

Press Release

Mukand Limited

May 07, 2019



Rating Assigned and Reaffirmed

Total Fixed Deposit Rated*	Rs. 120.48 Cr.
Fixed Deposit Rating	ACUITE FBBB- / Outlook: Negative (Assigned)
Total Bank facilities Rated*	Rs. 1,045.48
Long Term Rating	ACUITE BBB- / Outlook: Negative (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE FBBB-**' (read as **ACUITE F triple B minus**) to the Rs. 120.48 crore fixed deposits of MUKAND LIMITED (ML). The outlook is '**Negative**'.

Further, Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 1,045.48 crore bank facilities of ML. The outlook is '**Negative**'.

Incorporated in 1937, Mukand Iron & Steel Works Limited (MIWL) was acquired by the present promoter families, Shri Jamnalal Bajaj and Shri Jeevan Lal Shah in 1939. The company then operated re-rolling mills and a foundry in Lahore (British Indian Territory) and at Reay Road in then Bombay, respectively. MIWL's name was subsequently changed to 'Mukand Limited' (ML) in 1989.

ML is a multi-division, multi product conglomerate involved in the manufacture of specialty steel long products and industrial machinery. With manufacturing facilities located at Thane, Maharashtra (for stainless steel) and Hospet, Karnataka (for alloy steel). The company is engaged in the manufacturing of special alloy steel/ stainless steel billets, bars, rods, wire rods and bright bars. It is also in the business of design, manufacture, assembly and commissioning of industrial machinery, heavy duty cranes, bulk material handling equipment and process plant equipment for ferrous and non-ferrous industries. ML has a combined installed capacity for manufacturing of 5 lakh MTPA of alloy steel and stainless steel which is currently almost 92 per cent utilised.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of Mukand Limited along with its subsidiaries. Extent of Consolidation: Full.

Following is the list of subsidiaries and associates that have been considered for consolidation:

Sr. No.	Name of the Company
1.	Mukand Global Finance Ltd.
2.	Vidyavihar Containers Ltd.
3.	Mukand International Ltd.
4.	Mukand International FZE
5.	Mukand Vijayanagar Steel Ltd
6.	Mukand Audyogik Yantra Pvt Ltd
7.	Mukand Heavy Machinery Pvt Ltd
8.	Mukand Sumi Special Steel Ltd
9.	Mukand Sumi Metal Processing Ltd.
10.	Hospet Steels Ltd.
11.	Mukand Vini Mineral Ltd.
12.	Mukand Engineers Ltd.

13.	Bombay Forgings Ltd
14.	Stainless India Ltd.

Key Rating Drivers

Strengths

- **Extensive experience of the promoter group in steel business**

Incorporated in 1937, ML largely caters to the automobile and auto component industry. The Chairman and Managing Director of ML, Mr. Niraj Ramkrishna Bajaj has been associated with the steel manufacturing business for almost three decades. The management of the company is ably supported by qualified team of professionals.

Over the years, the company has been able to build healthy portfolio of reputed automobile manufacturer i.e. end consumers including Maruti Suzuki, Hyundai, Toyota, Nissan, Bajaj Auto, Hero Moto Corp, Honda Motor Cycles and Scooters India Ltd. The company has also established its presence in the international markets by way of exports to U.S., Germany, Italy, Netherlands, Switzerland, United Arab Emirates, Japan, Hong Kong, Taiwan and Vietnam, amongst others. The promoter's established presence in the steel business has helped the company to form Joint Venture with Sumitomo Corporation (SC). In January 2018, ML demerged its alloy steel rolling and finishing business and transferred the same to Mukand Alloy Steel Private Limited (MASPL) {wholly owned subsidiary of ML- now rechristened as Mukand Sumi Special Steel Ltd (MSSSL)}. Subsequently, as a part of the scheme of arrangement and amalgamation amongst the companies, Mukand Vijayanagar Steel Limited (MVSL) {wholly owned subsidiary of the company} was amalgamated with MASPL.

