# Modison Limited

March 24, 2023

| Facilities | Amount (₹ crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 60.00 | CARE A; Negative | Reaffirmed |
| Short-term bank facilities | 17.50<br>(Enhanced from 17.00) | CARE A1 | Reaffirmed |
| Long-term bank facilities | - | - | Withdrawn |

Details of facilities in Annexure-1.

## Rationale and key rating drivers

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

The rating strengths, however, continue 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 weaking of profitability margins.

## 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

The outlook for the rating is 'Negative' as CARE Ratings Limited (CARE Ratings) believes that the credit risk profile of ML may weaken if the operating performance does not rebound in the next two quarters due to lower-than-expected profitability on account of fluctuation in raw material prices and prevalent competition in industry. 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**

ML 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 Murli Nikam, CEO, 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.

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

**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 9MFY23 vis-à-vis 44.79% in FY22 and 38.11% 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 54.55% during 9MFY23 (vis-à-vis 64.71% in FY22 and 73.69% in FY21). 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 (80% market share) to the switchgear manufacturers helps mitigate the risks to a large extent.

**Consistent increase in scale of operations**
ML's operations have been continuously increasing Y-o-Y. ML's total operating income increased by 17.08% on Y-o-Y basis from ₹293.09 crore in FY21 to ₹342.42 crore in FY22 on account of increase in demand for switchgears. Furthermore, ML has already booked sales of ₹248.60 crore during 9MFY23 vis-à-vis ₹240.17 crore during 9MFY22. Improvement in scale of operations remain monitorable.

**Comfortable capital structure and debt coverage indicators**
ML has comfortable financial risk profile with no major term debt and only working capital borrowing on its books as on March 31,2022, which are also utilized minimally. As on March 31, 2022 the overall gearing deteriorated marginally but remained comfortable at 0.10x (vis-à-vis 0.07x as on March 31, 2021) due to higher utilization of working capital limits as on balance sheet date to fund the growing scale of operation.
Due to decrease in cash accruals, the debt coverage indicators deteriorated with total debt/GCA and interest coverage ratio at 0.83 times and 14.41 times respectively in FY22 (vis-à-vis 0.42 times and 18.88 times respectively in FY21) however, continues to remain comfortable.

## Key weaknesses
**Fluctuating profitability margins**
The operating margins of ML remained fluctuating during the period of FY18-22 in the range of 9%-14% mainly due to high volatility in raw material prices and prevalent competition in the industry. 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 crore 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 goods industries where realization of receivables usually takes higher time, ML has to extend around 90-100 credit days to its receivables. The collection days remained at 62 days in FY22 vis-à-vis 65 days in FY21.
The average creditor days remained low at seven days in FY22 vis-à-vis 8 days in FY21.
The inventory period improved but remained high at 73 days in FY22 vis-à-vis 87 days 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 operating cycle improved but remained high at 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.

**Exposure to fluctuation in prices of raw materials and foreign exchange fluctuations**
ML is exposed to the 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, ML 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 six weeks for HV contacts to supply to customers.

### Liquidity: Adequate

The liquidity position remained adequate marked by sufficient cushion in accruals (₹20.92 crore in FY22) vis-à-vis nil repayment obligations and free cash and bank balance of ₹0.09 crore as on December 31, 2022. The average maximum and average utilization of working capital limits (fund based) stood at 44.14% and 27.62% respectively for the last 12 months ended December 2022. The unutilized bank lines are adequate to meet its incremental working capital needs over the medium term.
Furthermore, the current ratio and quick ratio stood at 4.11 times and 2.11 times respectively as on March 31, 2022 vis-à-vis 3.98 times and 2.11 times respectively as on March 31, 2021. Cash flow from operations stood at ₹19.96 crore in FY22 (vis-à-vis ₹32.93 crore in FY21).

## Applicable criteria

Policy on default recognition
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 |
|---|---|---|---|
| Industrials | Capital Goods | Electrical Equipment | Other Electrical Equipment |

ML 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, ML had technical collaboration with DODUCO and with its support ML developed many hi-tech products, which were hitherto, imported by the Indian switchgear industry. These electrical contacts are specially made tipping points that make and break electrical current.
ML shares are listed on the Bombay Stock Exchange since 2021. ML is the leading manufacturer for LV and sole manufacturer of 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 | 292.47 | 342.42 | 248.60 |
| PBILDT | 40.47 | 31.07 | 14.69 |
| PAT | 22.43 | 14.62 | 3.51 |
| Overall gearing (times) | 0.07 | 0.10 | 0.09 |
| Interest coverage (times) | 18.60 | 14.41 | 12.89 |

A: Audited; Prov.: Provisional; Note: 'the above results are latest financial results available'

**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 | 0.00 | Withdrawn |
| Non-fund-based - ST-BG/LC | | - | - | - | 17.50 | 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)CARE A; Stable (12-Oct-21)<br><br>2)Withdrawn (12-Oct-21)<br><br>3)CARE A; Positive (06-Apr-21) | - | 1)CARE A; Positive (27-Mar-20) |
| 2 | Fund-based - LT-Cash Credit | LT | - | - | - | 1)CARE A; Stable (12-Oct-21)<br><br>2)Withdrawn (12-Oct-21)<br><br>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)<br><br>2)Withdrawn (12-Oct-21)<br><br>3)CARE A1 (06-Apr-21) | - | 1)CARE A1 (27-Mar-20) |
| 4 | Non-fund-based - ST-BG/LC | ST | - | - | - | 1)CARE A1 (12-Oct-21)<br><br>2)Withdrawn (12-Oct-21) | - | 1)CARE A1 (27-Mar-20) |

| 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 |
| | | | | | | 3)CARE A1 (06-Apr-21) | | |
| 5 | Non-fund-based - ST-BG/LC | ST | - | - | - | 1)CARE A1 (12-Oct-21)<br><br>2)Withdrawn (12-Oct-21)<br><br>3)CARE A1 (06-Apr-21) | - | 1)CARE A1 (27-Mar-20) |
| 6 | Fund-based - LT-Term Loan | LT | - | - | 1)CARE A; Negative (17-Feb-23)<br><br>2)CARE A; Stable (07-Apr-22) | - | - | - |
| 7 | Fund-based - LT-Cash Credit | LT | 60.00 | CARE A; Negative | 1)CARE A; Negative (17-Feb-23)<br><br>2)CARE A; Stable (07-Apr-22) | - | - | - |
| 8 | Non-fund-based - ST-BG/LC | ST | 17.50 | CARE A1 | 1)CARE A1 (17-Feb-23)<br><br>2)CARE A1 (07-Apr-22) | - | - | - |

*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 | 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

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|---|
| 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.

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**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.



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