

March 29, 2022

Dixon Technologies (India) Limited: Ratings reaffirmed

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)	1,095.00	1,345.00	[ICRA]A1+; Reaffirmed
Interchangeable^ Working Capital Facilities (Short-term)	250.00	0.00	-
Unallocated Bank Facilities (Short-term)	47.34	47.34	[ICRA]A1+; Reaffirmed
Total	1,765.04	1,765.04	

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

Rationale

The ratings consider the robust growth in Dixon Technologies (India) Limited's (DTIL) scale of operations in the recent past, which imparts economies of scale benefit. This supports its competitive positioning compared to other peers in terms of getting favourable credit terms. The company witnessed a strong revenue growth of 47% in FY2021 and 79% YoY growth in 9M FY2022. The ratings take into account DTIL's healthy scale of operations, 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 favourably factor in DTIL's strong return on capital employed (RoCE) and comfortable debt coverage indicators with an interest cover of over 8 times. The ratings also note the healthy ramp-up in the mobile phone segment, which received approval under the Indian Government's Production Linked Incentive (PLI) scheme. The company has achieved the capex and revenue targets for the first year and has applied for the incentives. Further, the ratings positively factor in 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 leveraged capital structure with TOL/TNW of 2.96 times as of March 2021 and dependence on a few large clients, which renders its revenues susceptible to the business plans and performance of the same. It has sizeable working capital requirements (both fund-based and non-fund based) due to the lead time in imports and receivables realisation period. The same gets funded, to a large extent, by the credit period from suppliers. This results in a relatively high TOL/TNW ratio and dependence on sizeable non-fund-based limits (letter of credit or LC). However, ICRA notes that a part of DTIL's creditors remain 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, it was allowed to knock-off both debtors and creditors corresponding to one of the principals when it got into financial trouble. Adjusting for such creditors and on-balance sheet liquidity, the adjusted TOL/TNW was relatively comfortable at 1.35 times (as of March 2021) against reported TOL/TNW of 2.96 times. Given the strong revenue growth expectations, the creditor as well as TOL are expected to increase over the medium term. Hence, raising additional long-term funds and equity remain crucial to keep the overall leverage (TOL/TNW) and current ratio at a manageable level. DTIL's financial metrics, 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 of managing lean working capital cycle, its healthy liquidity position and financial flexibility.

ICRA notes that the revenue concentration has reduced over the years, with business from the top three clients decreasing to 43% in FY2021 from 58% in H1 FY2021. The strong profile of the large principals—Xiaomi Corporation [Moody's Baa2 (Stable)] and Samsung Electronics [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 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 and volatility in global supply chain of semiconductors, which is an important component of electronics products. The impact of supply chain issues on production/sales and profitability will be a key rating monitorable over the medium term. The price volatility in inputs mainly related to semiconductor, along with higher share of revenues from the mobile segment moderated the operational margins to 3.4% in 9M FY2022 from 4.5% in FY2021. However, supported by increased scale of operations and increasing share of ODM business where operating profitability is better, the OPM is expected to improve to 4%-5% over the medium term. Notwithstanding low operating margin due to inherent nature of business, the return indicators are likely to remain robust (RoCE likely to remain over 25%) in the backdrop of high asset turnover and prudent working capital management.

The Stable outlook on the rating reflects DTIL's strong business profile as one of the largest and cost-efficient EMS players in India and ICRA's expectation that it will continue to strong report a healthy growth in its scale of operations, along with diversification in customer profile.

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. It 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. Further, it has presence in 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 joint venture/JV). Security devices and set-top boxes manufacturing is undertaken under another subsidiary, AIL Dixon Technologies Private Limited (JV with Aditya Infotech Limited). DTIL has recently entered/has plans to enter into decorative lightning, wearables and hearables, fully automatic washing machines, AC circuit boards, and other products. The company has onboarded reputed clients under the mobile division resulting in robust growth in 9M FY2022. 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.

Robust growth in scale of operations with healthy financial risk profile – DTIL's financial profile remains healthy with robust improvement in FY2021 and 9M FY2022, despite a challenging environment, supported by increased volumes in the CE and mobile vertical. The company has recorded YoY revenue growth of 47% in FY2021 and 79% in 9M FY2022. The YoY growth for FY2022 is estimated at ~80%, primarily led by the volumetric business under consumer electronics and mobiles segment.

Further, ICRA expects the 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 has improved on the back of healthy accruals from operations and issuance of employee stock option programme. However, the external borrowing has also increased with the ongoing capex. The credit profile remains healthy as reflected in interest coverage ratio of over 8 times in FY2021 and 9M FY2022. The company plans to undertake sizeable capex, a part of which is likely to be funded by long-term borrowings, thereby increasing the debt servicing obligations. However, its increased scale and profitability is expected to keep the coverage healthy.

Credit challenges

High TOL/TNW due to high creditors and working capital requirements despite comfortable adjusted TOL/TNW ratio – DTIL's operations have sizeable working capital requirements (both fund-based and non-fund based) due to the 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 a part of DTIL's creditors remain covered by 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. Adjusting for such creditors and on-balance sheet liquidity, the adjusted TOL/TNW remained relatively comfortable at 1.35 times (as of March 2021) against reported TOL/TNW of 2.96 times. Given the strong revenue growth expectations, the creditor as well as TOL are expected to increase over the medium term. Hence, its ability to raise additional long-term funds and equity remain crucial to keep the overall leverage (TOL/TNW) and current ratio manageable. DTIL's financial metrics depends on prudent management of its working capital requirements. In this context, however, ICRA takes comfort from the company's track record, its healthy liquidity position and financial flexibility.

