

MSTC Limited
 January 06, 2021
Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	620.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short term bank facilities	4880.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	5500.00 (Rs. Five Thousand Five Hundred Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of MSTC Limited (MSTC) continue to draw strength from the long track record and established position of the company in e-commerce segment, Government of India's (Gol) controlling stake and stable source of revenue from service income. The ratings also factor in the improvement in profitability in FY20 (refers to the period April 1 to March 31), though operating income reduced due to gradual reduction in trading business and shift in focus to e-commerce segment. The capital structure also improved with reduction in trading sales.

The ratings also factor in the decrease in volume of business during H1FY21 (refers to the period April 1 to September 30) due to the impact of outbreak of Covid 19.

The ratings continue to be constrained by the on-going litigations against the company, high collection period, customer concentration and exposure to intense competition.

Rating Sensitivities

Positive Sensitivities - Factors that could lead to positive rating action/upgrade:

- Ability to retain existing customers and add new customers leading to increase in operating income.
- Sustaining improvement in profitability.
- Faster realisation of debtors resulting in improvement in operating cycle.

Negative Sensitivities- Factors that could lead to negative rating action/downgrade:

- Moderation in operating profitability or significant write-offs on account of long-due debtors
- Increase in overall gearing beyond 2x
- Any adverse outcome of the on-going litigation impacting the coverage indicators and profitability

Detailed description of the key rating drivers**Key Rating Strengths****Long and satisfactory track record with Gol's controlling stake and Mini Ratna I status**

MSTC was set up in September, 1964 for regulating export of ferrous scrap from India. Since 1991, MSTC has been in direct marketing of melting scrap, coke/coal, iron ore and many other products. Over the years, it has added various new products and services in its portfolio. MSTC is a Mini Ratna Category-I PSU of Gol, based in Kolkata. Although the government had reduced its stake to 64.75% through IPO of MSTC in March 2019, the controlling stake of Gol remains.

Stable source of revenue from service income MSTC earns stable service income through the e-commerce business and sales done through facilitator mode (majorly raw material for secondary steel producers and petrochemical industry). The income through service charges was lower at Rs.190.38 crore in FY20 vis-à-vis Rs.264.52 crore in FY19 on account of lower volume of trading business through facilitator mode. Further, the company has been gradually reducing its trading business and operating income is being driven by the e-commerce business.

Improvement in profit levels in FY20, though operating income declined

MSTC's total operating income decreased from Rs.2,961.94 crore in FY19 to Rs.886.07 crore in FY20 with sharp decline in trading sales and increased focus on e-commerce business.

The company had incurred loss in FY19 due to significant amount of provisions/write-offs of Rs.542.08 crore on long due receivables accounted for by the company. In FY20, the provisions/write-offs was substantially lower and accordingly PBILDT improved. Finance costs were also lower during the year with lower working capital borrowings due to reduced trading volumes. The company reported net profit of Rs.75.20 in FY20 crore as against net loss of Rs.324.47 crore in FY19.

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

The company reported net profit of Rs.34.24 crore on total operating income of Rs.164.92 crore in H1FY21 vis-à-vis net profit of Rs.49.58 crore on total operating income of Rs.571.22 crore in H1FY20. Operating income reduced mainly because of the Covid-19 induced lockdown and slowdown. The company has further reduced its sales from trading division.

Improvement in leverage ratio with significant decrease in debt levels

The total debt decreased significantly from Rs.2,753.76 crore as on March 31, 2018 to Rs.704.58 crore as on March 31, 2019 and further to Rs.280.04 as on March 31, 2020 on account of lower working capital utilisation and significant decrease in acceptances. The total debt further decreased and stood at Rs.158.33 crore as on September 30, 2020, a major part of which is the sub-judice liability of Standard Chartered Bank (SCB). The consistent decrease in working capital is on account of reduction in trading business.

The overall gearing improved significantly from 3.39x as on March 31, 2019 to 1.00x as on March 31, 2020 and further to 0.55x as on September 30, 2020 as a result of reduction in debt levels and increase in net worth.

PBILDT interest coverage improved to 5.44x in FY20 as the company reported profit as compared to a loss in FY19.

Key Rating Weaknesses

On-going litigations against the company

During FY09, MSTC exported gold jewellery worth Rs.638.21 crore to 46 customers based in UAE Singapore and Kuwait through six jewellery manufacturers/merchants (called Associates) based in Mumbai. Out of this, foreign export bills for about Rs.184.66 crore were sold to SCB under factoring arrangement without recourse. The due date of payments from Dubai based customers was due in 2009 and the debtors didn't honor the payment commitment.

MSTC had filed legal suits aggregating Rs.658.40 crore in different forums against the 46 buyers. The company has got judgement in its favour for all the 46 cases and approached the appropriate courts for execution. However, no payment has been received so far.

