

## MMTC Limited

April 06, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,055.00	CARE D (CWP)	Reaffirmed; Placed on Credit watch with Positive Implications
Long Term / Short Term Bank Facilities	5,323.00	CARE D / CARE D (CWP)	Revised from CARE D (Single D); Placed on Credit watch with Positive Implications
Short Term Bank Facilities	2,500.00	CARE D (CWP)	Revised from CARE D (Single D); Placed on Credit watch with Positive Implications
<b>Total Bank Facilities</b>	<b>8,878.00 (Rs. Eight Thousand Eight Hundred Seventy-Eight Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of MMTC Limited (MMTC) have been placed under credit watch with positive implications as the company is expected to fully repay its current debt out of proceeds of divestment of Neelanchal Ispat Nigam Ltd (NINL). The divestment process is at advanced stage with highest bidder i.e. Tata Steel Long Products Limited (TSLP) already approved. MMTC after the settlement of NINL creditors, is expected to receive funds in the range of Rs.5,500-6,000 crore out of divestment proceeds (on account of advances, interest and equity value). Post payment of all the bank dues of approximately Rs. 2700 crore, MMTC shall be debt free and the credit profile is expected to significantly improve. The surplus funds shall be utilized for payment of business dues, other obligations, investments and enhancing business activities, through cost control initiatives implemented by the management. Noteworthy is that banks / lenders to MMTC are not taking any haircut in the debt repayments to banks which are to be done and MMTC shall fully meet the debt obligations out of the divestment proceeds. CARE shall continue to monitor the developments in this regard and take any rating action once the impact of the same is clear on financial and operational performance of the company.

The rating continues to take into account that the one-time restructuring plan applied for by MMTC under 'Resolution Framework for COVID-19 related stress' announced by RBI on August 6, 2020 has been implemented on June 08, 2021. As per the plan, the principal repayments were due on March 30, 2022 with a review period of 30 days, which are expected to be repaid mainly through divestment proceeds of Neelachal Ispat Nigam Limited (NINL), due to shortfall in MMTC's operational cashflows. The receipt of proceeds and subsequent payment of debt out of the same is expected to be completed by first quarter of FY23. This remains a key rating monitorable.

The trade activity earlier has been severally impacted due to the outbreak of Covid adversely affecting the Company's cash flows. As a result, MMTC's liquidity position deteriorated finding it difficult to make payment of loan and interest to banks and other dues. Post receipt of NINL proceeds, coupled with initiatives to improve operational performance, the overall position of the company is expected to significantly improve.

The ratings of MMTC, however continue to factor in its position as the largest international trading house in India along with predominant ownership by the Government of India (GoI) and long and established track record of trading in diverse commodities. Going ahead, the ability of MMTC to enhance its overall financial profile while efficiently managing its working capital requirements, timely completion of its divestment in NINL along with recovery of its investment and advances post divestment shall be key rating sensitivities. CARE will continue to monitor the developments in this regard and undertake a credit review when the transaction is completed.

### Rating Sensitivities

#### **Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Successful completion of divestment of NINL resulting in recovery of loans & advances extended by MMTC and repayment of bank loans.

#### **Detailed description of key rating drivers**

#### **Key rating strengths**

#### **Key Rating Weaknesses**

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### **Stretched Liquidity**

The company earlier had requested its lenders for one-time restructuring of its loans as per 'Resolution Framework for COVID-19 related stress' announced by RBI on August 6, 2020. The same has already been approved as of Dec-2020 & implemented thereafter.

The liquidity position of MMTC has been stretched on account of increase in debt which has primarily been ~~extended as~~ utilised for operational / employee related expenses and operational support to NINL which is presently under divestment process. As per the restructuring plan with banks, the principal repayments were due on March 30, 2022 with a review period of 30 days which are to be repaid mainly through divestment proceeds of NINL, due to shortfall in MMTC operational cashflows. The Company has executed the Share Purchase Agreement and Escrow Agreement for sale of its entire equity holding of the Company in NINL to Tata Steel Long Products Limited (TSLP). The receipt of proceeds is expected to be completed by first quarter of FY23, post which repayment of MMTC dues shall be met. MMTC is expected to receive Rs.5500-6,000 crore out of divestment proceeds (on account of advances, interest and equity value). After payment of all bank dues of around Rs.2,600 cr, MMTC shall be debt free and the surplus funds shall be utilized for payment of business dues, other liabilities, investments and enhancing business activities, through cost control initiatives implemented by the management. CARE will continue to monitor the developments in this regard and undertake a credit review when the transaction is completed.

