

## Press Release

### Mukand Limited

October 22, 2020

### Rating Reaffirmed



<b>Total Fixed Deposits Rated*</b>	Rs. 120.48 Cr.
<b>Fixed Deposit Rating</b>	ACUITE FBB/ Outlook: Negative (Reaffirmed)
<b>Total Bank Facilities Rated*</b>	Rs. 1,045.48 Cr.
<b>Long Term Rating</b>	ACUITE BB/ Outlook: Negative (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE FBB**' (read as **ACUITE F double B**) on the Rs. 120.48 Cr fixed deposits of Mukand Limited. The outlook continues to remain '**Negative**'.

Further, Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 1,045.48 Cr bank loan facilities of Mukand Limited. The outlook continues to remain '**Negative**'.

The rating reaffirmation is based on the established track record of operations with rich experience of promoters in the said line of business. Acuite takes note of the fact that the company has a sizeable scale of operations reflected by revenue of Rs. 2,926 Cr in FY2020 and EBITDA of nearly Rs. 100 Cr in FY2020. Further, reaffirmation also factors in the ability of the company's financial flexibility to acquire required funds and resources as and when necessary. This has been aided by the company's legacy as a reputed business group. The company has been able to arrange funds at a cheap rate of 7 percent to replace both long-term and short-term borrowings which is expected to bring down the interest outgo considerably, going forward. Further, planned monetization of the non-core assets and investment, highlighted by the Chairman in his recent address to the shareholders, is expected to significantly boost the company's profitability and liquidity position.

### About the Company:

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

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

The list of subsidiaries and associates that have been considered for consolidation has been attached in the annexures.

## **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 a qualified team of professionals. Over the years, the company has been able to build a 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.

- **Planned monetization of non-core assets and investments to diminish the outstanding debt levels**

The company has announced the monetization of its land parcels estimating to ~Rs. 800 Cr (current market value) coupled with recommended plans to disinvest of 51 percent in the JV (Mukand Sumi Special Steel Ltd) for a consideration of approximately Rs. 1,200 Cr to one or more Promoter Group companies. The divestment is likely to be completed in tranches over the next one year. These plans have been highlighted by the Chairman of the Company on his recent address to its shareholders dated 24<sup>th</sup> September, 2020. The company expects a significant reduction in the debt levels and interest costs as the above plans start materializing. Moreover, the company has been able to arrange funds at a cheap rate of 7 percent to replace both long-term and short-term borrowings which is expected to bring down the interest outgo considerably, going forward. This will be repayable at the end of the two years as a bullet repayment. Acuite believes that as a part of a reputed business group, ML is expected to be able to raise resources in case of dire urgencies. Further, the ability of materialization of the proposed plans would remain a key rating sensitive 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.670.59 Cr as on March 31, 2020 from 914.87 Cr as on March 31, 2019. The decline in net worth was attributed to increases in net losses. The net loss for FY2020 stood at Rs.239.88 Cr as compared to a net loss of Rs.115.48 Cr for FY2019. The gearing levels of the company have deteriorated to 4.11 times as on March 31, 2020 from 2.81 times as on March 31, 2019.

The TOL/TNW ratio increased to 5.63 times as on March 31, 2020 as against 3.89 times as on March 31, 2019 on account of rise in debt level coupled with fall in net worth. Net debt to EBITDA stood at 23.19 times in FY2020. ML's declining profitability levels, coupled with high debt levels, have resulted in weak debt protection measures.

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 a 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 3.42 per cent in FY2020 against 4.38 per cent in FY2019. Net loss further broadened and stood at 8.20 per cent in FY2020 as against net profit 3.14 per cent. The rise in losses is mainly on account of the 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 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.

#### Rating Sensitivities

- Improvement in operating performance of the company and working capital management
- Timely materialization of proposed monetization plans to reduce outstanding debt levels thereby leading to improved profitability and liquidity position

#### Liquidity: Stretched

ML's liquidity profile continues to remain stretched on account of cash flow mismatch and fully utilized bank limits. There is a high reliance on unsecured borrowings from the promoter group and proposed land parcel and investment monetisation plans. Further, the company has been able to arrange funds at a cheap rate of 7 percent to replace both long-term and short-term borrowings which is expected to bring down the interest outgo considerably, going forward. The proposed monetization plans and latest sanction is expected to smoothen the liquidity threshold of the company for the medium term. The Gross Current Asset (GCA) days stood at 310 in FY2020 as against 242 in FY2019, on account of high collection period and inventory holding days. Current ratio stood at 1.37 times as on March 31, 2020. Unencumbered cash and bank balance stood at Rs. 9.99 Cr as on March 31, 2020. Acuite believes that the liquidity position will remain stretched over the near term owing high outstanding debt levels however expected to significantly improve with proposed monetization plans being materialized on time.

