Dixon Technologies (India) Limited

May 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Short Term Bank Facilities	90.00	CARE A1+ (A One Plus)	Assigned
Total Bank Facilities	**90.00 (Rs. Ninety Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Dixon Technologies (India) Limited (DTIL) takes into account DTIL's experienced and qualified promoter and management team, DTILs established track record and market position in Electronic Manufacturing Services (EMS) industry, leadership position of the company in majority of its segments and well diversified operations spread across different product segments/verticals. Ratings further derives strength from DTIL's association with highly reputed and diversified client base, DTIL's healthy financial performance during FY20 which further improved in 9MFY21 (refers to the period April 1 to December 31) despite disruptions caused by national level lockdowns associated with COVID-19 pandemic between March-May 2020, improvement in overall operating profitability, comfortable debt structure and healthy debt coverage indicators along with healthy growth prospects in mobile manufacturing segment under Padget Electronics Pvt Ltd (PEPL, 100% subsidiary of DTIL) post receipt of Production Linked Incentive (PLI) approval to PEPL under PLI scheme for Large Scale Electronics Manufacturing .

The rating is, however, constrained by DTIL's direct dependence on customers' business plans and performance, though the same is mitigated to some extent through long-standing relationship with majority of the customers, moderate customer concentration risk with relatively higher dependence on top 3-5 customers though the same has improved in last 1-2 years, technological obsolescence risk with continuous requirement of R&D and improvement in processes and products to maintain competitive advantage, DTIL's margins being sensitive to any change in product mix which may adversely impact the overall blended margins of the company, relatively higher TOL/TNW on consolidated basis due to sizable utilization of non-fund based facility for procurement of raw material, utilization of fund based working capital facilities and relatively high creditors, though part of company's creditors are backed by Bank Guarantees (BGs) from its clients which mitigates the risk to an extent. The rating also factors in risk of forex fluctuation and fluctuations in prices of raw materials, though the same is pass through to the end customers which provides some comfort.

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Reduction in operating efficiencies on account of deterioration in cost-effectiveness negatively impacting profitability of the company.
- Any adverse change in government's policy on import restrictions and reduction in import duties on consumer electronic products and components that may have negative bearing on company's growth and hence earnings.
- Deterioration in financial risk profile of the company thereby increasing TOL/TNW of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management team with DTIL's established track record and market position in EMS business both under OEM and ODM models: Dixon Technologies (India) Limited was established by Mr. Sunil

Vachani in the year 1993 and is the leading player in electronic services manufacturing (EMS) space in India with diversified products in various sub-segments of the electronics vertical.
Dixon's diversified product portfolio includes (i) Consumer Electronics like LED TVs; (ii) Home Appliances like washing machines; (iii) Lighting Products like LED bulbs and tube lights, down lighters and CFL bulbs; and (iv) Mobile phone & EMS (Medical Electronics & Set top boxes) (v) Surveillance Security Systems, (vi) Reverse Logistics(Repairing and refurbishment services of LED TV panels and set top boxes). DTIL have 13 manufacturing facilities which are located in the states of Uttar Pradesh, Uttarakhand and Andhra Pradesh. Besides this, the group also operates 3 R&D facilities in India duly registered with Department of Scientific and Industrial Research (DSIR) for offering new products.

Diversified operations and revenue streams under different segments/verticals under DTIL, DTIL's entry into new verticals to contribute to revenue growth in future: DTIL's revenues are diversified across different product segments like (i) Consumer Electronics like LED TVs; (ii) Home Appliances like washing machines; (iii) Lighting Products like LED bulbs and tube lights, down lighters and CFL bulbs; and (iv) Mobile phone & EMS(Medical Electronics & Set top boxes) (v) Surveillance Security Systems, (vi) Reverse Logistics(Repairing and refurbishment services of LED TV panels and set top boxes)
Further, during FY2021, the company has ventured into manufacturing of medical electronics through its 50% JV subsidiary AIL Dixon Technologies Private Limited (ADTPL, JV with Aditya Infotech Limited (AIL)) and set top boxes through its 100% subsidiary Padget Electronics Private Limited (PEPL).
Consumer electronics and lighting solutions are the two major segments for DTIL which contribute to around 48% and 26% of total revenue of DTIL during FY20. Mobile phones, home appliances, security systems and reverse logistics contribute 12%, 9%, 5% and ~0.5% of DTIL's revenue during FY20. Nevertheless, Dixon's wholly owned subsidiary, PEPL is a beneficiary of Government of India's recently launched Production Linked Incentive (PLI) scheme (Approved by the Ministry of Electronics and Information Technology in October, 2020) for mobile phones/electronics, which would provide production linked incentives over next five years to the eligible entities for manufacturing of mobile phones and company has started production under this scheme from March'21 onwards for Motorola, Nokia, Karbonn, Panasonic and Gionee. Revenue share of mobile phones segment is expected to significantly increase to around 35% - 40% by FY22. Furthermore, in future, DTIL plans to venture into manufacturing of laptops & tablets and an application has been made under PLI Scheme for the same and a MOU has been signed with Acer.

