March 31, 2024

MMTC - Pamp India Private Limited: [ICRA]A+ (Stable)/ [ICRA]A1; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]A+ (Stable); assigned
Long-term Fund-based – Working Capital Facilities	700.00	[ICRA]A+ (Stable); assigned
Long-term Fund-based – Interchangeable^	(1,000.00)	[ICRA]A+ (Stable); assigned
Short-term – Non-Fund based – Working Capital Facilities	2,475.00	[ICRA]A1; assigned
Short-term – Non-Fund based – Interchangeable#	(490.00)	[ICRA]A1; assigned
Long-term/ Short-term – Non-Fund based – Working Capital Facilities	95.00	[ICRA]A+ (Stable)/ [ICRA]A1; assigned
Long-term/ Short-term – Non-Fund based – Interchangeable$	(270.00)	[ICRA]A+ (Stable)/ [ICRA]A1; assigned
Long-term/ Short-term – Unallocated Limits	737.00	[ICRA]A+ (Stable)/ [ICRA]A1; assigned
Total	**4,007.00**	

** Instrument details are provided in Annexure – I*

^ Fund-based working capital facilities are the sub-limit of letter of credit

 # Letter of credit is the sub-limit of fund-based working capital facilities

$ Bank guarantee is the sub-limit of letter of credit/ fund-based working capital facilities

Rationale

While assigning the ratings, ICRA has considered the consolidated financial statements of MMTC - Pamp India Private Limited (MPIPL), along with its subsidiaries, PAMP Precision Manufacturing India Private Limited (PPMIPL) and PAMP Speciality Services Private Limited, owing to the substantial operational, managerial and financial linkages among them. MPIPL has extended a corporate guarantee towards the borrowings of PPMIPL.

The assigned ratings reflect ICRA's expectations that MPIPL will continue to maintain comfortable operating and financial performances over the medium term on the back of its established market position in the domestic gold refining industry, linkages with the MKS PAMP Group and favourable long-term demand prospects for gold in India. The company's operating income grew by ~9% on a YoY basis to Rs. 28,055 crore in 9M FY2024, largely aided by better realisations on the back of rising gold prices. Its operating profit margin surged by ~94 bps on a YoY basis to 1.8% in 9M FY2024, owing to gains in the form of savings in customs duty on import of gold dore, coupled with operating efficiencies. ICRA expects MPIPL's revenue to grow by 7-8% per annum (p.a.) over the coming years with its operating profit margin sustaining in the range of 0.8-0.9% p.a., supported by stable margins of the bullion business and rising share of the higher-margin retail and digital gold businesses. Nevertheless, the company's profitability remains susceptible to regulatory risks, including changes in the import duty differential between refined gold and gold dore, which is the main source of profits for the company and remain a key monitorable.

The ratings favourably factor in the company's healthy scale of operations with high quality standards, as reflected in its 'Good Delivery' accreditation of gold and silver by the London Bullion Market Association (LBMA), the only refinery in India to have such accreditation. Its strong technical and managerial linkages with the MKS PAMP Group also support the rating. ICRA further notes the comfortable working capital intensity of operations, partly due to consignment-based import of gold dore, and the company's risk management policies to mitigate its exposure to volatility in gold prices and foreign exchange rates, providing visibility on the profit margins.

The ratings are, however, constrained by the leveraged capital structure of the company, as reflected in TOL/TNW of 7.4 times and total debt/OPBDITA of 8.8 times in FY2023, and moderate coverage indicators. While ICRA expects the leverage metrics to improve in FY2024, it is likely to remain weaker than the rating category. Nevertheless, the outside liabilities are largely against gold, which is a highly liquid asset and aids in mitigating the risks to an extent. The ratings also remains constrained by the exposure of MPIPL's profitability to regulatory risks and volatility in demand of gold.

The Stable outlook on the long-term rating reflects ICRA's expectations that MPIPL will continue to maintain its business positioning while sustaining the profitability levels and cash flow from operations.

Key rating drivers and their description

Credit strengths

Large scale of operations with a healthy market share – MPIPL operates a state-of-the-art refinery in Haryana with a sizeable installed capacity of processing 300 tonnes per year (TPA) of gold, 600 TPA of silver and minting 25 lakh coins per year. It is the largest gold refiner in India with a volume output of more than 70 TPA for the last two years, accounting for ~10% of total gold imported into the country. The company's superior scale of operations and strong market share are likely to benefit its business through economies of scale. Moreover, the company's recent foray and expansion plans into the higher-margin retail segments, comprising coins, D2C business and digital gold products, are expected to support its margin profile over the medium-to-long term.

