



# INDEPENDENT EQUITY RESEARCH

**Modison Metals Ltd**

**Q4FY11 Result Update**

**Enhancing investment decisions**

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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# Modison Metals Ltd

## Robust growth in revenues and profit

Fundamental Grade 3/5 (Good fundamentals)  
Valuation Grade 5/5 (CMP has strong upside)

Industry Electrical Equipment

Modison Metals Ltd (Modison) reported a strong Q4FY11. Revenues exceeded CRISIL Equities' expectations while EBITDA margins were in line. Revenue growth was driven by higher raw material prices (silver - used in low voltage contacts) and higher volumes of medium and high voltage contacts. Modison purchases silver on the day of receipt of order while some customers are billed based on the silver price on the day of dispatch. This exposes the company to the risk of lower price of silver on the day of dispatch. Considering the high volatility and sharp decline in silver prices during the past couple of months (declined to ~Rs 55,600 per kg from a high of ~Rs 73,300 per kg), we are cautious on the margins in the short term. Our outlook on the electrical contact industry remains positive for the rest of the year backed by investments in power infrastructure and real estate development. Consequently, we maintain our earnings estimates for FY12 and FY13, and the fundamental grade of **3/5**.

### Q4FY11 result analysis

- Modison's Q4 revenues grew by 17% y-o-y and 39% q-o-q to Rs 392 mn driven by higher realisation of low voltage contacts and higher volumes in medium and high voltage contacts. Realisation of low voltage contacts increased as the price of silver, a key raw material, surged by 21% to Rs 55,900 per kg during the quarter.
- EBITDA margin declined by 104 bps y-o-y and 63 bps q-o-q to 23.8% on account of an increase in raw material prices and higher other expenses, which increased to Rs 40 mn from Rs 28 mn in Q4FY10.
- PAT and EPS increased by 11% y-o-y and 43% q-o-q to Rs 53.1 mn and Rs 1.6, respectively, on account of revenue growth.
- FY11 revenues grew 31% y-o-y to Rs 1,271 mn, driven by higher silver prices (up 108% during the year) and higher volumes of medium and high voltage contacts. EBITDA margin remained flat y-o-y at 23.1% and PAT margin improved marginally by 25 bps to 12.5%.
- The company's order book was at an all-time high level of ~Rs 300 mn at the end of Q4FY11.

### Valuations: Current market price has strong upside

We continue to use the discounted cash flow method to value Modison and maintain our fair value of Rs 44 per share. This value gives implied P/E multiples of 8.6x and 7.6x FY12E and FY13E earnings respectively.

### KEY FORECAST

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	775	967	1,271	1,432	1,610
EBITDA	172	224	293	302	335
Adj PAT	74	118	158	166	186
Adj EPS-Rs	2.3	3.6	4.9	5.1	5.7
EPS growth (%)	(47.2)	58.9	34.1	4.6	12.3
Dividend yield	1.5	2.4	3.2	3.2	3.2
RoCE (%)	22.4	27.4	32.3	29.3	28.6
RoE (%)	15.4	20.9	23.5	20.7	19.8
P/E (x)	13.6	8.6	6.4	6.1	5.4
P/BV (x)	1.9	1.7	1.4	1.2	1.0
EV/EBITDA (x)	6.0	4.7	3.7	3.1	2.5

NM: Not meaningful; CMP: Current Market Price  
# FY11 numbers based on the abridged financials  
Source: Company, CRISIL Equities estimate

