

Press Release

Mukand Limited

September 09, 2019

Rating Downgraded



Total Fixed Deposit Rated*	Rs.120.48 Cr.
Fixed Deposit Rating	ACUITE FBB+ /Outlook: Stable (Downgraded from ACUITE FBBB- / Outlook: Negative)
Total Bank facilities Rated*	Rs.1,045.48
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB-/ Outlook: Negative)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE FBB+**' (read as **ACUITE F double B plus**) from '**ACUITE FBBB-**' (read as **ACUITE F triple B minus**) on the Rs.120.48 crore fixed deposits of Mukand Limited (ML). The outlook is revised to '**Stable**' from '**Negative**'.

Further Acuité has also downgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.1,045.48 crore bank facilities of Mukand Limited (ML). The outlook is revised to '**Stable**' from '**Negative**'.

The downward revision in the rating is driven by deterioration in the financial risk profile and operating performance of the company as indicated from the quarterly results. The losses for Q1FY2020 has increased significantly to Rs.32.13 crore as against Rs.22.20 crore during Q1FY2019. This was mainly on account of high interest outflow and rise in input cost. Further, the company is yet to monetize proceeds from sale of land parcel to reduce its debt levels as against expected timeline

For the year ended March 31, 2019, ML had investments in and debts / advances to subsidiary, Bombay Forgings Limited (BFL) of Rs.92.23 Crore (Gross) as at as at 31st March 2019. The company has made provision of ~Rs.48.50 crore against trade receivables on accounts of expected credit loss.

Incorporated in 1937, Mukand Iron & Steel Works Limited (MISWL) 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. MISWL'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 in 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 the 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.

Acuite 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 mobilization ability

ML is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company, with market capitalisation of Rs. 479.37 crore as on September 06, 2019, has successfully raised funds from banks and financial institutions. The promoter group continues to hold over 74.35 per cent (as on June 30, 2019) 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's ability to raise funds by way of monetisation of its property and its timeliness will continue to remain a key rating sensitivity factor.

Weaknesses

• Deteriorating financial risk profile

The financial risk profile of the company is categorised by declining profitability and modest coverage indicators. The tangible net worth declined to Rs.914.87 crore as on March 31, 2019 from 1,079.63 crores as on March 31, 2018. The decline in net worth was attributed to increases in net losses. The net loss for FY2019 stood at Rs.115.48 crore as compared to net profit of Rs.821.03 crore for FY2018. The gearing levels of the company have deteriorated to 2.81 times as on March 31, 2019 from 1.97 times as on March 31, 2018. The total debt of Rs.2,575.00 crore as on March 31, 2019 consists of long-term debt of Rs.186.30 crore, fixed deposits accepted of Rs.47.64 crore, interest bearing unsecured loans from promoters and promoter group of Rs.1480.99 crore and short term working capital borrowings of Rs.860.07 crore.

The TOL/TNW ratio increased to 3.89 times as on March 31, 2019 as against 3.09 times as on March 31, 2018 on account of rise in debt level coupled with fall in net worth. Net debt to EBITDA stood at 11.37 times in FY2019. 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 declining profitability levels coupled with high debt levels have resulted in average debt protection measures. Acuité believes that the interest coverage is likely to remain in the range of 1.10-1.50 times over the medium term.

Acuité 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 determinate 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 margins on a consolidated basis declined to 4.38 per cent in FY2019 against 6.25 per cent in FY2018 and 12.89 per cent in FY2017. Net loss stood at 3.14 per cent in FY2019 as against net profit 23.82 per cent. The rise in losses is mainly on account heavy burden of finance cost.

Acuité believes that ML will continue to remain exposed to the risk of changes in raw material prices, thereby impacting its profitability. 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 stretched liquidity on account of high debt levels. There is high reliance on unsecured borrowings from the promoter group and proposed monetisation plans. The Gross Current Asset (GCA) days stood at 242 in FY2019 as against 248 in FY2018, on account of high collection period and inventory holding days. Current ratio stood at 1.32 times as on March 31, 2019. Unencumbered cash and bank balance stood at Rs. 7.80 crore as on March 31, 2019.

Acuité believes that the liquidity position will remain stretched over the medium term owing high debt levels and delay in monetizing its non-core assets.

Outlook: Stable

Acuité believes that the outlook of ML will remain 'stable' over the medium term owing to experienced management and established market position. The outlook may be revised to 'Positive' in case of

improvement in profitability margins and significant reduction in debt level. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile or stretch in liquidity position. Further, if the company is unable to reduce its current debt levels from the proceeds of land sale over the medium term the same will have negative bias to the rating.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	3682.28	3446.23	2730.05
EBITDA	Rs. Cr.	161.43	215.39	351.98
PAT	Rs. Cr.	-115.48	821.03	-11.35
EBITDA Margin	(%)	4.38	6.25	12.89
PAT Margin	(%)	-3.14	23.82	-0.42
ROCE	(%)	4.97	5.46	9.53
Total Debt/Tangible Net Worth	Times	2.81	1.97	9.49
PBDIT/Interest	Times	0.69	3.27	1.38
Total Debt/PBDIT	Times	11.37	1.37	7.32
Gross Current Assets (Days)	Days	242	248	442

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
07-May-19	Fixed Deposit	Long Term	120.48	ACUITE FBBB- / Negative (Assigned)
	Cash Credit	Long Term	98.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long Term	47.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long Term	43.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long Term	62.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long Term	33.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB- / Negative (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	189.00	ACUITE A3 (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	55.00	ACUITE A3 (Reaffirmed)

	Letter of Credit/ Bank Guarantee	Short Term	80.00	ACUITE A3 (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	65.00	ACUITE A3 (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	66.00	ACUITE A3 (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	97.00	ACUITE A3 (Reaffirmed)
	Proposed bank facility	Long Term	120.48	ACUITE BBB-/ Negative (Reaffirmed)
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)
	Cash Credit	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 FBB+ / Stable (Downgraded from ACUITE FBBB-/ Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	98.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	47.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Negative)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Negative)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	189.00	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	66.00	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	97.00	ACUITE A4+ (Downgraded from ACUITE A3)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	120.48	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/ Negative)

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