

## Press Release

### Mukand Limited

April 13, 2021

### Rating Upgraded



<b>Total Fixed Deposits Rated*</b>	Rs. 120.48 Cr.
<b>Fixed Deposit Rating</b>	ACUITE FA/ Outlook: Stable (Upgraded from FBB/Negative)
<b>Total Bank Facilities Rated*</b>	Rs. 1,045.48 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/ Outlook: Stable (Upgraded from ACUITE BB/Negative)
<b>Short Term Rating</b>	ACUITE A3 (Upgraded from ACUITE A4+)

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE FA**' (read as **ACUITE F A**) from '**ACUITE FBB**' (read as **ACUITE F double B**) on the Rs. 120.48 Cr fixed deposits of Mukand Limited. The outlook has now been revised to '**Stable**' from '**Negative**'.

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

The rating upgrade and revision in the outlook from 'Negative' to 'Stable' is driven by the company's significant progress in land parcel monetization and disinvestment in a joint venture company while utilizing the proceeds to repay the outstanding debt from lenders and group companies, thereby improving on the financial risk profile. The company has received an approx. Rs.1,510 Cr through these transactions during FY2021 and reduced debt to a major extent which is also expected to reduce the interest burden. Acuite believes that the monetization transactions will not only strengthen the overall capital structure and the liquidity position of the company but also lead to an uptick in net profitability levels going forward. Further, there is a significant likelihood of the completion of a second phase of the monetization plans in FY2022 which should reduce the debt further and support the working capital requirement of 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

- **Strong parentage; long-standing presence in the steel market**

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 four 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, Japan (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. During FY2021, the company had envisaged plans of monetization of its non-core assets of which the first tranche has been successfully implemented and used to reduce the outstanding debt levels. The experience and reputation of the promoters and it belonging to one of India's reputed business house; i.e. Bajaj Group was crucial in timely implementation of the plans. 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.

- **Monetization of non-core assets and investments, as planned, to diminish the outstanding debt levels**

The company had announced the monetization of its land parcels estimating to Rs. 800 Cr (current market value) coupled with recommended plans to disinvest 51 percent in the JV (Mukand Sumi Special Steel Ltd) for a consideration of approximately Rs. 1,200 Cr to its promoter group companies. As on March 31, 2021, the above discussed plans were implemented and ML had received a total consideration of Rs.801 Cr from the sale of its 55 acres land at Thane to NTT Global Data Centers Nav2 Private Limited. As on December, 2020, the company had also successfully completed the first tranche of planned disinvestment in the JV to its promoter group company Jamnalal Sons Private Limited, and received a consideration of Rs.713.6 Cr. The second and final tranche of the sale of shares is expected to be completed by Q1FY2021-22, for a consideration of Rs.500 Cr. The considerations received from the above transactions were utilised to bring down the outstanding debt levels of the company. ML's debt profile which stood at Rs.2,755 Cr, as on March 31, 2020 were majorly repaid during the year in FY2021 and debt profile as on March, 2021 stood at Rs.1,815.4 Cr. The company has another surplus land bank of 45 acres at Thane and the monetization of the same is expected to be completed by H1FY2021-22. The considerations expected out of the future transactions will also be utilised to repay the further outstanding debt.

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.

- **Improvement in the overall financial risk profile w.r.t. mentioned reforms and upcoming plans**

The considerations received through the first tranche of monetization has been utilised for the purpose of bringing down the outstanding debt levels in the company. During FY2021, the company received close to Rs.1,510 Cr and has repaid debt to a major extent towards the lenders and promoters. The significant reduction in the debt levels is also expected to bring down the interest outgo significantly in the near term. The networth is estimated at Rs.1,000 Cr as on March 31, 2021 against deteriorating nature of same at Rs.679 Cr as on March 31, 2020. This will further improve the leverage metrics of debt to equity and TOL/TNW ratio which is estimated to be positioned at 1.75 times and 2.67 times respectively as on March 31, 2021. The repayment of borrowings to the lenders have brought down the utilization levels of working capital facilities at 50 percent over the last six months ending January, 2021. The company's financial risk profile is expected to undergo further improvement in the medium term owing to expected receivables from the second tranche of monetization plans. Acuite believes that ability to timely complete the second tranche of the transactions will remain a key rating monitorable.