Reputed and diversified Client base across all the segments of operations: DTIL caters to all the leading electronic players in its respective segments. Some of the key clients of DTIL includes Panasonic, Xaomi, Samsung, PHILIPS, Nokia, TCL, Godrej, Crompton, Havells, etc. In security systems segment the JV partner AIL (Aditya Infotech Limited) holds trademark for CP Plus and Dahua brands.
Furthermore DTIL has recently ventured into Set Top Box and Medical Electronics segment. DTIL under PEPL has started manufacturing set top boxes for Jio (Hybrid & Cable) & Dish TV. DTIL through its JV company AIL Dixon Technologies Private Limited (ADTPL), signed an MoU with one of the leading diagnostic companies of India Molbio for manufacturing of ICMR approved Truelab™ Quattro Real Time Quantitative micro PCR Analyzer machines to manufacture RT-PCR S device (An innovative product used for COVID-19 tests which can deliver results within an hour of swab testing).

Healthy financial performance during FY20 & 9MFY21 on account of robust performance across all verticals of operations with improvement in EBITDA and PAT margins, capacity utilization, demand and supply picked up post lockdown period, relatively lower leverage and healthy debt coverage metrics: During FY20 DTIL's revenues grew by 47% y-o-y to around Rs. 4,403 Cr in FY20 from around Rs. 2,989 Cr during FY19. EBIDTA and PAT stood at Rs. 233 Cr and Rs. 120 Cr respectively for FY20, registering a growth of ~65% and ~90% respectively for the year as against EBITDA and PAT of Rs. 141 Cr and Rs. 63 Cr during FY19. DTIL also posted improvement in its operating margins during FY20, with PAT and EBIDTA margins at 2.7% and 5.2% respectively as against PAT and EBITDA margins at 2.1% and 4.7% during FY19.
DTIL has registered healthy growth in all the segments/verticals of its operations. DTIL's Consumer electronics segment is largest segment for the company, which contributed 48% of total revenue. Lighting Segment contributed 26% of total revenue in FY20.

Further, amid lockdown implicated by GOI due to COVID-19 pandemic from March 22, 2020, DTIL's plant were initially closed for approximately 45 days and from first week of May, 2020 the company started their plants with limited capacity utilizations which subsequently increased to 75% - 85% by the end June, 2020. Despite the challenging environment on account on healthy growth in consumer electronics vertical and improvement in profitability supported by backward integration, DTIL during 9MFY21 reported a healthy revenue of Rs. 4338.50 Cr registering a Y-o-Y growth of 22.5% over 9MFY20 revenue of Rs. 3542.70 Cr. EBITDA and PAT of the company increased to Rs. 207.40 Cr and Rs. 115.60 Cr respectively during 9MFY21 as against EBITDA and PAT of Rs. 172.41 Cr and Rs. 92.90 Cr respectively during 9MFY20 registering an Y-o-Y growth of 20.3% and 24.4% respectively. Furthermore, DTIL's financial profile remains healthy with moderate leverage and healthy debt coverage indicators.
Debt coverage indicators are healthy with interest coverage of 5.91x during FY20 (as against 5.36x during FY19).

Key Rating Weakness

Dependence on client's business plans and performance, nevertheless, strong financial profile of customers and DTIL's long-standing relationship with key customers partially mitigates the risks: As customary to the EMS industry, DTIL's revenues are linked to the business plans and performance of its clients. Further, a major part of DTIL's revenues and hence operating profitability is derived from its top customers (Xiaomi, Samsung, Phillips and Panasonic). The customer concentration exposes the company to the risk of client loss or issues in the customer's business that may affect DTILs business as well. Nevertheless, Dixon has successfully maintained strong relationships with its key customers. Some of its customers have long standing relationships with the company ranging between 10-12 years. Also, Dixon is constantly expanding its customer base in existing segments and DTIL's plans of venturing into newer segments will help it to mitigate this risk. Nevertheless, company needs to make persistent efforts to maintain its cost competitiveness through continuous improvement in processes, products and manufacturing capabilities given the dynamic nature of the product segments.

Competition and risk of technological obsolescence leading to continuous R&D requirement and improvements in processes and products: Consu mer Durables/EMS industry is accustomed to continuous innovations in products, persistent improvements in processes and rapid changes and adoption of new and better technologies. Given the risk of technological obsolescence, the industry players are required to undertake continuous upgrades/improvements to sustain their competitive advantage. However, company has always acknowledged and embraced changing and advancing technology. DTIL have 3 R&D centres (one is DSIR approved) which are equipped with the latest technology. Moreover, the company has expanded its product portfolio along with a change in technologies in the market.
Company faces competition not only from other EMS players but also from in-house manufacturing capabilities of large corporates. These factors limit pricing flexibility and bargaining power with customers, thereby putting pressure on operating margins. Further, the company is exposed to risks pertaining to any adverse regulatory changes (like changes in custom duty, taxation, etc.), foreign exchange fluctuation risk and risk of fluctuation in prices of raw material. However, the risk of fluctuation in forex and prices of raw material is abated to an extent with the company's ability to pass on these variation to their clients.

