MODISON ®
METALS LIMITED

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CIN NO: L51900MH1983PL0029783

26-03-2020

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001.

Ref: MODISON METALS LTD — SCRIP CODE 506261.

Sub : Intimation of Revision and Reaffirmation of Credit Rating for bank facilities rated by CREDIT ANALYSIS & RESEARCH (CARE) LTD

Dear Sir/Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that our credit rating (rated by Credit Analysis & Research (CARE) LTD.) has been revised and reaffirmed for long term & Short term bank facilities as under:-

Particulars	Amount (in crore)	Rating	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

This is for your information and request you to take the same on record.

Thanking you,

Yours truly,

For **MODISON METALS LIMITED,**

Manisha Aruy

COMPANY SECRETARY

CARE Ratings
Professional Risk Opinion

CARE/HO/RL/2019-20/4883

Shri Ramesh Kothari
Chief Financial Officer
Modison Metals Limited
33, Nariman Bhawan
227, Nariman Point, Mumbai – 400 021

March 23, 2020

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY19 (audited) and 9MFY20 (unaudited), our Rating Committee has reviewed the following 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)**		

2. Refer **Annexure I** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure II**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by March 26, 2020, we will proceed on the basis that you have no comments to offer.
4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating

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

of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Siddharth Pungliya
Analyst
siddharth.pungliya@careratings.com

Sharmila Jain
Associate Director
sharmila.jain@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure I
Details of Rated Facilities

1. Long-term facilities
Fund-based limits

(Rs. Crore)

Sr. No.	Name of Bank	CC *	Remarks
1	HDFC Bank	45.00	Sub-limits: WCDL/ Pre-shipment/ Post-shipment – Rs.4.50 crore.

*CC: Cash credit

Total long-term facilities: Rs.45.00 crore

2. Short-term Facilities
Non-Fund Based limits

(Rs. Crore)

Sr. No.	Name of Bank	LC*	Remarks
1	HDFC Bank	17.50	Sub-limits: LC/BC/SBLC

*LC: Letter of Credit

Total short-term facilities: Rs. 17.50 crore

Total facilities rated (1+2) – Rs.62.50 crore

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Ratings

Facilities	Amount (Rs. crore)	Rating[2]	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.

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

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 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	1)CARE A1	1)CARE A1 (21-Mar-17)

						(27-Mar-19)	(30-Mar-18)	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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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.