Against the total amount of receivables purchased by SCB, a balance amount of Rs.143.62 crore remained outstanding as on March 31, 2020. SCB had insured the total amount of receivables purchased by them with ICICI Lombard (ICICIL) in case of a default in payment by the debtors. SCB had filed a suit against ICICIL in the Hon'ble Bombay High Court for payment of claim and has got ex-parte decree in its favour. ICICI Lombard subsequently had filed allowed a Notice of Motion setting aside the ex-parte decree. The matter is presently sub-judice.

MSTC has shown liability in its books for Rs.143.62 crore (as borrowings with corresponding debtors) and interest payable of Rs.78.89 crore (as other liabilities) as on March 31, 2020 (same as on March 31, 2019).

In FY19, DRT had ordered a payment of Rs.222.51 crore by MSTC to SCB and had also attached all immovable properties of MSTC. MSTC filed an appeal against the DRT order with Appellate tribunal (DRAT) and the said order was withdrawn and a review application was filed with DRT. On further rejection of review by DRT, MSTC filed a writ petition with Hon'ble High Court (HC), Mumbai. On May 3, 2019, HC quashed DRT's order and restored review application with DRT. SCB, then filed a Special Leave Petition with Hon'ble Supreme Court (SC) of India, seeking stay on HC order. The SC vide its order dated January 21, 2020 has set aside the order of the HC. The auction on October 10, 2019 was cancelled as there were no bidders. The next date for recovery proceedings was March 23, 2020. However, the proceedings did not happen due to lockdown in Mumbai on account of Covid-19 and the same has been deferred to January 06, 2021. Any adverse outcome of the legal proceedings impacting the debt coverage indicators is a key rating sensitivity.

Customer concentration

The revenues of the company from trading line of business constituted 69% in FY20 vis-à-vis 88% in FY19. 2 customers of the segment contributed about 71% of total revenue in FY20 vis-à-vis 3 customers contributing about 88% in FY19.

Around 80%-90% of the revenue in the e-commerce segment is earned from the public sector enterprises.

High collection period

The receivables decreased from Rs.1720 crore as at March 31, 2019 to Rs.1233.45 crore as at March 31, 2020. However, the average collection period increased significantly to 395 days in FY20 vis-a-vis 128 days in FY19 due to significant decrease in total income with lower business volumes in facilitator mode. Net receivables though decreased, remained high at Rs.920 crore as on September 30, 2020.

Intense competition

Trading industry is highly fragmented with a few large PSUs and a large number of private players in the fray. Accordingly, the company faces intense competition which impacts its profitability. The company is now focusing on e-commerce segment wherein also it faces significant competition from other portals.

Liquidity: Adequate

The liquidity position of the company is adequate with low working capital utilisation in the last 12 months ended September 2020. Further, there was nil working capital utilisation from May 2020 to September 2020. The company has low quarterly debt obligations at Rs.1.25 crore and the cash accruals are likely to be sufficient to meet the same. It does not have significant plans for capital expenditure.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Criteria on assigning 'outlook and credit watch' to Credit Ratings

Rating Methodology - Service Sector Companies

Financial Ratios - Non Financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Methodology- Wholesale Trading

About the company

MSTC, a Mini-Ratna Category-I Public Sector Undertaking (PSU) of GoI, was set up in September, 1964 for regulating export of ferrous scrap from India. Currently, the company is under the Ministry of Steel, GoI and is engaged in trading of various items in both the domestic and global markets and e-commerce services viz. e-auctions and e-procurement services.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2961.94	886.07
PBILDIT	-210.39	153.64
PAT	-324.47	75.20
Overall gearing (times)	3.39	1.00
Interest coverage (times)	-3.28	5.44

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

Covenants of the rated instrument / facilities - Please refer Annexure-3

Complexity level of various instruments - Please refer Annexure-4

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
Non-fund-based - ST-BG/LC	-	-	-	3992.00	CARE A3+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	400.00	CARE A3+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	488.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	620.00	CARE BBB; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	3992.00	CARE A3+	1)CARE A3+ (03-Apr-20)	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (04-Apr-18)	1)CARE A3+ (26-Apr-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	400.00	CARE A3+	1)CARE A3+ (03-Apr-20)	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (04-Apr-18)	1)CARE A3+ (26-Apr-17)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	488.00	CARE A3+	1)CARE A3+ (03-Apr-20)	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (04-Apr-18)	1)CARE A3+ (26-Apr-17)
4.	Fund-based - LT-Cash Credit	LT	620.00	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-20)	1)CARE BBB; Stable (03-Apr-19)	1)CARE BBB; Stable (04-Apr-18)	1)CARE BBB; Stable (26-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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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