

Modison Limited

February 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	75.00	CARE A; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	17.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Modison Limited (ML) continue to 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 continues to be constrained by lower liquidity coupled with high working capital cycle, its exposure to fluctuation in prices of its major raw materials and foreign exchange leading to quarter on quarter weakening of profitability margins. ML is also having risk associated with implementation and stabilization of its capex plan.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in PBILDT margins above 15% on a sustained basis
- Timely recovery of the receivables with collection period of below 100 days on a sustained basis

Negative factors

- Deterioration of capital structure to above 0.5x on a sustained basis
- Delays in the order book execution which may adversely affect the profitability margins

Analytical approach: Standalone

Outlook: Negative

Revision in outlook to 'Negative' is on account of the expected weakening of the overall profitability for the full year due to volatility in prices of its major raw materials (silver and copper) and foreign exchange. The outlook will be revised to 'Stable' if the company is able to improve its profitability while maintaining adequate liquidity position.

Key strengths

Experienced promoters and long track record of operations

Modison Limited was established by 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. 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 companies in India. Along with G.L. Modi, his son Jay Kumar Modi, his relative Rajkumar Modi (both are Whole-time Directors) and 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

ML 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 companies 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 contribute nearly 65% and 35% respectively to the overall revenues of the company.

Strong customer and supplier base

ML 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 44.05% in FY22. 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 55.55% during FY22. ML's high dependence on customers and suppliers leads to concentration risk. However, long-term relationship with these suppliers and customers as well as ML being the biggest domestic supplier to the switchgear manufacturers helps mitigate the risks to a large extent.

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

Consistent increase in moderate scale of operations

ML's operations have been continuously increasing Y-o-Y. The total operating income has increased from ₹202.57 crore in FY18 to ₹342.42 crore in FY22 on account of increase in demand for switchgears and better realizations. Furthermore, ML has already booked sales of ₹247.28 crore during 9MFY23.

Comfortable capital structure and debt coverage indicators

ML has comfortable financial risk profile with no major term debt and only working capital borrowing which are also utilized minimally. Overall gearing as on March 31, 2022, stood very comfortable at 0.10 times vis-à-vis 0.07 times as on March 31, 2021. In 9MFY23, the overall gearing continued to remain comfortable at 0.09x.

Total debt to GCA also declined but stood comfortable at 0.83 times as on March 31, 2022 vis-à-vis 0.42 times as on March 31, 2021 owing to decline in gross cash accruals. Interest coverage declined to 14.41x in FY22 vis-à-vis 18.88x in FY21 on account of lower PBILDT during the year. In 9MFY23, the interest coverage was 12.89x.

Key weaknesses**Fluctuating profitability margins**

The operating margins of ML remained fluctuating during the period of FY18-21 in the range of 9%-14% mainly due to high volatility in raw material prices. In FY22, the operating margins declined significantly to 9.07% (vis-à-vis 14.02% in FY21) due to high fluctuations in silver prices.

In Q3FY23, ML has booked net losses of ₹2.05 crore (vis-à-vis profits of ₹0.46 crore in Q2FY23 and ₹0.94 crores in Q3FY22). ML suffered losses due to hedging of silver stock on MCX as silver prices were highly volatile (which are likely to be recovered in the coming quarters) and also, it suffered losses on mark-to-market of forward contract due to volatility in forex.

ML has booked PBILDT margin of 5.91% and PAT margin of 1.41% during 9MFY23.

Going forward, the likeliness of achievability of profitability will be monitorable in the coming quarters.

Elongated working capital cycle

ML, being in heavy electrical goods industries where realization of receivables usually takes higher time, ML has to extend around 90-100 days to its receivables. The collection days remained at 62 days in FY22 vis-à-vis 65 days in FY21. This leads to higher operating cycle. The average creditors remained low at 7 days in FY22 vis-à-vis 8 days in FY21. The inventory period remained improved but remained high at 73 days in FY22 vis-à-vis 87 in FY21. 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 improved to 128 days in FY22 vis-à-vis 145 days in FY21. 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

ML 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 ₹25.00 crore, out of which ₹10 crore has been incurred till January 31, 2023 through internal accruals and no external debt will be availed.

Exposure to fluctuation in prices of raw materials and foreign exchange fluctuations

ML is exposed to inherent risk of price fluctuation of its major raw material i.e., Silver. The raw materials account for around 86.68% of the cost of sales in FY22. ML has arrangement to procure silver on monthly basis where-in prices are reset on weighted average basis and are linked to LME prices. ML is a net exporter i.e. its exports are higher than the imports. ML hedges its inventory i.e., as soon as it procures silver it hedges into MCX through forward contracts. 80% of its inventory is 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, ML 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: Adequate

ML's liquidity is adequate on account of nil repayment obligations in FY23 and cash and liquid investments of ₹0.08 crores as on December 31, 2022. The current ratio and quick ratio stood at 4.11 times and 2.11 times respectively as on March 31, 2022. Furthermore, its fund-based working capital limits utilization stood low at around 40% for the past twelve months ending January 31, 2023 and non-fund-based limits were minimally utilized. The unutilized bank lines are adequate to meet its incremental working capital needs over the medium term. Also, there is an on-going capex of ₹25 crore, for which no external debt has been availed. Its cash flow from operations stood positive at ₹19.96 crore in FY22.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Criteria for short Instruments](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

Modison Limited (CIN No: L51900MH1983PLC029783) was founded as a trading unit in 1965, by G.L. Modi, to deal in tool steels and general merchandise. A decade later in 1975, 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. ML is the leading manufacturer for low voltage (LV) and sole manufacturer of high voltage (HV) switchgears in India. ML 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	293.09	342.42	247.28
PBILDT	41.09	31.07	14.69
PAT	22.43	14.62	83.51
Overall gearing (times)	0.07	0.10	0.09
Interest coverage (times)	18.88	14.41	12.89

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Nil

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
Fund-based - LT-Cash Credit		-	-	-	60.00	CARE A; Negative
Fund-based - LT-Term Loan		-	-	NA	15.00	CARE A; Negative
Non-fund-based - ST-BG/LC		-	-	-	17.00	CARE A1

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	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)
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)Withdrawn (12-Oct-21) 2)CARE A1 (12-Oct-21) 3)CARE A1 (06-Apr-21)	-	1)CARE A1 (27-Mar-20)
4	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (12-Oct-21) 2)CARE A1 (12-Oct-21)	-	1)CARE A1 (27-Mar-20)

						3)CARE A1 (06-Apr-21)		
5	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)
6	Fund-based - LT- Term Loan	LT	15.00	CARE A; Negative	1)CARE A; Stable (07-Apr- 22)	-	-	-
7	Fund-based - LT- Cash Credit	LT	60.00	CARE A; Negative	1)CARE A; Stable (07-Apr- 22)	-	-	-
8	Non-fund-based - ST-BG/LC	ST	17.00	CARE A1	1)CARE A1 (07-Apr- 22)	-	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Non-financial covenants	
I. Stock Statements	Stock statements to be submitted every month

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here](#)

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**

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in**Analyst contact**

Name: Ruchi Sanghavi

Phone: 9820921375

E-mail: ruchi.shroff@careedge.in**Relationship contact**

Name: Saikat Roy

Phone: +91-22-67543404

E-mail: saikat.roy@careedge.in**About us:**

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