Modison Metals Limited

March 21, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	45.00	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	17.50	**CARE A1 (A One)**	**Reaffirmed**
Total	**62.50 (Rs. Sixty two crore fifty lakhs only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale& Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Modison Metal Limited (MML) continue to derive strength from experienced promoters, strong business profile being the market leader in India, strong clientele profile, healthy capital structure and comfortable debt coverage ratios. The ratings also factor in improved profitability margins during FY16 (refers to the period April 01 to March 31) & 9MFY17.

These rating strengths however continue to be constrained by elongated working capital cycle, concentration risk in customers and suppliers profile and susceptibility to fluctuation in silver prices and fluctuation in foreign exchange imparting volatility to profitability.

Ability of MML to increase scale of operation and maintain profitability margins amidst volatility in silver prices remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Modison Metals Ltd (MML) was established by Mr. G. L. Modi in 1965. Later in 1978 it ventured into electrical contacts business. Mr. G. L. Modi has more than three decades experience in electrical equipment industry and has been instrumental in establishing the company as one of the leading electrical contacts manufacturing company in India.

Strong business profile being the market leader in India: Modison Metals Ltd (MML) is a leading manufacturer of electrical contacts for high, low and medium voltage (HV, LV & MV) switchgears in India and internationally. It has presence from silver refining to producing electrical contacts materials to finished contacts. As per the management, in HV segment, it is near monopoly player in India (market share of more than 80%) and in LV segment it is the largest player. Furthermore it is the only company in India and one of the few in the world with presence in all three segments i.e. HV, MV and LV. MML enjoys strong brand position in India and is known for its quality products in the electrical industry. Electrical contact manufacturing is a technology intensive business and MML acquired the technological know-how through technical alliance with Doduco, Germany, a global leader in electrical contact manufacturing. LV & HV contributes nearly 65% and 35% respectively to the overall revenues of the company. MML has an installed capacity of 250 thousand arcing contacts for HV and 33 tonnes per annum of LV contacts at its Vapi plant.

Strong clientele profile: It has strong and established customer base including leading global and indian switchgear manufacturers like Larsen & Toubro, Anchor Electricals, Siemens, Alstom, ABB, etc.

Improved profitability margins during FY16 & 9MFY17: Gross margin substantially increased to 39.27% in FY16 vis-à-vis 31.67% in FY15 on back of procurement cost optimization in purchase of silver resulting into better operational efficiency. As a result PBILDT margin as well as PAT margin substantially increased in FY16.

Comfortable capital structure and debt coverage ratios: Overall gearing continues to be comfortable and remained stable at 0.20x as on March 31, 2016 vis-à-vis 0.28x as on March 31, 2015. Due to strong cash flows total debt/GCA and PBILDT interest coverage improved to 1.19x and 7.55x respectively as on March 31, 2016/FY16 vis-à-vis 2.42x and 4.59x respectively as on March 31, 2015/FY15.

Key Rating Weaknesses

Concentration risk in customers and suppliers profile

Top 5 clients contributed 38% in FY16 to total sales (vis-à-vis 43% in FY15) with more concentration at top one and top three customers. However concentration in top 5 clients have been continuously coming down in last 3-4 years.

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

Furthermore top 5 suppliers contributed 81% to total purchases (vis-à-vis 88% in FY15) with more concentration at top one and top three suppliers. MML's high dependence on select customers and suppliers leads to concentration risk, however, considering the profile of its key customers/suppliers and MML's competitiveness in terms of being the sole domestic supplier for medium and high voltage electrical contacts, mitigates these risk to certain extent.

Elongated working capital cycle

Gross working capital cycle remained stable at 167 days in FY16 vis-à-vis 165 days in FY15. In FY16, average inventory period was 108 days as due to process requirement the company has to maintain about 7-8 tonnes of inventory at any given point and average collection period was 59 days. Due to strong cash flows taking care of large part of working capital requirement, fund based working capital limits on an average were 53% utilized for the past 12 months ending December 2016.

Exposure to fluctuation in prices of silver and also copper

MML has arrangement with suppliers like Hindalco and Hindustan Zinc to procure silver on monthly basis where-in prices are reset on monthly basis linked to LME prices. 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 MML follows order based production policy, which further mitigates the risk.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's Methodology for Manufacturing Companies
Financial ratios - Non-Financial sector

About the Company

Modison Metals Ltd (MML) is the flagship company of the Modison group, established by Mr. G. L. Modi in 1965. Later in 1978 it ventured into electrical contacts business and currently is a leading manufacturer of electrical contacts for high voltage (HV) and low voltage (LV) switchgears in India and internationally. As per the management, in HV segment, it is near monopoly player in India (market share of more than 80%) and in LV segment it is the largest player. Furthermore it is the only company in India and one of the few in the world with presence in all three segments i.e. HV, MV and LV. MML has an installed capacity of 250 thousand arcing contacts for HV and 33 tonnes per annum of LV contacts at its Vapi plant.

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr. Pulkit Agarwal
Tel: 022 6754 3456
Email: pulkit.agarwal@careratings.com

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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
Fund-based - LT-EPC/PSC	-	-	-	7.50	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	37.50	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	7.00	CARE A1
Non-fund-based - ST-Working Capital Limits	-	-	-	10.00	CARE A1
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A1

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (12-Apr-16)	-	1)CARE A (27-Mar-15) 2)CARE A- (10-Apr-14)	-
2.	Fund-based - LT-EPC/PSC	LT	7.50	CARE A; Stable	1)CARE A (24-Jun-16) 2)CARE A (12-Apr-16)	-	1)CARE A (27-Mar-15) 2)CARE A- (10-Apr-14)	-
3.	Fund-based - LT-Cash Credit	LT	37.50	CARE A; Stable	1)CARE A (24-Jun-16) 2)CARE A (12-Apr-16)	-	1)CARE A (27-Mar-15) 2)CARE A- (10-Apr-14)	-
4.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A1	1)CARE A1 (24-Jun-16) 2)CARE A1 (12-Apr-16)	-	1)CARE A1 (27-Mar-15) 2)CARE A2+ (10-Apr-14)	-
5.	Non-fund-based - ST-Working Capital Limits	ST	10.00	CARE A1	1)CARE A1 (24-Jun-16) 2)CARE A1 (12-Apr-16)	-	1)CARE A1 (27-Mar-15) 2)CARE A2+ (10-Apr-14)	-
6.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1	1)CARE A1 (24-Jun-16) 2)CARE A1 (12-Apr-16)	-	1)CARE A1 (27-Mar-15) 2)CARE A2+ (10-Apr-14)	-

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

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

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@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

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

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

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

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

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

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

CIN - L67190MH1993PLC071691