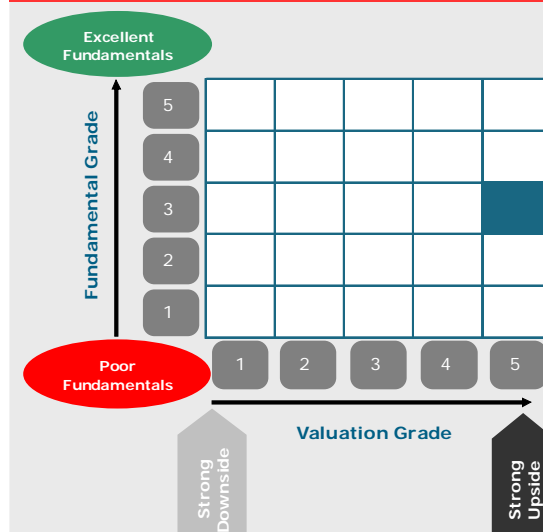


June 09, 2011

Fair Value Rs 44

CMP Rs 31

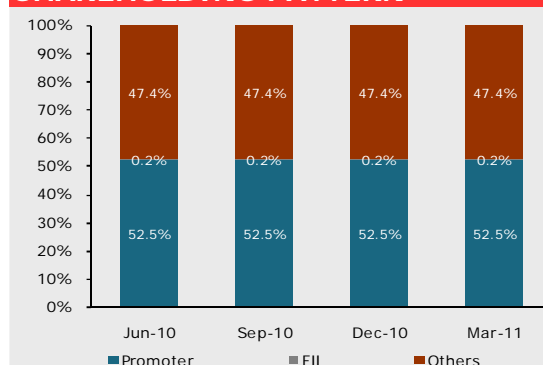
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY / SENSEX	5537/18440
BSE ticker	MODISNME
Face value (Rs per share)	10
Shares outstanding (mn)	32.5
Market cap (Rs mn)/(US\$ mn)	1,011/23
Enterprise value (Rs mn) / (US\$ mn)	1,083/24
52-week range (Rs) (H/L)	42/26
Beta	0.84
Free float (%)	47.5%
Avg daily volumes (30-days)	12,662
Avg daily value (30-days) (Rs mn)	0.4

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Modison	7%	19%	8%	9%
NIFTY	-1%	-0.2%	-4%	10%

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### Client servicing desk

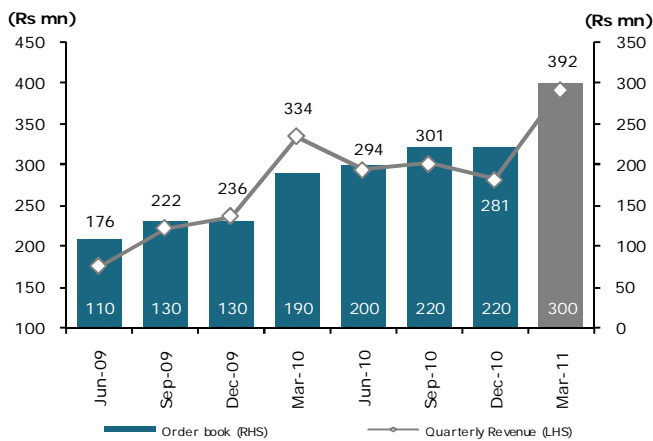
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## Q4FY11 Result Summary

(Rs mn)	Q4FY11	Q3FY11	Q4FY10	q-o-q (%)	y-o-y (%)	FY11	FY10	y-o-y (%)
<b>Net sales</b>	<b>392</b>	<b>281</b>	<b>334</b>	<b>39.4</b>	<b>17.3</b>	<b>1,271</b>	<b>967</b>	<b>31.4</b>
Consumption of raw materials	250	229	253	9.1	(1.5)	889	625	42.3
(Increase) / decrease in stock in trade	(6)	(68)	(49)	(91.6)	(88.2)	(103)	(2)	NM
Raw material as a % of sales	62.3%	57.2%	61.4%	506 bps	147 bps	61.8%	64.3%	(252) bps
Other expenses	40	35	28	14.1	42.8	133	68	95.3
Employees cost	15	17	18	(11.9)	(19.2)	60	53	12.1
<b>EBITDA</b>	<b>93</b>	<b>69</b>	<b>83</b>	<b>35.8</b>	<b>12.4</b>	<b>293</b>	<b>224</b>	<b>30.9</b>
<b>EBITDA margin</b>	<b>23.8%</b>	<b>24.4%</b>	<b>24.8%</b>	<b>(63) bps</b>	<b>(104) bps</b>	<b>23.1%</b>	<b>23.1%</b>	<b>(8) bps</b>
Depreciation	13	11	11	12.9	19.4	46	40	16.2
<b>EBIT</b>	<b>80</b>	<b>57</b>	<b>72</b>	<b>40.3</b>	<b>11.4</b>	<b>247</b>	<b>184</b>	<b>34.0</b>
Interest and finance charges	2	3	2	(7.7)	37.2	11	14	(22.2)
<b>Operating PBT</b>	<b>78</b>	<b>55</b>	<b>71</b>	<b>42.6</b>	<b>10.7</b>	<b>236</b>	<b>171</b>	<b>38.5</b>
Other income	1.6	0.9	1.2	85.9	33.3	1.5	6.8	(77.7)
<b>PBT</b>	<b>80</b>	<b>56</b>	<b>72</b>	<b>43.2</b>	<b>11.1</b>	<b>238</b>	<b>177</b>	<b>34.1</b>
Tax	27	18	24	44.6	11.9	79	59	34.0
<b>PAT</b>	<b>53</b>	<b>37</b>	<b>48</b>	<b>42.5</b>	<b>10.7</b>	<b>158</b>	<b>118</b>	<b>34.1</b>
<b>Adj PAT</b>	<b>53</b>	<b>37</b>	<b>48</b>	<b>42.5</b>	<b>10.7</b>	<b>158</b>	<b>118</b>	<b>34.1</b>
<b>Adj PAT margin</b>	<b>13.6%</b>	<b>13.3%</b>	<b>14.4%</b>	<b>30 bps</b>	<b>(81) bps</b>	<b>12.5%</b>	<b>12.2%</b>	<b>25 bps</b>
No of equity shares (mn)	32.5	32.5	32.5	-	-	32.5	32.5	-
<b>Adj EPS (Rs)</b>	<b>1.6</b>	<b>1.1</b>	<b>1.5</b>	<b>42.5</b>	<b>10.7</b>	<b>4.9</b>	<b>3.6</b>	<b>34.1</b>

