MMTC Limited

September 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,055.00	**CARE B (Under Credit watch with Developing Implications) (Single B) (Under Credit watch with Developing Implications)**	**Revised from CARE BBB+ (Under Credit watch with Developing Implications) (Triple B Plus) (Under Credit watch with Developing Implications)**
Long Term / Short Term Bank Facilities	5,323.00	**CARE B / CARE A4 (Under Credit watch with Developing Implications) (Single B / A Four) (Under Credit watch with Developing Implications)**	**Revised from CARE BBB+ / CARE A3+ (Under Credit watch with Developing Implications) (Triple B Plus / A Three Plus) (Under Credit watch with Developing Implications)**
Short Term Bank Facilities	1,900.00	**CARE A4 (Under Credit watch with Developing Implications) (A Four) (Under Credit watch with Developing Implications)**	**Revised from CARE A3+ (Under Credit watch with Developing Implications) (A Three Plus) (Under Credit watch with Developing Implications)**
Short Term Bank Facilities	600.00	**CARE D (Single D)**	**Revised from CARE A3+ (Under Credit watch with Developing Implications) (A Three Plus) (Under Credit watch with Developing Implications)**
Total Facilities	**8,878.00 (Rs. Eight Thousand Eight Hundred Seventy-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of MMTC Ltd is on account of its stretched liquidity position resulting in recent delay in repayment of short-term loans, increasing exposure towards its associate company Neelachal Ispat Nigam Limited (NINL) in the form of continuous fund based support through investments and loans & advances and also continued corporate guarantees towards NINL's loans and bonds which is resulting in significantly high debt in the books of MMTC in FY20 & Q1FY21. The company has also applied for one-time restructuring of its loans as per 'Resolution Framework for COVID-19 related stress' announced by RBI on August 6, 2020.

The ratings of MMTC, however continue to derive strength from its position as the largest international trading house in India, predominant ownership by the Government of India (GoI) as well as long and established track record of trading in diverse commodities and strong internal control mechanism.

The ratings continue to remain on credit watch with developing implications on account of the ongoing process of divestment of equity shareholding in NINL. MMTC holds 49.78% in NINL as on June 30, 2020. Further, CARE notes that the Cabinet Committee on Economic Affairs (CCEA) has given an 'in-principle' approval for strategic disinvestment of 100% equity of NINL in January 2020. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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.

Positive Factors

- Successful completion of divestment of NINL resulting in recovery of loans & advances extended by MMTC
- Profitable increase in scale of operation by more than 20% on a sustained basis.

Negative Factors

- Any further increase in advances to NINL exerting pressure on MMTC's liquidity

Detailed description of the key rating drivers

Key Rating Weaknesses

Stretched Liquidity

The company has defaulted in repayment of two Short-term Loans (STL) in the month of September 2020 of Rs. 300 crore and Rs. 160 crore. Further, the company also has 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 liquidity position of MMTC is stretched on account of increase in debt which has primarily been extended as operational support to NINL.

High group exposure & increased fund based support to NINL leading to moderation in the financial & liquidity profile of MMTC

