Modison Metals Ltd

March 30, 2018

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, healthy capital structure and comfortable debt coverage ratios. The ratings also factor in the improvement in profitability margins during FY17 (refers to the period April 01 to March 31).

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. 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 one of the largest players. 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.

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

Strong 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 profit margins: During FY17, total operating income improved by 13% to Rs.191 crore in FY17 due to increase in volumes, however, gross margin remained stable albeit marginally declined at 38.80% in FY17 vis-à-vis 39.27% in FY16. PBILDT margin improved slightly at 16.24% in FY17 as compared to 16.02% for FY16. As a result, PAT margin improved to 7.36% in FY17 vis-à-vis 6.43% in FY17.

Comfortable capital structure and debt coverage ratios: Overall gearing continues to be comfortable and remained stable at 0.16x as on March 31, 2017 vis-à-vis 0.20x as on March 31, 2016. Due to strong cash flows, total debt/GCA and PBILDT interest coverage improved to 0.90x and 10.32x as on March 31, 2017/FY17 respectively vis-à-vis 1.19x and 7.55x as on March 31, 2016/FY16 respectively.

Key Rating Weaknesses

Concentration risk in customers and suppliers profile: Top 5 clients contributed 41% in FY17 to total sales (vis-à-vis 38% in FY16) with top customer contributing 21% in FY17 to total sales (vis-à-vis 17% in FY16). Furthermore, top 5 suppliers contribu ted to 90% of total purchases (vis-à-vis 83% in FY16) with top supplier contributing 69% in FY17 (vis-à-vis 50% in FY16) to total purchases. While the customers concentration risk looks higher, the company has demonstrated a past track record of continuously reducing the same. Moreover, considering the profile of its key customers and MML's competitiveness in terms of being the sole domestic supplier for medium and high voltage electrical contacts, further mitigates this risk.

Elongated working capital cycle: Gross working capital cycle improved to 151 days in FY17 vis-à-vis 167 days in FY16. In FY17, 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 59 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 22% utilized for the past 11 months ending February 2018.

Exposure to fluctuation in prices of silver and 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 Rating
CARE's default recognition policy
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Rating Methodology-Manufacturing Companies

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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	169.16	191.26
PBILDT	27.09	31.06
PAT	10.88	14.09
Overall gearing (times)	0.20	0.16
Interest coverage (times)	7.55	10.33

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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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-EPC/PSC	-	-	-	0.00	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	17.50	CARE A1
Non-fund-based - ST-Working Capital Limits	-	-	-	0.00	CARE A1
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
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	0.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-17) 2)CARE A (24-Jun-16) 3)CARE A (12-Apr-16)	-	1)CARE A (27-Mar-15) 2)CARE A- (10-Apr-14)
3.	Fund-based - LT-Cash Credit	LT	45.00	CARE A; Stable	-	1)CARE A; Stable (21-Mar-17) 2)CARE A (24-Jun-16) 3)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	17.50	CARE A1	-	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)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	0.00	CARE A1	-	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)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	0.00	CARE A1	-	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)CARE A1 (12-Apr-16)	-	1)CARE A1 (27-Mar-15) 2)CARE A2+ (10-Apr-14)

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