Dixon Technologies (India) Limited

April 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Short-term bank facilities	-	-	Reaffirmed at CARE A1+ and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has withdrawn the outstanding ratings of 'A1+' [A One Plus] assigned to the facilities of Dixon Technologies (India) Limited (DTIL) with immediate effect. The above action has been taken at the request of DTIL and 'No Objection Certificate' from the banks that have extended the facilities rated by CARE Ratings.

The reaffirmation 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 healthy financial performance despite various challenges faced by the company during the FY22 and 9mFY23, the company has demonstrated strong return on capital employed (RoCE), healthy debt coverage indicators. CARE Ratings 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 few 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. Furthermore, 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.

Analytical approach: Consolidated. The entities considered in consolidation are mentioned in **Annexure-6** below.

Key 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 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 18 manufacturing facilities and the group also operates 6 R&D facilities. The company continues to command significant market share in all its segments with about 35% share in LED TVs and 45% in LED bulbs.

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, Nokia, Motrola, etc. In security systems segment the JV partner AIL (Aditya Infotech Limited) holds trademark for CP Plus and Dahua brands. Furthermore, DTIL has also ventured into Set Top Box and Medical Electronics segment. DTIL under PEPL has started manufacturing set top boxes for Jio (Hybrid & Cable), Dish TV and Airtel. DTIL has also recently closed the ODM sublicensing rights with Google related to Android and Google TV which will open up lot of opportunities for the company as 60% to 65% of Indian market is on this platform. DTIL has also entered into a 40-60

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

JV with Rexxam, Japan to manufacture these boards of air conditions for Daikin and a 50:50 JV with Imagine Marketing for its flagship brand, Boat for manufacturing variables in hearables.

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. Mobile & EMS and Consumer electronics are the two major segments for DTIL which contribute to around 42% and 36% of total revenue of DTIL in 9MFY23. Lighting products, home appliances and security systems contributed 9%, 9% and 4% 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 four years to the eligible entities for manufacturing of mobile phones and company has started production under this scheme from March 2021 onwards for Motorola, Nokia, Karbonn, Panasonic and Gionee. This apart, the company has made application under PLI scheme under several segments (IT hardware, wearables, LED lights and telecom). This is expected to provide significant boost to DTIL's scale of operations and profits, given the incentive available under the scheme.

Healthy financial profile

DTIL witnessed a healthy growth in its revenue for FY22 despite challenging environment. The revenue grew by 66% y-o-y to ₹10,697 crore as against ₹6,449 crore in FY22. 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 segment is largest segment for the company, which contributed 48% (PY: 60%) of total revenue witnessed a growth of 34%. However, the Mobile and EMS segment showed a robust growth of 274% in total revenue and in absolute terms the revenue stood at ₹3,138 crore in FY22 as against ₹839.76 crore in FY22. Other segments of the DTIL witnessed a healthy growth ranging from 16%-82%. In line with the industry, the profitability in FY22 witnessed a dip from 5.29% to 4.58% primarily due to the elevated commodity and freight cost, and lag in passing on this increase to the customers. The margin has also reduced as there is a change in sales mix as well, with the share of mobile division having increased significantly. The company also faced disruption and volatility in raw material prices due to shortage in supply of semi-conductor chips coupled with increasing share of mobile division in its revenue.

During 9MFY23, DTIL reported a revenue of ₹9,130 crore (PY: ₹7,746 crore) registering a Y-o-Y growth of 18% over 9MFY22 revenue. PBILDT margin improved slightly to 3.95% as against 3.39% in 9MFY22.

Key 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. Furthermore, a major part of DTIL's revenues and hence operating profitability is derived from its top customers (Motorola, 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, the 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, the company has always acknowledged and embraced changing and advancing technology. DTIL have 6 R&D centres which are equipped with the latest technology. Moreover, the company has expanded its product portfolio along with a change in technologies in the market. The 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 net TOL/TNW of 3.33x for FY22 (PY: 2.88x). 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.