Linkages with the MKS PAMP Group support operations – MPIPL has strong operational and managerial linkages with its parent, MKS PAMP Group, which is among the largest refiners and traders of precious metals in the world, based out of Switzerland. The strong parentage offers technical expertise for the gold refinery, access to global raw material sourcing network and managerial support through nominated board members, which support MPIPL's operations. The company's superior refining capabilities are reflected in its accreditation as 'Good Delivery' for gold and silver by LBMA, the only refinery in India to have such accreditation. The MKS PAMP Group has also extended a letter of comfort to the lenders of MPIPL, which indicates the strength of linkages.

Comfortable working capital intensity of operations and adequate risk mitigation practices – MPIPL's working capital intensity of operations remains comfortable, as reflected in the net working capital/operating income of less than 8% p.a. in the last three financial years, indicating a short cash conversion cycle. Its bullion business is undertaken on a cash-and-carry basis, thereby mitigating any material counterparty credit risk. The inventory, imported gold dore, is purchased on credit either through credit lines offered by the suppliers under the consignment model or is backed by the letters of credit. While gold and silver prices are prone to high volatility, the company mitigates the risk through importing raw materials on an unpriced basis and fixing the rates simultaneously with the supplier and buyer. This natural hedge also mitigates the foreign exchange rate fluctuation risk. The said risk is also partly hedged through financial derivatives. The company's registration under the Manufacturing and Other Operations in Special Warehouse Regulations, 2020 (MOOSWR) since May 2023, resulted in reduction in the working capital requirements in the form of prepaid customs duty, thereby supporting its operations.

Credit challenges

Leveraged capital structure and moderate coverage indicators – MPIPL's financial risk profile remains constrained by high leverage in its capital structure, reflected in TOL/TNW of 7.4 times as on March 31, 2024, as the inventory is primarily funded through borrowings. While ICRA expects the company's TOL/TNW to improve to below 5.0 times in FY2024 and FY2025 owing to healthy accretion to the net worth, it is likely to remain below the benchmark for the rating category. Nevertheless, the short working capital cycle on account of sizeable inventory under the consignment model and highly liquid nature of gold inventory provide comfort. MPIPL's interest cover remained in the range of 2.5-3.0 times over the last two years. While it is expected to improve to 4.5 times in FY2024 due to better profitability, supported by one-time gain, it is likely to normalise in the range of 2.5-3.0 times in FY2025 and FY2026.

Revenue and margins remain exposed to regulatory risks and volatility in demand for gold – The primary source of profit for MPIPL is the duty differential between import of refined gold and gold dore (currently at 65 basis points). This exposes the company's business model to regulatory changes. Any unfavourable change in the duty structure, as happened in the past, could have a material adverse impact on the company's profitability. Moreover, demand for gold is highly correlated with price fluctuation wherein periods of high volatility could result in muted demand for gold, impacting the company's revenue.

Liquidity position: Adequate

MPIPL's liquidity is adequate, characterised by healthy free cash and liquid investments of more than Rs. 300 crore as on December 31, 2023. ICRA expects the company to generate cash flow from operations worth ~Rs. 400 crore in FY2024, primarily due to gains in the form of savings in customs duty on import of gold dore, and Rs. 70-80 crore p.a. thereafter. The company has repaid the outstanding term loan in full in January 2024 and has debt repayment obligation of ~Rs. 1 crore p.a. (including lease liabilities) and maintenance capex requirements of ~Rs. 15 crore p.a. The average utilisation of fund-based and non-fund-based limits stood at ~46% in the 12-month period ending on December 31, 2023, indicating a healthy buffer.

Rating sensitivities

Positive factors – The ratings may be upgraded in case of a sustained increase in revenue and profitability due to operating efficiencies, translating into a substantial improvement in cash accruals and leverage metrics.

Negative factors – Pressure on the ratings could arise in case of a sustained deterioration in revenue and profitability, translating into weaker-than-expected cash accruals and debt protection metrics. Any regulatory development adversely impacting its business prospects could also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MPIPL, as enlisted in Annexure – II

About the company

MMTC – Pamp India Private Limited is a joint venture between MMTC Limited (owing a 26% stake; a mini-ratna PSU) and PAMP Holding Mauritius Limited (holding a 72.65% stake; a part of the MKS PAMP Group). The company is the largest refiner of gold and silver in India with a capacity to process 300 metric tonnes per year of gold, 600 metric tonnes per year of silver and mint 25 lakh coins per year. It is the only refiner in India to have 'Good Delivery' accreditation for gold and silver by the London Bullion Makers Association.