The company reported a decrease of ~16.64% in revenue from Rs. 28891.4 cr in FY19 to Rs. 24167.17 cr in FY20. The same is on account of non-recognition of other trade income (which is commission from NINL). MMTC provides operational support to NINL by purchasing coking coal for NINL and selling NINL's products (pig iron) on commission basis. MMTC earns 3% commission on the sales made on behalf of NINL which is shown under other trade income in the books of MMTC. In FY19, total commission earned was Rs. 223.94 crore (PY: Rs. 156.51 crore).
Further, the revenue recognized in first 3 quarters of FY20 was also written off in Q4FY20; resulting in negative revenue from the 'Metals Segment'. This has also resulted in negative PBILDT for FY20. The interest cost was partly funded through internal accruals and partly through working capital borrowings. The company reported a PAT loss of Rs. 227.11 crore in FY20 (PY: PAT of Rs. 81.43 crore)
The capital structure of the company also deteriorated in FY20 due to increased working capital borrowings and reduction in Networth due to loss reported in FY20. Further, for executing of one tender for import of Urea, MMTC requested Department of Fertilizer (DoF) to arrange for loan from National Small Savings Fund (NSSF) to avoid any cash-flow mismatch and thus short term loan from NSSF of Rs. 1310 crore was disbursed. The funds were released from DoF and the loan was repaid in April 2020. This resulted in significant increase in total debt as on March 31, 2020. Also, working capital borrowings were higher on account of operational support extended to NINL. However, the debt marginally reduced to Rs. 2353.85 crore as on June 2020 with the repayment of NSSF loan.
However the off-balance sheet exposure of the company continues to remain high which includes corporate guarantee of Rs. 1345.82 crore in favor of the lenders of NINL as on March 31, 2020.
MMTC being the 'Managing Promoter' for NINL extends short term credit facility to NINL upto a limit of Rs. 1425.00 crore for its day to day operational activities on continuing basis and a trade related financial facility in the form of loans and advances. MMTC's equity investment in NINL is Rs. 459.11 crore as on June 30, 2020. In addition, the company's total advances recoverable from NINL as on June 30, 2020 are Rs. 3294.13 crore (Rs. 2594.57 crore as on March 31, 2019) inclusive of interest accrued not recognized as income of Rs. 252.21 crore for FY20 and Rs. 72.82 crore for Q1FY21. MMTC has extended total advances of Rs. 2328 crore to NINL from FY17 to Q1FY21.
The overall gearing after considering the corporate guarantee and deducting advances to related parties from net-worth of MMTC Ltd, turns negative.
Q1FY21 Results: The company has reported a decrease of ~73% in total operating income on Y-o-Y basis in Q1FY21 to Rs. 1842.13 crore vis-à-vis Rs. 6904.18 crore in Q1FY20 primarily due to non-recognition of income for purchase of coking coal on behalf of NINL and due to the nationwide lockdown in the country amid the outbreak of Covid-19. The company has also reported negative PBILDT and PAT margins in Q1FY21.

Key Rating Strengths

MMTC's position as the largest International trading house in India

MMTC 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 was established in 1963 and is one of the major global trading players. It has six major divisions' viz., Precious metals, Minerals & ores, Metals and industrial raw materials, Agro products, Fertilizers & Chemicals and Hydrocarbons

Established track record of trading in diverse commodities
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.
The fertilizers segment was the highest contributor to the overall revenues in FY20. MMTC imports Urea on behalf of department of fertilizers, Ministry of Chemicals and Fertilizers. During FY20, the Fertilizer and Chemicals segment achieved a turnover of Rs. 11100 crore (as compared to Rs. 10132 crore during FY19). The precious metals segment include trading of gold (under export or under open general license), silver and retail sale. Despite high volatility in prices of bullion as well as Indian Rupee - US Dollar exchange rates, precious metals segment contributed a gross turnover of of Rs. 8304.82 crore contributing to almost 34% of total turnover achieved by the company in FY20.

Internal control and risk management systems
MMTC is engaged in both imports as well as exports of diverse commodities. The company manages the price volatility risks by entering into back-to-back transactions. MMTC manages foreign currency risk, by taking adequate forward cover. Counterparty risks are mitigated to an extent as MMTC takes earnest money deposits from its clients in advance (Bank guarantee of 120% in case of gold imports and EMD of 10-25% in other goods to cover the price fluctuation). Nevertheless, it remains exposed to any volatile movement in commodity prices which can escalate counterparty risks as well as extreme fluctuation in forex rates.
In order to streamline the process, manuals and corporate risk management policy has been put in place to take care of internal control mechanisms, risk assessment on the business proposals and systematic SOP for undertaking various trades. MMTC has constituted a financial management committee of directors (FMCOD) comprising of 3-4 directors including CMD for approval of all trade transactions above Rs.2 crore. The trade on behalf of government accounts for 40% of the total volume while the balance 60% is for the private players. In case of contract with private players there is always a back to back contract and each leg of the trade is backed with a letter of credit to secure the payment.