Liquidity: Adequate
The company has adequate liquidity with the liquid balance of ₹166 crore as on December 31, 2022 compared to ₹311 crore as on March 31, 2022. The net cash flows from operation in FY22 and FY21 stood at ₹273 crore and ₹170 crore and the gross cash accruals stood for FY22 and FY21 stood at ₹275 crore and ₹207 crore respectively. As against the cash generated from operations the long-term debt repayment stood minimal at ₹8 crore and ₹1 crore respectively in FY22 and FY21 respectively.

Environment, social and governance risk
CARE Ratings believes that DTIL's environment, social, and governance (ESG) profile supports its strong credit risk profile. The EMS sector has a significant impact on the environment on account of being energy intensive, generating hazardous waste and also carbon emission. The sector's social impact is characterised by health hazards, leading to a higher focus on employee safety involved in manufacturing activities and well-being of the local community, given the nature of its operations. The annual report for FY22 highlights the below initiatives undertaken by the company:

Environmental practices:

- The company is working with Andhra Pradesh State Energy Efficiency Development Corporation Limited (APSEEDCO) to implement eco-energy solutions for its plant in Tirupati.
- Energy audits were conducted for all manufacturing units to identify the key areas of energy savings and broad cost-benefit analysis.
- The company has partnered with Greeniwa Recycler Pvt Ltd to recycle products and dispose of e-waste and its has also teamed up with Steam Oil & General Industries to dispose of hazardous oil waste created during production processes.
- The company has also planted 1,001 trees at Tirupati during FY22

Social:
The company has adopted people-oriented philosophy and fair employment practices that helps it create an inclusive and conducive work environment. During FY22, the company has organised 15,121 training and development programs for its employees. The CSR spend of the company for FY22 stood at ₹ 2.97 crore with focus areas being education, hunger eradication, socioeconomic development, senior citizen welfare, and preventative healthcare.

Governance
The company is focused on establishing a sound corporate governance system, emphasising the need to ensure internal openness and accountability. The company aims to achieve its governance goals accomplish by cultivating a compliance culture, supporting ethical behaviour within the organisation, and encouraging every employee to follow all applicable laws, rules, and company's policies.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Household Appliances

DTIL, incorporated in 1993 by 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. Recently, DTIL has also entered into a 40-60 JV with Rexxam, Japan to manufacture these boards of air conditions for Daikin and a 50:50 JV with Imagine Marketing for its flagship brand, Boat for manufacturing variables in hearables.

The company operates through two 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. DTIL has total 18 manufacturing facilities and six R&D centres. The company also remains one of the largest beneficiaries of government's PLI scheme.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23
Total operating income	6449	10697	9130
PBILDT	295	385	360
PAT	160	190	174
Overall gearing (times)	1.00	NA	NA
Interest coverage (times)	9.03	7.78	7.93

A: Audited, UA: Un-Audited, NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A1+ (06-Apr-22)	1)CARE A1+ (03-May-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: Entities being consolidated

Companies consider under consideration	Subsidiary/Associate	% of share held
Dixon Global Private Limited	Subsidiary	100%
Padget Electronics Private Limited	Subsidiary	100%
Dixon Electro Manufacturing Private Limited	Subsidiary	100%
Dixon Technologies Solutions Private Limited	Subsidiary	100%
Dixon Electro Appliances Private Limited	Subsidiary	51%
AIL Dixon Technologies Private Limited	Joint Venture	50%
Rexxam Dixon Electronics Private Limited (formerly Dixon Devices Private Limited)	Joint Venture	40%

Note on the complexity levels of the rated instruments: CARE Ratings 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	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in
Relationship Contact Name: Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Name: Ravleen Sethi Associate Director **CARE Ratings Limited** Phone: +91-11-4533 3251 E-mail: ravleen.sethi@careedge.in Name: Mayank Sanghvi Lead Analyst **CARE Ratings Limited** E-mail: mayank.sanghvi@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in