

## MSTC Limited

### March 21, 2022

#### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	5.75	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term Bank Facilities	50.00 (Reduced from 620.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	246.43 (Reduced from 3,992.00)	CARE A3+ (A Three Plus)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>302.18</b> <b>(Rs. Three Hundred Two Crore and Eighteen Lakh Only)</b>		

Details of instruments/facilities in Annexure-1

#### Detailed Rationale & 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.

The ratings also factor in the gradual improvement in profitability margins with increase in revenue from service contracts, though total operating income (TOI) has continued to decline with lower trading sales. Debt level has also reduced significantly with scaling down of trading operations, which has led to improvement in the overall gearing of the company.

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 networth (TOL/TNW), on-going litigations against the company, customer concentration and exposure to intense competition with tender based nature of business in e-commerce.

CARE Ratings Limited has withdrawn the ratings assigned to certain bank facilities of MSTC with immediate effect, as the company has surrendered the limits in full to its lenders and there is no amount outstanding under the facilities as on date.

#### Rating Sensitivities

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

- Ability to gain market share in e-commerce segment leading to improvement in sales from the segment
- Sustaining the improvement in profitability margins
- Significant improvement in collection period with recovery from debtors
- Improvement in TOL/TNW below 2x.

##### Negative Factors- 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 unity
- Any unfavourable outcome of the on-going litigations impacting the debt coverage indicators and profitability of the company.

#### Detailed description of the key rating drivers

##### Key Rating 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 64.74% through IPO of MSTC in March 2019, the controlling stake of GoI remains.

##### Shift in focus to e-commerce segment and gradual 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. With reducing trading activities, the TOI of MSTC reduce in FY21 by about 30%. Income from e-commerce segment increased by 9% y-o-y to Rs.221 crore in FY21 vis-à-vis Rs.202 crore in FY20.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://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, licence auctions, scrap disposals, etc. The company is likely to benefit from the gradual shift to digital mode by GoI which is further boosted by the pandemic.

#### **Improvement in overall gearing with significant decline in debt level**

The total outstanding debt reduced to Rs.154.39 crore as on March 31, 2021 as compared to Rs.280.04 crore as on March 31, 2020. Accordingly, the overall gearing ratio improved from 1x in as on March 31, 2020 to 0.44x as on March 31, 2021. 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 Rs.154.39 crore reflects term loan of Rs.9.39 crore for purchase of new office building and Rs.145 crore accounted for sub-judice liability towards Standard Chartered Bank (SCB) and Indian Overseas Bank (IOB).

However, TOL/TNW remained high at 5.35x as on March 31, 2021.

#### **Improvement in profitability**

With higher profitability in the e-commerce segment, the company continued to witness improvement in the PBILDT margin to 18.24% in FY21 (PY: 17.34%). With higher operating profit despite the impact of write-offs/provisions on past debtors and reduction in interest cost, PAT margin improved to 16.07% in FY21 (PY: 8.49%).

The improvement continued in 9MFY22 with PBILDT of 31.20% and PAT margin of 23.38%.

#### **Key Rating Weaknesses**

##### **High collection period**

The receivables reduced to Rs.724 crore as on March 31, 2021 from Rs.1233 crore as on March 31, 2020. However, average collection period increased to 888 days (PY: 395 days) with reduction in total operating income.

Despite reduction, the company continued to have sizable receivables.

As on September 30, 2021, the total receivables amounted to around Rs.489 crore.

##### **Customer concentration; albeit reduced in FY21**

The revenues of the company from trading line of business constituted 64% in FY21 vis-à-vis 72% in FY20. Two customers of MSTC in trading segment contributed about 29% of total revenue in FY21 vis-à-vis about 71% in FY20. The reduction of trading business has helped in reduction of the concentration. In the e-commerce segment, the revenue is mainly earned from various public sector enterprises.

##### **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 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 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 payments from Dubai based customers were due in 2009 and the debtors did not honour 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 was received.

Against the total amount of receivables purchased by SCB, a balance amount of Rs.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-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, 2021 (same as on March 31, 2020).

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. MSTC had filed a Writ Petition before the Hon'ble Bombay High Court wherein an order dated 02.12.2021 has been passed by the Hon'ble High Court staying the proceedings of the Recovery Officer unconditionally till 04.01.2022, subject to MSTC depositing 25% of the amount with the Court on or before 07.12.2021. The stay was further extended till February 28, 2022. MSTC has deposited Rs.55.63 crore in December 2021. Any adverse outcome of the legal proceedings impacting the debt coverage indicators is a key rating sensitivity.

**Liquidity: Adequate**

The liquidity position of the company is adequate. The cash accruals are expected to be sufficient to meet the low term debt repayment obligations of Rs.1.25 crore per quarter. The company currently does not have any fund based working capital limits and only requires bank guarantees for the e-commerce business for bidding process. It does not have any significant capital expenditure plans.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

[Wholesale Trading](#)

[Policy on Withdrawal of Ratings](#)

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

Brief Financials – Standalone (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	886.07	629.07	379.67
PBILDT	153.64	114.76	118.44
PAT	75.20	101.07	88.75
Overall gearing (times)	1.00	0.44	NA
Interest coverage (times)	5.44	14.96	46.63

A: Audited; UA: Unaudited; NA: Not available

Ratios are classified as per CARE Ratings Standards

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

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

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	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		-	-	-	246.43	CARE A3+
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	0.00	Withdrawn
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	March 2023	5.75	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	246.43	CARE A3+	-	1)CARE A3+ (06-Jan-21) 2)CARE A3+ (03-Apr-20)	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (04-Apr-18)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	1)CARE A3+ (06-Jan-21) 2)CARE A3+ (03-Apr-20)	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (04-Apr-18)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	1)CARE A3+ (06-Jan-21) 2)CARE A3+ (03-Apr-20)	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (04-Apr-18)
4	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Jan-21) 2)CARE BBB; Stable (03-Apr-20)	1)CARE BBB; Stable (03-Apr-19)	1)CARE BBB; Stable (04-Apr-18)
5	Fund-based - LT-Term Loan	LT	5.75	CARE BBB; Stable				

\* Long Term / Short Term

**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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
4	Non-fund-based - ST-BG/LC	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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