

Modern Insulators Ltd

November 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BB+ (CWD); ISSUER NOT COOPERATING* (Double B Plus) (Under Credit watch with Developing Implications ISSUER NOT COOPERATING*); Continues to be on Credit watch with Developing Implications and Withdrawn
Short Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE A4+ (CWD); ISSUER NOT COOPERATING* (A Four Plus) (Under Credit watch with Developing Implications ISSUER NOT COOPERATING*); Continues to be on Credit watch with Developing Implications and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure -1

Detailed Rationale and Key Rating Drivers:

CARE has reviewed the ratings assigned to the bank facilities of Modern Insulators Ltd (MIL) at CARE BB+/CARE A4+ (Under Credit watch with developing implications); ISSUER NOT COOPERATING and has simultaneously withdrawn it, with immediate effect. The rating withdrawal is at the request of MIL and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

The ratings prior to its withdrawal continue to remain constrained on account of non-availability of further update on proposed merger with the loss-incurring Modern Denim Ltd (MDL) especially when the denim industry is going through a challenging phase, elongated operating cycle and vulnerability of profitability margins to volatility in raw material prices.

The ratings, however, continue to drive strength from experienced promoters with established track record in insulator business, moderate scale of operations with improved profitability margins in FY21 (audited, FY refers to April 2020 to March 2021), moderate financial risk profile of MIL (excluding impact of proposed amalgamation of MDL).

The ratings continue to be on 'credit watch with developing implications' on account of pending clarity on amalgamation of MIL with MDL and the possible impact. As per last update, the scheme of amalgamation has been approved by the Board of Directors of MIL on December 04, 2019.

Detailed description of the key rating drivers

Key Rating Weaknesses

Proposed merger with the loss-incurring Modern Denim Ltd

MIL is in the process of filing for amalgamation of Modern Denim Ltd (MDL) with MIL for which MIL's board has given approval on December 4, 2019. MDL is in the business of manufacturing of denim fabric with its plant being situated in Ahmedabad with production capacity of 30 Million metres per annum (MMPA).

Elongated operating cycle

Operating cycle continued to remain elongated at 165 days during FY21 as against 140 days during FY20. Further cash and bank balance remained at Rs.1.40 crore as on March 31, 2021 as against Rs.0.80 crore as on March 31, 2020. Cash flow from operating activity improved and stood at Rs.75.88 crore for FY21 as against Rs.12.16 crore for FY20 on account of improved operating profitability.

Vulnerability of profitability margins to volatility in raw material prices

The prices of MIL's key raw materials for the manufacturing of insulators consist of clay, calcined alumina, metal fittings and other materials which exhibit volatility. Also, the raw materials used for manufacturing of terry towel like cotton and polyester have exhibited fluctuation in the past and the terry towel division of MIL has been incurring losses. Thus, MIL's profitability margins remain susceptible to fluctuation in raw material prices which could further increase once MDL is merged with it as the denim industry is inherently cyclical in nature.

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

Key Rating Strengths

Experienced promoters with established track record in insulator business

The promoters of MIL have a long and established track record of around three decades in the insulator manufacturing business for transmission lines and electrical equipment. MIL manufactures wide range of Porcelain Insulators in the range of 132KV to 765 KV. The main product categories are solid core post insulators, hollow insulators, long rod insulators, railway insulators and line-post insulators. MIL has reputed clientele in its insulator segment.

Moderate scale of operations along improved profitability margins in FY21

During FY21, TOI of the company declined by 9.54% but remained moderate at Rs.398 crore in FY21 as against Rs.440 crore in FY20. PBILDT margin of the company improved by 307 bps to 11.80% in FY21 on account of decrease in power and fuel cost. Consequently, PAT margin also improved by 375 bps to 8.90% in FY21 due to lower interest expenses and improved profitability level. Gross cash accruals of the company improved 58.86% to Rs.46.42 crore in FY21 owing to increase in PAT in absolute terms.

Moderate financial risk profile of MIL (excluding impact of proposed amalgamation of MDL)

Capital structure remained comfortable with an overall gearing of 0.06 times (0.34 times as on March 31, 2020) as on March 31, 2021. Further, PBILDT Interest coverage improved to 5.06 times in FY21 as against 2.99 times in FY20 owing to higher operating profitability as well as decrease in interest expenses. Further, total debt to GCA also improved and stood at 0.51 times for FY21 as against 3.45 times for FY20 on account of decrease in total debt and higher gross cash accruals.

Analytical Approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[CARE's policy on withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

Modern Insulators Ltd., (MIL), established in 1982 started with manufacturing Alumina Porcelain Insulators for High Voltage and Extra High Voltage Transmission Lines and electrical equipment in technical collaboration with Siemens, AG, Germany. Manufacturing facility for insulators is located in Abu Road, Rajasthan with installed capacity of 24,000 Metric Tonnes Per Annum (MTPA). The company is one of the major exporters of H.T. Porcelain Insulators from India. MIL is also engaged in manufacturing of terry towel and manufacturing facility of Terry Towels division is located in Ahmedabad, Gujarat. The proposed amalgamation of Modern Denim Limited (MDL) with MIL is awaited. MDL's denim manufacturing facility is located in Ahmedabad, Gujarat. Mr. Sachin Ranka is the Chairman and Managing Director of MIL.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (P)
Total operating income	445.49	398.05	208.73
PBILDT	38.66	46.98	185.57
PAT	22.64	35.42	14.71
Overall gearing (times)	0.34	0.06	0.06
Interest coverage (times)	2.99	5.06	8.15

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Please refer Annexure-3

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

Bank lender details: Please refer Annexure-5

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
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A4+ (CWD); ISSUER NOT COOPERATING* (24-Mar-21)	1)CARE A3 (CWD) (30-Mar-20) 2)CARE A3 (CWD) (16-Dec-19) 3)CARE A3 (05-Apr-19)	1)CARE A3 (22-Mar-19) 2)CARE A3 (03-Apr-18)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+ (CWD); ISSUER NOT COOPERATING* (24-Mar-21)	1)CARE BBB- (CWD) (30-Mar-20) 2)CARE BBB- (CWD) (16-Dec-19) 3)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Stable (22-Mar-19) 2)CARE BBB-; Stable (03-Apr-18)

Annexure 3: Covenants of rated instrument/facility: Not Applicable

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	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:

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