

MSTC Limited

April 4, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	620.00 (reduced from 800)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	4,880.00 (reduced from 5,330.05)	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 factors in the improvement in operating profitability level in 9MFY18 (refers to the period April 1 to March 31) after a decline in FY17.

However, the ratings are constrained by moderate capital structure and debt coverage indicators, high collection period impacting the liquidity profile of the company, inability of MSTC to recover significant amount of dues including dues pertaining to export bill proceeds of gold jewellery transaction for a considerable time period, significant dependence on few large customers and intense competition.

The ability of the company to recover overdue 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

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.

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 33% from Rs.151.92 crore in FY16 to Rs.202.80 crore in FY17.

Stable financial performance in FY17 with improvement in profitability during 9MFY18

MSTC's total operating income declined sharply by around 50% to Rs.1,488.63 crore in FY17 due to increasing focus on facilitator mode of business wherein only the service charge is booked as income. PBILDT margin improved from 6.43% in FY16 to 11.21% in FY17 and PAT margins improved from 2.03% in FY16 to 4.40% in FY17. However, considering the total sales including sales through facilitator mode, there was a decline in profitability margins.

The sales volume including facilitator mode increased significantly in 9MFY18 to Rs.6830.43 crore as against Rs.2480.17 crore in 9MFY17. Operating income, however, declined to Rs.816.07 crore in 9MFY18 as against Rs.827.47 crore in 9MFY17 due to decline in trading business and higher income through service charge. The company earned PAT of Rs.47.09 crore in 9MFY18 vis-à-vis PAT of Rs.25 crore in 9MFY17.

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

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. As on March 31, 2017, 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, 2017. 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 subjudice.

Arbitration proceeding has also been initiated against the six associate suppliers. MSTC has got arbitration award in four of these cases, which also are in the process of execution.

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 has converted the trade receivables of Rs.450.81 crore as claim receivables from ECGC and has classified it under other financial assets on transition to IND AS and has fully provided for the amount.

Key Rating Weaknesses***Moderate capital structure and debt coverage indicators***

The net overall gearing ratio (including acceptances) increased and stood at 4.68x as on March 31, 2017 vis-à-vis 3.07x as on March 31, 2016 on account of higher working capital utilisation. The interest coverage improved from 1.84x in FY16 to 2.15x in FY17. However, the net Total debt/GCA continues to remain high at 37.73x as on March 31, 2017 vis-à-vis 27.70x as on March 31, 2017.

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). Further the inventory is held by the custodian and the inventory is released to customers on receipt of payment by MSTC. The average collection period stood at 242 days in FY17 (260 days in FY16). The working capital cycle deteriorated from 54 days in FY16 to 66 days in FY17 due to lower creditors period of 179 days in FY17 (212 days in FY16).

Significant dependence on few large customers

The top 5 customers of MSTC contributed about 70% of total gross sales (including sales from facilitator mode) in FY17.

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.

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 Government of India (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)	FY16 (A)	FY17 (A)
Total operating income	2,961.15	1,488.63
PBILDT	190.45	166.82
PAT	60.10	65.43
Overall gearing (times)	3.07	4.68
Interest coverage (times)	1.84	2.15

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	620.00	CARE BBB; Stable
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+

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+ (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+ (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+ (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 (26-Apr-17)	1)CARE BBB (12-Apr-16)	-

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