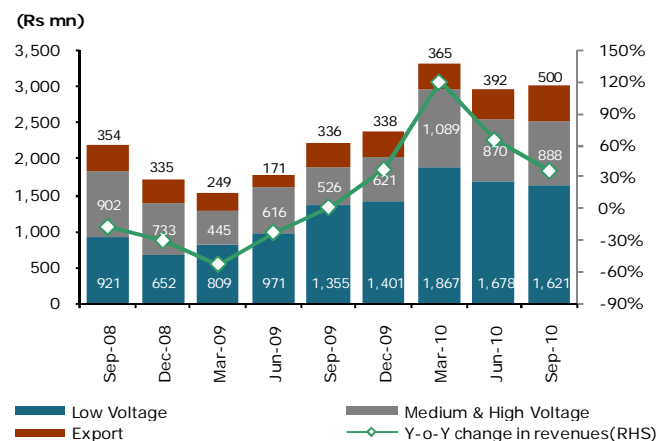
Source: Company, CRISIL Equities

### Strong order book position to drive growth



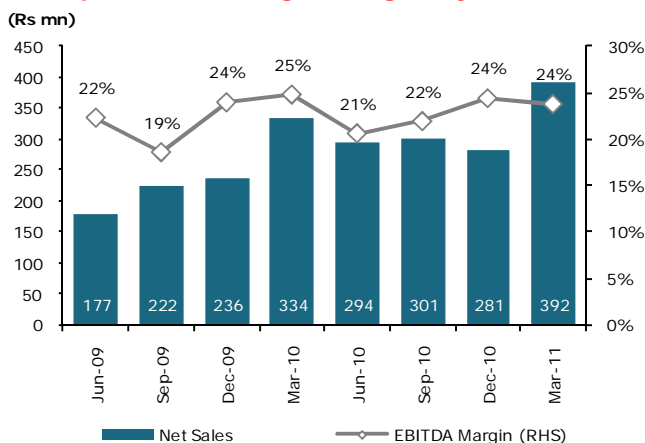
Source: Company, CRISIL Equities

### Strong y-o-y growth in sales



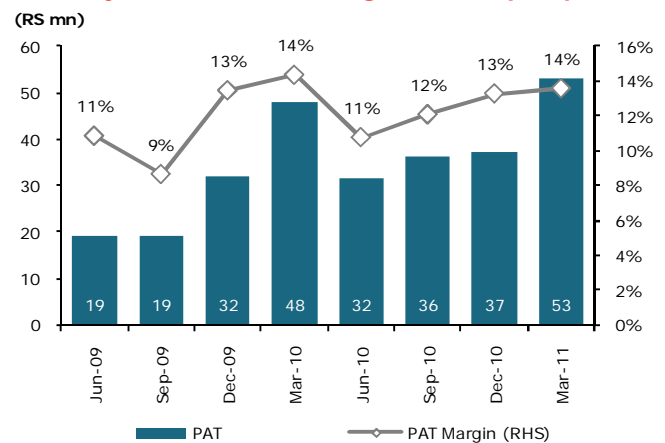
Source: Company, CRISIL Equities

### Sales up, EBITDA margin marginally down



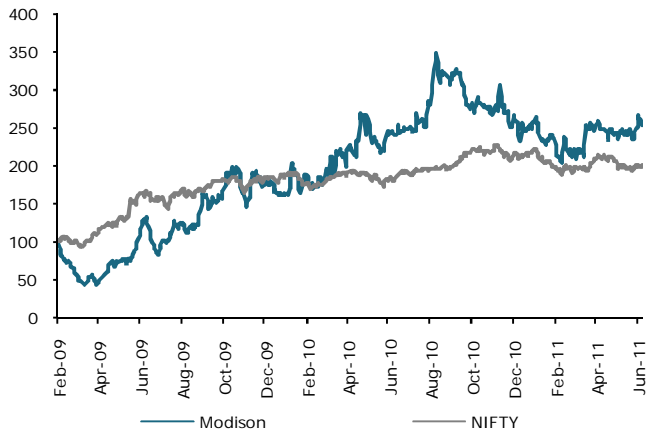
Source: Company, CRISIL Equities

### Quarterly PAT and PAT margins rise (q-o-q)



Source: Company, CRISIL Equities

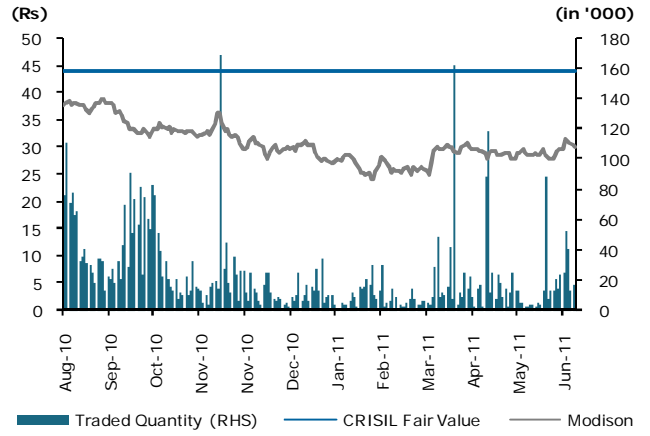
