October 06, 2017

Dixon Technologies (India) Ltd

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loan	13.3	[ICRA]A+(Stable), upgraded from [ICRA]A(Stable)
Non-fund Based Limits	2.0	[ICRA]A+(Stable), upgraded from [ICRA]A(Stable)
Short-term Fund-based Limits	41.0 (earlier 69.0)	[ICRA]A1+; upgraded from [ICRA]A1
Short-term Non-fund Based Limits	85.0** (earlier 50.0)	[ICRA]A1+; upgraded from [ICRA]A1
Unallocated	6.7 (earlier 0.7)	[ICRA]A1+; upgraded from [ICRA]A1
Total Bank Lines	**148.0 (earlier 135.0)**	
Commercial Paper	25.0	[ICRA]A1+; upgraded from [ICRA]A1
Total Rated	**173.0**	

**Instrument details are provided in Annexure-1*

***includes Rs. 31.0 crore of limits which are interchangeable to fund-based limits*

Rating action

ICRA has upgraded the long-term rating from [ICRA]A (pronounced ICRA A) to [ICRA]A+ (pronounced ICRA A plus)[1] for the Rs. 15.3-crore[2] bank lines of Dixon Technologies (India) Ltd. (DTIL, formerly known as Dixon Technologies India Private Limited). ICRA has also upgraded the short-term rating from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 132.7-crore (earlier Rs. 119.7 crore) bank facilities and Rs. 25.0-crore commercial paper programme of DTIL. The outlook on the long term rating is Stable.

Rationale

The ratings revision positively factor in the company's continued healthy operational performance in FY2017, which along with the fund raised through the initial public offering (IPO) in September 2017 has helped it in improving its credit metrics and boosted its liquidity. The ratings continue to factor in DTIL's healthy scale of operations and its modest working-capital intensity, which has resulted in low dependence on external borrowings and comfortable credit metrics. The ratings also factor in the expected improvement in DTIL's operating profitability as it is gradually shifting towards higher value-added product offerings as well as gaining traction in its higher margin refurbishing business. The ratings continue to be supported from DTIL promoters' extensive experience and track record in electronic manufacturing services (EMS) business, its reputed clientele, and its diversified product portfolio.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] *100 lakh = 1 crore = 10 million*

The long-term rating, however, is constrained by the concentration of DTIL's revenues to a few clients, which makes it dependent on the business plans and performance of its key customers. Nonetheless, in the past, the company has demonstrated its ability to withstand the loss of clients. In addition, DTIL has been able to add new principals and products that have helped it in diversifying as well as supporting growth. ICRA's rating has also taken comfort from the company's long-standing relationship with its key clients (Panasonic and Phillips), and their strong financials and market position. Furthermore, ICRA believes that the company will remain competitive with its lean cost structure, long track record, and ability to adapt to the rapid technology upgrades in the consumer electronics/durable space that requires continuous process alterations and improvements.

ICRA has also factored in DTIL's capex plans to enhance value addition and capacities. However, these are to be funded primarily from internal accruals. In case of DTIL using sizeable debt to fund the capex, the credit metrics may be impacted and as such this remains a key rating sensitivity. Apart from this, its ability to diversify its client base, scale up its operations, improve its profitability and debt-coverage indicators will be the key rating sensitivities.

Key rating drivers

Credit strengths

- **Extensive experience of promoters in contract manufacturing business -** The promoters have over two decades of experience in the business. Their expertise has helped DTIPL in becoming a leading player in the Indian electronic contract manufacturing space and establishing relationships with consumer electronic majors.
- **Stable volumes from existing principals and addition of new principals -** At present, the LED TV segment is one of the strongest and the largest segments in terms of revenues. Earlier, DTIL used to undertake assembly of CTVs, mainly for LG. With the phasing out of CTVs, DTIL has moved into LCD/LED TV segment.
- **Improvement in financial profile with healthy revenue growth, better operating profitability, and limited dependence on external borrowings -** DTIL's ability to sustain its working-capital intensity at lower levels has been a key rating sensitivity. Lower funding requirement in the LED TV assembly segment (due to shorter receivable period) enables it to maintain its working-capital cycle efficiently. Alongside high growth in operating income (OI), the company has been able to manage its working capital efficiently, resulting in lower dependence on external borrowings.
- **Expected improvement in operating profitability with increased contribution from higher margin ODM products and refurbishment of set-top box business -** DTIL has a long-term strategy of becoming an original design manufacturer (ODM), wherein it will be responsible for an entire product, starting from design. In the medium term, to improve margins, DTIL intends to focus on increasing value addition in its offerings and to become a completely knocked down (CKD) assembler from the current semi knocked down (SKD) assembler. This is expected to improve margins and is a logical mode of diversification.
- **Public issuance helps in improving net worth, liquidity, and brand visibility -** DTIL had issued compulsorily convertible debentures (CCD) of Rs 37.5 crore in FY2010 to private equity (PE) investors. While these CCDs had a compulsory conversion period after 10 years of issuance, investors had these converted into equity shares in August 2016. Further, in September 2017, the company successfully completed its IPO, which provided an exit to investors. The company also issued fresh equity shares to public in IPO worth ~Rs. 60 crore which boosted the company's liquidity and net worth.

