Modison Metals Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.00	**CARE A; Positive (Single A; Outlook: Positive)**	**Reaffirmed**
Short Term Bank Facilities	17.50	**CARE A1 (A One)**	
Total Facilities	**62.50 (Rs. Sixty two crore and Fifty Lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Modison Metals Limited (MML) continues to derive strength from its experienced promoters, its strong business profile being the market leader in India in manufacturing electrical contacts (industry with high entry barriers), consistent increase in scale of operations, reputed customer as well as supplier base although it is concentrated, comfortable capital structure & debt coverage indicators, robust risk management through hedging of its main raw material as well as order driven approach, strong liquidity position supported by strong accruals and minimum working capital utilisation.

The rating strengths, are however, tempered by moderate level of operations, high working capital cycle which has been elongating year-on-year mainly due to high inventory period as well as its exposure to fluctuation in prices of its major raw materials and foreign exchange leading to volatility in profitability margins.

Rating Sensitivities

Positive factors

• Increase in total revenue to Rs.400 crore and above on sustained basis leading to generation of higher gross cash accruals which will further improve the credit profile.

Negative factors

• Material reduction in market share in electrical contacts leading to sharp decline in scale of operations and affecting the overall credit profile.

• Deterioration in overall gearing beyond 1.0x on a sustained basis

Outlook: Positive

The outlook continues to be positive as CARE believes the credit risk profile of the company will further improve in the medium term, supported by strong market position, increasing scale of operations on account of import substitution and customer consolidation, and increase in overall operating efficiency leading to better profitability margins which in turn will lead to generation of higher accruals and accretion in networth.

The outlook will be revised to stable if there is any deviation in profitability margins from the current level i.e. 9MFY21, further stretching of working capital cycle or deviation in revenue than envisaged.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations

Modison Metals Limited was established by Mr. G.L. Modi in 1965 as a trading unit. A decade later in 1975, the first manufacturing facility was set up in Mumbai for refining of Silver and exporting it. Further in 1978, the promoter started manufacturing of electrical contacts. Mr. G. L. Modi has more than four decades of experience in electrical equipment industry and has been instrumental in establishing the company as one of the leading electrical contacts manufacturing company in India. Along with Shri G.L. Modi, his son Mr. Jay Kumar Modi, his relative Mr. Rajkumar Modi (both are Whole-time Directors) and Mr. Manish Kumar Srivastava, Joint-Managing Director, who in the past has worked with various big companies take care of the business. The promoters are well supported with a professional team in place to take care of key aspects of business.

Strong business profile being the market leader in India

MML is a leading manufacturer of electrical contacts for high, low and medium voltage (HV, LV & MV) switchgears in India and abroad. It is the only company in India and one of the few in the world to have presence in all three segments i.e. HV, MV and

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

LV. MML enjoys strong market position in India and is known for its quality products in the electrical industry. LV (including MV) & HV contributes nearly 65% and 35% respectively to the overall revenues of the company.

Strong customer and supplier base; however, it is concentrated

MML has a very strong and established customer base and caters to five out of top 10 switchgear manufacturers in India. Contribution to sales from top five customers was 46% in FY20 (PY: 47%), with top customer contributing 23% in FY20. The major raw material required for manufacturing of contacts is silver and copper, which it procures from highly reputed suppliers. The top five suppliers accounted for more than 80% during FY20, whereas top supplier accounted for 35% of total purchases made during FY20.

MML's high dependence on customers and suppliers leads to concentration risk. However, long term relationship with these suppliers and customers as well as MML being the biggest domestic supplier to the switchgear manufacturers helps mitigate the risks to a large extent.

Consistent increase in scale of operations, however operations continue to remain moderate

MML's operations have been continuously increasing Y-o-Y. Total Operating Income (TOI) increased from Rs.169 crore in FY16 to Rs.225 crore in FY20 on account of increase in demand for switchgears and volatility in silver prices. Average silver prices have increased from Rs.35,000/kg in 2016 to around Rs.45,000/kg leading to higher realization. Profitability margins have been volatile during past five years mainly due to higher cost of materials consumed on account of higher raw material prices which ranged between 65-70% during past five years, increase in operational expenses especially employee costs and manufacturing expenses.

TOI in 9MFY21 increased by 15% over 9MFY20 even though revenue in Q1FY21 were hit due to covid induced lockdown restrictions. However, with easing of restrictions the company restarted its operations in May 2020 but were limited to less manpower and capacity utilisation. Performance in Q2FY21 further improved due to re-opening of economy post lockdown and increase in demand for electrical contacts. The company also earns its revenue through exports and till December 2020 it had made exports similar to exports made in FY20.

PBILDT margin in 9MFY21 when compared to 9MFY20 increased mainly because of cost optimisation measures adopted by the company in the form of automation leading to less manpower and reduced inventory loss during manufacturing of contacts. Also, there was decline in other expenses which declined to Rs.15.37 crore as against Rs.18.03 crore in 9MFY20.

During Q4FY21, the company is expected to achieve higher sales. The major increase is due to receipt of higher domestic orders, import substitution i.e. shifting of various switchgear manufacturers towards India due to anti-China sentiment and consolidation of customer base. China is the biggest competitor in electrical contacts.