## Share price movement



-indexed to 100

Source: NSE, BSE, CRISIL Equities

## Fair value movement since initiation



Source: BSE, CRISIL Equities

## VALUATION

We continue to value Modison based on the discounted cash flow method and maintain our fair value of Rs 44 per share. This value gives implied P/E multiples of 8.6x and 7.6x FY12E and FY13E earnings respectively. Given the current market price, our valuation grade is **5/5**.

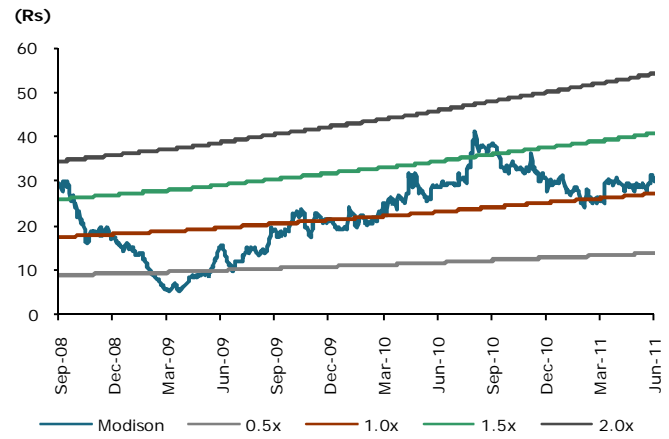
**We maintain our fair value of Rs 44 per share**

