



Press Release

MKU Limited (MKUL)

January 04, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loans	27.26	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	179.65	IVR A2 (IVR A Two)	Assigned
Total	206.91		

Details of facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of MKU Limited derives strength from the Experienced Management & Long and Established Track Record of Operation, Healthy Financial Risk Profile & Scale of operation and healthy order book. The rating is however constrained by Susceptibility to regulatory risks and Moderate working capital Cycle.

Key Rating Sensitivities:

Upward Factor:

- Substantial scaling up its operations while maintaining stable profitability margins.

Downward Factor:

- Deterioration in business risk profile which impacts the debt protection metrics.

.Detailed Description of Key Rating Drivers



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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.

Healthy Financial Risk Profile

Financial risk profile of the company is healthy marked by comfortable overall gearing and other debt coverage indicators. The overall gearing ratio of the Company stood at 0.40x as on March 31, 2021, as against 0.35x as on March 31, 2020. The TOL to Adjusted TNW stood healthy at 0.90x for FY21. The Interest coverage ratio stood healthy at 10.66x in FY21 as against 5.52x in FY20.

Scale of operations and healthy order book:

The company has a moderate scale of operations. Total operating income (TOI) of the company has increased by ~45% from Rs 233.73Cr in FY20 to Rs 341.70 Crs in FY21. The company registered revenue of Rs 86.34 Crs in H1FY22, impacted adversely by lockdown dueCovid-19 situation in Q1FY22. Although, the company registered low revenue in first half of fiscal year but good order book position of approximately Rs.280Crs provides revenue visibility in medium term.

Key Rating Weaknesses

Moderate working capital cycle

The operations of the company remained working capital intensive due to its moderate inventory period and high average collection period. The inventory holding period remained at 87 days in FY21 it is lower than FY20 (139 days). The receivable cycle of the company increased since FY20 from 129 days to 148 days in FY21. Receivable position of the company also higher in FY21 (213.82 cr) than FY20 (62.99 cr). The operating cycle of the company has also increased marked by FY21 (182 days) compared to FY20 (157 days). Given the nature of business it takes up to 180 days for the company to receive payments as it takes ~60 days to export the goods, further payments are after testing of the products which itself takes 30-



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60 days. For the FY21 receivables are high on the account of Covid-19 situation which had created a shortage of container lines and further delaying in export from the ports.

Exposure to foreign exchange risk:

With more than 95% of its revenues coming from export earnings, the firm's exposure to foreign currency has remained high over the years, exposing it to the vagaries of currency markets. However, since the firm's exports are primarily backed by imports, it enjoys a natural hedge to some extent. As on September 30th, 2021 the company has covered all its exposure through natural hedging.

Susceptible 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate in the near term, as company is generating sufficient cash accruals against its long-term debt obligations. Further, the company's current ratio and liquidity ratio stood at 1.70x and 1.47x respectively as on March 31, 2021. However, as the company's operations are working capital intensive in nature it leads to higher reliance on the working capital limits. The average bank limit utilization stood at approximately 84% for twelve months ended November 30, 2021.. Further the company has adequate liquid assets of Rs.30.46 crore in the form of Cash & FDs.

About the Company



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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).

Financials (Standalone)

For the year ended* As on	INR in Crore	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	233.73	341.21
EBITDA	37.08	80.12
PAT	10.63	45.13
Total Debt	62.92	88.94
Tangible Net Worth	181.35	222.89
EBITDA Margin (%)	15.87	23.48
PAT Margin (%)	4.47	12.99
Overall Gearing Ratio (x)	0.37	0.42

* Classification as per Infomerics' standards

Details of Non-Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Facility – Term Loans	Long Term	27.26	IVR BBB+/ Stable	-	-	-
3.	Fund Based Facility – Overdraft	Short Term	179.65	IVR A2	-	-	-

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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
Long Term Fund Based Facility – Auto Loan	-	-	-	0.82	IVR BBB+/ Stable
Long Term Fund Based Facility – Demand Loan	-	-	April 2024	2.44	IVR BBB+/ Stable
Long Term Fund Based Facility – Term Loan	-	-	July 2026	25.00	IVR BBB+/ Stable
Short Term Fund Based Facility – Cash Credit	-	-	-	39.00	IVR A2
Short Term Fund Based Facility – Packaging Credit	-	-	-	24.00*	IVR A2
Short Term Fund Based Facility –OD	-	-	-	1.00	IVR A2
Short Term Fund Based Facility – WCDL	-	-	-	25.00**	IVR A2
Short Term Non-Fund Based Facility – ILC/FLC	-	-	-	22.00	IVR A2
Short Term Non-Fund Based Facility – BG	-	-	-	65.00***	IVR A2
Short Term Non-Fund Based Facility – SBLC	-	-	-	7.65	IVR A2

* Packaging credit of Rs.24 Cr has sublimit of Rs.16 Cr for PCFC (BOB).

**WCDL has sublimit of Rs.25 Cr for Cash Credit (IndusInd Bank).

***BG limit of 65.00 Crores has sublimit of SBLC of 10.00 crore (BOB).

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/MKU-lenders-jan22.pdf>



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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loans	Simple
2.	Overdraft	Simple

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.