

## Modern Industries

September 07, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	80.00	55.00	[ICRA]BBB (Stable); reaffirmed
Long-term – Unallocated	-	70.50	[ICRA]BBB (Stable); reaffirmed
Short-term Non-fund Based	126.00	80.50	[ICRA]A3+; reaffirmed
<b>Total</b>	<b>206.00</b>	<b>206.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB (pronounced ICRA triple B) for the Rs. 55-crore (reduced from Rs. 80 crore) long-term fund-based limit and Rs. 70.50-crore (enhanced from nil) unallocated limits of Modern Industries (MI). ICRA has also reaffirmed the short-term rating at [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 80.50-crore (reduced from Rs. 126-crore) short-term non-fund based limits of MI. The outlook on the long-term rating is Stable.

### Rationale

The ratings reaffirmation factors in MI's healthy order book position of Rs. 156 crore at the end of June 30, 2018, which provides healthy revenue visibility for the near term. The ratings also favourably factor in the company's healthy credit risk profile on account of its limited reliance on external debt. The ratings also consider MI's low gearing at 0.37 times as well as TOL/TNW of 0.50 times and NCA/total debt of 17% in FY2018. Further, ICRA's ratings take into account the diversification of customer base in FY2018 with sizeable orders from private players like Hindustan Petroleum Corporation Limited (HPCL), Sheel Chand etc. Moreover, the ratings factor in the healthy liquidity profile of the entity with unencumbered cash balance of around Rs. 33 crore at the end of March 31, 2018. In addition, the ratings draw support from MI's long track record as well as the high entry barrier to the wagon manufacturing industry.

The ratings, however, are constrained by the significant drop in MI's operating income (OI) in FY2018 because of slow orders from Indian Railways (IR), on which it is reliant for a large portion of the orders. The reduction in scale also impacted the operating profitability adversely owing to fixed overheads. The operating profit margin (OPM) declined from 5.52% in FY2017 to 4.70% in FY2018. Despite the orders from HPCL, ICRA notes MI's continued reliance on IR, which accounts for around 78% of the current order book. Moreover, the rating factors in the increase in working capital intensity from 8% in FY2017 to 33% in FY2018 due to an increase in debtor days due to extended credit terms of 45-60 days with HPCL and procurement of wheel sets by MI in some of the orders that were previously supplied by IR. Furthermore, ratings are constrained by MI's constitution as a proprietorship concern, which exposes it to the risk of withdrawal of capital by the proprietor. The company's constitution may also limit its ability to raise funds to support growth in the future.

Going forward, MI's ability to scale up its operations and improve its profitability as well as diversify its customer base will be the key rating sensitivities.

## Outlook: Stable

ICRA believes that MI would benefit in the near term from its healthy order book position, which provides revenue visibility for FY2019. The outlook may be revised to Positive in case of higher-than-expected OI and profitability leading to improvement in the entity's financial risk profile. The outlook may, however, be revised to Negative in case of increasing reliance on debt leading to deterioration of debt coverage indicators.

## Key rating drivers

### Credit strengths

- **Healthy revenue visibility in near term:** MI has around Rs. 156 crore of pending orders as on June 30 2018, which provides healthy revenue visibility.
- **Healthy credit risk profile:** Limited reliance on debt has led to low gearing at 0.37 times as well as TOL/TNW of 0.50 times and NCA/total debt of 17% in FY2018.
- **Healthy liquidity:** MI has healthy liquidity profile with unencumbered cash balance of around Rs. 33 crore at the end of FY2018. Further, undrawn line of Rs. 33 crore provides support to the entity's liquidity position.
- **Established track record in wagon manufacturing industry:** MI, the sole proprietary concern owned by Brij Bhushan Lal & Sons, has been present in this industry for more than 50 years. Given the high barriers to entry in this industry, MI is not exposed to stiff competition. This gives it an advantage in terms of maintaining stable order flows and profitability.

### Credit challenges

- **Decline in operating income and profitability:** MI witnessed significant decline in its OI from Rs. 223.72 crore in FY2017 to Rs. 93.64 crore in FY2018 due to slow orders from IR and the Defence sector. The reduction in scale has also impacted the operating profitability adversely as the entity has high fixed overheads. The OPM declined from 5.52% in FY2017 to 4.70% in FY2018.
- **High concentration risk:** Despite the orders from HPCL, MI continues to rely on IR, which contributes to around 78% of the current order book. Though the firm has tried to diversify its client base by executing orders from the Defence sector as well as private players, the initiatives will take some time to materialise completely.
- **Increased working capital intensity:** The working capital intensity of MI has increased considerably from 8% in FY2017 to 33% in FY2018 due to an increase in debtor days due to extended credit terms of 45-60 days with HPCL and procurement of wheel sets by MI in some of the orders that were previously supplied by IR.
- **Risk associated with structure of the firm:** MI is constituted as a proprietorship concern, which exposes it to withdrawal of capital risk and may also limit its ability to raise funds to support growth.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

## About the company

MI is a sole proprietorship concern owned by Brij Bhushan Lal & Sons (BBLs). Notably, BBLs owns one more entity – Bithoo Farms – which covers around 500 acres of land in the Bijnor district (Uttar Pradesh). In terms of income and balance sheet, BBLs derives almost 98% from its wagon manufacturing operations through MI. The firm has been

manufacturing and supplying various kinds of wagons for the IR for more than 50 years. Its manufacturing facility is located in Sahibabad, Ghaziabad (Uttar Pradesh).

In FY2018 (on a provisional basis), the company reported a net profit of Rs. 1.06 crore on an OI of Rs. 93.64 crore compared with a net profit of Rs. 6.46 crore on an OI of Rs. 223.72 crore in the previous year.

### Key financial indicators

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	223.72	93.64
PAT (Rs. crore)	6.46	1.06
OPBDIT/OI (%)	5.52%	4.70%
RoCE (%)	9.61%	4.73%
Total Debt/TNW (times)	0.21	0.37
Total Debt/OPBDIT (times)	1.30	6.38
Interest Coverage (times)	2.35	1.22
NWC/OI (%)	8%	36%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sep 2018	Date & Rating in FY2018 Aug 2017	Date & Rating in FY2017		Date & Rating in FY2016
						Jan 2017	Sep 2016	Aug 2015	
1	Fund Based	Long Term	55.00	Revolving	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Unallocated	Long Term	70.50	-	[ICRA]BBB (Stable)	-	-	-	-
3	Non-fund based	Short-term	80.50	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	55.00	[ICRA]BBB(Stable)
NA	Letter of Credit/ Bank Guarantee	-	-	-	80.50	[ICRA]A3+
NA	Unallocated Limits	-	-	-	70.50	[ICRA]BBB(Stable)

Source: MI

## ANALYST CONTACTS

**Shubham Jain**

+124-4545 306

[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

**Rashmi Agarwal**

+124-4545 871

[rashmi.agarwal@icraindia.com](mailto:rashmi.agarwal@icraindia.com)

**Manav Mahajan**

+124-4545 817

[manav.mahajan@icraindia.com](mailto:manav.mahajan@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91-80-4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents