

Modison Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	60.00	CARE A; Stable	Reaffirmed; Outlook revised from Negative
Short-term bank facilities	17.50	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Modison Limited takes into account its experienced promoters, strong market position in India in manufacturing of electrical contacts and reputed customer as well as supplier base. The rating further derives strength from stable scale of operations, comfortable capital structure and debt coverage indicators and adequate liquidity position.

The rating strengths, however, continue to be constrained by long working capital cycle, fluctuating profitability margins and susceptibility of profitability to fluctuations in prices of its major raw materials and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profit before interest, lease rentals, depreciation and tax (PBILDT) margin to more than 15% on a sustained basis and return on capital employed (ROCE) of 18%.
- Operating cycle of below 90 days on a sustained basis.

Negative factors

- Deterioration in PBILDT margins beyond 7% on a sustained basis.
- Higher-than-envisaged level of debt resulting in deterioration of capital structure to above 0.3x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The revision in outlook to 'Stable' is on account of improvement in profitability during H1FY24 over H1FY23 while maintaining its comfortable capital structure and adequate liquidity position. CARE Ratings Limited (CARE Ratings) expects the company to sustain its financial risk profile in the medium term on back of its established and reputed customer base alongwith its comfortable capital structure.

Detailed description of the key rating drivers:

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. Furthermore, 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 and Murli Nikam, CEO, take care of the business. The promoters are well supported by a qualified team of professionals with significant experience in their respective fields.

Strong business profile

Modison is a leading manufacturer of silver/copper/tungsten based electrical contacts for high, low and medium voltage (HV, LV & MV) switchgears in India and abroad. It has presence from silver refining to producing electrical contacts materials to finished contacts. Electrical contact manufacturing is a technology-intensive business and the company acquired the technological know-how through technical alliance with Doduco, Germany, a global leader in electrical contact manufacturing. LV (including MV) & HV contributes nearly 75% and 25% respectively to the overall revenues of the company. Modison has an installed capacity of 250 thousand arcing contacts for HV and 33 tonnes per annum of LV contacts at its Vapi plant as on March 31, 2023.

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

Established customer and supplier base

Modison has an established customer base and caters to five out of top ten switchgear manufacturers in India. Contribution to sales from top five customers was around 40-45% over the last three years.

The major raw materials required for manufacturing of contacts are silver, copper and tungsten, which it procures from reputed suppliers. The top five suppliers accounted for around 65-70% of purchases over the last three years. Modison's high dependence on customers and suppliers leads to concentration risk. However, long-term relationship with these suppliers and customers helps mitigate the risks to a large extent.

Stable scale of operations

Modison's scale of operations have been continuously increasing Y-o-Y from FY19-22. However, Modison's total operating income declined marginally by 1.94% from ₹342.42 crore in FY22 to ₹335.78 crore in FY23 owing to decline in quantity sold. However, Modison has already booked sales of Rs. 183.39 crore during H1FY24 and has an unexecuted order book of around ₹ 64 crore as on December 25, 2023, which is expected to be executed in the next 4-6 weeks, thereby deriving short-term revenue visibility.

Comfortable capital structure and debt coverage indicators

Modison has comfortable financial risk profile with no major term debt and only working capital borrowings on its books as on March 31, 2023, whose utilization also remained low. As on March 31, 2023, the overall gearing improved to 0.03x (vis-à-vis 0.10x as on March 31, 2022) due to lower utilization of working capital limits as on balance sheet date.

Despite decline in cash accruals, the debt coverage indicators improved with total debt/GCA at 0.31 times in FY23 (vis-à-vis 0.83 times in FY22) due to lower debt outstanding as on balance sheet date. Due to lower profits booked during the year, the interest coverage ratio deteriorated marginally but remained comfortable at 14.21 times in FY23 (vis-à-vis 14.41 times in FY22).

Key weaknesses**Fluctuating profitability margins**

The operating margins have shown declining trend during the period of FY19-23 from 13-14% to 7% in FY23 owing to volatile input prices and competitive pressure in global market from China. The profit after tax (PAT) margins also declined in lines with PBILDT margin from 4.27% in FY22 to 3.36% in FY23. Modison also partially hedges silver on MCX as per market scenario resulting in mark-to-market losses/profit over the years.