### One-year forward P/E band



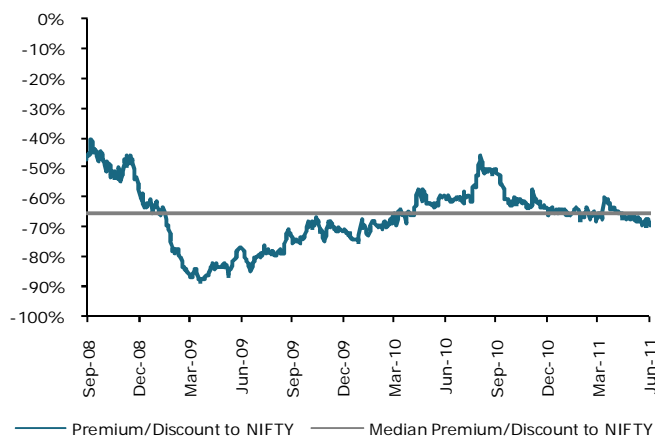
Source: BSE, CRISIL Equities

### One-year forward P/B band



Source: BSE, CRISIL Equities

### P/E – premium/discount to NIFTY



Source: NSE, BSE, CRISIL Equities

### P/E movement



Source: BSE, CRISIL Equities

### CRISIL IER reports released on Modison Metals Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
17-Aug-10	Initiating coverage*	3/5	Rs 44	4/5	Rs 37
11-Nov-10	Q2FY11 result update	3/5	Rs 44	4/5	Rs 36
21-Feb-11	Q3FY11 result update	3/5	Rs 44	5/5	Rs 26
09-Jun-11	Q4FY11 result update	3/5	Rs 44	5/5	Rs 31

\* For detailed initiating coverage report please visit: [www.ier.co.in](http://www.ier.co.in)

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

## FINANCIALS

### Income statement

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
<b>Operating income</b>	<b>775</b>	<b>967</b>	<b>1,271</b>	<b>1,432</b>	<b>1,610</b>
<b>EBITDA</b>	<b>172</b>	<b>224</b>	<b>293</b>	<b>302</b>	<b>335</b>
<b>EBITDA margin</b>	<b>22.2%</b>	<b>23.1%</b>	<b>23.1%</b>	<b>21.1%</b>	<b>20.8%</b>
Depreciation	35	40	46	45	49
<b>EBIT</b>	<b>137</b>	<b>184</b>	<b>247</b>	<b>257</b>	<b>286</b>
Interest	19	14	11	8	7
<b>Operating PBT</b>	<b>119</b>	<b>171</b>	<b>236</b>	<b>249</b>	<b>279</b>
Other income	(4)	7	2	-	-
Exceptional inc/(exp)	(0)	0	-	-	-
<b>PBT</b>	<b>115</b>	<b>177</b>	<b>238</b>	<b>249</b>	<b>279</b>
Tax provision	40	59	79	83	93
Minority interest	-	-	-	-	-
<b>PAT (Reported)</b>	<b>74</b>	<b>118</b>	<b>158</b>	<b>166</b>	<b>186</b>
Less: Exceptionals	(0)	0	-	-	-
<b>Adjusted PAT</b>	<b>74</b>	<b>118</b>	<b>158</b>	<b>166</b>	<b>186</b>

### Ratios

	FY09	FY10	FY11#	FY12E	FY13E
<b>Growth</b>					
Operating income (%)	(26.5)	24.8	31.4	12.7	12.4
EBITDA (%)	(36.6)	29.8	30.9	2.9	11.1
Adj PAT (%)	(47.2)	58.9	34.1	4.6	12.3
Adj EPS (%)	(47.2)	58.9	34.1	4.6	12.3
<b>Profitability</b>					
EBITDA margin (%)	22.2	23.1	23.1	21.1	20.8
Adj PAT Margin (%)	9.6	12.2	12.5	11.6	11.6
RoE (%)	15.4	20.9	23.5	20.7	19.8
RoCE (%)	22.4	27.4	32.3	29.3	28.6
RoIC (%)	15.8	23.1	23.4	22.0	23.7
<b>Valuations</b>					
Price-earnings (x)	13.6	8.6	6.4	6.1	5.4
Price-book (x)	1.9	1.7	1.4	1.2	1.0
EV/EBITDA (x)	6.0	4.7	3.7	3.1	2.5
EV/Sales (x)	1.3	1.1	0.9	0.6	0.5
Dividend payout ratio (%)	20.5	20.6	20.5	19.6	17.5
Dividend yield (%)	1.5	2.4	3.2	3.2	3.2
<b>B/S ratios</b>					
Inventory days	96	119	143	102	102
Creditors days	18	41	43	43	43
Debtor days	29	40	37	40	40
Working capital days	106	88	96	97	86
Gross asset turnover (x)	1.3	1.5	1.8	1.8	1.9
Net asset turnover (x)	2.0	2.3	2.9	3.1	3.3
Sales/operating assets (x)	2.0	2.3	2.8	3.0	3.3
Current ratio (x)	7.0	3.6	2.3	3.9	4.1
Debt-equity (x)	0.2	0.2	0.1	0.1	0.1
Net debt/equity (x)	0.1	0.1	0.1	(0.1)	(0.2)
Interest coverage	7.3	13.5	23.3	30.9	42.3

