



Press Release

MKU Limited (MKUL)

February 20, 2023

Rating

Sr. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action	Complexity Indicator
1	Long Term Bank Facilities	74.50	IVR BBB+/ Negative [IVR Triple B plus with Negative Outlook]	Rating Reaffirmed and Outlook revised	Simple
2.	Short Term Bank Facilities	132.50 (Reduced from Rs.179.65 crore)	IVR A2 [IVR A Two]	Rating Reaffirmed	Simple
	Total	207.00			

Details of facilities are in Annexure 1

Rating Rationale.

The revision in the Outlook from 'Stable' to 'Negative' is on account of deterioration in scale of operations, profitability and debt coverage indicators and elongation of operating cycle in FY22 as well as reporting of inferior than envisaged total operating income, profitability and debt coverage indicators in FY22.

The ratings continue to draw comfort from experienced management and long track record of operations, moderate capital structure and debt coverage indicators, decline in scale of operations and profitability in FY22 though the same remained moderate, and healthy order book. The rating is however constrained by elongated operating cycle, tender driven nature of business, exposure to foreign exchange risk and susceptibility to regulatory changes both in India and overseas.

Key Rating Sensitivities:

➤ **Upward Rating Factor:**



Press Release

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
 - Improvement in the capital structure with further improvement in debt protection metrics.
- **Downward Rating Factor:**
- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
 - Any further significant rise in working capital intensity or unplanned capex leading to any deterioration in the liquidity position.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced management and long track record of operations

The promoters of the company are having over 30 years long experience in providing defence solutions to the leading armed forces of the world. They have diverse domain expertise in product range and protection solutions. The promoters have extensive knowledge of defence sector operations across varied geographic locations.

Moderate capital structure and debt coverage indicators: Overall gearing of the company has remained at 0.37x as on March 31, 2022, compared to 0.40x as on March 31, 2021, improved due to accretion of profits to reserves. TOL/TNW of the company has deteriorated to 0.93x as on March 31, 2022, compared to 0.86x on March 31, 2021, due to increase in the creditors for FY22. ICR of the company has deteriorated to 3.80x for FY22 compared to 7.97x in FY21 due to decrease in operating profitability. DSCR of the company has remained at 2.66x for FY22 compared to 6.63x in FY21, DSCR has deteriorated on account of decrease in the gross cash accruals in FY22. Total Debt/GCA of the company has deteriorated to 3.31x for FY22 compared to 1.41x in FY21 due to decrease in GCA and increase in the debt level.

Decline in scale of operations and profitability in FY22 though the same remained moderate: TOI of the company has declined by 20.22% in FY22 to Rs. 268.48 crore compared to Rs. 341.21 crore in FY21 due to long delays in order finalisations and deliveries, given the customer's need for extensive trials. EBITDA margin of the company has deteriorated by 1004 bps in FY22 to 13.12% compared to 23.25% in FY21 due to higher raw material consumption cost and deterioration in the operating efficiency. Subsequently, PAT margin of the company



Press Release

has also declined by 543 bps for FY22 to 7.69% compared to 13.12% in FY21. The GCA of the company has decreased from Rs. 60.14 crore in FY21 to Rs. 27.29 crore in FY22 due to decrease in the net profit. The company has reported PAT of Rs. 7.66 crore on total operating income of Rs. 183.77 crore in 9MFY23 as against net loss on total operating income of Rs. 101.83 crore in 9MFY22.

Healthy Order Book: The company has an outstanding order book of Rs. 676.69 crore as on December 01, 2022, resulting in medium term revenue visibility. The unexecuted order book constitutes 2.52 times of FY22 Operating income.

Key Rating Weaknesses

Elongated Operating cycle: Operating cycle of the company has elongated in FY22 to 281 days compared to 165 days due to increase in the collection period to 302 days in FY22 from 148 days in FY21 and inventory period has increased from 85 days in FY21 to 89 days in FY22 with a decline in scale of operations.

