

Modison Metals Limited

March 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	45.00	CARE A; Positive (Single A; Outlook: Positive)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	17.50	CARE A1 (A One)	Reaffirmed
Total	62.50 (Rs. Sixty Two crore and Fifty lakh only)		

Details of facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Modison Metals Limited (MML) derives strength from its experienced promoters, its strong business profile being the market leader in India in manufacturing electrical contacts (industry with high entry barriers), consistent increase in scale of operations, reputed customer as well as supplier base although it is concentrated, comfortable capital structure & debt coverage indicators, robust risk management through hedging of raw materials as well as order driven approach, comfortable liquidity position supported by strong accruals and minimum working capital utilisation.

The rating strengths, are however, tempered by high working capital cycle mainly due to high inventory period as well as its exposure to fluctuation in prices of its major raw materials and foreign exchange leading to volatility in profitability margins.

Rating Sensitivities
Positive factors

- Substantial increase of 12-15% in scale of operations on a sustained basis leading to generation of higher gross cash accruals which will further improve the credit profile.

Negative factors

- Material reduction in market share in electrical contacts leading to sharp decline in scale of operations and affecting the overall credit profile.
- Deterioration in overall gearing beyond 1.0x on a sustained basis

Outlook: Positive

The outlook has been revised to positive as CARE believes the credit risk profile of the company will further improve in the medium term, supported by strong market position, increasing scale of operations, and increase in overall operating efficiency leading to better profitability margins which in turn will lead to generation of higher accruals and accretion in networth.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters and long track record of operations

Modison Metals Limited was established by Mr. G.L. Modi in 1965 as a trading unit. A decade later in 1975, the first manufacturing facility was set up in Mumbai for refining of Silver and exporting it. Further in 1978, the promoter started manufacturing of electrical contacts. Mr. G. L. Modi has more than four decades of experience in electrical equipment industry and has been instrumental in establishing the company as one of the leading electrical contacts manufacturing

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

company in India. Along with Shri G.L. Modi, his son Mr. Jay Kumar Modi and his relative Mr. Rajkumar Modi take care of the business. The promoters are well supported with a professional team in place to take care of key aspects of business.

Strong business profile being the market leader in India

MML is a leading manufacturer of electrical contacts for high, low and medium voltage (HV, LV & MV) switchgears in India and abroad. It is the only company in India and one of the few in the world to have presence in all three segments i.e. HV, MV and LV. MML enjoys strong market position in India and is known for its quality products in the electrical industry. LV (including MV) & HV contributes nearly 65% and 35% respectively to the overall revenues of the company.

Strong customer and supplier base; however it is concentrated

MML has a very strong and established customer base and caters to five out of top 10 switchgear manufacturers in India. Contribution to sales from top five customers was 47% in FY19 (PY: 45%), with top customer contributing 23% in FY19.

The major raw material required for manufacturing of contacts is silver and copper, which it procures from highly reputed suppliers. The top five suppliers accounted for 92% during FY19, whereas top supplier accounted for 63% of total purchases made during FY19.

MML's high dependence on customers and suppliers leads to concentration risk. However, long term relationship with these suppliers and customers as well as MML being the biggest domestic supplier to the switchgear manufacturers helps mitigate the risks to a large extent.

Consistent increase in scale of operations

MML's has grown at a CAGR of around 8% for the past three years. Total Operating Income (TOI) increased by 10% in FY19 to Rs.222 crore from Rs.203 crore in FY18 on account of higher realization owing to better silver prices during the year. However, PBILDT margin slightly deteriorated to 13.53% from 14.24% in FY18, on account of higher quantity of materials consumed as well as increase in manufacturing and other expenses.

During 9MFY20, MML has reported TOI of Rs.164 crore as against Rs.161 crore during 9MFY19. PBILDT margins also improved slightly to 12.50% from 12.18%.

During Q4FY20, the company is expected to achieve higher sales when compared with sales in last quarter in previous years owing to receipt of higher domestic orders on account of China getting affected due to outbreak of Coronavirus. China is the biggest competitor in electrical contacts.

Comfortable capital structure and debt coverage ratios

MML has highly comfortable financial risk profile with no major term debt and only working capital borrowing which are also utilized minimally. The company generates enough gross cash accruals to fund any major capex and its day-to-day operations. Overall gearing as on March 31, 2019, stood very comfortable at 0.16x. Total debt to GCA also stood comfortable at 0.93 years owing to strong cash accruals. Interest coverage slightly deteriorated from 13.84x in FY18 to 12.65x in FY19, however it is highly comfortable.

