MSTC Limited

March 22, 2024

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	10.00	CARE BBB+; Stable	Reaffirmed
Short-term Bank Facilities	100.00	CARE A2	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of MSTC Limited (MSTC) continue to draw strength from the established position of the company in the e-commerce business leading to stable source of revenue from service income and Government of India's (GoI) controlling stake in the company. The ratings further draw strength from the improvement in the profitability level and margin in FY23 (refers to the period April 01 to March 31) and 9MFY24; though total operating income declined in FY23 due to lower trading sales, and healthy capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained by the elongated average collection period despite significant write-offs taken over the last few years on long-due receivables mainly from the trading business, high total outside liabilities as a proportion of tangible net-worth (TOL/TNW), on-going litigations against the company, customer concentration and exposure to intense competition with tender based nature of business in e-commerce.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in sales from the e-commerce segment
- Significant improvement in collection period with recovery from debtors
- Sustaining the improvement in profitability margins
- Improvement in TOL/TNW below 2x

Negative factors

- Moderation in operating profitability or significant write-offs on account of long-due debtors
- Increase in overall gearing beyond 0.75x
- Any unfavourable outcome of the on-going litigations impacting the debt coverage indicators and profitability of the company.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that MSTC is expected to continue deriving advantage from its established position in the e-commerce business, especially for its government clientele which along with the favourable demand scenario should enable it to sustain healthy business risk profile over the medium term supported by a comfortable financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Long track record of the company with GoI'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 GoI, based in Kolkata. Although the government had reduced its stake to 64.75% through IPO of MSTC in March 2019, GoI continues to have a controlling stake in the company.

Shift in focus to e-commerce segment and significant reduction of trading business

MSTC earns stable service income through the e-commerce business. The direct trading sales and service income from trading through facilitator mode (majorly purchase of raw material for secondary steel producers and petrochemical industry) has been gradually reducing with shift in focus towards the e-commerce business. In the facilitator mode, MSTC only does order-backed purchases and currently all contracts are backed by bank guarantee of 110% of the procurement value from the customer. The Total Operating Income (TOI) decreased by about 31% in FY23 due to decreased revenue from trading segment. Service income from e-commerce segment increased by 19% y-o-y to ₹349 crore in FY23 vis-à-vis ₹294 crore in FY22.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company has been providing diversified e-commerce services mainly to government entities ranging from tendering, bidding, online platform for buy and sale, license auctions, scrap disposals, etc. The company is likely to benefit from the gradual shift to digital mode by GoI.

Healthy capital structure however, TOL/TNW stood high

The overall gearing ratio improved from 0.32x as on March 31, 2022 to 0.24x on March 31, 2023. As the company has shifted its focus from trading business to e-commerce business, the requirement for working capital borrowings has reduced significantly. The outstanding debt of ₹145.00 crore reflects the amount accounted for sub-judice liability towards Standard Chartered Bank (SCB) and Indian Overseas Bank (IOB) and the company has repaid/surrendered all other debt. However, TOL/TNW remained high at 3.59x as on March 31, 2023. The company has a significant amount of security deposits/deposits received from customers, against which there is a significant amount of cash also outstanding in the books.

Improvement in profitability

With higher profitability in the e-commerce segment, the company continued to witness improvement in the PBILDT margin to 68.80% in FY23 (PY: 35.91%). With higher operating profits alongside an increase in interest income, PAT margin improved to 73.67% in FY23 (PY: 42.51%). In 9MFY24, the company posted PBILDT margin of 59.83% and PAT margin of 64.80%.

Key weaknesses

Elongated average collection period

The receivables reduced to ₹334 crore as on March 31, 2023, from ₹408 crore as on March 31, 2022. Average collection period decreased significantly to 256 days (PY: 321 days) with increase in TOI along with the reduction in receivables. Despite reduction, the collection period remains high. However, a large part of receivables (mainly from the trading business) are either backed by 110% bank guarantees or backed by similar amount of creditors. As on September 30, 2023, the total receivables amounted to around ₹312 crore.

Customer concentration; albeit reduced in FY23

No customer of MSTC in trading segment contributed more than 10% of total revenue in FY23 vis-à-vis one customer contributing about 21% of total revenue in FY22. The reduction of trading business has helped in reduction of the concentration. In the e-commerce segment, about 90% of the revenue is mainly earned from various public sector enterprises. The company is looking at gradually increasing its business from the private sector.

