Madhuban Trade-Steel Private Limited

March 25, 2022

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

To arrive at the ratings assigned to the bank facilities of Madhuban Trade-Steel Private Limited, CARE has considered the Combined Approach i.e. CARE has combined the financial and business profile of the MTC group (10 entities – refer analytical approach). All the entities of the group have similar line of business, common promoters, centralized risk management practices and operational synergies.

The ratings of the group continue to derive strength from promoters experience in the metals recycling and trading business, large scale of operations which have shown improvement in current financial year, group's pan-India presence, long-standing supplier-customer relationship and moderate capital structure.

The ratings strengths are however, tempered by thin profitability margins due to the trading nature of business, weak credit profile of its customers, working capital intensive nature of its operations, profitability susceptible to fluctuations in commodity prices and foreign exchange fluctuations risk.

Rating Sensitivities

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

- Improvement in PBILDT margins to more than 5% per annum on a sustained basis aided by forward integration efforts (copper tube/ wires, aluminium ingots, billets, TMT bars)
- Improvement in ROCE of over 20% on sustained basis
- Overall Gearing below unity

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

- ROCE declining below 10% on a sustained basis.
- Total outside liability to net worth more than 2.70x on sustained basis
- Current Ratio less than 1.20x times on sustained basis

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. Mr. Manoj Maganlal Mehta is also the president of Recycling Association of India.

Diverse product portfolio along with venture into manufacturing operations

The group generates around 40% of the income from trading activities, 40% from metal recycling and remaining 20% 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 diverse clientele comprising auto-ancillary plants, extrusion plants, mini steel mills and process industries who run their small sized Induction furnace/ EAF/ foundries to make metal alloys for their specific end uses. Due to its strong track record, and ability to supply large monthly volumes, it has established close business relationship with reputed steel mills - Jindal Stainless (India's largest consumer of steel scrap, and also its largest customer for the last 3 years), Mahindra Sanyo Special Steel Ltd, and Essar Steel (Now Arcelor Mittal). Due to its access to bank facilities, it also supplies to mini steel mills which lack the bank facilities or under financial constraints – Essar Steel, ISMT Group (includes Kalyani steel), Sona Alloys, Vijayaa Steels, Mukand Ltd, Indus TMT bars etc. Due to repeat orders from these clients, MTC Group has committed monthly

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

volume offtakes. In case of buyers with weak credit profile, it mitigates the counterparty credit risk by countertrade / product swap as well as making CAD sales.

Decline in TOI during past two years; albeit sharp improvement witnessed during 9MFY22
Total operating income (TOI) (on a combined basis) decline from Rs.8,335 crore in FY19 to Rs.6,894 crore in FY21 and Rs.6,670 crore in FY21. The decline during FY20 was on account of slowdown in auto industry, lower steel prices and Q4FY20 being affected to due to pandemic. While Q1FY21 was all impacted severly owing to pandemic, however, there was improvement from Q2FY21 with the easing of restrictions and opening up of economy leading to sharp increase in sales across all key sectors. Due to higher share of trading business the PBILDT margins of the group are thin as the business is more of volume driven. PBILDT margin declined in FY20 to 3.71% from 4.28% in FY19, however, the same improved in FY21 to 4.95% due to improvement in demand and increase in steel prices leading to better realisation.
During 9MFY22, the group witnessed sharp increase in revenue to increase in demand for steel and higher prices. The group reported TOI of Rs.8,549 crore in 9MFY22 with PBILDT margin further improving to 5.57%.

Moderate financial risk profile
The MTC group has a moderate risk profile with overall gearing of 2.14x as on March 31, 2021 which has improved from 2.40x as on March 31, 2019. The improvement was mainly due to accretion of higher profits to Networth. The debt profile of the group is majorly driven through working capital (fund-based and non-fund based) as the group's majority revenue comes from trading followed by term loan and loans from relatives/promoters and inter-corporate deposits.
Interest coverage ratio improved during FY21 from 1.63x in FY20 to 2.14x in FY21 owing to higher absolute PBILDT generated during the year. TDGCA also improved drastically from 18.73 years in FY20 to 12.61 years.

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.

Working capital intensive nature of operations
MTC group efficiently manages its working capital cycle, however during FY21 the working capital got stretched mainly due to higher inventory holding of around 45 days (PY: 36days) in FY21 and moderate debtor days of 58 days (57 days). Further, it is required to pay advance money w.r.t. its import and domestic sourcing also. Thus operating cycle of the group remained moderate at 71 days (PY: 70 days) during FY21 on a combined basis. Each company in the group has tie-ups with banks for fund based & non-fund based working capital limits. Average maximum fund based limit utilization of working capital limits remained at relatively higher levels of around 85%-90% to support increasing scale of operations promoters of the company supports the group by way of unsecured loan.

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 cyclicality 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.

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 more than 45 days over the last three fiscals and a very low bad debts reported in the past. However receivables day were stretched to 62days during FY21.

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.

Liquidity: Adequate
MTC group on combined basis has free cash balance of around Rs.153.90 crore as on December 31, 2021, out of which free cash balance is Rs.11.52 crore. Group's Gross Cash Accruals was at Rs.141 crore during FY21 (Rs.92 crore in FY20) and is further expected to be around Rs.350 crore in current financial year. Current ratio of the group remained stable at 1.48x as on March 31, 2021 (P.Y.: 1.35x). The group's average fund-based utilisation stood around 85%. Given the comfortable level of current ratio, annual GCA, demonstrated promoters' support in the past, the liquidity position of the group remains adequate.

Analytical approach: Combined

CARE has considered combined financials of the below-mentioned companies of the MTC Group as all entities have a similar line of business, common promoters, centralized risk management practices and operational synergies.

- 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, United Arab Emirates
- Multi Trade Links (UK) Limited, United Kingdom
- Multi Metal Link FZE, UAE
- Multi Metals Harbour Private Limited (Singapore)

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 the 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 and Singapore through wholly-owned international subsidiaries of MTC group.

(Rs. Crore)

Brief Financials (Combined)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	6,894	6,670	8,549
PBILDT	249	330	475
PAT	78	124	250
Overall gearing (times)	2.40	2.14	NA
Interest coverage (times)	1.63	2.15	3.57

A: Audited; UA: Un-audited; NA: Not available

About the Company:

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.

(Rs. Crore)

Brief Financials (Consolidated)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	526	631.51	NA
PBILDT	18	33.81	NA
PAT	8	17.85	NA
Overall gearing (times)	0.99	1.15	NA
Interest coverage (times)	2.18	3.90	NA

A: Audited; UA: Un-audited; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

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

Annexure-1: Details of 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
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 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	Fund-based - LT-Cash Credit	LT	95.00	CARE A-; Stable	-	1)CARE A-; Stable (18-Mar-21)	1)CARE A-; Stable (04-Feb-20)	1)CARE A-; Stable (19-Feb-19) 2)CARE A-; Stable (05-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities - NA

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

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:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
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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