MODISON METAL LIMITED

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	37.78	CARE A- [Single A Minus]	Reaffirmed
Short-term Bank Facilities	12.50	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	**50.28**		

Rating Rationale

The ratings continue to derive strength from the company's experienced promoters, established brand, strong expertise and technical know-how, and favorable financial risk profile marked by low leverage and comfortable debt coverage indicators.

The above rating strengths, however, continue to be tempered by intense competition, customer concentration risk, cyclical nature of end products and fluctuating profit margins with changes in the prices of silver and copper.

The company's ability to achieve envisaged turnover and profitability while efficiently managing working capital amidst sectoral downturn and price volatility are the key rating sensitivities.

Background

Modison Metals Limited (MML) is the flagship company of the Modison group and is engaged in the manufacturing of low, medium and high voltage electrical contacts, which are specially made tipping points that make and break electrical current. MML started producing electrical contacts for low voltage in the year 1985 and for medium and high voltage in 1991 in technical collaboration with DODUCO Gmbh, Germany. In the medium and high voltage segment MML is the sole manufacturer in India. MML has its plant located in Vapi with an installed capacity of 450 MTPA for manufacturing of electrical contacts and SF6 circuit breakers. It faces competition from foreign companies like AMI Doduco, ElecktroMetall and Louis Renner outside India.

Credit Risk Assessment

Experienced promoters and group's strong brand position

The promoters of MML have more than three decades of experience in electrical equipment industry. Mr G L Modi (an electrical engineer by qualification) is the founder of the Modison group companies. MML enjoys a good brand position in India being the sole domestic manufacturer for medium to high voltage electrical contact parts and caters to large players in the electrical industry viz L&T, Siemens, ABB, Areva, Crompton Greaves. Mr. Rajkumar Modi having an experience of more than 15 years presently looks after the medium and high voltage segment of the company and export activities of the company.

Strong expertise and technical know-how

Electrical contact manufacturing is a technology intensive business. MML has high-precision manufacturing facility for all the three voltage categories at one place. The company sources, copper alloy input requirements for medium and high voltage segment from its group company Modison Copper Pvt Ltd (MCPL). The company has state-of-the-art facilities for manufacturing electrical contacts and is continuously working towards automation of processes for an increase in quality and has a tool shop for creating different moulds required for manufacturing different specifications of electrical contacts.

Competition from Chinese products

MML faces a threat from the Chinese manufacturers in electrical contacts and from a lot of small scale switchgear (imported from China and Korea) assembling factories in India.

Operational performance

Total Operating income of the company grew at a CAGR of 12.22% over the period of FY11-13 (refers to the period April 1 to March 31) driven primarily by increase in sales volume and improved realization during the same period. The gross sales of the company declined by 0.71% in FY13 vis-à-vis FY12 on account of lower volume of sales and due to an increase in the cost of the

[1] *Complete definitions of the ratings assigned are available at www.careratings.comand in other CARE publications*

raw material (cost of tungsten powder up by 20%, copper chromium rods/tubes by 13% and ETP copper Flat/strips by 9%).. In FY13, sales volume has declined significantly (approx by 67% in SF6 circuit breakers and 4% in electrical contacts) due to decline in demand from the switchgear and power, infrastructure industry.In 9MFY14, MML registered higher net sales at Rs.135.69 crore vis-à-vis Rs.114.75 crore in 9MFY13 which is 18% higher.

Decline in profit margins in FY13 and 9MFY14

MML has healthy profit margins due to its high value added products segment. However, in FY13 the PBILDT and PAT margins of the company declined to 12.30% and 4.10% vis-à-vis 20.02% and 9.81% in FY12. The decline in operating margin was mainly due to significant increase in the cost of raw material which company was not able to fully pass on to its clients.However PBILDT and PAT margins for the period ended December 31, 2013 substantially improved to 15.61% and 7.44% mainly on account of high volume of sales and lower cost of interest on borrowed funds as the majority of debt is repaid back.

Comfortable gearing and solvency ratios

Overall gearing ratio deteriorated slightly but remained comfortable at 0.25x as at end of FY13 vis-à-vis 0.24x as at end-FY12 mainly on account of an increase in long term debt and bank borrowings amounting to Rs 3.57 crore and Rs. 3.26 crore for capital expenditures. Increase in bank borrowings was on account of growing working capital requirement coupled with payment of the buyer's credit (utilized for importing machines during FY12) through short term bank borrowings.

