

MMTC Ltd
January 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	855 (increased from 200)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	2,700 (reduced from 4,575)	CARE A1 (A One)	Reaffirmed
Long term/ Short term Bank Facilities	5,323 (enhanced from 4,520)	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Total	8,878 (Rs. Eight thousand eight hundred and seventy eight crore only)		

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 low and declining profitability margin, weak financial profile and stretched liquidity position of MMTC's associate, Neelachal Ispat Nigam Limited (NINL), which will require continued operational and fund based support of MMTC.

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 and its impact on MMTC's financial risk profile 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. 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.

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

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

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.

Key Rating Weaknesses

Declining profitability: The operating income of the company has consistently declined over the past 3 FY's. The operating income dipped by 7.26% in FY17 over the last FY due to various factors including fall in average price of Urea, non-import of steam coal for government power plants due to increased domestic supplies by Coal India, continuing ban on iron ore mining resulting in lower exports and lower import of Urea due to increased domestic production bridging the gap between production and consumption. As a result of this, the PBILDT margin has also declined from 0.18% in FY16 to 0.12% in FY17. However, the PAT margin improved from 0.43% in FY16 to 0.49% in FY17 on account of extraordinary income of Rs.104.43 crore in the form of interest on delayed payment of subsidy. The operating income in H1FY18, has however improved significantly to Rs.10015.84 crore as compared with Rs.4243.75 crore in H1FY17 on the back of spurt in demand for the precious metals. Further, the company has also reported a profitability of Rs.29.59 crore in H1FY18 as compared with Rs.1.11 crore during H1FY17.

Stretched liquidity of associate Neelachal Ispat Nigam Limited: MMTC has extended corporate guarantee to one of its associate company to the tune of Rs.1,460.56 crore in favour of lenders of Neelachal Ispat Nigam Limited (NINL). The financial risk profile and operational performance of NINL has remained weak as the associate company continues to incur losses attributed to abysmal performance of the steel sector. During FY17, the financial risk profile of NINL has further deteriorated with the company reporting a net loss of Rs.355.78 crore (Rs.333.07 crore in FY16) on total operational income of Rs.1268.74 crore (Rs.1178.35 crore in FY16). Considering the weak financial and liquidity position of NINL, any additional support from MMTC (fund based or corporate guarantees for additional borrowings) shall remain crucial.

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](#)

[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, 2015. 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)	FY16 (A)	FY17 (A)
Total operating income	12665.71	11745.71
PBILDT	22.98	14.12
PAT	54.04	58.05
Overall gearing (times)	0.19	0.31
Interest coverage (times)	0.73	0.60

A: Audited

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. 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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	855.00	CARE A; Stable	-	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 (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 (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 (30-Jan-17)	1)CARE A1+ (22-Jan-16) 2)CARE A1+ (16-Apr-15)	-

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