

Madhuban Trade Steel Private Limited
March 18, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	95.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	95.00 (Rs. Ninety-Five Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of the bank facilities of Madhuban Trade Steel Private Limited (MTSPL), CARE has considered the combined financial and business profile of ten entities (details provided below), collectively known as MTC group. All the ten entities of MTC group have a similar line of business, common promoters, centralized risk management practices and operational synergies.

The ratings continue to derive strength from extensive experience of the promoters in metal scrap trading business, large scale of operations with pan-India presence and longstanding supplier-customer relationship. The rating also factors in the growth in the scale of operations up to FY19; albeit degrowth in FY20 due to subdued market conditions and recovery during 9MFY21, moderate capital structure of MTC group and the counter-party credit risk and inventory risk mitigation practices adopted by it.

The ratings strengths are, however, tempered by the thin profitability margins due to the trading nature of business, weak credit profile of most of its customers, working capital intensive nature of its operations, profitability susceptible to fluctuations in commodity prices, inherent risks in project dismantling business, foreign exchange rate fluctuations, and its increasing exposure to the non-integrated metallic product manufacturing. Continued capital expenditure to enhance the capacity, and performance in manufacturing segment, places an additional burden on the operating cashflows of the group. However, large part of the manufacturing plants are contracted on lease basis, which significantly limits funding requirement.

Key Rating sensitivities:**Positive sensitivities**

1. Improvement in gross margins to more than 5% per annum on consistent basis aided by forward integration efforts (copper tube/ wires, aluminum ingots, billets, TMT bars)
2. Improvement in ROCE of over 20% on sustained basis

Negative sensitivities

1. ROCE declining below 10% on a sustained basis.
2. Total outside liability to net worth more than 2.70x on sustained basis
3. Current Ratio less than 1.20x times on sustained basis.
4. Non-consolidation of group into one single entity.

Detailed description of the key rating drivers**Key Rating Strengths*****Promoter's extensive experience in trading business and long track record of operations***

MTC group was established in 1974 by Mehta family. Steel scrap trading is largely unorganised industry, and fragmented with small, regional players. MTC Group is the only large organised player in this sector with pan-India presence, which allows it to procure from diverse sources and directly serving large number of industrial end users. The day to day decision making is centralized at the Mumbai head office with three Mehta brothers -Mr. Narendra Maganlal Mehta, Mr. Manoj Maganlal Mehta, and Mr. Sanjay Maganlal Mehta. Manoj Maganlal Mehta is also the president of Recycling Association of India.

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

Diverse product portfolio along with venture into manufacturing operations

Trading business accounts 87% of total sales in FY20 while the balance comes from manufacturing activities. MTC Group has diversified into manufacturing billets, TMT bars, and structural steel over the last 5 years. MTC deals in diverse varieties of scrap such as foundry scrap, mixed steel scrap, non-ferrous scrap etc. which helps the group to service variety of industrial end users. Manufacturing operations of the group comprise two leased mini-steel mills, and Aluminium extrusion unit in Pune, and Copper wires/tubes unit in Umbergaon (Gujarat). Ferrous scrap and non-ferrous scrap is an important raw material for the manufacturing operations, and MTC group uses its business expertise in scrap procurement as competitive advantage to run its manufacturing business.

Long standing customer and supplier relationships

MTC group has long standing relationships with large suppliers like Maruti Suzuki India Ltd., Kirlosakar group etc. which has ensured high quality source for scrap. It actively participates in large demolition projects, group successfully executed demolition of The Fertilizer Corporation of India project in Chhattisgarh, and Daewoo plant in Gurgaon. During FY20 group bagged two more projects naming Patratu Vidhyut Utpadan Nigam Limited, Jharkhand to be executed by FY22 and Moser Baer plant in Noida to be executed in FY21. Due to its long track record, and ability to supply large monthly volumes, it established close business relationship with reputed steel mills -Jindal Stainless, Mahindra Sanyo Special Steel Ltd, and Essar Steel (now renamed ArcelorMittal Nippon Steel Limited). It also has a large portfolio of merchant steel mills as customers, and procures variety of products like metal scrap, coal, base metals etc. for them. During FY2020, MTC group sold 1.43 million MT of metal scrap, and it remains the single largest domestic scrap trader.

