

**Press Release**  
**Mukand Limited**  
**January 03, 2023**



**Rating Assigned and Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	400.00	ACUITE BBB   Stable   Assigned	-
Bank Loan Ratings	1000.48	ACUITE BBB   Stable   Reaffirmed	-
Fixed Deposits (FD)	180.48	ACUITE BBB   Stable   Reaffirmed	-
Bank Loan Ratings	185.00	-	ACUITE A3+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	1765.96	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

**Rating Rationale**

Acuite has assigned its long term rating of **ACUITE BBB (read as ACUITE triple B)** on the Rs.400.00 Cr bank loan facilities of Mukand Limited (ML). The outlook is 'Stable'.

Acuite has reaffirmed its long term rating of **ACUITE BBB (read as ACUITE triple B)** on the Rs.1000.48 Cr bank loan facilities of Mukand Limited (ML). The outlook is 'Stable'.

Acuite has reaffirmed its long term rating of **ACUITE BBB (read as ACUITE triple B)** on the Rs.180.48 Cr fixed deposits of Mukand Limited (ML). The outlook is 'Stable'.

Acuite has reaffirmed its short term rating of **ACUITE A3+ (read as ACUITE A three plus)** on the Rs.185.00 Cr bank loan facilities of Mukand Limited (ML).

**Rationale for Rating Reaffirmation**

The rating reaffirmation takes into account the stable operating performance of Mukand Limited during the review period marked by improved operating income, profitability margins and moderate financial risk profile. The Group generated an operating income of Rs. 4642.82 Cr by the end of FY2022 as against Rs. 2714.08 Cr in FY2021. The operating margins stood at 5.13 percent in FY2022 as against (16.71) percent in FY2021. The ~71.06% growth in top line is in line with Acuite's expectation and is driven by higher realisations and improved volumes across the industry. Till H1FY23, the Group has generated an operating income of Rs.2923.99 Cr at an operating margin of 4.31 percent. The slight moderation in margins during the period is primarily on account of imposition of export duty during the year, which as on date stands revoked and correction in steel commodity prices. Acuite expects ML's margins to recover to earlier levels and generate an operating income of Rs.5000-5500 Cr by year end.

Further, over the last two years, the Group has undertaken initiatives to monetize its non-core assets and investments and utilise the funds to retire its high cost bearing debt and for

working capital purposes. The Group in March, 2022, had executed an agreement for sale for its ~47 acres of land parcel for total sale consideration of Rs.806.14 Cr, out of which part consideration of Rs.161.23 Cr was deposited by purchaser in an escrow account and balance was expected to be deposited in Q1FY2023. However, due to operational challenges the closure of this transaction got delayed and the balance funds are expected to be received by January, 2023. Going forward, timely receipt of funds against land monetization and maintenance of the operating performance of the Group will remain a key rating monitorable.

### **About Company**

Incorporated in 1937, Mukand Iron & Steel Works Limited (MISWL) was acquired by the present promoter family, Shri Jamnalal Bajaj Group in 1939. The company then operated rerolling 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). ML along with its subsidiaries and associate companies is engaged in the manufacturing of special alloy steel/stainless steel billets, bars, rods, wire rods and bright bars. The Group 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 5.70 lakh MTPA of alloy steel and stainless steel.

### **Analytical Approach**

#### **Extent of Consolidation**

- Full Consolidation

#### **Rationale for Consolidation or Parent / Group / Govt. Support**

Acuité has considered the consolidated business and financial risk profile of Mukand Limited along with its subsidiaries. The list of subsidiaries and associates that have been considered for consolidation has been attached in the annexures. The entities are together referred to as 'The Group'.

### **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 Group is ably supported by qualified team of professionals. Over the years, the Group 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.

ML 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. In FY2022, ML subsidiaries Mukand Engineers Limited (MEL), Mukand Global Finance Limited (MGFL) and Adore Traders and Realtors Private Limited (ATRPL) were also amalgamated into ML vide NCLT order dated 24.05.2022. During FY2021, ML had envisaged plans of monetization of its non-core assets of which the first tranche was implemented in

FY2021 and second tranche in FY2022. The funds raised vide the monetization were used to reduce the outstanding debt levels and for working capital purposes. 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. 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.