Tender driven nature of business: Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the company's ability to successfully bid for the tenders floated by defence department of the countries. The company's revenue profile is exposed to risks associated with the tender-based nature of its business as entire business is tender based.

Exposure to foreign exchange risk:

With more than 85% of its revenues coming from export earnings, the company's exposure to foreign currency has remained high over the years, exposing it to the vagaries of currency markets. However, since the company's imports are primarily backed by exports, it enjoys a natural hedge to some extent. Total net unhedged exposure as on September 30, 2022, stands at Rs. 210.63 crore.

Susceptibility to regulatory changes both in India and overseas

The defence equipment industry is highly regulated due to the rigorous checks in the sector coupled with the stringent policy framework. Further, there is a possibility of irregular and lumpy grants of orders due to tender-based nature of business.



Press Release

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning Rating Outlook.](#)

Liquidity: Adequate

The Company's liquidity is expected to remain adequate as it expects sufficient cushion in its cash accruals vis-a-vis debt repayments. The company maintains moderate cash and bank balance to meet its liquidity requirements. The unencumbered cash and bank balances remained at Rs. 17.01 crores as on 31st March 2022 as against Rs. 3.21 crore as on March 31, 2021. The average utilization of working capital limits remained high at 90.14% during the 12 months ended December 2022. The non-fund based average limit utilization remained at 52.24% during the last 12 months ended December 2022. The Current ratio stood moderate at 1.70x as at March 31, 2022. Overall, the liquidity position is Adequate. Operating cycle of the company has elongated to 281 days for FY22 compared to 165 days in FY21 due to increase in the collection period and inventory period with a decline in scale of operations.

About the Company

The company, established as a partnership firm in the year 1985 namely M Kumar Udyog converted into M Kumar Udyog Private Limited on 4th May 2001 and subsequently status was changed from MKU (P) Limited to MKU Limited in the year 2016, is regarded as prominent player in Armour solution providers, engaged in design, development and manufacturing high quality of bullet proof jackets, bullet proof helmets, Armour shields, Hard Armor Plates, Soft Armor Plates, Bomb Blankets, Vehicle Armor panels for air, land and sea. It is a registered NATO supplier and has certified quality management systems conforming to ISO 9001-2008 and AS-9100 Rev C. It follows the NATO AQAP standards and is a registered with IAQG (International Aerospace Quality Group).



Press Release

Financials (Standalone)

Rs. in Crore

For the year ended* As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	341.21	268.45
EBITDA	79.32	35.22
PAT	45.61	21.31
Total Debt	88.94	90.21
Tangible Net Worth	222.77	244.19
EBITDA Margin (%)	23.25	13.12
PAT Margin (%)	13.12	7.69
Overall Gearing Ratio (x)	0.40	0.37

*Classification as per Infomerics' standards

Details of Non-Co-operation with any other CRA: None

Any other information: Not Applicable

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2022-23)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (January 04, 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
Long Term Bank Facilities	Long Term	74.50	IVR BBB+/ Negative	IVR BBB+/ Stable	-	-
Short Term Bank Facilities	Short Term	132.50	IVR A2	IVR A2		

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Press Release

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
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Press Release

Long Term Bank Facility – Term Loan	-	-	FY28	14.50	IVR BBB+/Negative
Long Term Fund Based Facility – Cash Credit	-	-	-	35.00	IVR BBB+/Negative
Long Term Fund Based Facility – WCDL	-	-	-	25.00	IVR BBB+/Negative
Short Term Fund Based Facility – EPC	-	-	-	20.00	IVR A2
Short Term Fund Based Facility –Gold Loan	-	-	-	4.00	IVR A2
Proposed Short-term facility	-	-	-	21.50	IVR A2
Short Term Non Fund Based Facility –LC/BG	-	-	-	87.00	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: Len-MKU-feb23.pdf (infomerics.com)

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.