### Per share

	FY09	FY10	FY11#	FY12E	FY13E
Adj EPS (Rs)	2.3	3.6	4.9	5.1	5.7
CEPS	3.4	4.9	6.3	6.5	7.2
Book value	16.0	18.8	22.7	26.6	31.2
Dividend (Rs)	0.5	0.7	1.0	1.0	1.0
Actual o/s shares (mn)	32.5	32.5	32.5	32.5	32.5

# FY11 numbers based on the abridged financials

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Equities estimate

### Balance Sheet

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
<b>Liabilities</b>					
Equity share capital	32	32	32	32	32
Reserves	487	577	704	832	980
Minorities	-	-	-	-	-
<b>Net worth</b>	<b>520</b>	<b>610</b>	<b>736</b>	<b>864</b>	<b>1,012</b>
Convertible debt	-	-	-	-	-
Other debt	116	100	83	68	55
<b>Total debt</b>	<b>116</b>	<b>100</b>	<b>83</b>	<b>68</b>	<b>55</b>
Deferred tax liability (net)	57	62	63	62	62
<b>Total liabilities</b>	<b>693</b>	<b>772</b>	<b>882</b>	<b>994</b>	<b>1,129</b>
<b>Assets</b>					
Net fixed assets	401	432	454	466	498
Capital WIP	2	15	13	13	13
<b>Total fixed assets</b>	<b>403</b>	<b>447</b>	<b>466</b>	<b>478</b>	<b>511</b>
<b>Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current assets</b>					
Inventory	158	239	383	314	353
Sundry debtors	68	115	140	170	191
Loans and advances	23	35	203	52	59
Cash & bank balance	90	58	11	158	217
Marketable securities	-	-	-	-	-
<b>Total current assets</b>	<b>338</b>	<b>447</b>	<b>737</b>	<b>694</b>	<b>820</b>
<b>Total current liabilities</b>	<b>49</b>	<b>123</b>	<b>322</b>	<b>179</b>	<b>202</b>
<b>Net current assets</b>	<b>290</b>	<b>325</b>	<b>416</b>	<b>516</b>	<b>618</b>
<b>Intangibles/Misc. expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>693</b>	<b>772</b>	<b>882</b>	<b>994</b>	<b>1,129</b>

### Cash flow

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Pre-tax profit	115	177	238	249	279
Total tax paid	(32)	(54)	(79)	(84)	(93)
Depreciation	35	40	46	45	49
Working capital changes	51	(67)	(138)	47	(44)
<b>Net cash from operations</b>	<b>168</b>	<b>96</b>	<b>68</b>	<b>256</b>	<b>191</b>
<b>Cash from investments</b>					
Capital expenditure	(55)	(83)	(66)	(56)	(82)
Investments and others	-	-	-	-	-
<b>Net cash from investments</b>	<b>(55)</b>	<b>(83)</b>	<b>(66)</b>	<b>(56)</b>	<b>(82)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(31)	(16)	(17)	(15)	(13)
Dividend (incl. tax)	(15)	(28)	(38)	(38)	(38)
Others (incl extraordinary)	19	0	6	-	-
<b>Net cash from financing</b>	<b>(27)</b>	<b>(45)</b>	<b>(48)</b>	<b>(53)</b>	<b>(51)</b>
Change in cash position	86	(32)	(47)	147	59
Closing cash	90	58	11	158	217

### Quarterly financials

(Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
<b>Net Sales</b>	<b>334</b>	<b>294</b>	<b>301</b>	<b>281</b>	<b>392</b>
Change (q-o-q)	41%	-12%	2%	-7%	39%
<b>EBITDA</b>	<b>83</b>	<b>61</b>	<b>66</b>	<b>69</b>	<b>93</b>
Change (q-o-q)	46%	-27%	9%	4%	36%
<b>EBITDA margin</b>	<b>24.8%</b>	<b>20.6%</b>	<b>21.9%</b>	<b>24.4%</b>	<b>23.8%</b>
PAT	48	32	36	37	53
<b>Adj PAT</b>	<b>48</b>	<b>32</b>	<b>36</b>	<b>37</b>	<b>53</b>
Change (q-o-q)	51%	-34%	15%	3%	43%
<b>Adj PAT margin</b>	<b>14.3%</b>	<b>10.8%</b>	<b>12.1%</b>	<b>13.3%</b>	<b>13.6%</b>
<b>Adj EPS</b>	<b>1.5</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>1.6</b>

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