### > **Moderate Financial Risk Profile**

The Group has noted an improvement in its overall financial risk profile marked by reduced gearing and improving debt protection metrics. The Group's overall gearing improved to 3.08 times as on March 31, 2022 as against 4.56 times as on March 31, 2021. The Debt protection metrics marked by interest coverage ratio and Debt to EBITDA became comfortable as the two ratios improved to 2.22 times and 5.69 times respectively in FY2022 as against 0.74 times and 8.43 times respectively in FY2021. As on September 30, 2022 the gearing remained range bound at 3.09 times, while the interest coverage stood at 1.64 times.

The Group in recent past had monetized its non-core assets including land parcels and investments in subsidiary entities and the funds generated were utilised to bring down the debt levels of the Group and finance the working capital requirements of its operations. The Group raised funds of approximately ~Rs.1200 Cr by way of divestment in subsidiary and ~Rs.801 Cr by way of land parcel sale in the last two years. Simultaneously, the Group's total debt which stood at Rs.2755.04 Cr as on March 31, 2020 has come down to Rs. 2036.28 Cr as on March 31, 2022, which includes Rs.864.07 Cr of inter-corporate debt, Rs. 21.63 Cr of redeemable preference share capital and fixed deposits, Rs.999.96 Cr of CPLTD and Rs.150.62 Cr of short term debt. The Group in September, 2022 repaid Rs.1000.00 Cr of term loan and availed working capital term loan facility of equivalent amount.

In March 2022, ML had executed an agreement for sale for balance land parcel of approx. 47 acres for a total consideration of Rs. 806.14 Cr, out of which part consideration of Rs.161.23 Cr is deposited by purchaser in an escrow account. The transaction is expected to be completed by January, 2023. The Group plans to use the funds received from this transaction to repay its high interest bearing inter-corporate debt and for working capital purposes.

With the expected partial disposal of debt and no major debt-funded capex plan over the medium term, the overall gearing of the Group is estimated to reduced to less than 1.5 times and the interest coverage to range between 2-5 times over the medium term.

### **Weaknesses**

#### > **Working capital intensive nature of operations**

The Group's operations are working capital intensive marked by gross current asset days of 196 days as on March 31, 2022 as against 287 days as on March 31, 2021. The improvement in GCA days is largely driven by faster realisations. The trade receivables days reduced to 44 days as on March 31, 2022 as against 84 days as on March 31, 2021. The inventory days continued to range between 120-130 days for the period. The working capital requirements are adequately support by trade creditors and working capital loans availed from banks and group companies. The creditor days stood at 53 days as on March 31, 2022 as against 70 days as on March 31, 2021.

#### > **Susceptibility of operating performance to volatility in demand and prices**

ML manufactures alloy steel using 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 Group'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 40-60 per cent of its raw material requirement and is, thus, also exposed to forex fluctuations. The operating margins on a consolidated basis improved to 5.13 percent in FY2022 as against (16.71) percent in FY2021. It stood at 4.31 percent in H1FY23. The slight moderation in margins in the first half of the year was primarily due to imposition of export duty on steel and correction in steel prices. The contribution of exports in total sales increased to 10 percent in

H1FY2023 as against 5 percent in FY2022. Net profitability margins 0.95 percent in H1FY23 as against 3.80 percent in FY2022 and (7.51)% in FY2021. 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 and follows an order back to back policy for its raw material requirement for its stainless steel division

### **ESG Factors Relevant for Rating**

Manufacture of metals has a substantial environmental impact. The production of basic metals is extremely power-intensive. Most steel is still produced with blast furnaces, releasing large amounts of carbon dioxide, nitrogen oxide, and particulate matters into the air. On the social front, occupation and workforce health & safety management are of primary importance to this industry given the dangerous nature of operations. Furthermore, factors such as ethical business practices, management compensation and board administration hold primary importance within this industry.

