



Press Release

MKU Limited

March 19, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	64.50	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Rating reaffirmed and outlook revised	Simple
Short Term Bank Facilities	142.50	IVR A2 (IVR A Two)	Reaffirmed	Simple
Short Term Bank Facilities	86.50	IVR A2 (IVR A Two)	Assigned	Simple
Total	293.50 (Enhanced from Rs. 207.00 crores)	[Rupees Two Hundred ninety-three crore and fifty lakhs only]		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Ratings and Valuation Private Limited (IVR) has reaffirmed the long-term rating of IVR BBB+ with a revision in outlook from Negative to Stable outlook and short-term ratings of IVR A2 for the bank loan facilities of MKU Limited (MKUL). IVR has also assigned rating of IVR A2 for the short-term enhanced bank facilities of MKUL.

The revision in outlook from negative to stable is on account of improvement in scale of operations and profitability along with improvement in operating cycle. The rating continues to draw comfort from experienced management and long track record of operations, comfortable financial risk profile, Increase in scale of operations and profitability and healthy order book. However, these rating strengths are partially offset by an elongated operating cycle, tender driven nature of business and exposure to foreign exchange risk along with susceptible to regulatory changes both in India and overseas.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. m. IVR believes MKUL's business risk profile will be maintained over the medium term.



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IVR has principally relied on the audited financial results of the company up to March 31, 2023, and projected financials for FY2024-FY2026, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Further improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any significant rise in working capital intensity or unplanned capex leading to any deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management and long track record of operations

The promoters of the company are having more than 3 decades of 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.

Comfortable financial risk profile: The capital structure of the company remained comfortable marked by overall gearing at 0.43x as on March 31, 2023, deteriorated from 0.40x as on March 31, 2022, mainly on account of higher utilization of working capital bank borrowings as on balance-sheet date. The TOL/TNW of the company has



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moderated to 1.33x as on March 31, 2023, compared to 0.98x as on March 31, 2022 due to increase in the creditors in FY23. Further the debt protection metrics of the company remained moderate marked by ICR of the company at 4.92x for FY23 improved from 3.59x for FY22 due to increase in profitability. DSCR of the company has remained comfortable at 3.81x for FY23 improved from 2.69x for FY22 on account of improvement in GCA in FY23. Total Debt/GCA of the company has improved to 2.04x for FY23 compared to 3.20x for FY22 mainly on account of higher increase in GCA against increase in total debt level.

Increase in scale of operations and profitability: TOI of the company has increased significantly by 88.03% and stood at Rs. 504.76 crore in FY23 compared to Rs. 268.45 crore in FY22 as existing orders were executed and new tenders received from different agencies. With increase in scale of operations along with decline in raw material consumption cost and higher operational efficiency, the EBITDA margin of the company has also improved significantly by 416 bps and stood at 17.30% in FY23 compared to 13.14 % in FY22. Subsequently, PAT margin of the company has also improved by 249 bps and stood at 10.45% in FY23 compared to 7.96% in FY22. The GCA of the company has increased from Rs. 28.59 crore in FY22 to Rs. 59.69 crore in FY23 on account of the increase in net profit. The company has reported a PAT of Rs. 15.52 crore on total operating income of Rs. 370.94 crore in 9MFY24 as against a PAT of Rs. 7.66 crore on total operating income of Rs. 183.77 crore in 9MFY23.

Healthy Order Book: The company has an outstanding order book of Rs. 425.48 crore as on December 31, 2023, giving near term revenue visibility.

Key Rating Weaknesses



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Elongated Operating cycle: Operating cycle of the company stood elongated at 175 days in FY23, although improved from 275 days in FY22 on account of decline in inventory days and collection period. Typically, company sees sharp increase in debtors towards end of year due to sales in the month of March. The operating cycle is expected to remain elongated on account of inherent nature of business having high debtor and inventory days.

Tender driven nature of business: Execution risks for newly awarded projects in a timely manner remains 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 90% 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. The company do not have any formal hedging policy and remains exposed to forex risk. Total net unhedged exposure as on September 30, 2023, stands at Rs. 119.24 crore.

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 Companies](#)

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



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[Criteria for assigning rating outlook.](#)

[Instrument/Facility wise Default Recognition & Post-Default Curing Period](#)

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. 15.97 crore and Rs. 33.91 crore as on March 31, 2023 and December 31, 2023 respectively compared to Rs. 17.01 crores as on March 31, 2022. The average utilization of working capital limits remained at 75.73 % during the 12 months ended December 2023. The non-fund based average limit utilization remained at 61.76% during the last 12 months ended December 2023. The Current ratio stood moderate at 1.46x as on March 31, 2023, and quick ratio stood at 1.22x as on March 31, 2022. Overall, the liquidity position remains adequate. Operating cycle of the company has elongated at 175 days for FY23 although improved from 275 days in FY22 on account of decline in inventory holding and collection days.

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 engaged in armour solutions, 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 also 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).



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Financials (Standalone):

(Rs. Crore)

For the year ended* / as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	268.45	504.76
EBITDA	35.27	87.33
PAT	22.22	53.95
Total Debt	91.45	121.79
Tangible Net Worth	226.78	280.26
Ratios		
EBITDA Margin (%)	13.14	17.30
PAT Margin (%)	7.96	10.45
Overall Gearing Ratio (x) (including quasi-equity)	0.40	0.43

*Classification as per Infomerics` standards

Status of non-cooperation with previous CRA:None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Feb 20, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Jan 04, 2022)	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term Fund Based Facilities	Long Term	64.50	IVR BBB+/ Stable	IVR BBB+/ Negative	IVR BBB+/ Stable	-
2.	Short Term Fund Based Facilities	Short Term	229.00	IVR A2	IVR A2	IVR A2	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics



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commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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
Term Loan	-	-	Sep 2028	29.50	IVR BBB+/Stable
Cash Credit	-	-	-	35.00	IVR BBB+/Stable
EPC	-	-	-	60.00	IVR BBB+/Stable
Gold Card	-	-	-	4.00	IVR A2
LC	-	-	-	22.00	IVR A2
FX Derivative	-	-	-	3.00	IVR A2
Bank Guarantee	-	-	-	140.00	IVR A2



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Annexure 2: List of companies considered for consolidated analysis: None.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-mkul-mar24.pdf>

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.