Decline in TOI and PBILDT margins in FY20; albeit improvement witnessed during 9MFY21 as a result of sharp recovery in demand post covid-19 lock down

Total operating income (TOI) (on a combined basis) of the group grew at 18% CAGR from FY16 to FY19, but during FY20 TOI of the group fell by 20.25% on Y-o-Y basis to Rs.6904crore (Rs.8304crore). The decline in TOI was on account of slow down auto Industry, reducing steel price and subdued Q4FY20 due to Covid-19 induced lock down. Trading sales constituted 87% of the group's sales in FY20, whereas manufacturing sales contributed around 13%. As the group is predominantly in trading business which is always been a volume business, the PBILDT margins continued to remain thin, but remained stable at about 3.75-4% over the last four fiscals. PBILDT margins were affected during FY20 on set of adverse market conditions, PBILDT margins declined by 57bps to 3.71% (PY: 4.28%)

Moderately high capital structure,

The financial risk profile of company remain moderately high albeit marginally improved with TOL/TNW at 2.50x as on March 31, 2020 (PY:2.69x) and overall gearing ratio of 2.39x(PY:2.46). The improvement was primarily attributable to reduction in debt specifically taken for demolition project and accretion of profits to net worth. The debt coverage indicators deteriorated during FY20, on account of reduction in profitability margins with decline in TOI. TDGCA was at 19.12x (PY:10.83x) and interest coverage ratio stood 1.68x(2.29x). during 9MFY21 capital structure of the group improved on back of strong recovery witnessed post lock down. Overall gearing improved to 1.93x , interest coverage ratio improved to 2.16x and TDGCA improved to 14.46x. Apart from increase in working capital borrowings, Continued capital expenditure to enhance the capacity, and performance in manufacturing segment, places an additional burden on the operating cashflows of the group, which in turn may affect the capital structure of the company. However, large part of the manufacturing plants are contracted on lease basis, which significantly limits the balance sheet exposure to the manufacturing activities

Key Rating Weaknesses***Thin profitability margins due to trading nature of business***

MTC group continues to have PBILDT margins of about 4% over the last few fiscals given the trading nature of its business, however during FY20, PBILDT margins declined on account of covid-19. The prices in the industry are transparent, and it deals with large industrial end users, which procure on competitive terms. Given the high price volatility in the metal scrap business, and low margins, MTC follows a conservative risk model of back to back procurement, and strict payment terms to protect its margins.

Susceptibility to fluctuations in commodity prices

The steel and metal trading business is cyclical in nature which is strongly correlated to economic cycles; hence earnings are susceptible to fluctuations in commodity prices. MTC group, being in the steel and metal trading business, faces risks of cyclical in the industry. However, over the years the MTC group has developed an established customer base and gets repeat orders from the same. Accordingly, the group is able to manage its purchases of scrap through estimates/forecasts

(repeat customer order estimates). Also, the group's major part of trading is done through order-backed business. Thus, price risk/volatility is largely being managed which can be seen by the steady margins maintained over the years.

Foreign exchange fluctuation risk

Out of total purchases of the MTC group, around 30-35% is imported whereby it is exposed to foreign exchange fluctuation risk. However, group has a practice to hedge almost its entire foreign exchange exposure with forward contracts to mitigate forex risk. Group booked forex gain during FY20 of Rs.0.41crore(PY:Rs.6.15crore)

Weak credit profile of its customers

Customer profile includes many large industrial end users with weak financial profile. However, MTC group mitigates the risk by various strategies – sale on cash and carry basis, counter trade/ product swap etc. Over the past several years, it has not faced any significant bad debt due to its conservative payment terms. The conservative payment terms are well reflected in the collection period, which has averaged 45 days over the last 3 reports fiscals and a very low bad debts reported in the past. however receivables day were stretched marginally on account of covid-19 during FY20 to 57days.

Industry Outlook

India is the second largest crude steel producer in the world. India's crude steel production fell by 1.5% and finished steel production was flat at 109.2 MT in FY20 against 110.9 MT in FY19. Domestic demand for steel was impacted by slowdown in manufacturing activities during the year which was further aggravated by the Covid-19 Pandemic towards the year end. However, as other countries struggled with their manufacturing, China continued to churn out more steel as government stimulus measures revived demand. This created export opportunities for the Indian steel makers, which was well seized by several large steel producers. However small steel mills did not have such competency. As the unlock measure continued post May,2020. steel demand as well as production has been increasing steadily in the domestic market. Despite of a seasonally weaker period of the year owing to monsoons, the domestic steel production as well as demand has shown significant improvement on an M-o-M basis. With increasing demand steel prices also improved and reached 3 year high. Apart from above with reforms announced in budget for infra, announcement of vehicle scrappage policy, timely support to base prices by way of ADD is likely to have positive impact on steel industry growth in India.