#### Outlook: Negative

Acuite believes that the ML's credit profile will continue to remain impacted by continued net level losses accompanied by stretched liquidity position. The rating may be downgraded in case of further elongation in sales realization, impairing its ability to meet its debt obligations in a timely manner. Conversely, the outlook may be revised to 'Stable' in case of significant and sustainable improvement in working capital management or monetization of non-core assets thereby translating into a significant improvement in its liquidity profile and debt protection indicators.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	2,926.69	3,682.28
PAT	Rs. Cr.	(239.88)	(115.48)
PAT Margin	(%)	(8.20)	(3.14)
Total Debt/Tangible Net Worth	Times	4.11	2.81
PBDIT/Interest	Times	0.33	0.69

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

None

#### Any other information

None

#### Annexure – List of companies consolidated

Sr. No	Name of Entity
1	Mukand Global Finance Ltd
2	Vidyavihar Containers Ltd
4	Mukand International FZE
5	Mukand Vidyanagar 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 Minerals Ltd
12	Mukand Engineers Ltd
13	Bombay Forgings Ltd
14	Stainless India Ltd

### Any Material Covenants

None

### Applicable Criteria

- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation of Companies – <https://www.acuite.in/view-rating-criteria-60.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-Oct-2019	Fixed Deposit	Long Term	120.48	ACUITE FBB/Negative (Downgraded)
	Cash Credit	Long Term	98.00	ACUITE BB/Negative (Downgraded)
	Cash Credit	Long Term	60.00	ACUITE BB/Negative (Downgraded)
	Cash Credit	Long Term	47.00	ACUITE BB/Negative (Downgraded)
	Cash Credit	Long Term	43.00	ACUITE BB/Negative (Downgraded)
	Cash Credit	Long Term	62.00	ACUITE BB/Negative (Downgraded)
	Cash Credit	Long Term	33.00	ACUITE BB/Negative (Downgraded)
	Term Loan	Long Term	30.00	ACUITE BB/Negative (Downgraded)
	Letter of Credit/ Bank Guarantee	Short Term	189.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	55.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	80.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	65.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	66.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short Term	97.00	ACUITE A4+ (Reaffirmed)
	Proposed Facility	Long Term	120.48	ACUITE BB/Negative (Downgraded)
09-Sep-2019	Fixed Deposit	Long Term	120.48	ACUITE FBB+/Stable (Downgraded)
	Cash Credit	Long Term	98.00	ACUITE BB+/Stable (Downgraded)
	Cash Credit	Long Term	60.00	ACUITE BB+/Stable (Downgraded)
	Cash Credit	Long Term	47.00	ACUITE BB+/Stable (Downgraded)
	Cash Credit	Long Term	43.00	ACUITE BB+/Stable (Downgraded)

	Cash Credit	Long Term	62.00	ACUITE BB+/Stable (Downgraded)
	Cash Credit	Long Term	33.00	ACUITE BB+/Stable (Downgraded)
	Term Loan	Long Term	30.00	ACUITE BB+/Stable (Downgraded)
	Letter of Credit/ Bank Guarantee	Short Term	189.00	ACUITE A4+ (Downgraded)
	Letter of Credit/ Bank Guarantee	Short Term	55.00	ACUITE A4+ (Downgraded)
	Letter of Credit/ Bank Guarantee	Short Term	80.00	ACUITE A4+ (Downgraded)
	Letter of Credit/ Bank Guarantee	Short Term	65.00	ACUITE A4+ (Downgraded)
	Letter of Credit/ Bank Guarantee	Short Term	66.00	ACUITE A4+ (Downgraded)
	Letter of Credit/ Bank Guarantee	Short Term	97.00	ACUITE A4+ (Downgraded)
	Proposed Facility	Long Term	120.48	ACUITE BB+/Stable (Downgraded)
07-May-2019	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)
	Term Loan	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 Facility	Long Term	120.48	ACUITE BBB-/Negative (Reaffirmed)
22-Apr-2019	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 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/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	98.00	ACUITE BB/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BB/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	47.00	ACUITE BB/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BB/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE BB/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BB/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB/Negative (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	189.00	ACUITE A4+ (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A4+ (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A4+ (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A4+ (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	66.00	ACUITE A4+ (Reaffirmed)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	97.00	ACUITE A4+ (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	120.48	ACUITE BB/Negative (Reaffirmed)



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### About Acuité Ratings & Research:

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