Acuité believes that ML will continue to benefit over the near to medium term on account of its experienced management and long-standing existence in the industry.

- **Resource mobilisation ability**

ML is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company, with market capitalisation of Rs. 772.08 crore as on March 26, 2019, has successfully raised funds from banks and financial institutions. The promoter group continues to hold over 73.32 per cent (as on December 31, 2018) of shares in the company individually and through various entities within the group.

As a part of the demerger of the alloy steel rolling and finishing division of ML to MASPL. In May 2018, SC, subscribed 49 per cent of the Equity shares of MASPL, while balance 51 per cent continues to be held by ML. Post subscription by SC, MASPL was renamed to 'Mukand Sumi Special Steel Limited (MSSSL)'. The transaction took place for a cash consideration paid by SC to the tune of Rs. 1,180.99 crore, which was utilised by the company towards debt reduction.

The promoters have been instrumental in providing continuous support to the company in the form of unsecured loans. In order to reduce the debt further, the company has plans for monetisation of its assets. ML has a land parcel of approximately 200 acres at its Thane facility of which it intends to release 100 acres of land by relaying the storage, residence and other small manufacturing activities in the balance 100 acres of land. The proceeds from the same are expected to be utilised towards further reduction of outstanding debt.

Acuité believes that the promoter group will continue to support the operations and liquidity of the company. Further, the company will be able to raise funds by way of monetisation of its property and its timeliness will remain key rating sensitivity factors.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company is categorised by declining profitability and modest coverage indicators. The tangible net worth increased to Rs. 1,079.63 crore as on March 31, 2018 against Rs. 314.04 crore as on March 31, 2017. The increase in net worth is mainly on account of fair value gain on investments. ML recognised Rs. 1,297 crore gain on account of loss of control in the subsidiary company on retained investment, since the said subsidiary has become joint venture w.e.f. March 30, 2018.

The company has followed an aggressive financial policy as reflected by peak gearing of 9.49 times as

on March 31, 2017. The gearing levels of the company have improved to 1.97 times as on March 31, 2018 however, the same is purely on account of revaluation (i.e. notional gain of Rs. 1,297 crore). The total debt as on March 31, 2018 of Rs. 2,124.35 crore consists of long-term debt of Rs. 447.03 crore, fixed deposits accepted of Rs. 116.41 crore, interest bearing unsecured loans from promoters and promoter group of Rs. 509.78 crore and short term working capital borrowings of Rs. 1,051.13 crore.

The TOL/TNW ratio stood at 3.09 times as on March 31, 2018 against 12.95 times as on March 31, 2017. There has been a decline in the debt levels from Rs. 2,978.87 crore as on March 31, 2017 on account of repayment of debt by utilising proceeds from SC on account of demerger. Net debt to EBITDA stood at 5.86 times in FY2018. The company plans to incur Rs. 100-150 crore of capex for setting up of new rolling mill in Karnataka which is expected to commission from FY2020.

ML's moderate profitability levels coupled with high debt levels have resulted in average debt protection measures. Acuite believes that the interest coverage is likely to remain in the range of 1.10-1.5 times over the medium term.

Acuite believes that ML's financial risk profile is likely to remain average over the near to medium term on account of its leveraged capital structure and average debt protection measures.

• Susceptibility of operating performance to volatility in demand and prices

The company manufactures alloy steel used with iron ore and Metallurgical coke as its main input and stainless steel using steel scrap and nickel as its main input. The prices of these inputs are linked to the global markets having direct impact on the company's profitability. Besides the domestic demand volatility, supply side factors such as imports from China are also major determinant which influence the credit profile of the steel manufacturers. ML imports 64 per cent of its raw material requirement and is, thus, also exposed to forex fluctuations. The operating profits on a consolidated basis declined to 6.25 per cent in FY2018 against 12.89 per cent in FY2017 and 12.14 per cent in FY2016. PAT margins stood at 23.82 per cent (including notional gain recognised as exceptional item) in FY2018 against (0.42) per cent in FY2017 and (0.12) per cent in FY2016. Negative margins are on account of heavy burden of finance cost.