Incorporated in 1937, Mukand Limited has implemented policies, established procedure and conducts awareness programmes towards safety and health of its employees. Functional Departments implement practices that includes efficiency in energy and in utilizing natural resources with minimal or no damage to the environment. On the governance front, the Group has implemented policies to ensure transparency in all its operations, make disclosures and comply with various laws and regulations. ML's Board has constituted various committees comprising of its key management personnel as its members, to cater to the various environmental, social and governance issues encompassing the industry.

### **Rating Sensitivities**

- > Sustenance of improvement in operating performance of the Group
- > Timely completion of sale of approx.47 acres of land parcel
- > Any unexpected debt additions in the business thereby impacting the debt protection metrics and liquidity position

### **Material Covenants**

None

### **Liquidity Position: 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.150 Cr to Rs.650 Cr supported by monetization of its non-core assets during the period. The operations of the Group are working capital intensive marked by Gross Current Asset days of 196 days as on March 31, 2022. The working capital requirements of the Group are adequately supported by working capital term loans and inter-corporate debt. While the fund based working capital term loan facilities remain largely fully utilised, the average bank limit utilisation of its non-fund based facilities stood around 51 percent for the last eight months ended November, 2022.

### **Outlook: Stable**

Acuité believes that ML will maintain a 'Stable' outlook over medium term on account of improved operating performance and moderate financial risk profile aided by the revival in demand and the fructification of management's plan to retire its high cost debt by monetizing its non-core assets. The outlook may be revised to 'Positive' incase of higher-than-expected improvement in scale of operations and profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any further delay in monetizing its non-core assets or any unexpected debt additions leading to deterioration in financial risk profile.

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	4642.82	2714.08
PAT	Rs. Cr.	176.31	(203.78)
PAT Margin	(%)	3.80	(7.51)
Total Debt/Tangible Net Worth	Times	3.08	4.56
PBDIT/Interest	Times	2.22	0.74

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

None

### Any Other Information

None

### Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

### Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jun 2022	Cash Credit	Long Term	60.00	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	1000.00	ACUITE BBB   Stable (Upgraded from ACUITE FA   Stable)
	Cash Credit	Long Term	33.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	98.00	ACUITE BBB (Withdrawn)
	Bank Guarantee	Short Term	55.00	ACUITE A3+ (Withdrawn)
	Bank Guarantee	Short Term	97.00	ACUITE A3+ (Withdrawn)
	Fixed Deposit Program	Long Term	120.48	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	47.00	ACUITE BBB (Withdrawn)
	Bank Guarantee	Short Term	80.00	ACUITE A3+ (Withdrawn)
	Cash Credit	Long Term	62.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	43.00	ACUITE BBB (Withdrawn)
	Bank Guarantee	Short Term	189.00	ACUITE A3+ (Withdrawn)

	Bank Guarantee	Short Term	66.00	ACUITE A3+ (Withdrawn)
	Fixed Deposit Program	Long Term	60.00	ACUITE BBB   Stable (Reaffirmed)
	Proposed Term Loan	Long Term	0.48	ACUITE BBB   Stable (Upgraded from ACUITE FA   Stable)
	Bank Guarantee	Short Term	65.00	ACUITE A3+ (Withdrawn)
	Bank Guarantee	Short Term	185.00	ACUITE A3+ (Upgraded from ACUITE A3+)
05 May 2022	Bank Guarantee	Short Term	55.00	ACUITE A3+ (Withdrawn)
	Fixed Deposit Program	Long Term	120.48	ACUITE FA   Stable (Reaffirmed)
	Bank Guarantee	Short Term	80.00	ACUITE A3+ (Withdrawn)
	Cash Credit	Long Term	47.00	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	1000.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
	Bank Guarantee	Short Term	65.00	ACUITE A3+ (Withdrawn)
	Cash Credit	Long Term	33.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	98.00	ACUITE BBB (Withdrawn)
	Bank Guarantee	Short Term	66.00	ACUITE A3+ (Withdrawn)
		Long		ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
		Proposed Term Loan	Term	0.48
	Fixed Deposit Program	Long Term	60.00	ACUITE FA   Stable (Assigned)
	Bank Guarantee	Short Term	185.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee	Short Term	189.00	ACUITE A3+ (Withdrawn)
	Cash Credit	Long Term	43.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	60.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	62.00	ACUITE BBB (Withdrawn)
	Bank Guarantee	Short Term	97.00	ACUITE A3+ (Withdrawn)
	Cash Credit	Long Term	98.00	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	47.00	ACUITE BBB- (Withdrawn)
	Fixed Deposit Program	Long Term	120.48	ACUITE FA   Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	0.48	ACUITE BBB-   Positive (Reaffirmed)
	Bank Guarantee	Short Term	65.00	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	60.00	ACUITE BBB- (Withdrawn)