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. In the selling agency business, there is risk of the customer directly selling the product. In the e-commerce segment as well, it faces significant competition from other portals. The orders from government entities are procured through tendering process.

On-going litigations against the company

During FY09, MSTC exported gold jewellery worth ₹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 ₹184.66 crore were sold to SCB under factoring arrangement without recourse. The payments from Dubai based customers were due in 2009 and the debtors did not honour the payment commitment.

MSTC had filed legal suits aggregating ₹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 was received.

Against the total amount of receivables purchased by SCB, a balance amount of ₹143.62 crore remained outstanding as on March 31, 2021. 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-party 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 ₹143.62 crore (as borrowings with corresponding debtors) and interest payable of ₹78.89 crore (as other financial liabilities) as on March 31, 2023 (same as on March 31, 2022).

MSTC had approached the Hon'ble Bombay High Court against auction program by Debt Recovery Tribunal (DRT) to sell attached immovable properties of MSTC. Hon'ble Bombay High Court had stayed the auction program as well as the recovery proceedings upon deposit of ₹55.63 crore with the Court, due to vacancy in DRAT. On the assumption of Chairperson at DRAT, the stay was vacated and the amount transferred to DRAT. DRAT had further ordered to deposit ₹34.37 crore as pre deposit for hearing the appeal. MSTC had since deposited the amount and with this total deposit stood at ₹90 crore. The DRAT in its order dated

November 9, 2022 had dismissed the appeal. Against that order, MSTC had filed writ petition with Hon'ble Bombay High Court. The Hon'ble Bombay High Court in its order dated January 17, 2023 had restored the appeal with DRAT.
An Interim order claiming ₹222.51 crore was passed by the DRT, Mumbai on August 16, 2017, which has been set aside by the DRAT, Mumbai by its order dated July 07, 2023. Consequently, the recovery proceedings have since been dropped. As a result of which MSTC has got refund of ₹90 crore (pre-deposit amount towards hearing of appeal) along with interest of ₹5.34 crore (booked as other income in Q2FY24). The attached properties have also been released. The matter is sub-judice and is contingent in nature, at this juncture.
Any adverse outcome of the legal proceedings impacting the credit risk profile is a key rating sensitivity.

Liquidity: Adequate
The liquidity position of the company is adequate. The cash accruals are healthy and currently there are no debt repayment obligations. The company at present does not have any sanctioned fund-based working capital limits or bank guarantees. It uses bank guarantees fully backed by fixed deposits for its requirements. It does not have significant capital expenditure plans.

Environment, social, and governance (ESG) risks
The company participates in initiatives towards addressing environmental issues, like introducing scrappage policy. The company during FY23 spent ₹3.01 crore for various Corporate Social Responsibility (CSR) projects and initiatives. Its board composition is in line with the regulatory requirements.

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

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 and e-commerce services viz. e-auctions and e-procurement services.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	470.64	324.72	234.32
PBILDT	169.03	223.41	139.85
PAT	200.05	239.23	152.41
Overall gearing (times)	0.32	0.24	NA
Interest coverage (times)	60.01	1,534.40	NM

A: Audited UA: Unaudited NA: Not Available NM: Not Meaningful; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	100.00	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	100.00	CARE A2	1)CARE A2 (07-Apr-23)	-	1)CARE A3+ (21-Mar-22)	1)CARE A3+ (06-Jan-21) 2)CARE A3+ (03-Apr-20)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	-	1)Withdrawn (21-Mar-22)	1)CARE A3+ (06-Jan-21) 2)CARE A3+ (03-Apr-20)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	-	1)Withdrawn (21-Mar-22)	1)CARE A3+ (06-Jan-21) 2)CARE A3+ (03-Apr-20)
4	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	1)CARE BBB+; Stable (07-Apr-23)	-	1)CARE BBB; Stable (21-Mar-22)	1)CARE BBB; Stable (06-Jan-21) 2)CARE BBB; Stable

								(03-Apr-20)
5	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (07-Apr-23)	-	1)CARE BBB; Stable (21-Mar-22)	-

LT: Long term; ST: Short term;

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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