Dixon Technologies (India) Limited

April 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Short Term Bank Facilities	90.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**90.00 (Rs. Ninety Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Dixon Technologies (India) Limited (DTIL) continues to take into account DTIL's established track record and market position in Electronic Manufacturing Services (EMS) industry characterized by its growing scale of operations & leadership position of the company in majority of its segments and well diversified operations spread across different product segments/verticals. The rating further continues to derive strength from DTIL's association with highly reputed and diversified client base, DTIL's sustained financial performance during FY21 (refers to period from April 01 to March 31) and 9MFY22 (refers to the period April 1 to December 31) despite disruptions caused by national level lockdowns associated with COVID-19 pandemic, strong return on capital employed (RoCE) , healthy debt coverage indicators and experienced and qualified promoter and management team. CARE has taken into cognizance the healthy growth prospects for DTIL going ahead post receipt of Production Linked Incentive (PLI) approval in various segments with majority of growth expected from the mobile segment.

The rating, however, continues to remain 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 and technological obsolescence risk. The ratings also factor in 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. Further, DTIL is exposed to risks pertaining to regulatory changes (like custom duty, taxation, etc), risk of technological obsolescence and foreign exchange exposure, given its sizeable imports which is abated to an extent with the company's ability to partly pass on the variation.

Rating Sensitivities

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

- Increase in working capital intensity or decline in profitability resulting in weakening of liquidity and credit metrics with TOL/TNW of the company above 3.5 times.
- Loss of major clients, significant slowdown in its key product segments, or supply chain disruption that materially affects its financial performance.
- 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.

Detailed description of 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 has 16 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.

The company continues to command significant market share in all its segments with about 30% share in LED TVs and 50% in LED bulbs.

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. Consumer electronics and lighting solutions are the two major segments for DTIL which contribute to around 54% and 13% of total revenue of DTIL in 9MFY22. Mobile phones, home

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

appliances, security systems and reverse logistics contributed 24%, 6%, 4% and ~0.5% of DTIL's revenue, respectively. Nevertheless, Dixon's wholly owned subsidiary, Padget Electronics Pvt Ltd (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 in the near term. This apart, the company has made application under PLI scheme under several segments (IT hardware, wearables, LED lights and telecom), out of which, it has been approved by the MeitY for IT hardware, telecom and white goods segment (both ACs and LEDs). This is expected to provide significant boost to DTIL's scale of operations and profits, given the incentive available under the scheme

Reputed and diversified Client base across all the segments of operations
DTIL caters to all the leading electronic players in its respective segments. The key clientele comprises some strong and reputed global brands like Panasonic, Xaomi, Samsung, PHILIPS, 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 FY21 & 9MFY22
In FY21, DTIL's revenues grew by 47% y-o-y to Rs.6,449 cr as against Rs. 4,405 Cr in FY20. Revenue growth has been driven by growth momentum across all the segments/verticals of its operations on the back of increased volumes and focus on backward integration. DTIL's Consumer electronics segment is largest segment for the company, which contributed 60% (PY: 48%) of total revenue. Lighting Segment contributed 17% (PY: 26%) of total revenue in FY21. However, the margins continue to remain sensitive to any change in product mix which may adversely impact the overall blended margins of the company
On profitability front, there was slight decline in margins, with PAT and EBIDTA margins at 2.48% (PY: 2.7%) and 4.58% (PY: 5.29%) respectively mainly due to inflationary pressures. Nevertheless, DITL reports strong ROCE in the range of 25-26%.
DTIL's financial profile remains healthy characterized by low leverage and healthy debt coverage indicators. DTIL overall gearing stood at 0.72x as on March 31, 2021 (PY: 0.88x). Debt coverage indicators are healthy with interest coverage of 9.03x during FY21 (PY: 5.91x during FY20).
DTIL's net worth has also improved on the back of healthy accruals from operations and limited external borrowing.
During 9MFY22, DTIL reported a revenue of Rs. 7,746 cr (PY: Rs.4338.50 Cr) registering a Y-o-Y growth of 78% over 9MFY21 revenue. EBITDA margin stood slightly declined at 3.39% as against 4.78% in 9MFY21. The decline was largely due to increase in input and freight costs.

Key Rating weaknesses
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, Risk of forex fluctuation and risk of technological obsolescence leading to continuous R&D requirement and improvements in processes and products:
Consumer 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 2.88x for FY21. 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. 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

Strong industry prospects
The Indian electronics industry is currently well-placed on account of robust demand, competitive advantage, policy support from government and increasing investments. The electronics sector is expected to nearly double in contribution to the GDP in the next few years, owing to increased support from the government to domestic manufacturing. The Indian market is witnessing increasing investment from players such as Intel, C4V (a lithium-ion cell manufacturer in the US), etc.
The Electronics System Design & Manufacturing sector plays a vital role in the government's goal of generating US$ 1 trillion of economic value from the digital economy by 2025. With various government initiatives aiming to boost domestic manufacturing, India has already started witnessing initial movement with increased production and assembly activities across products such as mobile phones and other consumer electronics. PLI scheme for large scale electronics manufacturing launched by Ministry of Electronics and Information Technology (MeitY) in April 2020 has been extended from existing five years band (FY21-FY25) to six years (FY21-FY26).

Liquidity: Adequate
DTIL has healthy cash generation from operation, which is reflected in the healthy and increasing cash accruals of the company. Furthermore, DTIL has a free cash and liquid investments balance of Rs. 159 crore as on March, 2021 (PY: Rs.171 cr) and unutilized fund-based limits of ~Rs.780 crore as of March, 2021. DTIL plans to undertake capex in FY2022–FY2024, which is expected to increase indebtedness as well; however, the scale of operations and cash flows are sufficient to meet the repayment obligations and are also expected to increase significantly in future years. Thus, the liquidity position is expected to remain adequate with the healthy cash generation and limited scheduled debt repayment. GCA for FY22 and FY23 is projected to be around Rs.250 cr to Rs.300 cr as against total debt repayments of Rs. 20.50 Cr to Rs.30 cr in the period.

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

Name of the Company	Subsidiary/Associate	% Of Shares Held by DTIL
Dixon Global Private Limited	Subsidiary	100%
Padget Electronics Private Limited	Subsidiary	100%
AIL Dixon Technologies Private Limited	Joint Venture	50%
Dixon Electro Appliances Private Limited	Subsidiary	100%
Dixon Electro Manufacturing Private Limited	Subsidiary	100%
Dixon Technologies Solutions Private Limited	Subsidiary	100%
Dixon Devices 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-top 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 surveillance 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 approval under the PLI (Production Linked Incentive) scheme as a domestic manufacturer of mobile phones, IT hardware, telecom and white goods category.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	4405	6449	7746
PBILDT	236	295	263
PAT	120	160	127
Overall gearing (times)	1.12	1.00	NA
Interest coverage (times)	5.91	9.03	NA

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	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+	1)CARE A1+ (03-May-21)	-	-	-

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. TOL/TNW	<=1.75x
B. Non financial covenants	
I. Promoter stake	The same shall always be kept more than 26% and not be diluted without lender's consent

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

Sr. No	Name of instrument	Complexity level
1	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Ravleen Sethi
Contact no.: 9818032229
Email ID: ravleen.sethi@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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