15 Apr 2022	Bank Guarantee	Short Term	55.00	ACUITE A3 (Withdrawn)
	Bank Guarantee	Short Term	80.00	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	43.00	ACUITE BBB- (Withdrawn)
	Bank Guarantee	Short Term	185.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1000.00	ACUITE BBB-   Positive (Reaffirmed)
	Bank Guarantee	Short Term	66.00	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	62.00	ACUITE BBB- (Withdrawn)
	Bank Guarantee	Short Term	189.00	ACUITE A3 (Withdrawn)
	Fixed Deposit Program	Long Term	120.48	ACUITE BBB-   Positive (Reaffirmed)
	Bank Guarantee	Short Term	97.00	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	33.00	ACUITE BBB- (Withdrawn)
	Letter of Credit	Short Term	55.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	97.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	62.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB   Negative)
	Cash Credit	Long Term	33.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB   Negative)
13 Apr 2021	Cash Credit	Long Term	60.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB   Negative)
	Cash Credit	Long Term	98.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB   Negative)
	Term Loan	Long Term	30.00	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	43.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB   Negative)
	Proposed Bank Facility	Long Term	120.48	ACUITE BBB-   Stable (Upgraded from ACUITE BB   Negative)
	Letter of Credit	Short Term	80.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	65.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	66.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	189.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	47.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB   Negative)
	Fixed Deposit Program	Long Term	120.48	ACUITE FA   Stable (Upgraded from ACUITE BB   Negative)
	Letter of Credit	Short Term	66.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Short Term	120.48	ACUITE BB (Reaffirmed)

22 Oct 2020	Cash Credit	Long Term	47.00	ACUITE BB   Negative (Reaffirmed)
	Letter of Credit	Short Term	80.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	97.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	62.00	ACUITE BB   Negative (Reaffirmed)
	Cash Credit	Long Term	43.00	ACUITE BB   Negative (Reaffirmed)
	Letter of Credit	Short Term	65.00	ACUITE A4+ (Reaffirmed)
	Fixed Deposit Program	Long Term	120.48	ACUITE FBB   Negative (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BB   Negative (Reaffirmed)
	Letter of Credit	Short Term	55.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	33.00	ACUITE BB   Negative (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB   Negative (Reaffirmed)
	Letter of Credit	Short Term	189.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	98.00	ACUITE BB   Negative (Reaffirmed)



## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
CITI Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	185.00	ACUITE A3+   Reaffirmed
Not Applicable	Not Applicable	Fixed Deposit Program	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE BBB   Stable   Reaffirmed
Not Applicable	Not Applicable	Fixed Deposit Program	Not Applicable	Not Applicable	Not Applicable	Simple	120.48	ACUITE BBB   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.48	ACUITE BBB   Stable   Reaffirmed
CITI Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	200.00	ACUITE BBB   Stable   Assigned
CITI Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1000.00	ACUITE BBB   Stable   Reaffirmed
CITI Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	200.00	ACUITE BBB   Stable   Assigned

### \*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

#### List of companies consolidated:

1. Mukand Sumi Metal Processing Ltd (Subsidiary of ML since 30.09.2022 prior to which it was an Associate entity)
2. Hospet Steels Ltd (Joint venture)
3. Stainless India Ltd (Associate)

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### About Acuité Ratings & Research

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