

Modison Metals Limited

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	75.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Short Term Bank Facilities	17.00	CARE A1 (A One)	Assigned
Total Bank Facilities	92.00 (Rs. Ninety-Two Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the long term and short term bank facilities of Modison Metals Limited (MML) derive strength from its experienced promoters, its strong market position in India in manufacturing electrical contacts and reputed customer as well as supplier base although it is concentrated. There is consistent increase in scale of operations, comfortable capital structure and debt coverage indicators.

The rating strengths, are however, tempered by high working capital cycle, its exposure to fluctuation in prices of its major raw materials and foreign exchange leading to volatility in profitability margins. MML is also having risk associated with implementation and stabilization of its capex plan.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in total revenue to Rs.500 crore and above on sustained basis leading to generation of higher gross cash accruals
- Profit Before Interest, Lease rentals, Depreciation and Taxation (PBILDT) margins above 15% on a sustained basis

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

- Sharp decline in scale of operations and affecting the overall credit profile
- Deterioration in overall gearing beyond 0.50x on a sustained basis

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: MML is a leading manufacturer of electrical contacts for high, low and medium voltage (HV, LV & MV) switchgears in India and abroad. It is one of the company in India and one of the few in the world to have presence in all three segments i.e. HV, MV and LV. LV (including MV) & HV contributes nearly 65% and 35% respectively to the overall revenues of the company.

Strong customer and supplier base: 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 39% in FY21. 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 76% during FY21. 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 moderate scale of operations: MML's operations have been continuously increasing Y-o-Y. Total Operating Income (TOI) has increased from Rs.191.25 crore in FY17 to Rs.293.09 crore in FY21 on account of increase in demand for switchgears at a CAGR of 8.91%. Silver prices have been volatile during past few years, leading to higher realization for the company.

Comfortable capital structure and debt coverage indicators: MML has 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

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

accruals to fund any major capex and its day-to-day operations. Overall gearing as on March 31, 2021, stood very comfortable at 0.07 times vis-à-vis 0.18 times as on March 31, 2020. Total debt to GCA also stood comfortable at 0.42 times as on March 31, 2021 vis-à-vis 1.28 times as on March 31, 2020 owing to strong cash accruals. Interest coverage remained at 18.88 times in FY21 vis-à-vis 13.36x in FY20 on account of lower interest cost during the year.

Key Rating Weaknesses

Elongated working capital cycle: The company being in heavy electrical goods industries where realization of receivables usually takes higher time, MML has to extend around 90-100 days to its receivables. The collection days remained at 65 days in FY21 vis-à-vis 71 days in FY20. This leads to higher operating cycle. The average creditors remained low at 8 days in FY21 and FY20. The inventory period remained high at 87 days in FY21 vis-à-vis 116 in FY20. With higher inventory holding period & higher collection period and minimal creditors' period, the operating cycle is elongated which makes the operations working capital intensive. The same remained at 145 days in FY21 vis-à-vis 179 days in FY20. However, this is compensated through generation of strong cash flows which mitigate working capital requirement.

Risk associated with implementation and stabilization of its capex plan: The company plans to incur capex for upgrading its existing facilities in all the three segments by procuring various automation products, robots which would lead to improve its efficiency and to accommodate increasing demand for electrical contacts. Also, it plans to build a new factory in the existing premises for increasing assembly line for HV segment. The project cost is of Rs.25.00 crore and to be funded through term loan of Rs.15 crore and internal accruals of Rs.10.00 crore.

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 inventory i.e. as soon as it procures silver it hedges into MCX through forward contracts i.e. its inventory is fully hedged.

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.

Liquidity: Strong

The company's liquidity is adequate characterized by sufficient cushion in accruals vis-à-vis nil repayment obligations and free cash and bank balance of Rs.0.19 crore as on March 31, 2021 and Rs.1.00 crore as on December 31, 2021. The liquidity ratios of the company stood comfortable with current ratio and quick ratio of 3.98 times and 2.11 times respectively as on March 31, 2021. Further, the average utilization of its fund-based working capital limit stood moderate at around 29.16% during trailing 12-month period ended February, 2022 and the average of maximum utilization of its non-fund based limits stood around 0.42% during last 12 months ended February, 2022. Its unutilized bank lines are adequate to meet its incremental working capital needs over the medium term. The company has capex plan in the projected period. Its cash flow from operations stood at positive Rs.32.93 crore in FY21 (vis-à-vis positive of Rs.14.02 crore in FY20).

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 (CIN No: L51900MH1983PLC029783) 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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	224.81	293.09	240.16
PBILDT	29.15	41.09	22.00
PAT	15.11	22.43	9.90
Overall gearing (times)	0.18	0.07	NA
Interest coverage (times)	13.36	18.88	13.92

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 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
Fund-based - LT-Term Loan		-	-	-	15.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	60.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	17.00	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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A; Stable (12-Oct-21) 2)Withdrawn (12-Oct-21) 3)CARE A; Positive (06-Apr-21)	-	1)CARE A; Positive (27-Mar-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (12-Oct-21) 2)CARE A; Stable (12-Oct-21) 3)CARE A; Positive (06-Apr-21)	-	1)CARE A; Positive (27-Mar-20)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (12-Oct-21) 2)Withdrawn (12-Oct-21) 3)CARE A1	-	1)CARE A1 (27-Mar-20)

						(06-Apr-21)		
4	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (12-Oct-21) 2)CARE A1 (12-Oct-21) 3)CARE A1 (06-Apr-21)	-	1)CARE A1 (27-Mar-20)
5	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (12-Oct-21) 2)Withdrawn (12-Oct-21) 3)CARE A1 (06-Apr-21)	-	1)CARE A1 (27-Mar-20)
6	Fund-based - LT-Term Loan	LT	15.00	CARE A; Stable				
7	Fund-based - LT-Cash Credit	LT	60.00	CARE A; Stable				
8	Non-fund-based - ST-BG/LC	ST	17.00	CARE A1				

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Non financial covenants	
1. Stock Statements	Stock statements to be submitted every month

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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.

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