Key financial indicators (audited)

MPIPL, Consolidated	FY2022	FY2023	9M FY2024*
Operating income	29,278	31,532	28,055
PAT	42	106	331
OPBDIT/OI	0.7%	0.8%	1.8%
PAT/OI	0.1%	0.3%	1.2%
Total outside liabilities/Tangible net worth (times)	8.6	7.4	-
Total debt/OPBDIT (times)	6.2	8.8	-
Interest coverage (times)	3.0	2.6	7.6

*Source: MMTC – Pamp India Private Limited, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; NA – Not Available; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation. * Provisional numbers*

Note: LC-backed creditors have been reclassified as borrowings.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 31, 2024	-	-	-
1	Issuer Rating	Long Term	-	-	[ICRA]A+ (Stable)	-	-	-
2	Fund-based – Working Capital Facilities	Long Term	700.00	-	[ICRA]A+ (Stable)	-	-	-
3	Fund-based – Interchangeable^	Long Term	(1,000.00)	-	[ICRA]A+ (Stable)	-	-	-
4	Non-Fund based – Working Capital Facilities	Short Term	2,475.00	-	[ICRA]A1	-	-	-
5	Non-Fund based – Interchangeable#	Short Term	(490.00)	-	[ICRA]A1	-	-	-
6	Non-Fund based – Working Capital Facilities	Long Term/ Short Term	95.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-
7	Non-Fund based – Interchangeable$	Long Term/ Short Term	(270.00)	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-
8	Unallocated Limits	Long Term/ Short Term	737.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-

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Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Long-term fund-based – Working Capital Facilities	Simple
Long-term fund-based – Interchangeable	Simple
Short-term non-fund based – Working Capital Facilities	Very Simple
Short-term non-fund based – Interchangeable	Very Simple
Long-term/ Short-term non-fund based – Working Capital Facilities	Very Simple
Long-term/ Short-term non-fund based – Interchangeable	Very Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]A+ (Stable)
NA	FBWC Facilities 1^	-	-	-	(600.00)	[ICRA]A+ (Stable)
NA	FBWC Facilities 2^	-	-	-	(400.00)	[ICRA]A+ (Stable)
NA	FBWC Facilities 3	-	-	-	450.00	[ICRA]A+ (Stable)
NA	FBWC Facilities 4	-	-	-	100.00	[ICRA]A+ (Stable)
NA	FBWC Facilities 5	-	-	-	150.00	[ICRA]A+ (Stable)
NA	Letter of Credit 1	-	-	-	735.00	[ICRA]A1
NA	Letter of Credit 2	-	-	-	400.00	[ICRA]A1
NA	Letter of Credit 3#	-	-	-	(350.00)	[ICRA]A1
NA	Letter of Credit 4	-	-	-	480.00	[ICRA]A1
NA	Letter of Credit 5#	-	-	-	(140.00)	[ICRA]A1
NA	Letter of Credit 6	-	-	-	800.00	[ICRA]A1
NA	Bank Guarantee 1$	-	-	-	(100.00)	[ICRA]A+ (Stable)/ [ICRAA1
NA	Bank Guarantee 2$	-	-	-	(150.00)	[ICRA]A+ (Stable)/ [ICRAA1
NA	Bank Guarantee 3	-	-	-	95.00	[ICRA]A+ (Stable)/ [ICRAA1
NA	Bank Guarantee 4$	-	-	-	(20.00)	[ICRA]A+ (Stable)/ [ICRAA1
NA	LER/ CEL 1	-	-	-	15.00	[ICRA]A1
NA	LER/ CEL 2	-	-	-	25.00	[ICRA]A1
NA	LER/ CEL 3	-	-	-	20.00	[ICRA]A1
NA	Unallocated Limits	-	-	-	737.00	[ICRA]A+ (Stable)/ [ICRAA1

Source: MMTC – Pamp India Private Limited

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Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	MPIPL's Ownership	Consolidation Approach
PAMP Speciality Services Private Limited	100.00%	Full Consolidation
PAMP Precision Manufacturing India Private Limited	100.00%	Full Consolidation

Source: MMTC – Pamp India Private Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

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