Moderately high leverage and TOL/TNW: DTIL has relatively high TOL/TNW of 2.63x for FY20. Nevertheless the same has improved from FY19 due to accretions to net-worth from regular operations and exercise of employee stock options during FY20. DTIL's operations depends upon sizeable utilization of credit period from its suppliers, however many of these have back-to-back arrangements with DTIL's corresponding clients. The company's operations require sizeable working capital limits (fund-based and non-fund based). DTIL utilises non-fund based facilities such as LCs for procurement of raw material, fund based working capital facilities like bill discounting and other working capital borrowings to meet its working capital requirements and depend upon significant creditors in the form of suppliers of raw materials; However, part of company's creditors are backed by Bank Guarantees (BGs) from its clients which mitigates the credit risk to an extent.

Liquidity Analysis: Adequate
DTIL has healthy cash generation from its operations reflected in healthy and increasing cash accruals. Furthermore, DTIL has a free cash and liquid investments balance of around Rs. 171 crore as on March, 2021 and unutilized fund-based limits of around Rs. 687.00 crore as on March, 2021.
DTIL plans to undertake some debt funded capex in FY2021–FY2024, which is expected to increase repayment obligation from FY2022 onwards; however, the cash flows are expected to be sufficient to meet the repayment obligations. Thus, the liquidity position is expected to remain adequate with healthy cash generation and limited scheduled debt repayments.

Analytical Approach: Consolidated. List of all the companies getting consolidated under DTIL are shown below:

Sr. No.	Name Of The Company	Subsidiary/Associate	% Of Shares Held by DTIL
1	Dixon Global Private Limited	Subsidiary	100%
2	Padget Electronics Private Limited	Subsidiary	100%
3	AIL Dixon Technologies Private Limited	Joint Venture	50%
4	Dixon Electro Appliances Private Limited	Subsidiary	100%

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's policy on Default Recognition]
[Financial Ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology: Consolidation]
[CARE's Methodology for Manufacturing Companies]

About the Company
Dixon Technologies (India) Limited (DTIL), incorporated in 1993 by Mr. Sunil Vachani, a diversified Electronic Manufacturing Service (EMS) company with operations in various sub-segments of the electronic products vertical. DTIL has operations in consumer electronics (LED TVs), lighting (LED Lights, Ballast, Tube Lights, Battens and Downlighters), home appliances (Washing Machines), Security Surveillance systems and mobile phone & EMS segments and also undertakes reverse logistics operations (Repair & refurbishment Services for LED TVs and Set-Up boxes). The company undertakes manufacturing of security surveillance equipment & medical electronics through a JV company viz. AIL Dixon Technologies Private Limited (ADTPL).
DTIL ventured into mobile phone manufacturing in 2016 through a JV (50%) Padget Electronic Pvt. Ltd. (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 entered into manufacturing of surveil- lance and security equipment like closed-circuit television cameras (CCTVs) and digital video recording (DVR) through ADTPL, its 50% JV with Aditya Infotech Ltd.
Company operates through 2 business models, first one is OEM (for consumer electronics, lighting, mobiles & EMS, Security Systems & Reverse Logistics), where the product is made as per customer design and specifications, and ODM (Consumer electronics, Lighting & Home Appliances segment), where it supplies own design products to the customers. Currently, DTIL has around 74% of manufacturing under OEM model and remaining 26% is under ODM model. DTIL has manufacturing facilities in Noida, Dehradun, and Tirupati. The company has recently received an approval under the PLI (Production Linked Incentive) scheme as a domestic manufacturer of mobile phones in the name Padget Electronics Pvt Ltd.

Consolidated Brief Financials (Rs. crore) - DTIL	FY19 (A)	FY20 (A)
Total Operating Income	2989.28	4403.01
PBILDT	140.98	233.13
PAT	63.36	120.50
Overall Gearing (times)*	0.64	0.81
Interest Coverage (times)	5.36	5.91

**Overall Gearing includes LCs Outstanding (LCs which are not backed by BGs from customers, generally on average around 85% of LCs are backed by BGs) and bill discounting from banks.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	-	-	-	90.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-Letter of credit	ST	90.00	CARE A1+	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities

Name of the Facility - LC	**Detailed explanation**
A. Financial covenants	**NA**
B. Non-financial covenants	
Other Conditions	Goods received under the LC shall be insured against all risks. Insurance costs to be borne by the borrower.
	The borrower will submit exchange control copy of import license/approval of appropriate authority whenever warranted in respect of goods to be imported.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	**Name of the Instrument**	**Complexity Level**
1.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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