



**Date: - 09/10/2023**

**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. 09<sup>th</sup> October 2023 has assigned its ratings to the Company as under:

<b>S. No.</b>	<b>Particulars</b>	<b>Rating Action</b>
1.	Fund-based working capital limits (Rs. 136.06 Crores)	IND BBB/Stable (Assigned)
2.	Non-fund-based working capital limits (Rs. 60 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**

**Vikas Sharma**  
**Executive Director**  
**(DIN: 00761202)**



Encl: - As above

## India Ratings Revises Outlook on Modern Insulators' Bank Facilities to Stable; Affirms 'IND BBB'

Oct 09, 2023 | Other Electrical Equipment

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

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Fund-based limit	-	-	-	INR461.6	IND BBB/Stable	Outlook revised to Stable from Negative; Affirmed
Non-fund-based limit	-	-	-	INR199.6	IND A3+	Affirmed
Fund-based limit	-	-	-	INR88.4	IND BBB/Stable	Assigned
Non-fund-based limit	-	-	-	INR200.4	IND A3+	Assigned

The Outlook revision to Stable reflects an improvement in MIL's operating profitability and liquidity position in FY23, leading to an improvement in its financial flexibility.

**ANALYTICAL APPROACH** Ind-Ra has taken a consolidated view of MIL, its wholly-owned subsidiary Modern Inviro Limited and its joint venture companies - Shriji Designs and Sikka Engineering Company. This is owing to the strong legal, operational and strategic linkages among them as reflected by a common management, centralised treasuries and a similar line of business.

### Key Rating Drivers

**Improvement in EBITDA Margin:** The operating profitability improved to 8.5% in FY23 (FY22: 7.1%) on the back of a decline in manufacturing, power and fuel costs, partially offset by an increase in cost of goods sold and administrative expenses. The insulators division margin improved to 10.75% in FY23 (FY22: 9.62%) benefitting from improved realisations amid increased sale of high value insulators. Meanwhile, the terry towel

division continued to report operating losses. The return on capital employed stood at 7.2% in FY23 (FY22: 6.1%, FY21: 9.3%).

Ind-Ra expects the EBITDA margin to improve further in the near-to-medium term with the increasing sale of higher value, higher margin, insulators division. Further, MIL has started including price escalation clauses in some of its contracts to insulate the margins from fluctuations in raw material prices. Overall, MIL's ability to turnaround the terry towel division, along with an overall improvement in the profitability remains key rating monitorable.

**Liquidity Indicator - Adequate:** At FYE23, MIL had cash and cash equivalents of INR11.8 million (FYE22: INR41.5 million). The average maximum utilisation of the fund-based and non-fund-based limits was around 37% and 43%, respectively, during the 12 months ended August 2023. The cash flow from operations increased to INR206 million in FY23 (FY22: INR92 million) on the back of improved operating profitability, lower gross interest expenses and favourable changes in working capital. 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 totalling INR104.5 million in equal instalments over a period of four years from the date of final order of the National Company Law Tribunal (NCLT). MIL also maintained liquid investments of INR105 million in quoted shares and mutual funds at FYE23.

**Continued Medium Scale of Operations:** The revenue declined to INR4,309 million in FY23 (FY22: INR4,416 million, FY21: 3,984 million). This was because of muted sales in the terry towel division (FY23: INR393 million, FY22: INR489 million) and lower other income from yarn & waste, sale of services, traded goods (INR118 million, INR142 million), partially offset by improved realisations in the insulators division (INR3,798 million, INR3,784 million). The insulators division accounted for 88% of the revenue in FY23 (FY22: 87%, FY21: 87%), followed by terry towels division at 9% (11%, 11%) and other income. As of August 2023, MIL had an order book of INR1,000 million, to be executed in the next three months.

