



Date: - 15/11/2024

BSE Ltd.
Department of Corporate Services
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001

Dear Sir,

Sub: - Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Credit Ratings

Scrip Code: BSE 515008

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to intimate you that India Ratings and Research Pvt. Ltd., vide its letter dated. 15th November, 2024 has assigned its ratings to the Company as under:

S. No.	Particulars	Rating Action
1.	Fund-based working capital limits (Rs. 64.96 Crores)	IND BBB/Stable (Affirmed)
2.	Non-fund-based working capital limits (Rs. 55.04 crores)	IND A3+ (Assigned)

A copy of press release from India Ratings and Research Pvt. Ltd is enclosed herewith for your record.

This is for your kind reference and records.

Thanking you

Yours Faithfully
For Modern Insulators Limited

P.K. Gokhroo
Executive Director
(DIN: 06810797)

Encl: - As above

India Ratings Affirms Modern Insulators’s Bank Facilities at ‘IND BBB’/Stable; Rates Additional Limits

Nov 15, 2024 | Other Electrical Equipment

India Ratings and Research (Ind-Ra) has taken the following rating actions on Modern Insulators Limited's (MIL) bank facilities:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR550	IND BBB/Stable	Affirmed
Non-fund-based working capital limit	-	-	-	INR400	IND A3+	Affirmed
Non-fund-based limit	-	-	-	INR150.4	IND A3+	Assigned
Proposed fund-based limit	-	-	-	INR99.6	IND BBB/ Stable	Assigned

Analytical Approach

Ind-Ra continues to take a fully consolidated view of MIL, its wholly owned subsidiary Modern Metalcast Pvt Ltd (up to 19 June 2023), and Modern Composites Private Limited along with its joint venture (JV) companies - Shriji Designs and Sikka Engineering Company (no operations currently), owing to the strong legal, operational and strategic linkages among them. The companies have a common management, centralised treasuries and are in similar line of business.

Detailed Rationale of the Rating Action

The ratings reflect MIL’s medium scale of operations along with Ind-Ra’s expectation of an improvement in the company’s operating profitability with increasing portion of overall exports as well as an uptick in the sale quantum of its high margin insulators over the near to medium term. Additionally, the rating benefits from comfortable credit metrics and long business track record and promoter experience with established relationship with customers and suppliers. However, the ratings are constrained by elongated net working capital cycle despite intrinsic to its business operations.

List of Key Rating Drivers

Strengths

- Medium scale of operations
- Improving operating profitability
- Comfortable credit metrics
- Repute customers; low customer concentration

Weaknesses

- Extension in amalgamation process
- Elongated net working capital cycle

Detailed Description of Key Rating Drivers

Medium Scale of Operations: MIL's revenue improved to INR4,372 million in FY24 (FY23: INR4,243 million; FY22: INR4,354 million) supported by higher realisation in the insulator division, increased exports along with improved capacity utilisations in the terry towel division. The insulators division accounted for around 89% of the revenue in FY24 (FY23: 90%) followed by the terry towels division at 10% (9%). During 1QFY25, MIL recorded revenue of around INR1,038 million in 1QFY25 and had an order book of INR1,924 million as of September 2024, that is scheduled to be executed in the next three months.

Ind-Ra expects MIL's revenue to grow over the near- to medium term, owing to the company's growing volume of high-value insulators in the total sales. However, the terry towel division is yet to turn around with stabilisation in the cotton industry.

Improving Operating Profitability: MIL's operating profitability improved to 10.13% in FY24 (FY23: 8.91%; FY22: 6.95%), led by lower manufacturing expenses along with higher realisations in the insulator division. The insulators division's margin improved to 11.26% in FY24 (FY23: 10.75%; FY22: 9.62%) benefitting from increased sale of high margin insulators. Meanwhile, the terry towel division turned around with an operating margin of 2.8% in FY24 from operating losses in the prior years supported by its improved capacity utilisation. The return on capital employed increased to 8.5% in FY24 (FY23: 7.4%; FY22: 5.9%). Furthermore, MIL has also benefitted from the inclusion of price escalation clauses in some of its contracts to insulate the margins from fluctuations in raw material prices.

Ind-Ra expects the EBITDA margins to improve further in the near- to medium term with the increasing sale of higher value, higher margin products in the insulators division. Overall, MIL's ability to turn around the terry towel division, along with an overall improvement in the profitability remains a key rating monitorable.

Comfortable Credit Metrics: MIL's gross interest coverage (operating EBITDA/gross interest expenses) improved to 13.00x in FY24 (FY23: 9.11x; FY22: 5.90x) and the net leverage (total adjusted net debt/operating EBITDA) stood at 0.33x (0.17x, 0.73x), due to the increase in its absolute EBITDA to INR442 million (INR378 million; INR306 million) and lower interest expenses. Furthermore, MIL, on a standalone basis, does not have any term debt liabilities. Ind-Ra expects the credit metrics to remain comfortable in the medium term as the company does not plan to undertake any debt-funded capex. However, on the consolidated level, the company has availed a term loan of INR76.5 million term loan for its subsidiary Modern Composites for its plant and machinery.

