

The State Trading Corporation of India Limited

January 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2,000	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised to CARE D (Single D) from CARE BB+ (Double B Plus) and upgraded to CARE BB+
Short-term Bank Facilities	4,000	CARE A4+ (A Four Plus)	Revised to CARE D (Single D) from CARE A4+ (A Four Plus) and upgraded to CARE A4+
Total	6,000 (Rupees Six Thousand crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of The State Trading Corporation of India Limited (STC) continue to derive strength from the long and established track record of operations and the predominant ownership of the Government of India. The ratings also factor in the new business initiatives undertaken by STC to increase its scale of operations & strengthening of its internal control systems.

The above rating strengths are however, partially offset by its weak financial profile characterized by volatile operating income and high amount of outstanding trade receivables. CARE has taken cognizance of the fact that there was a three days delay in servicing of its debt obligation which was on account of certain operational issues.

Going forward, the ability of the company to strengthen its risk management policies, recovery of past dues and improvement in its profitability and capital structure will be the key rating sensitivities.

Detailed description of the key rating drivers

STC was set up in May 1956, primarily with a view to undertake trade with East European Countries and to supplement the efforts of private trade and industry in developing exports from the country. As a result of liberalization of foreign trade since 1991, all export and import items earlier canalised through STC were decanalised. Presently, it is primarily engaged in the exports to Iran & trade of bullion, fertilisers, food grains, coal, cardamom, edible oil & pulses. The Corporation functions under the administrative control of the Ministry of Commerce & Industry, Government of India. STC arranges import/ export of mass consumption items including rice, wheat, edible oils, sugar as per instructions of the Government. As on September 30, 2015, the Government of India had approximately 90% shareholding in STC.

The various new initiatives by the company during FY16 included exports of rice (under WFP to Nepal) worth Rs.20 crore & export of 96.5MT of red sanders yielding a turnover of Rs.29.5 crore and further domestic sale of pulses valuing approximately Rs.108 crore to Tamil Nadu State Civil Supplies Corporation Ltd and gold coins worth Rs.61 crore to Government of Tamil Nadu were made during the year. STC conducted cardamom auctions in the states of Tamil Nadu and Kerala against the license obtained from Spices board. They offer better margins than the other high selling items. During FY16, STC achieved a turnover of Rs.104 crore from retail sale and exports of cardamom and is projected to increase going forward. The company shall continue to make efforts to enhance business of existing areas of trade such as exports of steel plates/coils and rice under World Food Program (WFP), imports of bullion, fertiliser & domestic sale of coal, pulses, fertiliser, cardamom, etc & proposes to take various new initiatives like exports of steel rails to Iran Railways, export of cardamom, tobacco to Iran & other countries to increase its turnover & profitability.

Auditors have opined that the internal control procedure regarding review, realization of advances and other claims and reconciliation of balance of sundry debtors and creditors require strengthening. Auditors have also qualified an instance of three day delay on repayment of debt. CARE has taken cognizance of the same, it was though on account of certain operational issues at company's end & the repayment was however made good and there was no further instance of any

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

delay recorded post that. During the year, Internal audit function of the company was suitably strengthened & STC conducted internal Audit four times in a year as against three times being conducted earlier. The corporation has constituted risk management team called Functional Management Committee of Directors (FMCOD) for buyer mapping and assessment of their credit worthiness (including D&B report of the associates) which enables it to decide the credit terms and the maximum exposure to be capped for the buyers. Furthermore, while STC has set guidelines and written policies and procedures for risk management in each division, effective monitoring systems and compliance remain crucial.

During FY16, STC's total income declined by 26.29% to Rs.10,868.03 crore from Rs.14,744.10 crore in FY15 primarily on account of 45% decline in import of bullions due to reduction of Rs.3,882 crore in bullion imports because of lower demand attributable to large imports of dore bars into the country (for which STC does not hold the license) and decline in exports which was partly attributable to general decline in exports of all major world economies. During FY16, the PBILDT & PAT margins remained almost at the same level being 1.40% (1.39% in previous year) and 0.16% (0.18% in FY15). The PBILDT remained at the same level as there was a major decline in bullion sale where the company did not hold higher margins, however the margins were to some extent maintained by shift in the sales model to sale of items like Cardamom, red sanders & edible oil, etc. which though are small sale items as far as the value is concerned but they hold good margins compared to bullion. As on March 31, 2016, STC had an overall gearing (including acceptances) of 9.40x (PY: 9.52x). The marginal improvement in overall gearing was on account of improved net worth base on the back of accretion of profits.

As on March 31, 2016, STC had outstanding trade receivables of Rs.2,640.98 crore of which Rs. 2,428.94 crore has been outstanding for more than 6 months and further Rs.1,067.00 crore long-term receivables has been outstanding for more than a year against which there is a corresponding credit of Rs 910.62 crore. Although in certain cases there are corresponding creditors under back to back arrangement and pledge of stocks and are under litigation for recovery of over dues, the overall receivables are significantly high in comparison to the net worth of STC. Against the outstanding receivable, STC had a net worth of only Rs.172.14 crore as on March 31, 2016.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's Rating Methodology - Wholesale Trading](#)
[Financial ratios – Non-Financial Sector](#)
[Criteria for Short Term Instruments](#)

About the Company

STC is a Miniratna Category-1 Central Public Sector Enterprise and is recognised by the Government of India (GOI) as a Star Trading House. It is a trading company engaged primarily in the export and import operations. The company functions under the administrative control of the Ministry of Commerce & Industry, GOI. STC has 13 branch offices in India, the major ones being at Mumbai, Kolkata, Chennai, Ahmedabad, Bangalore and Hyderabad. STC owns tank farms, warehouses, godowns at various locations of the country for storage of liquid/dry cargo. GOI holds 90% stake in the company.

STC had a total income of Rs.10,868.03 crore with a PAT of Rs.17.86 crore in FY16 (refers to the period April 1 to March 31) as compared with the total income of Rs.14,744.10 crore with a PAT of Rs.26.19 crore in FY15. During H1FY17, STC had a total income of Rs.2,930.93 crore with a PAT of Rs.19.06 crore.

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-Working Capital Limits	-	-	July 2018	2000.00	CARE BB+; Stable (Double B Plus) Stable
Fund Based - ST-Term loan	-	-	-	400.00	CARE A4+ (A Four Plus)
Non-Fund Based - ST-BG/LC	-	-	-	3600.00	CARE A4+ (A Four Plus)

Annexure-2: Rating History (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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Working Capital Limits	LT	2000.00	CARE BB+; Stable	-	1)CARE BB+ (01-Feb-16) 2)CARE BB (13-Apr-15)	1)CARE BB (18-Apr-14)	-
2.	Fund Based - ST-Term loan	ST	400.00	CARE A4+	-	1)CARE A4+ (01-Feb-16) 2)CARE A4 (13-Apr-15)	1)CARE A4 (18-Apr-14)	-
3.	Non-Fund Based - ST-BG/LC	ST	3600.00	CARE A4+	-	1)CARE A4+ (01-Feb-16) 2)CARE A4 (13-Apr-15)	1)CARE A4 (18-Apr-14)	-

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