Acuite believes that ML will continue to remain exposed to the risk of changes in raw material prices, thereby impacting the margins. However, in order to mitigate the risk to some extent, ML has entered into a cost-plus arrangement with its Joint Venture MSSSL for the sale of its entire output of alloy steel division.

Liquidity Position:

ML has adequate liquidity on account of recent reduction in debt levels, high reliance on unsecured borrowings from the promoter group and proposed monetisation plans. The Gross Current Asset (GCA) days stood at 248 in FY2018 against 442 in FY2017, on account of high collection period. Current ratio stood at 0.98 times as on March 31, 2018. Unencumbered cash and bank balance stood at Rs. 16.88 crore as on March 31, 2018.

Outlook: Negative

Acuite believes that the outlook of ML will remain 'Negative' over the medium term owing to decline in profitability and average financial risk profile. However, the outlook may be revised to 'Stable' in case the company is able to monetise its land parcel within the next 3-4 months and improve or maintain its profitability at current levels. Further, if the company is unable to reduce its current debt levels from the proceeds of land sale in the near term the same will have negative bias to the rating.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	3446.23	2730.05	2953.87
EBITDA	Rs. Cr.	215.39	351.98	358.63
PAT	Rs. Cr.	821.03	-11.35	-3.42
EBITDA Margin	(%)	6.25	12.89	12.14
PAT Margin	(%)	23.82	-0.42	-0.12
ROCE	(%)	5.46	9.53	20.14
Total Debt/Tangible Net Worth	Times	1.97	9.49	8.81

PBDIT/Interest	Times	3.27	1.38	1.26
Total Debt/PBDIT	Times	1.37	7.32	7.61
Gross Current Assets (Days)	Days	248	442	374

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instruments	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-April-19	Cash Credit	Long Term	98.00	ACUITE BBB- /Negative (Assigned)
	Cash Credit	Long Term	60.00	ACUITE BBB- /Negative (Assigned)
	Cash Credit	Long Term	47.00	ACUITE BBB- /Negative (Assigned)
	Cash Credit	Long Term	43.00	ACUITE BBB- /Negative (Assigned)
	Cash Credit	Long Term	62.00	ACUITE BBB- /Negative (Assigned)
	Cash Credit	Long Term	33.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	30.00	ACUITE BBB- /Negative (Assigned)
	Letter of Credit/ Bank Guarantee	Short Term	189.00	ACUITE A3 (Assigned)
	Letter of Credit/ Bank Guarantee	Short Term	55.00	ACUITE A3 (Assigned)
	Letter of Credit/ Bank Guarantee	Short Term	80.00	ACUITE A3 (Assigned)
	Letter of Credit/ Bank Guarantee	Short Term	65.00	ACUITE A3 (Assigned)
	Letter of Credit/ Bank Guarantee	Short Term	66.00	ACUITE A3 (Assigned)
	Letter of Credit/ Bank Guarantee	Short Term	97.00	ACUITE A3 (Assigned)
	Proposed bank facility	Long Term	120.48	ACUITE BBB-/Negative (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Fixed Deposit	Not Applicable	Not Applicable	Not Applicable	120.48	ACUITE FBBB- /Negative (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	98.00	ACUITE BBB- /Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB- /Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	47.00	ACUITE BBB- /Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BBB- /Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE BBB- /Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB- /Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- /Negative (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	189.00	ACUITE A3 (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A3 (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A3 (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A3 (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	66.00	ACUITE A3 (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	97.00	ACUITE A3 (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	120.48	ACUITE BBB-/Negative (Reaffirmed)

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About Acuité Ratings & Research:

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