Modison Metals Limited

March 27, 2019

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 Facilities	**62.50 (Rs. Sixty two crore and fifty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Modison Metals Limited (MML) continue to derive strength from the experienced promoters, strong business profile being the market leader in India, reputed clientele, stable operating performance, healthy capital structure and comfortable debt coverage ratios.

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 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 of 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. 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.

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

Stable operating performance: Total operating income of MML improved by 6% on account of increase in volumes in FY18 at Rs. 202.57 crore as compared to Rs. 191.00 crore for FY17. However, PBILDT reduced to Rs. 28.84 crore in FY18 from Rs. 31.71 crore in FY17 due to fluctuation in metal prices. Therefore, PBILDT margins deteriorated at 14.24% in FY18 as compared to 16.58% for FY17. During 9MFY18, MML reported operating income and PAT of Rs. 160.54 crore and Rs. 10.33 crore respectively, as compared to Rs. 142.08 crore and Rs. 9.92 crore for the same period previous year.

Comfortable capital structure and debt coverage ratios: Overall gearing continues to be comfortable and remained stable at 0.11x as on March 31, 2018 vis-à-vis 0.16x as on March 31, 2017. Due to strong cash flows total debt/GCA and PBILDT interest coverage improved to 0.63x and 13.83x as on March 31, 2018/FY18 respectively vis-à-vis 0.89x and 10.54x as on March 31, 2017/FY17 respectively.

Key Rating Weaknesses

Concentration risk in customers and suppliers profile: Top 5 clients contributed 45% in FY18 to total sales (vis-à-vis 41% in FY17) with top customer contributing 22% in FY18 to total sales (vis-à-vis 21% in FY17). Furthermore top 5 suppliers contributed to 91% of total purchases in FY18 (vis-à-vis 91% in FY17) with top supplier contributing 37% (vis-à-vis 69% in FY17) to total purchases. MML's high dependence on select customers and supplier's 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.

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

Elongated working capital cycle: Gross working capital cycle deteriorated to 163 days in FY18 vis-à-vis 152 days in FY17. In FY18, average inventory period was 92 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 71 days. As a result operations are working capital intensive. However, due to strong cash flows taking care of large part of working capital requirement, fund based working capital limits on an average were 39% utilized for the past 12 months ending January 2019.

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. MML proactively manages this risk through hedging and inventory management. Furthermore, MML follows order based production policy, which further mitigates the risk.

Liquidity position
MML has cash and bank balance of around Rs. 2.40 crore as on September 30, 2018. With gross cash accruals for Q3FY19 of Rs.4.56 crore with no term debt and only working capital facilities, the liquidity position of MML is comfortable. The company has average unutilized fund based limits of around 61% of its sanctioned limits which provides further liquidity comfort.

Analytical approach: Standalone, as during February 2019, MML divested its entire investment in Modison Contacts Pvt. Ltd. (subsidiary). Furthermore, the revenue from subsidiary was not material.

Applicable Criteria
Criteria on assigning Outlook to Credit Rating
CARE's default recognition policy
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Financial ratios - Non Financial Sector
Rating Methodology-Manufacturing Companies

About the Company
Modison Metals Limited (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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	191.25	202.57
PBILDT	31.71	28.84
PAT	14.26	16.40
Overall gearing (times)	0.16	0.11
Interest coverage (times)	10.54	13.83

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

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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Annexure-1: Details of 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-Cash Credit	-	-	-	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-BG/LC	-	-	-	10.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	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 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.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (12-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	7.50	CARE A; Stable	-	1)CARE A; Stable (30-Mar-18)	1)CARE A; Stable (21-Mar-17) 2)CARE A (24-Jun-16) 3)CARE A (12-Apr-16)	-
3.	Fund-based - LT-Cash Credit	LT	37.50	CARE A; Stable	-	1)CARE A; Stable (30-Mar-18)	1)CARE A; Stable (21-Mar-17) 2)CARE A (24-Jun-16) 3)CARE A (12-Apr-16)	-
4.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A1	-	1)CARE A1 (30-Mar-18)	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)CARE A1 (12-Apr-16)	-
5.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	-	1)CARE A1 (30-Mar-18)	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)CARE A1 (12-Apr-16)	-
6.	Non-fund-based - ST-BG/LC	ST	0.50	CARE A1	-	1)CARE A1 (30-Mar-18)	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)CARE A1 (12-Apr-16)	-

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