

Dixon Technologies India Private Limited

Instrument	Amount	Rating action
	In Rs. Crore	As on January 2016
Term loans	nil (earlier 4.8)	[ICRA]A-; Upgraded from [ICRA]BBB+ Outlook: stable
Long term non fund based	2.0	
Short term fund based	77.0	[ICRA]A2+; Upgraded from [ICRA]A2
Short term non fund based	30.0 (earlier 15.0)	
Unallocated	6.0 (earlier 16.2)	

ICRA has upgraded the long term rating assigned to the Rs. 2.0 crore non fund based facilities of Dixon Technologies India Private Limited (Dixon) from [ICRA]BBB+ (pronounced ICRA triple B plus) to **[ICRA]A-** (pronounced ICRA A minus)*. ICRA has also upgraded the short term rating assigned to the Rs 113.0 crore fund and non fund based facilities (including unallocated limits) of Dixon from [ICRA]A2 (pronounced ICRA A two) to **[ICRA]A2+** (pronounced ICRA A two plus). The outlook on the long term rating is '**stable**'.

The revision in ratings factor in improvement in operating profitability in H1-FY16 led by increased value added offering with shift towards Completely Knocked-down (CKD) and Original Design Manufacturer (ODM) business model, and traction in its refurbishing business. Improved operating profitability along with lower working capital intensity has resulted in lower dependence on external borrowings and improvement in Dixon's credit metrics. The rating action also positively factors in the consolidation exercise undertaken by Dixon by selling its shareholding in associate company - My Box Technologies Pvt Ltd and acquiring minority shareholding in its subsidiaries – Dixon Appliances Pvt Ltd, and Dixon Bhurji Moulding Pvt Ltd which will pave the way for consolidation of the business of these subsidiaries under Dixon resulting in improved operational efficiencies. The ratings also take comfort from company's entry into newer products/segments and addition of new customers which will increase diversification. The ratings continue to be supported from the promoter's long experience and track record in Electronic manufacturing services (EMS) business, its reputed clientele, diversified product portfolio, and presence in excise free zone.

The ratings are, however, constrained by Dixon's scale of operations, profitability, and sustainability of its profitability post the expiry of the excise duty benefits (in two units which are valid till FY17 and FY20). Nevertheless, ICRA believes that Dixon will continue its efforts to maintain lean cost structure and adapt with the rapid technology upgradation in the consumer electronics/durable space which requires continuous process alterations and improvements. The ratings continue to be constrained by its customer concentration, dependence on business plans and performance of its key customers and limited control over operations given that majority of the business parameters are customer driven. However, ICRA has taken comfort from the decline in customer concentration over the years and strong market position of its key customer.

ICRA has also noted that the Private Equity (PE) investor – which had entered in FY09 – is to be provided an exit. ICRA will continue to monitor developments in this regard and take rating action based on the developments.

While upgrading the ratings, ICRA has taken a note of the recent one-time royalty settlement over DVD products assembled for a client. While the royalty payment is sizeable, this is a one-time settlement and the amount has to be paid over next two years which lowers the impact on liquidity and credit metrics of Dixon. Going forward, Dixon's ability to diversify its client base, improve its profitability and debt coverage indicators will be the key rating sensitivities.

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



Company Profile

Dixon Technologies (India) Private Limited (Dixon), incorporated in 1993 by Mr Sunil Vachani, is engaged in the manufacture of consumer durables which comprise mainly of colour televisions(CTVs), DVD players and set top boxes. The company operates as a contract manufacturer for consumer electronics majors like Philips, Toshiba, Panasonic etc. Dixon has manufacturing facilities in Noida (Uttar Pradesh) and Dehradun (Uttarakhand) ; the company recently shifted it lines out of Mohali to Dehradun which have capacities for assembly of Printed circuit boards, CTVs, DVD players, electronic ballasts, CFLs, LCD TVs, set top boxes, iPods and energy meters.

Recent Results

As per the results for the first half of current financial year (H1FY16), Dixon (on consolidated level) registered an operating income (provisional) of Rs 706 crore and a profit before tax of Rs 17.6 crore. In FY15, the company had reported operating income of Rs. 1201.7 crore and net profit of Rs. 12.2 crore.

January 2016

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