### **High group exposure NINL leading to moderation in the financial & liquidity profile of MMTC**

The company has reported an increase of ~9% in total operating income in FY21, despite covid-19 related disruptions. The company has also reported negative EBITDA and PAT margins, albeit, improved from FY20 levels. The company has made significant provision for Anglo Coal liability in its books during FY 20-21

There has also been negative PBILDT for FY21. The interest cost was partly funded through internal accruals and partly through working capital borrowings. The company reported a PAT loss of Rs. 765 crore in FY21. The capital structure of the company also deteriorated in FY21 due to reduction in Networth due to loss reported in FY21.

The overall gearing after considering the corporate guarantee and deducting advances to related parties from net-worth of MMTC Ltd, turns negative. However, with the divestment of NINL the financial profile of MMTC is anticipated to improve.

In addition, the company's total advances recoverable from NINL as on Mar 31, 2021 are Rs.3,528.47 crore (Rs.3,987 including equity investment; PY: Rs. 3,221 crore as on March 31, 2020) (The advances include short term credit facility (cash credit) to NINL upto a limit of Rs. 1425.00 crore for its day to day operational activities on continuing basis). Earlier, the unconditional and irrevocable corporate guarantee given by MMTC for the bond payments of NINL was invoked on account of non-repayment of principal and interest to the bond holders which was due in February-2021.

**Q1FY22 Performance:** In Q1FY22, the company reported revenues of Rs.4,186.40 cr as against Rs.1842 cr in Q1FY21. The improvement is primarily due to low base in FY20 due to nation-wide lockdown during covid-19 wave. The operational losses have continued in Q1FY22 as well, however, there has been reduction in the quantum of losses as compared to corresponding period of previous year.

### **Key Rating Strengths**

#### ***MMTC's position as India's largest International trading house and established track record of trading in diverse commodities***

MMTC, established in 1963 is the largest international trading company of India and the first Public Sector Enterprise to be accorded the status of "FIVE STAR EXPORT HOUSE" by the GOI for long-standing contribution to exports. It is the largest non-oil importer of the nation. MMTC has been awarded the 'Mini Ratna' status and stands as a leading international trading house in India. It has consistently won various prestigious awards for export performance. MMTC is involved in diverse trading activities in exports, imports and domestic trading of goods. It is the largest exporter of minerals from India, single largest importer/supplier of bullion and non-ferrous metals viz. copper, aluminum, zinc, lead, tin and nickel in the country. The company has a wholly-owned international subsidiary in Singapore to support its international trade. MMTC has formed Joint Ventures with various entities in order to diversify and increase its area of operations.

**Analytical approach:** Standalone (Factoring in the support provided to its subsidiaries and associates in the form of corporate guarantees and loans and advances).

*Note: MMTC Ltd has an associate company Neelachal Ispat Nigam Ltd (NINL) with 49.78% shareholding however it is in a completely different business and hence it has not been consolidated, however, the impact of its investment has been factored in the analysis.*

