

MMTC

Expensive valuation despite huge discount

Government of India is divesting 9,33,12,000 shares (9.33% stake) in MMTC. It has set a floor price of ₹60 (72% discount to CMP) for the OFS. **We recommend investors to AVOID subscribing to shares due to expensive valuation.**

Company overview

MMTC was established in 1963 and is the largest trading company in India and one of the major trading companies in Asia. It is a Mini Navratna company focusing on trading of commodities ranging from minerals to agro commodities. It deals in Precious metals, fertilizers, Coal and Hydrocarbons, Metals, Agro products and other minerals. MMTC also has a wholly owned subsidiary named MMTC Transnational Pte Ltd (MTPL), Singapore and various joint ventures including a pig iron plant in which MMTC holds 49.8% stake.

Investment arguments

Mineral exports to remain muted: The developments such as ban on iron ore mining and export from Karnataka, regulation of export from eastern sector, increase in railway freight and higher export duty for exports, increase in domestic demand of ore iron ore etc have resulted in lower exports of iron ore in India during FY2012. As per Federation of Indian Mineral Industries (FIMI), iron ore exports from India had declined by 38.5% yoy to 62mn tonnes during FY2012 on account of export ban in Karnataka, stringent measures in issuing export permits in Odisha, a sharp decline in international iron ore price and increased export duty. Further, as per FIMI, total iron ore exports during FY2014 are estimated to decline significantly, thus affecting top-line of MMTC. The increase in domestic steel production capacity has also reduced the availability of Chrome and Manganese Ore for exports. Moreover, export duty on chrome ore has increased beginning March 2012 from ₹3,000/tonne to 30% ad valorem; all these factors are likely to impact MMTC's sales volumes going forward. Even gold imports into India are likely to be lower due to increase in customs duty on gold by the government. This is further likely to hit MMTC's top-line going forward.

Historical financials highly volatile: The company's financial performance has been inconsistent and erratic over the past few years. During FY2012, its consolidated net profit declined by 62.0% yoy to ₹43 cr. During FY2013, it reported a net loss of ₹71cr on a standalone basis. (The company has not reported consolidated FY2013 results). The past financials of the company do not indicate stability in earnings going forward.

Valuation: MMTC is a trading company with a 'Five Star Export House' status. However, at the current price, the stock is trading at a very expensive valuation of 398x FY2012 PE due to low free float (0.67% of its market cap). Even at a floor OFS price of ₹60, it is trading at FY2012 PE of 113x, which is very expensive in our view. **Hence, we recommend investors to AVOID subscribing to MMTC OFS.**

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Profit & loss statement (Consolidated)

| Y/E March (₹ cr) | FY2009 | FY2010 | FY2011 | FY2012 |
|------------------------------|---------------|---------------|---------------|---------------|
| Net Sales | 37,832 | 45,614 | 69,613 | 67,022 |
| % chg | 39.7 | 20.6 | 52.6 | (3.7) |
| Total Expenditure | 37,728 | 45,503 | 69,527 | 67,078 |
| EBIDTA | 104 | 111 | 86 | (56) |
| (% of Net Sales) | 0.3 | 0.2 | 0.1 | -0.1 |
| Other Income | 841 | 669 | 510 | 709 |
| Depreciation & Amortisation | 13 | 14 | 14 | 14 |
| Interest | 687 | 416 | 399 | 590 |
| PBT | 245 | 350 | 184 | 49 |
| (% of Net Sales) | 0.6 | 0.8 | 0.3 | 0.1 |
| Extraordinary Expense/(Inc.) | - | - | - | - |
| Tax | 81 | 120 | 71 | 6 |
| (% of PBT) | 33.1 | 34.1 | 38.8 | 13.1 |
| PAT | 164 | 231 | 112 | 43 |
| % chg | (21.1) | 40.7 | (51.4) | (62.0) |
| Adj. PAT | 231 | 250 | 29 | 103 |
| % chg | (21.6) | 8.0 | (88.3) | 252.8 |