Liquidity: Adequate

MTC group on combined basis has free cash balance of around Rs42crore(Rs.48crore as on December 31, 2020) which provides comfort to the liquidity position of the company. Group's GCA was at Rs.90crore during FY20 (Rs.78crore in 9MFY21). Apart from above MTC promoters have also provided short term unsecured loan of Rs44crore in (during FY2020 which are subordinated to banks and Rs.85crore during 9MFY21). Current ratio of the group remained stable at 1.27x as on March 31, 2020 (P.Y.: 1.22x). Given the comfortable level of current ratio, annual GCA of Rs90crore(affected in FY20 due to subdued market condition), demonstrated promoters' support in the past, the liquidity position of the company remain adequate. However, the fund based bank limits have seen maximum utilization of circa 90-95% during certain months of FY20, thereby indicating reduced financial headroom for financing fresh business opportunities. However, the average utilization of non-fund-based limits is close to 60% in recent months.

CARE also takes note that the group got sanctioned one time interchangeability from LC to CC to the tune of Rs. 215 crs for period of 12 months upto March 2021. However, both MTC Business and MM Ceramics have repaid the interchangeable limits voluntarily in Oct 20 itself due to improvement in market conditions. During 9MFY21, group got sanction of Rs101 crore guarantee loan for the period of 5 years, which will further improve liquidity position of the company.

Analytical approach: Combined

CARE has considered combined financials of the below-mentioned companies/entities of the MTC Group as all the 10 entities have a similar line of trading business, are held by the same promoters of MTC Group, have centralized risk management practices and derive operational synergies from being part of the MTC group.

- MTC Business Private Limited
- M.S. Metals and Steels Private Limited
- Madhuban Trade Steel Private Limited
- M.M. Ceramics and Ferro Alloy.
- Mercure Metals and Alloys Private Limited
- MGK International, Inc., New Jersey, USA
- MGK International DWC LLC
- Multi Trade Links (UK) Limited, U.K
- Multi Metal Link FZE, UAE
- Multi Metals Harbour Private Limited

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

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

[Rating Methodology: Factoring Linkages Parent Sub JV Group](#)

[Short-term Instruments](#)

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

[CARE's methodology for manufacturing companies](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating Methodology - Wholesale Trading](#)

About MTC Group

MTC Group was established in 1974 by Mehta family. The group has an established position in trading of steel products, ferrous and non-ferrous scrap and other commodities. The group is managed by Mr. Maganlal Mehta and his three sons, Mr Narendra Mehta, Mr Sanjay Mehta and Mr Manoj Mehta. Over the years, the MTC Group has forayed into manufacturing of steel with two leased manufacturing units viz. one in Chennai and the other in Hospet for manufacture of Billets, Structural steel and TMT Bars.

MTC Group operates across nine locations with eighteen facilities in India and also has international presence in USA, UK, UAE, Singapore through wholly-owned international subsidiaries of MTC group.

MTC group comprises the following entities;

- MTC Business Private Limited (MBPL) operating in Mumbai, Gujarat and North India
- M.S. Metals and Steels Private Limited (MSMSPL) operating in Chennai, Hyderabad and South India
- Madhuban Trade Steel Private Limited (MTSPL) operating in and around Pune
- M.M. Ceramics and Ferro Alloys (MMCFA) operating pan-India and dealing in niche metal trading
- Madhuban Motors Private Limited (Toyota Dealership), Mumbai
- Mercure Metals and Alloys Private Limited

Foreign subsidiaries of MTC group are as follows:

- MGK International, Inc., New Jersey – USA
- MGK International DWC LLC, Dubai
- Multi Trade Links (UK) Ltd., U.K
- Multi Metal Link FZE. (UAE- Sharjah)
- Metal Metals Harbour Pte. Ltd., Singapore

MTC Business Private Limited (MBPL) is the flagship company of the MTC group. The company was incorporated in 2000, promoted by Mr Maganlal Mehta, to take over the business of Mehta Trading Corporation, a partnership firm of the promoter. MBPL trades in ferrous and non-ferrous scrap, thermo-mechanically-treated (TMT) bars and billets, hot-rolled coils, coal, and met coke. The company has mini steel mill (leased) at Chennai for manufacturing billets & structured steel products with capacities of 6000MT per month of billets, and 9000MT per month of structural steel. Additionally, the company purchased a new rolling mill adjacent to its existing facility which commenced with a capacity of 4,000 MT per month from 14th March 2020, but then was under shutdown due to Covid induced lockdown till May'20. The company restarted the same in mid-May 2020 with which its total rolling capacity increased to 10,000MT per month from the existing 6,000MT. The company is further enhancing the capacity of this mill and the same is under progress and is expected to be completed by Feb'21. With this the capacity would increase to 12,000 MT per month from March'21 onwards.