Total debt to GCA ratio of the company deteriorated but remains comfortable at 1.72 times in FY13 from 1.00x in FY12 largely due to increase in total debt levels and decrease in GCA. MML's interest coverage ratio also declined however remained at a comfortable level during FY13 at 5.88x vis-à-vis 10.93x in FY12.

Liquidity Profile

Working capital cycle of the company was high at 153 days in FY13 (147 days in FY12). The operating cycle increased due to an increase in inventory holding period caused by high stock of Silver to be maintained by the company. Average working capital utilization of the company was moderate at 52.91% for the twelve months ended January 2014, leaving cushion to tide over uncertainties.

Concentration in customers' profile

MML's sales concentration on top ten customers during FY13 was nearly same at 70% of the total sales. The concentration was mainly at its top three domestic customers (L&T, Anchor Electrical and Crompton Greaves) who accounted for 49% of sales in FY13 vis-à-vis 52% FY12 . MML's high dependence on select customers leads to customer concentration risk.

Exposure to fluctuation in the prices of silver and copper

Silver and copper are the main raw materials used for the production of contacts and major cost component. The changes in the prices of the same may result in fluctuation in the margins of the company. MML is not exposed to the prices of silver as the company has monthly arrangement with suppliers and the company has price fluctuation clause with major customers. However the company has the policy to maintain 6 tonnes of silver stock throughout the year, thus at the year end, closing value of silver is valued which relatively results in lower Gross profit and in turn lower PBILDT margin.

Industry risk

The size of India's electrical equipment industries stood approximately at INR 1.30 lakh crore. Electrical equipment production registered 4% growth in 9MFY14. After a weak growth of 2.2% in the first quarter (Q1) of the current fiscal, mainly on account of growth in exports, Q2 had witnessed a growth of 9.8% in the production of the electrical equipment industry due to a welcome rise in domestic demand. But, with the 0.9% fall in Q3 on account of procurement delays and rising imports, the cumulative growth in the first nine months (April-December) has come down to 4% from 6% in the first half of 2013-14.

The progress in power transmission and sub-station projects, power generating stations, especially renewable energy like wind, R-APDRP projects and orders from select core sectors like construction and real estate have helped in the moderate growth.The switchgear industry has seen a negative growth of 1.4%, with negative 1.7% growth in LV and negative growth of 0.9% in HV switchgear. Although, overall imports of electrical equipment have shown a negative growth, imports of power transformers, insulators, cables (mainly through power project import route) and AC motors & generators have continued to increase. In 2012-13, imports had captured 38.26% of the market for electrical equipment in India, whereas there was significant under-utilisation of installed domestic capacity.source:IEEMA

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Net Sales	126.71	162.21	159.52
Total Operating income	127.28	163.23	160.29
PBILDT	30.91	32.67	19.72
Interest	2.52	2.99	3.35
Depreciation	4.61	5.26	6.05
PBT	23.77	23.69	10.29
PAT (after deferred tax)	15.84	16.01	6.57
Gross Cash Accruals	20.53	21.44	13.83
Financial Position			
Equity Capital/Partners' Capital	3.25	3.25	3.25
Networth	79.16	91.31	95.26
Total capital employed	87.63	113.26	119.10
Key Ratios			
Growth			
Growth in Total income (%)	30.66	28.24	-1.80
Growth in PAT (after D.Tax) (%)	34.10	1.90	-39.64
Profitability			
PBILDT/Total Op. income (%)	24.29	20.02	12.30
PAT (after deferred tax)/ Total income (%)	12.44	9.81	4.10
ROCE (%)	31.92	26.57	11.72
Solvency			
Long Term Debt Equity ratio (times)	0.07	0.08	0.06
Overall gearing ratio(times)	0.10	0.24	0.25
Interest coverage(times)	12.26	10.93	5.88
Term debt/Gross cash accruals(years)	0.27	0.32	0.43
Liquidity			
Current ratio(times)	1.83	1.22	1.22
Quick ratio(times)	0.84	0.36	0.47
Turnover			
Average collection period (days)	33	31	37
Average creditors (days)	4	6	7
Average inventory (days)	117	122	124
Operating cycle (days)	146	149	153

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(This follows our brief rationale for entity published on 10 April, 2014)

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