Credit weaknesses

- **Dependence on business plans and performance of customers -** As is prevalent in such an industry, the company's revenues are closely linked to the business plan and performance of its principals. Further, risks of customer loss and obsolescence of products remain. However, the company has a demonstrated track record of withstanding such losses in the past. Nevertheless, the company needs to make continuous efforts to maintain its cost competitiveness and move on to new products given the dynamic nature of the product segment. Despite the 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.
- **High revenue concentration on Philips and Panasonic; however, both the companies are global players with strong financial profile –** A major part of DTIL's revenues and operating profitability are from its top two customers – Philips, and Panasonic. However, ICRA derives comfort from the long relationship and both the companies being strong players in their segments.
- **Risk of obsolescence of product necessitates continuous upgrade and diversification -** The company has taken steps to diversify into new products like washing machines, mobile phones.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria
Corporate Credit Rating Methodology

About the company
DTIL, incorporated in 1993 by Mr. Sunil Vachani, is involved in the manufacture of consumer durables which comprise mainly televisions, lighting products (CFL, LEDs, ballasts), and washing machines. The company operates as a contract manufacturer for consumer electronics majors like Philips, Panasonic etc. DTIL has manufacturing facilities in Noida (Uttar Pradesh) and Dehradun (Uttarakhand), which have capacities for assembly of printed circuit boards (PCB), LED/LCD TVs, ballasts, CFLs, LEDs, set top boxes, washing machines, reverse logistics, etc. Recently, the company formed a joint venture (JV) with the Jaina Group for manufacturing mobile phones in Noida.

DTIL had formed a JV (50% each) – Padget Electronic Pvt. Ltd. – with the Jaina Group for mobile handset manufacturing. Recently, DTIL entered into a JV (50% each) with Aditya Infotech Ltd. for CCTV manufacturing.

The company recently (September 2017) completed its IPO worth ~Rs. 600 crore, which involved ~Rs. 60 crore of fresh equity issuance and remaining as offer for sale from promoter/investors.

In FY2017, DTIL (on consolidated level) reported an operating income (OI) of Rs. 2,456.8 crore and a profit after tax (PAT) of Rs. 53.6 crore compared with OI of Rs. 1,389.4 crore and PAT of Rs. 27.4 crore in FY2016.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1389.4	2456.8
PAT (Rs. crore)	27.4	53.6
OPBDIT/ OI (%)	4.1%	3.6%
RoCE (%)	25.4%	36.1%
Total Debt/ TNW (times)	0.68	0.24
Total Debt/ OPBDIT (times)	1.40	0.52
Interest Coverage (times)	4.33	6.96
NWC/ OI (%)	4.3%	3.3%

OI: Operating Income; 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);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

Name of Instrument	**Current Rating**			**Chronology of Rating History for the past 3 years**				
	Type	**Rated amount (Rs. crore)**	**Month-year & Rating**	**Month- year & Rating in FY2017**		**Month-year & Rating in FY2016**	**Month-year & Rating in FY2015**	**Month-year & Rating in FY2014**
			October 2017	**February 2017**	**September 2016**	**January 2016**	**January 2015**	**March 2014**
Term Loans/Non-fund Based	Long Term	15.3	[ICRA] A+ Stable		[ICRA] A Stable	[ICRA] A- Stable	[ICRA] BBB+ Stable	[ICRA] BBB Stable
Fund Based/Non-fund Based/ Unallocated	Short Term	132.7	[ICRA]A1+		[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A3+
Commercial Paper	Short Term	25.0	[ICRA]A1+	[ICRA]A1				

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 www.icra.in

Annexure-1

Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Term Loan	-	-	FY2021	13.3	[ICRA]A+ (Stable)
Non-fund Based	-	-	-	2.0	[ICRA]A+ (Stable)
Short-term Fund Based	-	-	-	41.0	[ICRA]A1+
Short-term Non-fund Based	-	-	-	85.0	[ICRA]A1+
Unallocated	-	-	-	6.7	[ICRA]A1+
Commercial Paper	*	*	*	25.0	[ICRA]A1+

*Not placed as of September 30, 2017

Source: DTIL

Contact Details

Analyst Contacts

Mr. K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Mr. Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Mr. Abhishek Gupta
+91 124 4545 863
abhishek.gupta@icraindia.com

Relationship Contact

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	