

## MMTC Ltd

January 7, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	855	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	2,700	CARE A1 (A One)	Reaffirmed
Long term/ Short term Bank Facilities	5,323	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
<b>Total</b>	<b>8,878</b> <b>(Rs. Eight thousand eight hundred and seventy eight crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MMTC Limited (MMTC) continue to take into account MMTC's 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. The ratings further take into account comfortable capital structure, debt coverage indicators and strong internal control mechanism. The ratings, however, continue to be constrained by MMTC's low profitability margins and weak financial profile and stretched liquidity position of MMTC's associate, Neelachal Ispat Nigam Limited (NINL) leading to increased fund based support during FY18 (refers to the period from April 1 to March 31). Going ahead, the ability of MMTC to improve profitability while efficiently managing its working capital requirements and the extent of support provided to NINL and other subsidiary / associates, its impact on MMTC's financial risk profile and timely recovery of advances shall be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Established track record with predominant government ownership:** 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

**Trading in diversified 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. MMTC also sells imported minor metals like magnesium, antimony, silicon and mercury, industrial raw materials like asbestos and steel and its products, along with other steel products including pig iron, slag, and billets. 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Strong internal control measures:** 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.

**Liquidity:** The liquidity profile of the company is moderate with total free cash and cash equivalents as on March 31, 2018 stood at Rs.50.08 crore.

### Key Rating Weaknesses

**Low profitability:** The operating income of the company witnessed growth of around 40% on the back of healthy growth in precious metals and PBILDT margin also improved from 0.12% in FY17 to 0.50% in FY18 due to increased contribution from high profit yielding metals and minerals segment. The profitability has however remained range bound owing to trading nature of the business. The PAT margin declined from 0.49% in FY17 to 0.30% in FY18 as there was extra-ordinary income (Rs.104.43 crore) in form of interest on delayed payments included in PAT for FY17 due to which the PAT for FY18 is relatively low.

**Increased fund based support to associate Neelachal Ispat Nigam Limited (NINL):** NINL incorporated in 1982, is engaged in manufacturing and sale of pig iron. MMTC is the largest shareholder in the company having 49.78% stake and the balance is held by Industrial Promotion & Investment Corporation of Orissa (IPICOL), NMDC Ltd, Orissa Mining Corporation Ltd and MECON Ltd. MMTC provides operational support to NINL by purchasing coking coal for NINL and selling NINL's products (pig iron) on commission basis. MMTC has been extending, short term credit facility (cash credit) to NINL from time to time, upto a limit of Rs.1425.00 crore for its day to day operational activities on a continuing basis. In addition, a trade related financial facility to the extent of Rs.550.00 crore has also been extended. The advances to NINL has increased to Rs.1786.70 crore as on March 31, 2018 in comparison with Rs.966.50 crore as on March 31, 2017. Further MMTC has also extended corporate guarantee to the tune of Rs.1,410.56 crore in favour of lenders of NINL. However, during H1FY19, NINL has reported improved operational performance. The improvement is attributable to higher utilization of hot metal production capacity on account of completion of capital repair of blast furnace coupled with improving demand scenario in the industry leading to better realization of its products. Going forward, continued improvement and profitable operations of NINL and recovery of advances in a timely manner shall be a critical for overall financial risk profile of MMTC.

**Analytical approach:** Standalone

### Applicable Criteria

[Criteria for Short Term Instruments](#)

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Rating Methodology – Wholesale Trading](#)

[CARE's Methodology for factoring linkages in ratings](#)

[Financial ratios – Non-Financial Sector](#)

## 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 September 30, 2018. 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	11745.71	16505.85
PBILDT	14.12	83.04
PAT	58.05	48.84
Overall gearing (times)	0.31	0.36
Adjusted Gearing (times)*	1.33	1.33
Interest coverage (times)	0.60	4.54

A: Audited

\* Including Corporate Guarantee extended 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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

**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; Stable
Non-fund-based - ST-BG/LC	-	-	-	2200.00	CARE A1
Non-fund-based - LT/ST-BG/LC	-	-	-	5323.00	CARE A; Stable / CARE A1
Fund-based - ST-EPC/PSC	-	-	-	500.00	CARE A1

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	855.00	CARE A; Stable	-	1)CARE A; Stable (03-Jan-18)	1)CARE A; Stable (30-Jan-17)	1)CARE A+ (22-Jan-16) 2)CARE A+ (16-Apr-15)
2.	Non-fund-based - ST-BG/LC	ST	2200.00	CARE A1	-	1)CARE A1 (03-Jan-18)	1)CARE A1 (30-Jan-17)	1)CARE A1+ (22-Jan-16) 2)CARE A1+ (16-Apr-15)
3.	Non-fund-based - LT/ST-BG/LC	LT/ST	5323.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (03-Jan-18)	1)CARE A; Stable / CARE A1 (30-Jan-17)	1)CARE A+ / CARE A1+ (22-Jan-16) 2)CARE A+ / CARE A1+ (16-Apr-15)
4.	Fund-based - ST-EPC/PSC	ST	500.00	CARE A1	-	1)CARE A1 (03-Jan-18)	1)CARE A1 (30-Jan-17)	1)CARE A1+ (22-Jan-16) 2)CARE A1+ (16-Apr-15)

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CIN - L67190MH1993PLC071691