Going forward in FY22, the sales are further expected to increase due to increasing demand for power and higher spending by the government leading to increase in demand of switchgears. With improvement in operational efficiency and economies of scale, profitability margins are further expected to improve.

Comfortable capital structure and debt coverage ratios

MML has highly comfortable financial risk profile with no major term debt and only working capital borrowing which are also utilized minimally. The company generates enough gross cash accruals to fund any major capex and its day-to-day operations. Overall gearing as on March 31, 2020, stood very comfortable at 0.18x. Total debt to GCA also stood comfortable at 1.28 years owing to strong cash accruals. Interest coverage improved from 12.65x in FY19 to 13.36x in FY20 on account of lower interest cost during the year.

Key Rating Weaknesses

Elongated working capital cycle

MML's products cater primarily to domestic market which contributed around 80% to its total sales during FY20 and balance is contributed through exports. The company being in heavy goods industries where realization of receivables usually takes higher time, MML has to extend around 90-100 days to its receivables. With higher inventory holding period & higher collection period and minimal creditors' period, the operating cycle is elongated which makes the operations working capital intensive. However, this is compensated through generation of strong cash flows which mitigate working capital requirement. Average utilisation for fund-based limits for the past 12 months ended December 2020, was low at 29%.

Exposure to fluctuation in prices of raw materials

MML is exposed to inherent risk of price fluctuation of its major raw material i.e. Silver. The raw materials account for around 80% of the total cost of sales. MML has arrangement to procure silver on monthly basis where-in prices are reset on weighted average basis and are linked to LME prices. The Company is a net exporter i.e. its exports are higher than the imports. The company hedges its entire inventory.

At the time of procuring an order from the customers, the company negotiates on the pricing of its products depending upon the prevailing input prices. This partly mitigates raw material volatility risk. Furthermore, MML follows order based production policy, which further mitigates the risk. On an average it takes around 30 days for LV contacts and around 6 weeks for HV contacts to supply to customers.

MML also benefits from depreciation of rupee as the company is a net exporter. The company is mainly exposed to changes in Euro as it imports as well as exports in Euro.

Prospects

The demand for switchgears in India is mainly driven by increasing population, fast-growing power distribution and transmission network, new electrification initiatives and higher spends towards infrastructure by the government. These initiatives have led to high demand of Switchgears. MML being the largest supplier of electrical contacts to Switchgear manufacturers will benefit from such initiatives. Also, due to recent spread of Coronavirus in China (which is the biggest competitor), the company has received higher domestic orders from existing customers recently and is further expected to receive more such orders. With slowdown worldwide, the company has been able to manage its exports in fact in current year company is expected to report higher exports.

Electrical contact manufacturing is a very niche industry having very high entry barrier. In India, there are very few companies present, in which only MML focuses fully on manufacturing of electrical contacts.

Liquidity: Strong - Liquidity is marked by strong accruals against negligible repayment obligations of Rs.0.40 crore in FY21. The average fund-based utilization for the past 12 months ended December 2020 was low at 29%. Its unutilized bank lines of around 61% of its sanctioned limits further provide liquidity cushion. Also, the company has sanctioned Non-fund based limits which is hardly utilised.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's policy on default recognition
Criteria for short-term instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities

About the Company

Modison Metals Limited was founded as a trading unit in 1965, by Mr. G.L. Modi, to deal in tool steels and general merchandise. A decade later in 1975, Mr. G.L. Modi established the first manufacturing facility in Mumbai for refining of Silver and exporting it to bankers and dealers in Europe and USA. Within two years, the promoters started manufacturing electrical contacts after realizing vast potential in this segment. From 1983 to 1996, Modison had technical collaboration with DODUCO and with its support Modison developed many hi-tech products, which were hitherto, imported by India Switchgear industry. These electrical contacts are specially made tipping points that make and break electrical current. MML is the leading manufacturer for low voltage (LV) and sole manufacturer of high voltage (HV) switchgears in India. MML has an installed capacity of 250 thousand arcing contacts for HV and 33 tonnes per annum of LV contacts at its Vapi plant.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	222.44	224.82
PBILDT	30.08	29.17
PAT	16.65	15.13
Overall gearing (times)	0.16	0.18
Interest coverage (times)	12.65	13.36

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
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 Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	7.50	CARE A; Positive
Fund-based - LT-Cash Credit	-	-	-	37.50	CARE A; Positive
Non-fund-based - ST-BG/LC	-	-	-	7.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	0.50	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	7.50	CARE A; Positive	-	1)CARE A; Positive (27-Mar-20)	1)CARE A; Stable (27-Mar-19)	1)CARE A; Stable (30-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	37.50	CARE A; Positive	-	1)CARE A; Positive (27-Mar-20)	1)CARE A; Stable (27-Mar-19)	1)CARE A; Stable (30-Mar-18)
3.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A1	-	1)CARE A1 (27-Mar-20)	1)CARE A1 (27-Mar-19)	1)CARE A1 (30-Mar-18)
4.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	-	1)CARE A1 (27-Mar-20)	1)CARE A1 (27-Mar-19)	1)CARE A1 (30-Mar-18)
5.	Non-fund-based - ST-BG/LC	ST	0.50	CARE A1	-	1)CARE A1 (27-Mar-20)	1)CARE A1 (27-Mar-19)	1)CARE A1 (30-Mar-18)

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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