MBPL is based in Mumbai and caters to market in Maharashtra, Gujarat and North India. MBPL supplies steel scrap to steel mills in Jalna, Wada (Maharashtra) to produce a broad range of high-quality finished and semi-finished products. MBPL has warehouses with facilities of bundling and shearing the scrap. The company has storage facilities in Rudrapur (Uttarakhand) and Gurgaon (Haryana). MBPL imports steel scrap from different countries. The company also has a tie-up to procure steel scrap from major OEMs viz. Maruti, Mahindra & Mahindra, Kirloskar group etc.

M.S. Metals and Steels Private Limited (MSMSPL), incorporated in 2004, is engaged in the trading of ferrous and non-ferrous scrap and caters to the metal scrap requirements of foundries and other industries in Southern India, mainly in Bangalore, Hyderabad and Chennai. The company has mini steel mill (leased) with installed capacity of 10,038 MT per month at Hospet. MSMSPL has hydraulic press machines in storage facilities to bundle the scrap as per customers' requirements. The company procures scrap by participating in auctions called for by the large automobile original equipment manufacturers, auto ancillaries and companies in the heavy engineering industry in India.

Madhuban Trade Steel Private Limited (MTSPL), Incorporated in 1997, is engaged in trading of ferrous and nonferrous scrap and caters to the metal scrap requirements of foundries and steel plants in and around Pune and Nashik. MTSPL

supplies bundle scrap from its yards in Chakan, and Talawade in Pune. Pune being an automobile and engineering hub, is a major source for metal scrap.

M.M. Ceramics & Ferro Alloys (MMCFA) had commenced its business operations in the year 2002 as a registered firm for dealing in Ceramic Tiles by taking over sole distribution rights of Pedder & Pedder Tiles Ltd. However, the firm discontinued its business in Ceramic Tiles in the year 2005 and commenced trading of Ferro Alloys, Noble Alloys, Bulk Alloys, Base Metals and Minor Metals which are used in foundries, Alloys and Mini steel plants for amalgamation in steel scrap towards the production of end product. MMCFA imports around 25-30% of its requirements from countries like Germany and China and also exports a small quantity. The firm operates in Mumbai, Ahmedabad, Chennai, Haryana, Bhilai and Bangalore.

Mercure Metals and Alloys Private Limited (MMAPL) was incorporated in January, 2018 with its registered office in Mumbai. MMAPL took over the business of Indigo Metalloys Pvt. Ltd (IMPL) by entering into Asset Purchase Agreement on July 14th 2018. IMPL was involved in the manufacturing of copper tubes and copper alloys having manufacturing facility located at Umbergaon, Gujarat. The manufacturing plant has capacity to produce 8 lakh kg of copper tube per month. MMAPL is currently managed by Mr. Narendra Mehta and Mr. Manoj Mehta.

Combined Brief Financials of MTC Group (Rs. crore)	FY19 (UA)	FY20 (UA)
Total operating income	8302	6904
PBILDT	357	258
PAT	117	54
Overall gearing (times)	2.46	2.39
Interest coverage (times)	2.08	1.45

UA: Un-audited

Brief Financials of MTSPS consolidated with MMHPL (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	574	526
PBILDT	26	18
PAT	10	7
Overall gearing (times)	1.15	0.99
Interest coverage (times)	2.60	2.18

A: Audited

Status of non-cooperation with previous CRA:

ICRA suspended its ratings assigned for the bank facilities of MBPL in January 2016 in the absence of requisite information from company.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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	-	-	-	95.00	CARE A-; 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.	Fund-based - LT-Cash Credit	LT	95.00	CARE A-; Stable	-	1)CARE A-; Stable (04-Feb-20)	1)CARE A-; Stable (19-Feb-19) 2)CARE A-; Stable (05-Feb-19)	1)CARE A-; Stable (17-Nov-17) 2)CARE A-; Stable (27-Oct-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	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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