Industry Prospects
MMTC plays a vital role in association with the government of India in policy formulation to support Gems & Jewellery industry in India and development of jewelery sector on Pan-India basis. The government of India launched Gold monetization scheme with a view to promote circulation of domestic gold within the domestic economy to curb bullion imports and save forex outgo. The demand for gold is expected to remain firm owing to its traditional and religious importance. However, the near term prospects for the gems and jewellery industry are not too bright owing to expectations of rising prices of precious metals, economic slowdown negatively impacting disposable incomes and leading to low consumer sentiments. However, gradual recovery is expected from Q3FY21 onwards, which marks the onset of the festival and wedding season demand for which may not be at pre-covid levels owing to fall in number of wedding days in this year and gold prices showing no signs of receding. Long term prospects remain stable owing to growing consciousness of branded jewellery, increasing purchasing power in the Tier 2 & 3 cities, growing population of working females and increasing preference towards diamond jewellery.
Fertilizers: As per CARE, the underlying macros for the Indian fertilizer industry look promising despite the coronavirus pandemic and macroeconomic uncertainty. With surplus reservoirs levels, record high kharif crop sowing and plentiful rainfall during the monsoon season, demand for the procurement of fertilizers is expected to be promising. Sales increased sharply by 25.10% during FY21 (from April till August) and going forward with the increase in liquidity of farmers, good prospect for the Rabi season coupled with the revival of the rural economy, demand for fertilizers for the rest of FY21 seems optimistic for the industry. The overall fertilizer production is expected to grow by 4-6% by the end of FY21.
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]
[Liquidity Analysis of Non-Financial Sector Entities]
[CARE's methodology – Consolidation and Factoring Linkages in Ratings]

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, 2020. 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 the management, MMTC has taken 'in principle' decision to divest its equity in NINL through Department of Investment & Public Asset Management. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

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

Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total operating income	28991.37	24167.17
PBILDT	194.92	-38.26
PAT	81.43	-227.11
Overall gearing (times)	0.62	3.15
Adjusted gearing (times)*	1.52	4.29
Interest coverage (times)	2.91	-0.28

A: Audited

** Including Corporate Guarantee extended to NINL & without adjusting the investments and loans & advances made to NINL.*

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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 B (Under Credit watch with Developing Implications)
Fund-based - ST-Working Capital Demand loan	-	-	-	1900.00	CARE A4 (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	5323.00	CARE B / CARE A4 (Under Credit watch with Developing Implications)
Fund-based - ST-Working Capital Demand loan	-	-	-	600.00	CARE D
Fund-based - LT-Term Loan	-	-	-	200.00	CARE B (Under Credit watch with Developing Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	855.00	CARE B (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (Under Credit watch with Developing Implications) (17-Jan-20) 2)CARE A- (Under Credit watch with Developing Implications) (09-Oct-19)	1)CARE A; Stable (07-Jan-19)	1)CARE A; Stable (03-Jan-18)
2.	Fund-based - ST-Working Capital Demand loan	ST	1900.00	CARE A4 (Under Credit watch with Developing Implications)	-	1)CARE A3+ (Under Credit watch with Developing Implications) (17-Jan-20) 2)CARE A2+ (Under Credit watch with Developing Implications) (09-Oct-19)	1)CARE A1 (07-Jan-19)	1)CARE A1 (03-Jan-18)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5323.00	CARE B / CARE A4 (Under Credit watch with Developing Implications)	-	1)CARE BBB+ / CARE A3+ (Under Credit watch with Developing Implications) (17-Jan-20) 2)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (09-Oct-19)	1)CARE A; Stable / CARE A1 (07-Jan-19)	1)CARE A; Stable / CARE A1 (03-Jan-18)
4.	Fund-based - ST-Working Capital Demand loan	ST	600.00	CARE D	-	1)CARE A3+ (Under Credit watch with Developing Implications) (17-Jan-20) 2)CARE A2+ (Under Credit watch with Developing Implications)	1)CARE A1 (07-Jan-19)	1)CARE A1 (03-Jan-18)

						(09-Oct-19)		
5.	Fund-based - LT-Term Loan	LT	200.00	CARE B (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (Under Credit watch with Developing Implications) (17-Jan-20) 2)CARE A- (Under Credit watch with Developing Implications) (09-Oct-19)	-	-

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 the 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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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