December 08, 2023

Dixon Electro Appliances Private Limited: Ratings reaffirmed; outlook revised to Positive from Stable

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) reaffirmed; Outlook revised to Positive from Stable
Long-term/ Short-term – Non-fund based – Letter of credit	200.00	200.00	[ICRA]AA-(CE)/ [ICRA]A1+ (CE); reaffirmed; Outlook revised to Positive from Stable
Long-term – Fund-based – Term loan	50.00	50.00	[ICRA]AA-(CE) reaffirmed; Outlook revised to Positive from Stable
Total	**270.00**	**270.00**	

Rating Without Explicit Credit Enhancement	[ICRA]BBB / [ICRA]A3+

**Instrument details are provided in Annexure-I*

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- (Positive)/[ICRA]A1+), one of the sponsors of Dixon Electro Appliances Private Limited (DEAPL), for the bank facilities. The Positive 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 to 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 result in an enhancement in the rating of the said instrument to [ICRA]AA-(CE) (Positive)/ [ICRA]A1+ (CE), against the rating of [ICRA]BBB / [ICRA]A3+ 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 - < 1.5x in FY2024, <1x from FY2025 and onwards; Debt/ EBITDA - < 2.0x
  - Interest cover - > 2.5x; DSCR[1] - >1.75x; FACR[2] - >1.3x
- Unsecured loans shall not form more than 50% of the promoter contribution at any point in time

[1] Debt Service Coverage Ratio
[2] Fixed Assets Coverage Ratio

Key rating drivers and their description

Credit strengths

Corporate guarantee from DTIL – The rated facilities are backed by a corporate guarantee from DTIL (rated at [ICRA]AA-(Positive)/ [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.

Strong track record and financial profile of the promoter – DEAPL is a joint venture between DTIL (51% shareholding) and Beetel Teletech Limited (49% shareholding). 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, closed-circuit television cameras (CCTVs), and mobile phones. It also undertakes reverse logistics operations and 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 constant 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 PLI scheme launched by the GoI. While the company witnessed a good start with Airtel as its anchor customer, the benefit under the scheme is expected to help the company to enter into 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 FY2023. Supported by ramp-up in business from existing and new clients, the company 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 – Being in the initial stages of an entity's life cycle, 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, the company has onboarded Reliance Jio as well, which is expected to augment revenues. With the expansion planned over the years, other reputed 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 1.8[3] as on March 31, 2023. Driven by the sharp growth trajectory, its working capital position – receivables, inventory, and creditors are expected to remain high with a TOL/TNW ratio of 5.5[3] times as on March 31, 2023. However, the company has arrangement with its 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 margins; 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,

[3] *These calculations are based on preference share capital classified as equity (based on Ind As). However, for analysis, the approach of Hybrid Instrument has been applied.*

thereby putting pressure on the profit margins. The competition has increased following the entry of globally competitive contract manufacturing players in the domestic market in the recent years. This apart the margins are 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 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 custom duty, taxation, etc) and foreign exchange exposure, considering its sizeable imports. However, the forex risk is abated to an extent with its ability to pass on the variation.

Liquidity position: Adequate

Dixon Technologies (India) Limited – Adequate

DTIL is likely to generate healthy cash flow from operations, driven by a healthy working capital cycle. Its liquidity is further supported by cash balance and liquid investments of Rs. 126.6 crore as on September 30, 2023 and undrawn fund-based limits (around Rs. 1,160 crore at a consolidated level as on September 30, 2023). The average fund-based limit utilisation had been less than 25% over the last one year. The company intends to undertake capex in the range of Rs. 300 - 400 crore p.a., over the next two years, partly funded by external debt. In addition, it is estimated to have debt repayment obligations of Rs. 90 - 110 crore p.a. in FY2025 and FY2026. Its cash flows from operations are expected to remain adequate to meet all these funding obligations. Further, sufficient cushion in the working capital facilities is available for meeting any working capital mismatch.

Dixon Electro Appliances Private Limited – Adequate

DEAPL's liquidity position remains adequate with expected cash flow from operations of around Rs. 3.8 crore in FY2024 against annual repayment obligation of Rs. 1 crore. Further, the company had a healthy cushion (~Rs. 14.7 crore) in working capital facilities as on March 31, 2023.

Rating sensitivities

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

Negative factors – The rating 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 (DTIL) The assigned rating is based on the unconditional, irrevocable corporate guarantee extended by DTIL towards the bank facilities of DEAPL. The rating also factors in the 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. There also exists a consistent track record of DTIL extending timely financial support to other subsidiaries, whenever needed.
Consolidation/Standalone	Standalone

About the company

Incorporated on January 15, 2020 as a wholly-owned subsidiary of Dixon Technologies (India) Limited (DTIL), Dixon Electro Appliances Private Limited (DEAPL) is involved in the business of manufacturing and trading of electronic goods and parts. On November 09, 2021, DTIL and Beetel (a Bharti Mittal family Group entity) 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 to Promote Telecom and Networking Products Manufacturing in India' notified by the Ministry of Communications. The company's customer profile is strong with Bharti Airtel Limited and Beetel (part of the Bharti Group) as counterparties. It has also entered into an agreement with Reliance Jio in Q2 FY2024, which would diversify its clientele.

