

MMTC Limited
October 09, 2019
Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities- CC	855.00	CARE A- (Under Credit watch with Developing Implications)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long term bank facilities- TL	200.00	CARE A- (Under Credit watch with Developing Implications)	Assigned
Short term Bank Facilities-WCDL	2500.00	CARE A2+ (Under credit watch with developing implications)	Revised from CARE A1 (A One)
Long term/ Short term Bank Facilities- LC/BG	5323.00	CARE A-/CARE A2+ (Under credit watch with developing implications)	Revised from CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)
Total	8878.00 (Rupees Eight thousand eight hundred and 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 take into account the increasing exposure towards its associate company, Neelachal Ispat Nigam Limited (NINL) in FY19 (refers to the period from April 1 to March 31) in the form of continuous fund based support through investments and loans & advances and also continued corporate guarantees towards NINL's loans and bonds. NINL's liquidity position has further deteriorated in FY19 & it continues to remain stretched and MMTC being the 'Managing Promoter' of NINL, as per the shareholders agreement, is responsible to provide continued financial and operational support to NINL. With the financial support that MMTC has already provided to NINL & in view of the continued support that MMTC is expected to give in the medium term, the financial profile of MMTC (after considering the group exposure) remains susceptible to the weakness in the liquidity profile of NINL.

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.

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.

The ratings have further been placed on credit watch with developing implications on account of the announcement by the company to divest its equity holding in NINL. MMTC holds 49.78% in NINL as on March 31, 2019. 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.

Detailed description of the key rating drivers**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.

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

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 Rs. 12,788 crore contributing to almost 44% of total turnover achieved by the company in FY19.

The fertilizers segment is the second highest contributor to the overall revenues in FY19. MMTC imports Urea on behalf of department of fertilizers, Ministry of Chemicals and Fertilizers. During the FY19, MMTC's urea import have accounted for approximately 81% of country's import requirement.

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 jewelry 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. Further the precious metals group of MMTC marketed Indian Gold Coins (IGC) and achieved a turnover of Rs. 25 crore in FY19. The demand for gold is expected to remain firm owing to its traditional and religious importance. Further MMTC continues to enjoy a premium position in the country. Outlook for silver in coming years is an upward trend in prices due to expectations on solid fundamentals, as mine supply is likely to contract while industrial and jewelry demand is like to increase.

The outlook for fertilizers in FY20 will depend on the monsoon and government policy. The global economy continues to face challenges with food inflation being felt by countries across the globe including India. The focus especially for the developing nations would be on increasing productivity in agriculture. However, the global supply position of all the major fertilizers is expected to remain comfortable with new addition of capacities mainly in Urea, DAP, and MOP.

Key Rating Weaknesses

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

MMTC's total operating income witnessed a significant growth of 76% in FY19 to reach Rs. 28,991.37 crore vis-à-vis Rs. 15,505.85 crore in FY18 on the back of significant growth in fertilizers, metals and precious metals segment. The PBILDT margin improved from 0.50% in FY18 to 0.67% in FY19 on account of relatively higher profitability from precious metals segment. The profitability has however remained range bound owing to trading nature of the business. The PAT margin slightly moderated to 0.28% in FY19 (PY: 0.30%)

The overall gearing of the company stood at 0.62x as on March 31, 2019. However the off-balance sheet exposure of the company continues to remain high which includes corporate guarantee of Rs. 1345.82 crore in favour of the lenders of NINL as on March 31, 2019.

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 to the extent of Rs. 1187.00 crore which are in the form of loans and advances. The loans and advances to NINL stood at Rs. 2594.57 crore as on March 31, 2019 (PY: Rs.1786.70 crore). The overall gearing after considering the corporate guarantee and deducting advances to related parties from net-worth of MMTC Ltd, turns negative.

As per the management of the company, Ministry of Commerce directed further to infuse an additional equity of Rs.149.34 crore in NINL against which MMTC infused Rs. 79.42 crore in April 2019 and the balance was infused by other shareholders. Further, as per the announcement by the Ministry, all shareholders of NINL will have to continue to infuse capital proportionate to their stakes to keep the company running until its disinvestment. This shall further increase the exposure of MMTC in NINL.

Liquidity

The liquidity profile of MMTC is adequate at a standalone level with current ratio of 1.31x as on March 31, 2019 (PY: 1.21x). Against the significant cash accruals of MMTC of Rs. 91 crores in FY19 there is no significant debt repayment. Further, MMTC had cash and cash equivalents of Rs. 55.21 crore as on March 31, 2019 (Rs. 39.34 cr as free cash balance). The operating cycle reduced significantly in FY19 to 3 days on account of low inventory period of 12 days vis-à-vis 45 days in FY18. Further, the average working capital utilization for the 12-month ended August 2019 was 68.08%. The liquidity profile of MMTC is however moderate after considering the guaranteed debt repayments of NINL. Repayment due in FY20 is of Rs. 326 crore (including bond repayment of Rs. 50 crore)

Analytical approach: Standalone along with factoring in the exposure towards NINL.

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](#)

[CARE's methodology for 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, 2019. 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, fertilisers & 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%. As per the management, MMTC has taken 'in principle' decision to divest its equity in NINL through Department of Investment & Public Asset Management. The ratings have further been placed on credit watch with developing implications on account of the announcement by the company to divest its equity holding in NINL. 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	16505.85	28991.37
PBILDT	83.04	194.92
PAT	48.84	81.43
Overall gearing (times)	0.36	0.62
Adjusted gearing (times)*	1.33	1.52
Interest coverage (times)	4.54	2.91

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: NA

Any other information: NA

Rating History for last three years: Please refer annexure II

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 A- (Under Credit watch with Developing Implications)
Fund-based - ST-Working Capital Demand loan	-	-	-	2200.00	CARE A2+ (Under Credit watch with Developing Implications)
Non-fund-based - LT/ST-BG/LC	-	-	-	5323.00	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)
Fund-based - ST-Working Capital Demand loan	-	-	-	300.00	CARE A2+ (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	-	200.00	CARE A- (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	855.00	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A; Stable (07-Jan-19)	1)CARE A; Stable (03-Jan-18)	1)CARE A; Stable (30-Jan-17)
2.	Fund-based - ST-Working Capital Demand loan	ST	2200.00	CARE A2+ (Under Credit watch with Developing Implications)	-	1)CARE A1 (07-Jan-19)	1)CARE A1 (03-Jan-18)	1)CARE A1 (30-Jan-17)
3.	Non-fund-based - LT/ST-BG/LC	LT/ST	5323.00	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)	-	1)CARE A; Stable / CARE A1 (07-Jan-19)	1)CARE A; Stable / CARE A1 (03-Jan-18)	1)CARE A; Stable / CARE A1 (30-Jan-17)
4.	Fund-based - ST-Working Capital Demand loan	ST	300.00	CARE A2+ (Under Credit watch with Developing Implications)	-	1)CARE A1 (07-Jan-19)	1)CARE A1 (03-Jan-18)	1)CARE A1 (30-Jan-17)
5.	Fund-based - LT-Term Loan	LT	200.00	CARE A- (Under Credit watch with Developing Implications)	-	-	-	-

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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Gaurav Dixit
Contact no: +91-11 - 4533 3235
Email ID: gaurav.dixit@careratings.com

Business Development Contact

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

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.

Disclaimer

CARE's ratings 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. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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 is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE'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.careratings.com**