Balance sheet (Consolidated)

| Y/E March (₹ cr) | FY2009 | FY2010 | FY2011 | FY2012 |
|------------------------------|--------------|--------------|--------------|--------------|
| SOURCES OF FUNDS | | | | |
| Equity Share Capital | 50 | 50 | 100 | 100 |
| Reserves & Surplus | 1,333 | 1,519 | 1,467 | 1,596 |
| Shareholders' Funds | 1,383 | 1,569 | 1,567 | 1,696 |
| Share warrants | - | - | - | - |
| Minority Interest | - | - | - | - |
| Total Loans | 4,327 | 5,240 | 6,225 | 3,558 |
| Other Liabilities | - | - | 130 | 148 |
| Deferred Tax Liability (net) | (30) | (22) | (34) | (71) |
| Total Liabilities | 5,679 | 6,787 | 7,889 | 5,331 |
| APPLICATION OF FUNDS | | | | |
| Gross Block | 215 | 227 | 225 | 261 |
| Less: Acc. depreciation | 73 | 85 | 97 | 110 |
| Net Block | 142 | 142 | 128 | 151 |
| Capital Work-in-Progress | 21 | 90 | 134 | 118 |
| Goodwill | - | - | - | - |
| Investments | 388 | 440 | 518 | 608 |
| Current Assets | 10,103 | 11,482 | 18,853 | 12,175 |
| Current liabilities | 4,980 | 5,367 | 11,857 | 7,837 |
| Net Current Assets | 5,123 | 6,115 | 6,995 | 4,338 |
| Other assets | - | - | 114 | 117 |
| Misc Expenditure | 6 | - | - | - |
| Total Assets | 5,679 | 6,787 | 7,889 | 5,331 |

Cash flow statement (Consolidated)

| Y/E March (₹ cr) | FY2009 | FY2010 | FY2011 | FY2012 |
|----------------------------------|----------------|--------------|--------------|----------------|
| Profit before tax | 245 | 350 | 184 | 149 |
| Depreciation | 13 | 14 | 14 | 14 |
| (Inc)/Dec in Working Capital | (1,326) | (743) | (181) | (1,178) |
| Direct taxes paid | (108) | (79) | (92) | (32) |
| Others | (68) | (255) | (92) | (196) |
| Cash Flow from Operations | (1,243) | (712) | (168) | (1,242) |
| (Inc.)/Dec. in Fixed Assets | (33) | (83) | (48) | (22) |
| Free Cash Flow | (1,211) | (629) | (120) | (1,220) |
| (Inc)/Dec in Investments | 0 | 0 | 0 | 0 |
| Others | (686) | (415) | (399) | (591) |
| Issue of Equity | 0 | 0 | 0 | 0 |
| Inc./ (Dec.) in loans | 1,122 | 912 | 987 | (2,666) |
| Dividend Paid (Incl.Tax) | (55) | (23) | (52) | (29) |
| Cash Flow from Financing | 381 | 474 | 535 | (3,286) |
| Inc./ (Dec.) in Cash | (58) | 213 | 657 | (3,887) |
| Opening Cash balances | 6,022 | 5,965 | 6,178 | 6,835 |
| Closing Cash balances | 5,965 | 6,178 | 6,835 | 2,948 |

Key Ratios

| Y/E March | FY2009 | FY2010 | FY2011 | FY2012 |
|----------------------------|--------|--------|--------|--------|
| Per Share Data(₹) | | | | |
| EPS (diluted) | 39.4 | 48.5 | 0.2 | 0.5 |
| Book Value | 138.3 | 156.9 | 78.3 | 84.8 |
| Ratios | | | | |
| EBITDA margin (%) | 0.3 | 0.2 | 0.1 | - |
| Adj. Net margin (%) | 0.6 | 0.5 | 0.04 | 0.2 |
| Net Debt/Equity | (1.5) | (0.9) | (0.7) | 0.0 |
| Returns % | | | | |
| RoE | 15.5 | 17.9 | 9.1 | 8.4 |
| RoCE | 19.2 | 12.6 | 8.3 | 12.0 |
| RoIC | - | 37.98 | 10.94 | - |
| Valuation Ratio (x) | | | | |
| P/E | 2 | 1 | 273 | 113 |
| P/BV | 0.4 | 0.4 | 0.8 | 0.7 |
| EV/Sales | 0.0 | 0.0 | 0.1 | - |
| EV/EBITDA | 9.4 | 14.6 | 56.5 | - |

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Disclosure of Interest Statement

MMTC

| | |
|--------------------------------------------------------------------|----|
| 1. Analyst ownership of the stock | No |
| 2. Angel and its Group companies ownership of the stock | No |
| 3. Angel and its Group companies' Directors ownership of the stock | No |
| 4. Broking relationship with company covered | No |

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)