With regards to the manufacturing for Beetel, the same is undertaken at manufacturing plant in Ludhiana, acquired from Beetel under slump sale. DEAPL has also set up a manufacturing facility in Noida, Uttar Pradesh, to shoulder the manufacturing of telecom and networking products.

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024*
Operating income	17.3	200.4	286
PAT	0.3	-0.9	-1.67
OPBDIT/OI	3.4%	2.7%	2.3%
PAT/OI	1.9%	-0.4%	-0.6%
Total outside liabilities/Tangible net worth (times)	NM	5.5^	-
Total debt/OPBDIT (times)	NM	13.3^	-
Interest coverage (times)	NM	2.9	-

*Source: Company; ICRA Research; *Provisional figures*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NM: Non meaningful 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

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 08, 2023	August 22, 2023	-	-	-
1	Fund-based – Others	Long term	20.00	-	[ICRA]AA-(CE) (Positive)	[ICRA]AA-(CE) (Stable)	-	-	-
2	Non-fund-based – Letter of credit	Long term/ Short term	200.00	-	[ICRA]AA-(CE) (Positive)/ [ICRA]A1+ (CE)	[ICRA]AA-(CE) (Stable)/ [ICRA]A1+ (CE)	-	-	-
3	Fund-based – Term loan	Long term	50.00	23.7	[ICRA]AA-(CE) (Positive)	[ICRA]AA-(CE) (Stable)	-	-	-

Complexity level of the rated instruments

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Others	-	-	-	20.00	[ICRA]AA-(CE) (Positive)
NA	Non-fund based – Letter of credit	-	-	-	200.00	[ICRA]AA-(CE) (Positive)/ [ICRA]A1+ (CE)
NA	Fund-based – Term loan	FY2023	-	FY2029	50.00	[ICRA]AA-(CE) (Positive)

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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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.

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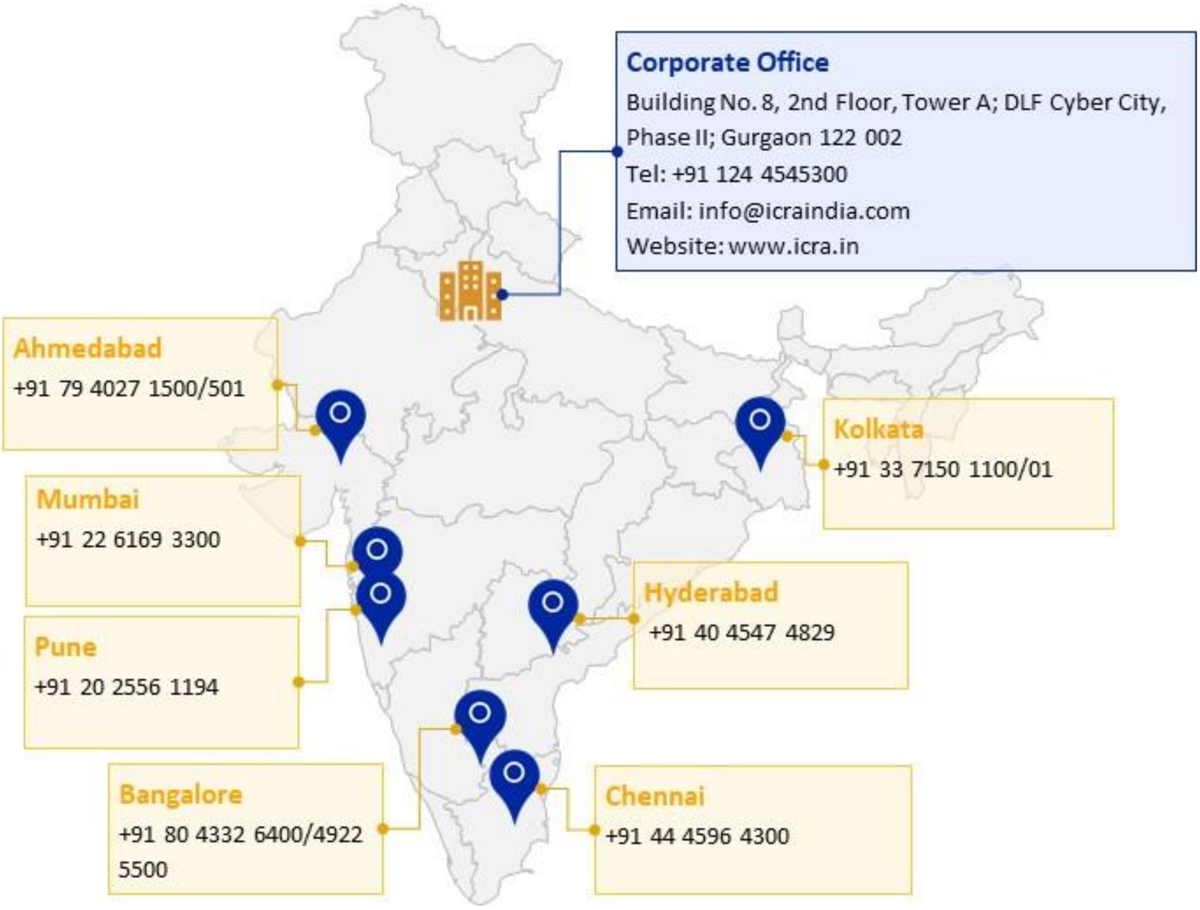

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