Dependence on customers' business plans and performance while strong patronage of key principals abates associated risks to an extent – DTIL'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 and strong profile of the clientele. 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.

Competition and risk of technological obsolescence – The consumer durable/electronic products/EMS industry is characterised by continuous product as well as 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 the 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. Further, DTIL 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.

Liquidity position: Adequate

DTIL is expected to have healthy cash generation from operation, supported by back-to-back arrangement with most of its suppliers for the OEM business. The liquidity is further supported by the cash balance and liquid investments of Rs. 236.9 crore as on December 31, 2021 and undrawn fund-based limits – utilisation of which remained below 30% on an average over the last one year. The company proposes to undertake debt-funded capex of Rs. 450 crore over the next two years that is expected to increase repayment obligation. However, the scale of operations and cash flows are also expected to increase significantly. Thus, the liquidity position is estimated to remain adequate with the healthy cash generation and long tenure debt repayment schedule.

Rating sensitivities

Positive factors – DTIL’s ability to maintain the pace of revenue growth while achieving sustainable improvement in profitability, greater customer diversification, and improvement in its financial profile may trigger a rating upgrade. Specific credit metrics that could lead to a rating upgrade include net TOL/TNW¹ below 2 times on a sustained basis.

Negative factors – Loss of major clients, significant slowdown in its key product segments, or supply chain disruption that materially affects its financial performance may exert negative pressure on the ratings. Additionally, inadequate accruals from operations or long-term funding (equity) for the proposed capex programme or incremental working capital requirement as the company scales up could also put pressure on its liquidity and credit profile. Increase in working capital intensity or decline in profitability resulting in weakening of liquidity and credit metrics with net TOL/TNW increasing above 3.5 or interest coverage falling below 5 times, on a sustained basis, can trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the issuer, which includes its subsidiaries and JVs (refer Annexure 2)

About the company

DTIL, incorporated in 1993 by Mr. Sunil Vachani, is a diversified EMS company with operations in the electronic products vertical. DTIL has operations in various sub-segments such as 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 (AIL Dixon Technologies Private Limited).

TV manufacturing, part of the CE vertical, has been the largest segment for DTIL. 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, it has a range of 100% original design manufacturing (ODM) products. This segment, along with and its backward integration in the lighting segment, has supported an improvement in its profitability. 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 became its wholly-owned subsidiary. In January 2018, it started manufacturing 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 and its subsidiaries/JVs have received approvals under the PLI scheme for five segments - mobile phones, lightning, telecom and networking products, inverter controller boards for air conditioners and IT hardware. In September 2017, it came out with an initial public offering (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 FY2021, the company reported a net profit of Rs. 159.8 crore on an OI of Rs. 6,448.2 crore against a net profit of Rs. 120.5 crore on an OI of Rs. 4,400.1 crore in the previous year. In 9M FY2022, it reported a net profit of Rs. 127.2 crore on an OI of Rs. 7,746.3 crore.

¹ Net TOL is calculated after netting off the unencumbered cash and liquid investments

Key financial indicators (audited)

DTIL (Consolidated)	FY2020	FY2021	9M FY2022
Operating Income (Rs. crore)	4,400.1	6,448.2	7744.3
PAT (Rs. crore)	120.5	159.8	127.2
OPBDIT/OI (%)	5.2%	4.5%	3.4%
RoCE (%)	29.8%	31.2	24.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	3.0	-
Total Debt/OPBDIT (times)	0.8	0.8	-
Interest Coverage (times)	5.8	8.9	8.7
DSCR (times)	4.3	6.6	-

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 (FY2022)			Chronology of Rating History for the Past 3 Years										
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating in Mar 29, 2022	Date & Rating in FY2021					Date & Rating in FY2020			Date & Rating in FY2019	
						Mar 31, 2021	Mar 17, 2021	Nov 25, 2020	Sep 28, 2020	May 01, 2020	Oct 11, 2019	Oct 3, 2019	Jun 10, 2019	Mar 1, 2019	Sep 20, 2018
1	Commercial Paper	Short Term	175.00	0.00	[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	52.70	[ICRA]AA-(Stable)	[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)
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	1,345.00	-	[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)	Short Term	0.0	-	-	[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+	[ICRA]A1+	-	-	-

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	Very Simple
Fund-based -Term Loan	Simple
Fund-based - Working Capital Facilities	Simple
Non-fund Based - Working Capital Facilities	Very Simple
Unallocated Bank Facilities	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Unplaced*	Commercial Paper*	NA	NA	NA	175.00	[ICRA]A1+
NA	Fund-based -Term Loan 1	12-Aug-2021	NA	31-Mar-2028	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	1,345.00	[ICRA]A1+
NA	Unallocated Bank Facilities	NA	NA	NA	47.34	[ICRA]A1+

*No CP was outstanding as on Feb-2022 ; ^ 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%	Full Consolidation
Padget Electronics Private Limited*	100%	Full Consolidation
Dixon Electro Manufacturing Private Limited	100%	Full Consolidation
Dixon Technologies Solutions Private Limited	100%	Full Consolidation
AIL Dixon Technologies Private Limited	50%	Equity Method
Dixon Electro Appliances Private Limited	51%	Equity Method
Dixon Devices Private Limited	40%	Equity Method

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

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