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

**Extension in Amalgamation Process:** In December 2019, MIL announced the amalgamation of Modern Denim Limited (MDL) with itself. The scheme of amalgamation received approval of the board of directors, shareholders, as well as secured and unsecured creditors of both the companies. Accordingly, chairperson reports were also filed in the NCLT. Subsequently, a second motion petition was filed with the NCLT. The last hearing was on 31 July 2023 and the next hearing is scheduled on 16 October 2023. 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 of 31 March 2023 in the form of unsecured loans. MDL has settled the entire debt availed from banks or financial institutions through a one-time settlement. However, MDL has outstanding non-convertible debentures worth INR35.30 million and public fixed deposits worth INR69.20 million as of May 2022 to be paid in four equal annual installments post the final decision by NCLT. Although MIL's absolute EBITDA can easily absorb MDL's EBITDA loss of INR0.04 million for FY23, the timely completion of the amalgamation process remains critical.

**Comfortable Credit Metrics:** MIL's interest coverage (operating EBITDA/gross interest expenses) improved to 8.85x in FY23 (FY22: 6.07x) and net leverage (total adjusted net debt/operating EBITDA) to 0.19x (0.71x). This was due to a reduction in the debt to INR80.21 million at FYE23 (FYE22: INR258.81 million) and a consequent decline in the gross interest expense to INR41.53 million (INR51.98 million), along with an increase in the absolute EBITDA to INR367.7 million (INR315.66 million). Further, 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.

**Reputed Customers; Low Customer Concentration:** The company's clientele includes reputed customers including 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 in FY23.

**Elongated Net Working Capital Cycle:** The net working capital cycle elongated to 210 days in FY23 (FY22: 199 days, FY21: 213 days), largely on account of a long inventory holding period of 150 days (152 days, 171 days) as the company is required to maintain a large stock of imported raw material (clay from the UK, 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.

## Rating Sensitivities

**Positive:** An improvement in the operating profitability while maintaining the credit metrics and liquidity position, and an improvement in the return on capital employed to 11%-12%, all on a sustained basis, will be positive for ratings.

**Negative:** A substantial deterioration in the operating profitability or deterioration in the credit metrics or financial flexibility, leading to deterioration in the liquidity position will be a negative for the ratings.

## Company Profile

Established in 1982, MIL manufactures alumina 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 insulators manufacturing division, located in Rajasthan, has an annual capacity of 24,000 metric tonnes, while its terry towel division, located in Gujarat, has an annual capacity of 2,400 metric tonnes.

### FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR million)	4,309.56	4,416.18
EBITDAR (INR million)	367.70	306.72
EBITDAR margin (%)	8.53	6.95
EBITDA (Excluding foreign exchange gain) (INR million)	287.33	271.87
EBITDA margin (%)	6.67	6.16
Gross interest coverage (x)	8.85	5.90
Net leverage (x)	0.19	0.73
Source: MIL; Ind-Ra		

## Non-Cooperation with previous rating agency

Not applicable

# Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/ Outlook	Historical Rating/Outlook		
				22 September 2023	11 August 2022	18 May 2021
Issuer rating	Long-term	-	-	WD	IND BBB/Negative	IND BBB/Stable
Fund-based working capital limit	Long-term/ Short-term	INR550	IND BBB/Stable	-	IND BBB/ Negative	IND BBB/Stable
Non-fund-based working capital limit	Short-term	INR400	IND A3+	-	IND A3+	IND A3+

## Bank wise Facilities Details

[Click here to see the details](#)

## Complexity Level of Instruments

Instrument Type	Complexity
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>.

## Contact

### Primary Analyst

Nikita Rajpal

Analyst

India Ratings and Research Pvt Ltd

DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002

For queries, please contact: [infogrp@indiaratings.co.in](mailto:infogrp@indiaratings.co.in)

### Secondary Analyst

Shreyansh Vyas

Senior Research Associate

### Chairperson

Krishan Binani

Director

+91 22 40356162

**Media Relation**

Ameya Bodkhe

Marketing Manager

+91 22 40356121

**APPLICABLE CRITERIA**

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**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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