## Weaknesses

### • 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 54 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 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 completion of second tranche of monetization of non-core assets
- Greater than expected disarray in operations and weakening of the profitability
- Any unexpected debt additions in the business thereby impacting the debt protection metrics and liquidity position

### Liquidity: Adequate

ML's liquidity position has been assessed adequate basis the improving nature of the cash accruals vis-à-vis the debt obligations coupled with continuous repayment of its outstanding debt. The cash accruals for the near to medium term is expected to remain in the range of Rs.100 Cr to Rs.400 Cr with no consequent debt obligations. However, the company had availed a corporate loan of Rs.1000 Cr for refinancing short-term and long-term debt during FY2021 which is in the form of bullet repayment in two years. With respect to the monetization of its non-core assets, the company has received a consideration of approx. Rs.1,514 Cr which was utilised in repaying the outstanding debt. The company is also yet to complete the remaining portion of monetization during FY2022 and the consideration will be utilised to further bring down the debt levels and support incremental business requirements. Repayment of the outstanding debt during FY2021 resulted in minimal utilization of its fund-based facilities at 50 percent through last 6 months ending January 2021. Acuite believes that gradual repayment of the existing debt through timely monetization will strengthen the liquidity position over the medium term. Further, ML will continue to benefit from group funding support in case of an exigency as has been demonstrated in the past.

### Outlook: Stable

Acuite believes that ML will maintain a 'Stable' outlook over the medium term on account of timely monetization of the non-core assets, thereby translating into significant improvement in its liquidity profile and overall financial risk profile. The outlook may be revised to 'Positive' if the company achieves higher-than-expected improvement in the business risk profile in terms of revenue and profitability while maintaining working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the operations, profit margins or any unexpected debt additions leading to deterioration in financial risk profile leading to liquidity pressures.

### 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 Material Covenants

None

**Any other information**

None

**List of companies consolidated**

Sr. No	Name of Entity
1	Mukand Global Finance Ltd
2	Vidyavihar Containers Ltd
3	Mukand International FZE
4	Mukand Sumi Special Steel Ltd
5	Mukand Sumi Metal Processing Ltd
6	Hospet Steels Ltd
7	Mukand Engineers Ltd
8	Bombay Forgings Ltd
9	Stainless India Ltd
10	Adore Traders and Realtors Private Limited

**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
22-Oct-2020	Fixed Deposit	Long Term	120.48	ACUITE FBB/Negative (Reaffirmed)
	Cash Credit	Long Term	98.00	ACUITE BB/Negative (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BB/Negative (Reaffirmed)
	Cash Credit	Long Term	47.00	ACUITE BB/Negative (Reaffirmed)
	Cash Credit	Long Term	43.00	ACUITE BB/Negative (Reaffirmed)
	Cash Credit	Long Term	62.00	ACUITE BB/Negative (Reaffirmed)
	Cash Credit	Long Term	33.00	ACUITE BB/Negative (Reaffirmed)
	Term Loan	Long Term	30.00	ACUITE BB/Negative (Reaffirmed)
	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 (Reaffirmed)	

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)
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**\*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 FA/Stable (Upgraded; Revised Outlook)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	98.00	ACUITE BBB-/Stable (Upgraded; Revised Outlook)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB-/Stable (Upgraded; Revised Outlook)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	47.00	ACUITE BBB-/Stable (Upgraded; Revised Outlook)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BBB-/Stable (Upgraded; Revised Outlook)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE BBB-/Stable (Upgraded; Revised Outlook)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB-/Stable (Upgraded; Revised Outlook)
Term Loan	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- (Upgraded; Withdrawn)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	189.00	ACUITE A3 (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A3 (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A3 (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A3 (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	66.00	ACUITE A3 (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	97.00	ACUITE A3 (Upgraded)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	120.48	ACUITE BBB-/Stable (Upgraded; Revised Outlook)



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### About Acuite Ratings & Research:

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