Reputed Customers; Low Customer Concentration: The company's clientele includes reputed customers including the Tata group, Siemens AG, Hitachi Energy India Limited, with whom MIL has established relationships. MIL's single largest customer accounted for 20%-25% of the revenue.

Extension in Amalgamation Process: MIL had announced the amalgamation of Modern Denim Limited (MDL) with itself in December 2019. The scheme of amalgamation received approval of the board of directors, shareholders, as well as secured and unsecured creditors of the companies. Accordingly, the chairperson reports were also filed in the National Company Law Tribunal (NCLT). Subsequently, a second motion petition was filed with the NCLT. As per the scheme, MIL would make a cash payment of INR576 million to MDL over and above the exchange of shares. Of this, MIL had already paid the entire sum as on 31 March 2023 in the form of unsecured loans. MDL settled the entire debt availed from banks or financial institutions through a one-time settlement. However, MDL had outstanding non-convertible debentures of INR35.30 million and public fixed deposits of INR69.20 million as of May 2022 to be paid in four equal annual instalments post the final decision by the NCLT. Although MIL's absolute EBITDA can easily absorb MDL's EBITDA loss, the timely completion of the amalgamation remains critical.

Elongated Net Working Capital Cycle: MIL's net working capital cycle reduced but remained elongated at 200 days in FY24 (FY23: 210 days; FY22: 199 days), largely on account of a long inventory holding period of 136 days (150 days; 152

days) as the company is required to maintain a large stock of imported raw material (clay from the UK and China) for insulators. The company has a long production cycle and has an inspection period of 30-45 days before the final delivery of the product. The company provides around 90 days of credit period to its customers and receives 30-60 days of credit period from its suppliers. Notably, the receivables and inventory holding period remain optically higher due to sale skewness towards the third and fourth quarter of the financial year. Ind-Ra expects the working capital cycle to remain around similar levels owing to nature of the business.

Liquidity

Adequate: At FYE24, MIL had cash and cash equivalents of INR46.35 million (FYE23: INR14.46 million). The average maximum utilisation of the fund-based and non-fund-based limits was around 30% and 70%, respectively, during the 12 months ended September 2024. Additionally, the company held mutual fund investments worth INR188.1 million at FYE24 (FYE23: INR53.8 million). The cash flow from operations deteriorated to INR93.2 million in FY24 (FY23: INR198.27 million) despite improved operational results consumed by unfavourable working capital changes. The company does not have any term loan repayment obligations, except negligible vehicle loan repayments. However, in line with the scheme of amalgamation, MIL will have to repay the non-convertible debentures and public fixed deposits worth INR104.5 million in equal instalments over four years from the date of final order of the NCLT.

Rating Sensitivities

Positive: A substantial improvement in the scale of operations and operating profitability and liquidity position while maintaining current credit and financial risk profile, on a consolidated and sustained basis, will be a positive for the ratings.

Negative: A substantial deterioration in the scale of operations or operating profitability or deterioration in the liquidity position or other credit and financial metrics, on a consolidated and standalone basis, will be a negative for the ratings.

About the Company

Established in 1982, MIL manufactures porcelain insulators for high voltage and extra high voltage transmission lines, and electrical equipment in technical collaboration with Siemens, AG, Germany. The company is one of the major exporters of high-tension porcelain insulators. The company's Rajasthan-based insulators manufacturing division has an annual capacity of 24,000 metric tonnes, while its Gujarat-based terry towel division has an annual capacity of 2,400 metric tonnes.

Key Financial Indicators

Consolidated

Particulars	FY24	FY23
Revenue (INR million)	4,372.12	4,243.52
EBITDAR (INR million)	442.82	378.30
EBITDAR margin (%)	10.13	8.91
Gross interest coverage (x)	13.00	9.11
Net leverage (x)	0.33	0.17
Source: MIL; Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Rating Watch	Historical Rating/Outlook/Rating Watch			
				9 October 2023	22 September 2023	11 August 2022	18 May 2021
Issuer rating	Long-term	-	-	-	WD	IND BBB/ Negative	IND BBB/ Stable
Non-fund-based working capital limit	Short-term	INR550.4	IND A3+	IND A3+	-	IND A3+	IND A3+
Fund-based working capital limit	Long-term	INR649.6	IND BBB/Stable	IND BBB/ Stable	-	IND BBB/ Negative	IND BBB/ Stable

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Non-fund based working capital limit	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

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APPLICABLE CRITERIA AND POLICIES

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

DETAILED FINANCIAL SUMMARY

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