Rating Rationale

Mukand Engineers Ltd

March 13, 2018

Brickwork Ratings reviews the ratings of Bank Loan of Rs.115 Cr and Fixed Deposit of Rs.18.22 Cr of Mukand Engineers Ltd.

Particulars

Bank Loan Rating

Facility	Facility (` Crs)	Current Facilities	Tenure	Previous Rating (Mar 2017)	Rating Based on Current Review
Cash Credit	35.00	30.00	Long Term	BWR BB- (Pronounced BWR Double B Minus) Outlook Stable	**BWR B+** (Pronounced BWR B Plus) Outlook Stable
BG	75.00	75.00	Short Term	BWR A4 (Pronounced BWR A Four)	**BWR A4** (Pronounced BWR A Four)
LC	15.00	10.00			
Total	125.00	**115.00**	**(INR One Hundred Fifteen Crore Only)**		

Fixed Deposit Rating

Facilities	Limits (` Crore)	Tenure	Previous Rating[1] (March 2017)	New Rating[1]	Description	Rating Action
FUND BASED Fixed Deposit	18.22	Long Term	**BWR FBB-** (Pronounced BWR F Double B Minus) **Outlook: Stable**	**BWR FB+** (Pronounced BWR F B Plus) **Outlook: Stable**	Instruments with this rating are considered to have **high risk** of default regarding timely servicing of financial obligations.	**Downgrade**
Total	**18.22**	**(INR Eighteen Crore Twenty Two Lakhs only)**				

***** Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

BWR has relied upon MEL's audited financial results of up to FY17, unaudited financials for Q3FY18, projected financials, publicly available information, and the information/clarifications provided by the Company.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The ratings downgrade factors, *inter alia*, deteriorated operating and financial performance of the company during nine months ended December 2017 coupled with stretched liquidity conditions due to elongated working capital cycle. The rating continues to be constrained by long receivables cycle, weak debt protection metrics and current scenario of infrastructure sector .

The above negative factors are partially offset by long operating track record of the Company, professional and experienced management team and quality of client base.

Analytical Approach

Mukand Engineers Ltd. is rated on a stand-alone basis. Please refer to applicable criteria as per details given at the end.

Key Risk Drivers for rating:

Deteriorating Performance: During nine months ended Dec'17, the company's revenue declined by 42% which led to operating loss of Rs. 9.42 Cr.

Stretched Liquidity Conditions: Liquidity cycle is stretched since most of the working capital is blocked in receivables and stock. As on March 31, 2017, receivable days were 254 and inventory days were 438. As such, the working capital facility is utilized in full.

Weak Debt Protection Metrics: Debt protection metrics continue to be weak on account of deteriorated operating performance of the company.

Long Operating Track Record: Mukand Engineers Ltd., a public limited company is an associate company of Mukand Ltd. The company was formerly a division of Mukand Ltd. The company's management has more than four decades of expertise in wide areas of project construction covering civil, structural, mechanical, piping electrical and instrumentation works.

Order Book: The Company has moderate order book positions (Rs. 102.67Cr) at ~2x of its FY17 sales. However, the order book is mainly concentrated on only 3 projects.

Rating Outlook: Stable

BWR believes the Mukand Engineers Ltd. business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Mukand Engineers Limited (MEL), a public limited company, is an associate company of Mukand Limited. It was incorporated in January, 1987 under the name Mukand Construction and Project Engineering Company Private Limited. It was carved out of the engineering division of Mukand Limited (BWR BB+ / A4) and the latter holds around 36% in the Company.

MEL is in the business of Engineering Procurement and Construction (EPC) activities including project and design engineering, feasibility, planning, civil and structural work which includes mechanical, electrical, instrumentation and piping for the clients in petroleum, power generation, fertilizers, steel and aluminium manufacturing sectors.

Company Financial Performance

During the FY17, the company reported net loss of Rs. 1.55 Cr (P.Y Net Loss Rs. 6.98 Cr) on the revenue of Rs. 110.06 Cr (P.Y Rs. 105.72 Cr).

During nine months ended December 2016, the company made net loss of Rs. 13.06 Crore (P.Y net Profit Rs. 0.83 Cr) on revenue of Rs.52.88 Cr (P.Y Rs. 90.58 Cr).

Rs. Crore	FY17	FY16
Revenue	110.06	105.72
Operating Profit	4.94	-0.55
Net Profit	-1.55	-6.98
Total Debt	60.2	46.01
TNW	50.58	52.06
Total Debt to TNW	1.2	0.9
Current Ratio	1.25	1.22

Rating History for the last three years: (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (Rs Crs)	Rating (March 2017)	March 2017	August 2016	October 2015
1	Cash Credit	Long Term	30	BWR B+ (Stable)	BWR BB- (Stable)	BWR B+ (Stable)	BWR BB- (Stable)
2	Bank Guarantee	Short Term	75	BWR A4	BWR A4	BWR A4	BWR A4
3	LC	Short Term	10	BWR A4	BWR A4	BWR A4	BWR A4
4	Fixed Deposit	Long Term	18.22	BWR FB+ (Stable)	BWR FBB- (Stable)	BWR FB+ (Stable)	BWR FBB- (Stable)
	Total		133.22				

Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- Infrastructure Sector
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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