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A Bajaj JV, one of India's oldest tie-ups, will get unstuck this week



Synopsis

Sources close to both families say the separation has been in the works for several months now. Mukand has been languishing for years and became the smallest Bajaj group company, hamstrung with high debt that went as high as Rs 3,100 crores in June last year and rising losses till December 2020, following bad business calls

One of India's oldest manufacturing joint ventures that had the blessings of Mahatma Gandhi is finally getting unstuck.

The Bajaj family has decided to buy out its partners, the Shah brothers Suketu and Rajesh, from the 84-year old steel venture Mukand Ltd, ending months of negotiations. The Shah family will be cashing out of the business, transferring their residual 16.5% stake to their partners, via block deals in the stock market, as part of a major restructuring exercise that has been ongoing for months to revive the operations. At current market prices, the Bajaj family would have to shell out Rs 353 crore for the transaction.

The company has a Rs 2,142-crore market capitalisation. There will be no tender offer for the acquisition of shares since it is a transfer between promoters. The transaction is expected to take place as early as Monday. Of the 74.35% equity classified as promoter holdings of the company, several Bajaj family holding companies, group entities, trusts and individuals – Bajaj Holdings, Bajaj Sevashram, Madhur, Shekhar, and the generation next Rajiv and Sanjiv with their own successful businesses – control the lion's share of 58%. Public shareholding stands at 25.65%, as per the June 2021 shareholding pattern. Over the years, the Shah family's shareholding got diluted from 50% since they chose not to subscribe to the various rights issues.

"This is a decision that our family arrived at some time back. It has been a long association between both sides," said Rajesh Shah, Co-Chairman of Mukand. "This partnership has worked successfully for long but our next generation are unlikely to continue."

Sources close to both families say the separation has been in the works for several months now. Mukand has been languishing for years and became the smallest Bajaj group company, hamstrung with high debt that went as high as Rs 3,100 crores in June last year and rising losses till December 2020, following bad business calls. As a first step, beginning this January, Jamnalal Sons Private Limited, a Bajaj Group company, bought out Mukand's entire 51% stake in a joint venture arm company -- Mukand Sumi Special Steel Ltd - that manufactures alloy products for Rs 1,213 crores. Sumitomo of Japan holds 49% stake.

Subsequently, to further bring down its high cost borrowings, the company had sought a promoter-backed line of credit (LOC) facility. With the Bajaj family backing those loans with corporate guarantees to give confidence to its lenders, some of the family members insisted the ownership too had to get redrawn. With an aim to halve its debt, the company has also been divesting its real estate holdings in parts of Maharashtra to raise Rs 1,500 crore and start paying dividend. "It is an amicable separation. Both families know each other, have done business together for decades. This company has a rich legacy. It's in the midst of a business reorganisation which is very much on track," Niraj Bajaj, Chairman of Mukand Ltd, told ET. "We are confident of maintaining the growth trajectory." Following the restructuring, Mukand is aiming to bring down its leverage to Rs 1000 crore by the next fiscal.

Incorporated in the year 1937, Mukand Iron & Steel Works Limited was acquired by the present promoter families, Shri Jamanlal Bajaj and Shri Jeevan Lal Shah, at the behest of Mahatma Gandhi in 1939. The company then operated re-rolling mills and a foundry in Lahore and at Reay Road, Bombay, respectively.

Currently, Mukand Ltd is an integrated alloy and stainless steel producer from India. It has a steelmaking and rolling capacity of 500,000 metric tons per year; it produces over 400 grades of specially engineered steel in India. With manufacturing facilities in Thane, Maharashtra, and Hospet in Karnataka, it has been supplying alloy steel to several automobile OEMs and component makers for products like fasteners, bearing transmissions, crankshaft, steering components, suspension springs and drive axle, among others.

The company also exports its stainless steel products to Europe and South East Asia, Middle East and even the Caribbean.

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