

## Modern Insulators Ltd

April 05, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities (Fund Based)	146.00 (Enhanced from 121.00)	CARE BBB-; Stable [Triple B Minus; Outlook:Stable]	Reaffirmed
Short Term Bank Facilities (Non Fund Based)	60.00 (60.00)	CARE A3 [A Three]	Reaffirmed
<b>Total</b>	<b>206.00</b> <b>(Rupees. Two Hundred and Six crore only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The reaffirmation of ratings assigned to bank facilities of Modern Insulators Ltd (MIL) factors in experienced promoters, stable operational performance and moderate financial risk profile.*

*However, the rating strengths are tempered by working capital intensive nature of operations, susceptibility to fluctuation in raw material prices and likely amalgamation of the denim business (under Modern Denim Limited), which would impact the financial risk profile of the company in the short-medium term period.*

*Ability of MIL to sustain profitability margins with prudent working capital cycle, along with stability in the financial risk profile of the company, post-amalgamation of the denim business, remains the key rating sensitivity.*

### Detailed description of the key rating drivers

#### Key Rating Strengths:

#### **Established track record in insulator business:**

The promoters have a long and established track record of three decades in the insulator business. MIL manufactures 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. Mr. Sachin Ranka is the chairman and managing director of MIL business.

#### **Stable Operational performance in FY18 whilst stability in the insulator division**

Total operating income improved by 4.97% from Rs. 387.73 crore in FY17 (Insulator + Terry Towel) to Rs. 407.01 crore in FY18. PBILDT margins are stable though dipped marginally from 9.64% in FY17 to 8.93% in FY18. The insulator division achieved sales of Rs. 365.40 crore in FY18 and Rs. 276.05 crore for 9MFY19. During 9MFY19 the PBIT margins of the insulator business remained stable at 10.92%.

#### **Moderate Financial Risk Profile**

The overall gearing stood comfortable at 0.32x in FY18 (0.32x in FY17). Furthermore, TOL to Networth remained stable at 0.56x in FY18 (0.56x in FY17) on account of healthy accretion to reserves. Interest coverage

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

ratio at 3.09x continues to remain favourable in FY18 on account of stability in PBILDT levels and interest expenses. However, total Debt to GCA deteriorated from 2.41x in FY17 to 3.01x in FY18 on account of greater usage of working capital borrowings. MIL has Rs. 5.72 crore receivables for more than 6 months as on 31<sup>st</sup> December 2018.

### **Industry Outlook**

Electricity generation during FY19 is expected to grow by 6.0-7.0%. Rural electrification is expected to drive demand for electricity as millions of households get connected to the grid in the coming months.

Robust Grid and supply transmission network require sizable investments over the next 12-18 months. Supply transmission would be vital in connecting un-electrified households in rural areas thereby improving demand for power. Grid connectivity on the other hand is vital for power-evacuation for new projects especially in the renewable segment.

### **Key Rating Weaknesses:**

#### ***Working capital intensive operations***

The operating cycle deteriorated from 120 days in FY17 to 135 days in FY18 on account of increase in collection period from 80 days in FY17 to 92 days in FY18. The average of fund based utilization for the last twelve months ended Dec 2018 has remained moderate at 73.75%. The average of Non-fund based utilization for the last twelve months ended Jan 2019 has been comfortable at 17.34%.

#### ***Fluctuation in raw material prices***

The prices for raw materials used for manufacturing of insulators consist of clay, calcined alumina, metal fittings and other materials may fluctuate. However the company is able to partially pass on the increase in prices of key raw materials such as clay, calcined alumina and metal fittings to its customers. Also the raw materials needed for manufacturing of terry towel like cotton and polyester may fluctuate. Thus MIL is susceptible to fluctuation in raw material prices.

### **Proposed Merger with Modern Denim Ltd**

MIL is in the process of filing of amalgamation of Modern Denim Ltd (MDL) with MIL. MIL is of the view that consolidation of two companies will facilitate savings in the administrative and other service cost. MDL is in the business of denim fabric manufacturing. Manufacturing unit is situated in Ahmedabad with production capacity of 30MMPA. As of FY18, MDL had revenue of Rs. 73.71 crore and made a loss of Rs. 3.11 crore. MDL had a Networth of Rs. (40.09) crore with debt of Rs. 61.17 crore in FY18.

### **Analytical approach: *Standalone***

### **Liquidity Analysis:**

The operating cycle deteriorated from 120 days in FY17 to 135 days in FY18 on account of increase in collection period from 80 days in FY17 to 92 days in FY18. The average of fund based utilization for the last twelve months ended Dec 2018 has remained moderate at 73.75%. The average of Non-fund based utilization

for the last twelve months ended Jan 2019 has been comfortable at 17.34%. Cash balances outstanding as on March 31, 2018 was Rs. 2.39 crores. MIL has Rs. 5.72 crore receivables for more than 6 months as on 31<sup>st</sup> December 2018.

### Applicable Criteria

[CARE's criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology for Short-term Instruments](#)

[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.

In FY18, MIL has demerged its yarn division and merged Modern Terry Towel Ltd. Manufacturing facility of Terry Towels division is located in Ahmedabad, Gujarat. Yarn division is now demerged and floated into a separate entity named Modern Polytex Ltd.

Thus MIL now has two business segments: 1. Insulators 2. Terry Towels

Brief Financials (Rs. crore) *	FY17 (A)	FY18 (A)
Income	387.73	407.01
PBILD	37.39	36.34
PAT	15.36	16.63
Overall gearing (times)	0.32	0.32
Interest coverage (times)	3.03	3.09
Total Debt/GCA times	2.41	3.01

\*Insulator division & Terry Towel division; 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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Analyst Contact:

Name: Mr. Hitesh M Avachat

Tel: 022-6754 3510

Email: [hitesh.avachat@careratings.com](mailto:hitesh.avachat@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	60.00	CARE A3
Fund-based - LT-Cash Credit	-	-	-	146.00	CARE BBB-; Stable

### 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	60.00	CARE A3	1)CARE A3 (22-Mar-19) 2)CARE A3 (03-Apr-18)	-	1)CARE A3 (19-Jan-17) 2)CARE A4 (Under Credit Watch) (12-Apr-16)	1)CARE A4 (Under Credit Watch) (21-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	146.00	CARE BBB-; Stable	1)CARE BBB-; Stable (22-Mar-19) 2)CARE BBB-; Stable (03-Apr-18)	-	1)CARE BBB-; Stable (19-Jan-17) 2)CARE BB+ (Under Credit Watch) (12-Apr-16)	1)CARE BB+ (Under Credit Watch) (21-Oct-15)

**CONTACT****Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 9198190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 9198196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 9199675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Saikat Roy**

Cell: + 9198209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91-0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CIN - L67190MH1993PLC071691****HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)