Modison's profitability has improved during H1FY24 over H1FY23 marked by PBILDT margin of 7.73% and PAT margin of 6.06% as compared to 3.84% and 3.86% respectively for H1FY23 on back to increasing trend of input prices. However, the margins are monitorable with fluctuations in silver prices.

Elongated working capital cycle

The operations remain working capital intensive as the company operates in the electrical equipment industries. The operating cycle deteriorated to 134 days in FY23 vis-à-vis 128 days in FY22 on account of higher inventory days. The company needs to maintain sufficient inventory for continuous manufacturing requirements, which has led to higher inventory holding. The inventory period remained high at 84 days in FY23 vis-à-vis 73 days in FY22.

The company extends around 60-90 credit days to its customers. The collection days remained at 60 days in FY23. Considering the reputed customer profile, credit risk remains low.

With higher inventory holding period and higher collection period and minimal creditors' period, the operating cycle is elongated. However, the working capital requirement is primarily funded from internal accruals.

Susceptibility of profitability to fluctuations in prices of raw materials and foreign exchange rates

Modison is exposed to the inherent risk of price fluctuation of its major raw material i.e., silver, copper and tungsten with silver forming around 86% of raw material purchases. The raw materials account for around 84.74% of the cost of sales in FY23. Modison has arrangement to procure silver on monthly basis where-in prices are reset on weighted average basis and are linked to LME prices. Modison hedges part of its inventory in MCX through forward contracts based on market dynamics. At present, around 35% of inventory is hedged. On an average it takes around 30 days for LV contacts and around six weeks for HV contacts to supply to customers.

Modison also has exposure to foreign currency risk on account of its payable and receivables in foreign currency. Modison follows natural hedging as well as enters into forex forward contracts to mitigate the foreign currency risk. The foreign exchange forward contracts mature within a period of one month to two years. In H1FY24, Modison booked a profit of ₹2.51 crore (FY23: ₹ 0.37 crore) on hedging of silver and a forex gain of ₹2.19 crores (FY23: loss of ₹2.96 crore).

Liquidity: Adequate

The liquidity position remained adequate marked by moderate cash accruals (₹16.39 crore in FY23) as compared to no term debt repayment obligations and free cash and bank balance of ₹1.87 crore as on September 30, 2023. The average maximum and average utilization of working capital limits (fund based) stood low at 50% and 34% respectively and the average maximum utilization of NFB limits stood low at 1.87% for the last 12 months ended November 2023. 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 4.78 times and 2.02 times respectively as on March 31, 2023 (vis-à-vis 4.11 times and 2.11 times respectively as on March 31, 2022). Cash flow from operations stood at Rs. 23.99 crore in FY23 (vis-à-vis Rs. 19.96 crore in FY22).

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Policy On Curing Period](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Electrical equipment	Other electrical equipment

Established by G.L. Modi, Modison Limited (CIN No: L51900MH1983PLC029783) is engaged in the manufacturing of electrical contacts for low voltage (LV) and high voltage (HV) switchgears. Modison has an installed capacity of 250 thousand arcing contacts for HV and 33 tonnes per annum of LV contacts at its Vapi plant.

Its group company Modison Copper Private Limited (MCPL; Rated CARE BBB+; Stable/ CARE A2) was established in 1995 and is engaged in the business of converting metals viz copper, brass, zinc and other alloys into copper alloys that are used for manufacturing high voltage (HV) electrical contacts.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	342.42	335.78	183.39
PBILDT	31.07	25.60	14.18
PAT	14.62	11.27	11.12
Overall gearing (times)	0.10	0.03	NA
Interest coverage (times)	14.41	14.21	15.41

A: Audited; Prov.: Provisional; NA: Not Available; 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 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: 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; Stable
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 2023-2024	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
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)	-
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)	-
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)	-
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)	-

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)	-
6	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (24-Mar-23) 2)CARE A; Negative (17-Feb-23) 3)CARE A; Stable (07-Apr-22)	-	-
7	Fund-based - LT-Cash credit	LT	60.00	CARE A; Stable	-	1)CARE A; Negative (24-Mar-23) 2)CARE A; Negative (17-Feb-23) 3)CARE A; Stable (07-Apr-22)	-	-
8	Non-fund-based - ST-BG/LC	ST	17.50	CARE A1	-	1)CARE A1 (24-Mar-23) 2)CARE A1 (17-Feb-23) 3)CARE A1 (07-Apr-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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	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

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About us:

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