOL/TNW ratio. The adjusted TOL/TNW ratio for the company was comfortable at 1.8 times as of September 30, 2020.

The financial metrics of DTIL remain critically dependant on prudent management of its working capital requirements. In this context, however, ICRA takes comfort from the company's track record and its healthy liquidity position and financial flexibility.

Supply chain disruption – ICRA notes the shortage in global supply chain of semiconductors, which is an important component of electronics products. The profitability impact of the event on DTIL is expected to be low, given the prescriptive nature of most operations. However, the impact of on sales volumes will be a key rating monitorable.

Liquidity position: Adequate

DTIL has healthy cash generation from operation, which is reflected in its healthy and increasing fund flow from operations (FFO). The liquidity is further supported by the free cash balance of Rs. 120.0 crore as on March 4, 2021 and undrawn fund-based limits of Rs. 148.7 crore as on December 31, 2020. The company plans to undertake debt-funded capex in FY2021–FY2024, which is expected to increase repayment obligation from FY2022 onwards. However, the scale of operations and cash flows are also likely to increase significantly. Thus, the liquidity position is expected to remain adequate with healthy cash generation and limited scheduled debt repayment.

Rating sensitivities

Positive factors – The rating may be upgraded/the outlook on the rating may be revised to Positive if the company is able to maintain the pace of revenue growth while achieving sustainable improvement in profitability and greater customer diversification. Improvement in financial profile will also trigger a rating upgrade. Specific credit metrics that could lead to an upgrade of Dixon's rating include adjusted net TOL/ TNW^ below 1.25 times on a sustainable basis.

Negative factors – The ratings maybe downgraded if the loss of any large client or slowdown in its key product segments materially affects DTIL's financial performance. The ratings may also be revised downwards if any increase in working capital intensity or decline in profitability results in tightening of the liquidity position, or stretching payables leads in an increase in leverage to adjusted net TOL/TNW of over 2.0 times on a sustained basis. Any supply chain disruption materially affecting the company's financial performance will be a negative trigger.

^Adjusted net TOL/TNW ratio: For arriving at adjusted net TOL/TNW, the TOL has been adjusted by netting off lease obligations, cash balances and liquid investments, and creditors which are either covered by BGs or where clients and suppliers are related parties. Notably, DTIL has irrevocable BGs from one of the principles, that overcomes any counterparty risk and therefore reduces the TOL to the extent covered by the outstanding within the BG coverage. Further another principle has an associated supplier. These liabilities have been adjusted from TOL for arriving at the adjusted ratio.

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 JVs

About the company

Dixon Technologies (India) Limited (DTIL), incorporated in 1993 by Mr. Sunil Vachani, is a diversified EMS company with operations in various subsegments of the electronic products vertical. DTIL has operations in consumer electronics, lighting, home appliance, and mobile phone segments and also undertakes reverse logistics operations. Besides, the company undertakes manufacturing of security surveillance equipment through a JV company.

TV manufacturing, part of the CE vertical, has been the largest segment for DTIL over the years. The company has, over the last couple of years, added new principles in the segment. This in turn has supported growth in segmental volumes and revenues. In the home appliances segment, the company has a range of 100% original design manufacturing (ODM) products. This segment, along with and its backward integration in the lighting segment, has supported profitability improvements in the recent years. DTIL ventured into mobile phone manufacturing in 2016 through a JV (50%), PEPL, with the Jaina Group. DTIL consolidated its shareholding in the company with the acquisition of the JV partner's share in April 2019. Thereafter, PEPL become its wholly-owned subsidiary. In January 2018, it entered into manufacturing of surveillance and security equipment like closed-circuit television cameras (CCTVs) and digital video recording (DVR) through AIL Dixon Technologies Private Limited, its 50% JV with Aditya Infotech Ltd. DTIL has manufacturing facilities in Noida, Dehradun, and Tirupati. The company recently received an approval under the PLI scheme as a domestic manufacturer of mobile phones. In September 2017, it 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 FY2020, the company reported a net profit of Rs. 120.5 crore on an OI of Rs. 4,400.1 crore compared to a net profit of Rs. 63.4 crore on an OI of Rs. 2,984.4 crore in the previous year. In H1 FY2021 the company reported a net profit of Rs. 54.0 crore on an OI of Rs. 2,155.7 crore.

Key financial indicators (audited)

DTIL Standalone	FY2019	FY2020	9MFY2021
Operating Income (Rs. crore)	2,984.4	4,400.1	4338.5
PAT (Rs. crore)	63.4	120.5	115.6
OPBDIT/OI (%)	4.6%	5.2%	4.8%
RoCE (%)	23.2%	29.8%	-
Total Outside Liabilities/Tangible Net Worth (times)	3.2	2.3	-
Total Debt/OPBDIT (times)	1.8	0.8	-
Interest Coverage (times)	5.2	5.8	10.2
DSCR (times)	3.8	4.3	-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year); NM: Non-meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)								Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of (Rs. crore)	Date & Rating in					Date & Rating in FY2020			Date & Rating in FY2019		Date & Rating in FY2018
					31-Mar-2021	17-Mar-2021	25-Nov-2020	28-Sep-2020	01-May-2020	11-Oct-2019	3-Oct-2019	10-Jun-2019	1-Mar-2019	20-Sep-2018	6-Oct-2017
1	Commercial Paper	Short Term	175.00	0.00 (25-Mar-21)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based -Term Loan	Long Term	52.70	12.00 (31-Dec-20)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund-based - Working Capital Facilities	Short Term	145.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-fund Based - Working Capital Facilities	Short Term	1,095.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Interchangeable^ Working Capital Facilities	Short Term	250.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
6	Unallocated Bank facilities	Short Term	47.34	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-

Amount in Rs. Crore

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 click here

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	Commercial Paper*	NA	NA	NA	175.00	[ICRA]A1+
NA	Fund-based -Term Loan 1	18-Nov-2015	NA	31-Dec-2020	2.70	[ICRA]AA- (Stable)
NA	Fund-based -Term Loan 2	20-Jan-2020	NA	31-Jan-2026	50.00	[ICRA]AA- (Stable)
NA	Fund-based - Working Capital Facilities	NA	NA	NA	145.00	[ICRA]A1+
NA	Non-fund Based - Working Capital Facilities	NA	NA	NA	1,095.00	[ICRA]A1+
NA	Interchangeable^ Working Capital Facilities	NA	NA	NA	250.00	[ICRA]A1+

** Amount placed is Rs. 0.00 crore as on 25-Mar-21; ^ between non-fund based and fund based, Source: DTIL*

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*	100.00%	Full Consolidation
AIL Dixon Technologies Private Limited	50.00%	Proportionate Consolidation Method/ Equity Method

** The ownership has increased from 50% to 100% in Q1-FY2020*

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