MSTC Limited

April 03, 2019

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	4,880.00	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total	**5,500.00 (Rs. Five Thousand and Five Hundred Crore only)**		

Details of 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 long track record of the company, Government of India's (GoI) controlling stake, strong distribution channels, stable source of revenue from service income, favorable outcome of ongoing legal proceedings against gold purchasers and suppliers as well as progress made towards settlement of insurance claims.

The ratings also factor in the increasing volume of business, though there was moderation in profitability in FY18 (refers to the period April 1 to March 31) and H1FY19 due to significant bad debt write-offs/provisions made during the period mainly for long overdue debtors. The ratings also take into account the Initial Public Offering (IPO) of the company in March 2019, wherein, the GoI has divested its 25.10% stake in the company.

The ratings continue to be constrained by the moderate capital structure and debt coverage indicators, high collection period, significant dependence on few large customers and intense competition.

The ability of the company to effectively manage working capital with timely recovery from receivables and improvement in its profitability margins and capital structure amidst rising competition remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long and satisfactory track record with GoI's controlling stake and Mini Ratna I status

MSTC was set up in Sept, 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. Though the government has reduced its stake to 75% through IPO of MSTC in March 2019, the controlling stake of GoI remains.

Strong distribution channels

MSTC has established two channels of sales, viz trading division and e-commerce division. Use of e-commerce portals of the company has helped the division to expand its reach and enhance business volumes. MSTC also has branch offices spread all over the country and regional offices which act as sales hubs for the company, controlling the sales activities for the region. These offices focus on use of e-portals & e-procurement and market the same, besides carrying on usual marketing.

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 service income increased by 36% from Rs.202.80 crore in FY17 to Rs.275.63 crore in FY18.

Increase in business volume, albeit moderation in profitability due to bad debt write-offs/provisions

MSTC's total operating income witnessed a robust growth by about 65% from Rs.1,488.63 crore in FY17 to Rs.2,453.26 crore in FY18 due to increase in sales of goods, service charges and other operating income with significantly higher business volumes during the year. Though the income increased, the PBILDT margin declined from 11.21% in FY17 to 7.83% in FY18 due to increase in employee costs and significant increase in other expenses. The increase in other

[1]*Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

expenses was due to provisions for bad debts of Rs.138.81 crore for long pending receivables. The capital charges were relatively stable during the year. Hence, with lower operating profitability, the PAT margin also declined from 4.37% in FY17 to 3.12% in FY18.
During H1FY19, the company incurred net loss of Rs.392.66 crore on total operating income of Rs.1,312.37 crore. Though the operations were profitable, the loss was primarily on account of provisions created of Rs.493.34 crore for long pending doubtful debts during the current year.

Favourable decrees received by MSTC for the legal suits filed by it
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 Standard Chartered Bank (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, 2018. 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 subjudice.
MSTC had lodged claims with Export Credit Guarantee Corporation of India (ECGC) for Rs.450.81 crore for non-payment of dues by the buyers insured by ECGC. However, the claim was repudiated by ECGC. Consequently, MSTC had initiated cases against ECGC with National Consumer Disputes Redressal Commission (NCDRC) which has referred the matter to civil court or any other appropriate forum. The company has taken up the matter at the Ministry level and had filed statutory appeal to Hon'ble Supreme Court against the order. The matter has been referred for arbitration. The company had converted the trade receivables of Rs.450.81 crore as claim receivables from ECGC on transition to IND AS and had fully provided for the amount. In FY18, the company has written off the receivables.

Key Rating Weaknesses
Moderate capital structure and debt coverage indicators
The net overall gearing ratio (including acceptances) improved and stood at 4.33x as on March 31, 2018 vis-à-vis 4.69x as on March 31, 2017 on account of stable working capital utilisation despite the increase in business volume during the year and accretion of profits to networth. The interest coverage remained stable at 2.25x in FY18 vis-a-vis 2.15x in FY17. Though the net Total debt/GCA improved, it continues to remain high at 26.83x as on March 31, 2018 vis-à-vis 37.73x as on March 31, 2017.
The total debt reduced and stood at Rs.1,864.89 crore as on September 30, 2018 with decrease in working capital borrowings. However, with loss incurred during the current year the tangible networth decreased substantially to Rs.145.05 crore as on September 30, 2018. Consequently, the overall gearing deteriorated to 12.86x as on September 30, 2018. The company has reduced transactions under acceptances in H2FY19 and debt level as on Mar.31, 2019 is expected to be significantly lower. This will lead to improvement in capital structure.

High collection period
MSTC finances the purchase of industrial bulk raw materials on behalf of its buyers which is partially backed by LCs & secured deposits. These buyers are generally slow in lifting material and accordingly, MSTC's collection period is high. However, the company also maintains high creditor's period (including LCs); thus the additional credit days offered to customers are financed through creditors (including LCs). The total receivables remained relatively stable in absolute terms at Rs.3,842.21 crore as on March 31, 2018 as against Rs.3,618.87 crore as on March 31, 2017 inspite of provisions of Rs.138.81 crore during FY18. However, the average collection period improved significantly from 242 days in FY17 to 133 days in FY18 due to significant increase in total income with higher business volumes in facilitator mode. The working capital cycle also improved in FY18.
There were certain debtors in the books of MSTC which have been pending for long and are doubtful of recovery. During H1FY19, MSTC provided for Rs.493 crore of such doubtful receivables.
Further, the company has introduced new scheme for procurement which is the BG backed model and discontinued cash and carry model. Under the BG model, the customer provides upfront BG and the material is directly shipped to the customer thereby reducing the warehouse and custodian charges. The new model is also likely to improve the debtor's profile of the company.

Significant dependence on few large customers

The revenues of the company from trading line of business constituted 81% in FY18 vis-à-vis 71% in FY17. Whereas, the top 3 customers of MSTC in trading segment contributed about 70% of total revenue in last three years.

Intense competition and low operating margin

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.

Liquidity

The liquidity position of the company is satisfactory. The average month end CC utilization during last 12 months ending February'19 was low at about 5%. Further, the company also had free cash & bank balance of Rs.175.74 crore as on March 31, 2018 and Rs.150 crore as on September 30, 2018, which provides liquidity comfort.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Criteria for 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. MSTC's operations are order driven and the trading goods vary depending on the market requirements and opportunities.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1488.63	2453.26
PBILDT	198.04	330.89
PAT	65.43	76.63
Overall gearing (times)	5.40	4.90
Interest coverage (times)	2.15	2.25

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

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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Annexure-1: Details of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	3992.00	CARE A3+	1)CARE A3+ (04-Apr-18)	1)CARE A3+ (26-Apr-17)	1)CARE A3+ (12-Apr-16)	-
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	400.00	CARE A3+	1)CARE A3+ (04-Apr-18)	1)CARE A3+ (26-Apr-17)	1)CARE A3+ (12-Apr-16)	-
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	488.00	CARE A3+	1)CARE A3+ (04-Apr-18)	1)CARE A3+ (26-Apr-17)	1)CARE A3+ (12-Apr-16)	-
4.	Fund-based - LT-Cash Credit	LT	620.00	CARE BBB; Stable	1)CARE BBB; Stable (04-Apr-18)	1)CARE BBB; Stable (26-Apr-17)	1)CARE BBB (12-Apr-16)	-

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