### **Applicable Criteria**

#### **Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings**

#### **CARE's Policy on Default Recognition**

#### **Criteria for Short Term Instruments**

#### **CARE's Rating Methodology – Wholesale Trading**

#### **Financial Ratios – Non-Financial Sector**

#### **Rating Methodology: Notching by factoring linkages in Ratings**

#### **Liquidity Analysis of Non-Financial Sector Entities**

#### **Analytical Treatment for one-time restructuring (OTR) due to Covid-19 related stress**

### About the Company

MMTC, a public sector undertaking, was incorporated on September 26, 1963, to facilitate foreign trade in India and canalize the export and import of essential minerals and metals. It is under the administrative control of the Ministry of Commerce & Industry, and Government of India (GOI) held 89.93% stake in the company as on June 30, 2021. MMTC deals in multiple products and markets. The business operations of the company span across six major divisions i.e. minerals, metals, precious metals, agro products, fertilizers & chemicals and coal & hydrocarbons. MMTC has also set up a 15-MW wind energy mill in Karnataka. MMTC is one of the few agencies, apart from banks, permitted by the GOI for import of bullion in the country. Neelachal Ispat Nigam Limited (NINL); associate company of MMTC was incorporated in 1982 to set-up an Integrated Steel Plant (ISP) to undertake the manufacture and sale of pig iron. Originally, the main promoters were Industrial Promotion & Investment Corporation of Orissa (IPICOL) and Orissa Sponge Iron Ltd (OSIL). Subsequently MMTC Limited, a majority owned undertaking of Govt. of India, was inducted as the main promoters since FY16 with equity share holding of 49.78%. The Cabinet Committee on Economic Affairs (CCEA) has given an 'in-principle' approval for strategic disinvestment of 100% equity of NINL in January 2020. As per BSE announcement dated Feb 01, 2022, strategic buyer has been approved for privatization of NINL. The highest bidder i.e. M/s Tata Steel Long Products Limited (TSPL) for 93.71% of shares of Joint Venture partners of 4 CPSEs and 2 Odisha Govt State PSEs has been approved at the Bid Enterprise Value of Rs. 12,100 cr. 10% of bid amount of Rs.1,210 cr has already been paid by TSPL.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (Prov.)
Total operating income	24167	26424	4186
PBILDT	-38	-14	-10
PAT	-227	-770	-82
Overall gearing (times)	3.15	5.60	NA
Interest coverage (times)	-0.28	-0.07	-0.21

A: Audited; Prov.: Provisional; NA: Not available

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	855.00	CARE D (CWP)
Fund-based - ST-Working Capital Demand loan		-	-	-	1760.00	CARE D (CWP)
Non-fund-based - LT/ ST-BG/LC		-	-	-	5323.00	CARE D / CARE D (CWP)
Fund-based - ST-Working Capital Demand loan		-	-	-	740.00	CARE D (CWP)
Fund-based - LT-Term Loan		-	-	Mar-22	200.00	CARE D (CWP)

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	855.00	CARE D (CWP)	-	1)CARE D (05-Apr-21)	1)CARE B (CWD) (29-Sep-20)	1)CARE BBB+ (CWD) (17-Jan-20) 2)CARE A-(CWD) (09-Oct-19)
2	Fund-based - ST-Working Capital Demand loan	ST	1760.00	CARE D (CWP)	-	1)CARE D (05-Apr-21)	1)CARE A4 (CWD) (29-Sep-20)	1)CARE A3+(CWD) (17-Jan-20) 2)CARE A2+(CWD) (09-Oct-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	5323.00	CARE D / CARE D (CWP)	-	1)CARE D (05-Apr-21)	1)CARE B / CARE A4 (CWD) (29-Sep-20)	1)CARE BBB+ / CARE A3+(CWD) (17-Jan-20) 2)CARE A- / CARE A2+(CWD) (09-Oct-19)
4	Fund-based - ST-Working Capital Demand loan	ST	740.00	CARE D (CWP)	-	1)CARE D (05-Apr-21)	1)CARE D (29-Sep-20)	1)CARE A3+(CWD) (17-Jan-20) 2)CARE A2+(CWD) (09-Oct-19)
5	Fund-based - LT-Term Loan	LT	200.00	CARE D (CWP)	-	1)CARE D (05-Apr-21)	1)CARE B (CWD) (29-Sep-20)	1)CARE BBB+ (CWD) (17-Jan-20) 2)CARE A-(CWD) (09-Oct-19)

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA****Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Working Capital Demand loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

**Annexure 5: Bank Lender Details for this Company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

### Media Contact

Name: Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: mradul.mishra@careedge.in

### Analyst Contact

Name: Ravleen Sethi  
Contact no.: 9818032229  
Email ID: ravleen.sethi@careedge.in

### Relationship Contact

Name: Swati Agrawal  
Contact no.: +91-11-4533 3200  
Email ID: swati.agrawal@careedge.in

### About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

### Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careedge.in](http://www.careedge.in)**