MSTC Limited

April 3, 2020

Ratings

Facilities*	Amount (Rs. crore)	Rating[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 and stable source of revenue from service income.

The ratings also factor in the increasing volume of business and improvement in profitability during 9MFY20 (refers to the period April 1 to December 31) though the company had incurred high net loss in FY19 (refers to the period April 1 to March 31) due to significant bad debt write-offs/provisions for long overdue debtors. The ratings also take note of the significant decrease in debt levels of the company during 9MFY20.

The ratings continue to be constrained by the on-going litigations against the company, high collection period, significant dependence on few large customers and intense competition.

Rating Sensitivities

Positive Sensitivities

- Sustaining the improvement in profitability
- Realisation of debtors without substantial losses
- Improvement in capital structure with overall gearing going below 1.50x.

Negative Sensitivities

- Moderation in profitability
- Increase in net overall gearing beyond 3x
- Any unfavorable outcome of the ongoing litigation impacting the coverage indicators and profitability.

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 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. Though the government has reduced its stake to 64.75% 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.

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

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 income through service charges was marginally lower at Rs.264.52 crore in FY19 vis-à-vis Rs.275.63 crore in FY18 on account of lower volume of trading business through facilitator mode.

Improvement in profitability in 9MFY20
MSTC's total operating income witnessed a growth by around 20% from Rs.2,453.26 crore in FY18 to Rs.2,961.94 crore in FY19. Though the operating income increased, the company incurred operational loss primarily due to provisions/write-offs of Rs.542.08 crore during the year on past debtors. The capital charges were lower during the year with lower interest cost due to low working capital borrowings. However, with operational losses the company reported net loss of Rs.324.47 crore in FY19 as against net profit of Rs.76.63 crore in FY18.
The performance improved in 9MFY20 and the company reported net profit of Rs.79.16 crore on total operating income of Rs.782.77 crore vis-à-vis net loss of Rs.348.07 crore on total operating income of Rs.2,225.17 crore in 9MFY19. The decrease in operating income was mainly due to sharp decline in trading sales with increased focus on e-commerce business. Accordingly, the profitability also improved with higher proportion from e-commerce, lower finance costs and decrease in provisions for bad debt to Rs.8.92 crore in 9MFY20 (Rs.493.34 crore in 9MFY19).

Key Rating Weaknesses
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 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, 2019. 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 has shown liability in its books for Rs.143.62 crore (as borrowings) and interest payable of Rs.78.89 crore (as contingent liability) as on March 31, 2019 (same as on March 31, 2018).
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. The auction on October 10, 2019 was cancelled as there were no bidders. The next date for recovery proceedings was March 23, 2020. However, the proceedings did not happen due to lockdown in Mumbai on account of Covid-19. Any unfavorable outcome of the legal proceedings impacting the debt coverage indicators is a key rating sensitivity.

Moderate capital structure albeit significant decrease in debt levels
The total debt decreased significantly from Rs.2,753.76 crore as on March 31, 2018 to Rs.704.58 crore as on March 31, 2019 on account of lower working capital utilisation. The decrease in debt levels was on account of reduced transactions under acceptances. However, with loss incurred during FY19, the tangible networth decreased substantially from Rs.561.86 crore as on March 31, 2018 to Rs.207.62 crore as on March 31, 2019.
Debt-equity ratio was negligible at 0.03x as on March 31, 2019 as against nil as on March 31, 2018 as the company availed term loans for new office building. Despite significant decrease in debt levels, the overall gearing ratio (including acceptances) improved only from 4.90x as on March 31, 2018 to 3.39x as on March 31, 2019 due to simultaneous decrease in networth.
The debt coverage indicators were also impacted for FY19 with losses incurred. However, excluding the bad debts written off, the PBILDT interest coverage was satisfactory.
The total debt further decreased and stood at Rs.468.35 crore as on December 31, 2019 with decrease in working capital borrowings. Thus, with improvement in profitability and decrease in debt the debt coverage indicators improved during 9MFY20. The interest coverage and TD/GCA stood at 6.55x and 3.60x as on December 31, 2019.

High collection period
There were certain debtors in the books of MSTC which have been pending for long and were doubtful for recovery. The company provided for Rs.493 crore of such doubtful receivables during FY19. With write-offs and recoveries the total receivables decreased significantly in absolute terms from Rs.3,842.21 crore as on March 31, 2018 to Rs.1,720.01 crore as on March 31, 2019. However, the average collection period remained relatively stable at 128 days in FY19 vis-a-vis 134 days in FY18 due to significant decrease in adjusted total income with lower business volumes in facilitator mode. The total receivables though decreased, remained high at ~1,447 crore as on December 31, 2019.
MSTC has discontinued cash and carry model and is majorly doing procurement under BG backed 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 likely to improve the debtor's profile of the company. The same has also led to decrease in acceptance based creditors as under cash and carry model MSTC financed the purchase of industrial bulk raw materials on behalf of its buyers which was partially backed by LCs & secured deposits. Accordingly, payables period decreased from 88 days in FY18 to 76 days in FY19.
The working capital cycle remained stable at 52 days in FY19 vis-a-vis 48 days in FY18.

Significant dependence on few large customers
The revenues of the company from trading line of business constituted 88% in FY19 vis-à-vis 81% in FY18. Whereas, the top 3 customers of MSTC in trading segment contributed about 88% of total revenue in FY19 vis-à-vis 77% in FY18.

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.
The company is now focusing on e-commerce segment which has led to improvement in profitability during the current year.

Liquidity: Adequate
The liquidity position of the company is adequate with adequate cash accruals as against low repayment obligations of Rs.5 crore annually. The average month end fund based utilization during last 10 months (ending January'20) was low at about 32%. Further, the company also had free cash & bank balance of Rs.98.50 crore as on March 31, 2019 and Rs.76 crore as on September 30, 2019, which provides cushion in times of stress.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology – Service Sector Companies
Financial Ratios - Non Financial Sector
Rating Methodology- 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 and e-commerce services viz. e-auctions and e-procurement services.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	2453.26	2961.94
PBILDT	330.89	-210.39
PAT	76.63	-324.47
Overall gearing (times)	4.90	3.39
Interest coverage (times)	2.25	-3.28

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	3992.00	CARE A3+	1)CARE A3+ (03-Apr-19)	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+ (03-Apr-19)	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+ (03-Apr-19)	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 (03-Apr-19)	1)CARE BBB; Stable (04-Apr-18)	1)CARE BBB; Stable (26-Apr-17)	1)CARE BBB (12-Apr-16)

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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