Key Rating Weaknesses

High working capital cycle

MML's products cater primarily to domestic market which contributed around 80% to its total sales during FY19 and balance through exports. The company till recently used to maintain around 9-11 tons of inventory at any given point of time owing to process requirement. However, the company has now decided to maintain around 6-7 tons of silver and procure only if needed. This will help in reduction in inventory holding.

The company being in heavy goods industries where realization of receivables usually takes higher time, MML extends around 90 days to its receivables. The company procures silver majorly on cash basis. With higher inventory holding and collection period and minimal creditors' period, the operating cycle is higher which makes the operations working capital intensive. However, this is compensated through generation of strong cash flows which mitigate working capital requirement. Average utilisation for fund-based limits for the past 12 months ended December 2019, was low at 33%.

Exposure to fluctuation in prices of silver and also copper

MML is exposed to inherent risk of price fluctuation of its major raw material i.e. Silver. The raw materials account for around 80% of the total cost of sales. MML has arrangement with suppliers to procure silver on monthly basis where-in prices are reset on monthly basis linked to LME prices. The company manages its inventory through hedging and better management. 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. On an average, it takes around 30 days for LV contacts and around 6 weeks for HV contacts to supply to customers.

The company is a net exporter and is mainly exposed to changes in Euro as it imports as well as exports in Euro. Depreciation of rupee is beneficial for company; however, in situation of rupee appreciation, the company is exposed to foreign exchange fluctuation risk.

Prospects:

The demand for switchgears in India is mainly driven by increasing population, fast-growing power distribution and transmission network, new electrification initiatives and higher spends towards infrastructure by the government. These initiatives have led to high demand of switchgears. MML being the largest supplier of electrical contacts to switchgear manufacturers will benefit from such initiatives. Also, due to recent spread of Coronavirus in China, the company has received higher domestic orders from existing customers recently.

Electrical contact manufacturing is a very niche industry having very high entry barriers. In India, there are very few companies present, in which only MML focuses fully on manufacturing of electrical contacts.

Liquidity: Strong - Liquidity is marked by strong accruals against negligible repayment obligations of Rs.0.40 crore in FY20 and FY21 as well. The average fund-based utilization for the past 12 months ended December 2019 was low at 33%. Its unutilized bank lines of around 66% of its sanctioned limits further provide liquidity comfort. Also, the company has sanctioned Non-fund based limits which it does not utilize. The company is planning to incur major capex of around Rs.25 crore in FY20 and FY21 for modernization of its Vapi Plant, for which the internal accruals will be adequate. This capex will lead to further improvement in operational performance.

Analytical approach: Standalone

Applicable criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios - Non-Financial sector](#)

About the Company

Modison Metals Limited was founded as a trading unit in 1965, by Mr. G.L. Modi, to deal in tool steels and general merchandise. A decade later in 1975, Mr. G.L. Modi established the first manufacturing facility in Mumbai for refining of Silver and exporting it to bankers and dealers in Europe and USA. Within two years, the promoters started manufacturing electrical contacts after realizing vast potential in this segment. From 1983 to 1996, Modison had technical collaboration with DODUCO and with its support Modison developed many hi-tech products, which were hitherto, imported by India Switchgear industry. These electrical contacts are specially made tipping points that make and break electrical current. MML is the leading manufacturer for low voltage (LV) and sole manufacturer of high voltage (HV) switchgears in India. 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)	FY18 (A)	FY19 (A)
Total operating income	202.56	222.44
PBILDT	28.84	30.09
PAT	16.39	16.66
Overall gearing (times)	0.11	0.16
Interest coverage (times)	13.84	12.65

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

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; Positive
Fund-based - LT-Cash Credit	-	-	-	37.50	CARE A; Positive
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	7.50	CARE A; Positive	-	1)CARE A; Stable (27-Mar-19)	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)
2.	Fund-based - LT-Cash Credit	LT	37.50	CARE A; Positive	-	1)CARE A; Stable (27-Mar-19)	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.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A1	-	1)CARE A1 (27-Mar-19)	1)CARE A1 (30-Mar-18)	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)CARE A1 (12-Apr-16)
4.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	-	1)CARE A1 (27-Mar-19)	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	0.50	CARE A1	-	1)CARE A1 (27-Mar-19)	1)CARE A1 (30-Mar-18)	1)CARE A1 (21-Mar-17) 2)CARE A1 (24-Jun-16) 3)CARE A1 (12-Apr-16)

Annexure-3: Detailed explanation of covenants of the rated facilities - NA

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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