

Press Release

MSTC LIMITED

February 12, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5500.00 Cr.
Long Term Rating	SMERA A+ / Outlook: Stable
Short Term Rating	SMERA A1+

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **SMERA A+ (read as SMERA A plus)** and a short term rating of **SMERA A1+ (read as SMERA A one plus)** to the Rs. 5500.00 crore bank facilities of MSTC Limited (MSTCL). The outlook is 'Stable'.

MSTC limited (formerly known as Metal Scrap Trade Corporation Limited) was incorporated in September 1964 for export of ferrous scrap. The status of the company underwent change in February, 1974 to that of a subsidiary of Steel Authority of India Limited (SAIL). In 1982-83, the corporation was converted into a Government of India (GoI) company transferring the shares of SAIL to the President of India under administrative control of Ministry of Steel (MoS). Presently, the company has diversified mainly into providing e-auction/e- procurement services. Under this segment, the company undertakes disposal of ferrous and non- ferrous scrap, surplus stores, condemned plants, agri products etc from Public Sector Undertakings and government departments including defence. MSTC also import ferrous and non-ferrous scrap, coke, finished steel, coal and petroleum products in competition with other private traders. Ferro Scrap Nigam Limited (FSNL) renders custodian services for warehouse/stockyard management to its holding company (MSTC).

SMERA has consolidated the business and financial risk profiles of MSTC Ltd with its wholly owned subsidiary, Ferro Scrap Nigam Ltd (FSNL). The consolidation is in view of the entire stake holding of MSTC in FSNL apart from operational linkages between the two entities.

Key Rating Drivers

Strengths

• Controlling stake of the Government of India

MSTC is a Mini Ratna Category I PSU under the administrative control of the MoS, Government of India. The company was initially set up in 1964 to act as a regulating authority for export of ferrous scrap. MSTC became a subsidiary of SAIL in 1974 and ceased to be a subsidiary in 1982 and became an independent company under the MoS. The GoI currently has a 89.5 per cent stake in MSTC. The Board of the company comprises of 3 full time directors, 2 Government nominated directors and 2 independent directors.

SMERA believes that the controlling stake of GoI in MSTC would be one of the key rating sensitivity factors.

• Established track record

The company was formed in 1964 for regulating export of ferrous scrap. The company started functioning independently since 1991 and has been involved in trading of coke, coal, iron ore and other related products.

• Comfortable financial profile

The financial risk profile of the MSTC group is comfortable marked by robust network, comfortable gearing and healthy debt protection measures. The network levels of the group stood at Rs. 687 crs as on March 31, 2017 as against Rs. 655 crs in the previous year due to the accretion to reserves. MSTC has issued a 1:1 bonus in FY2016-17 resulting in increase in share capital by Rs. 8.8 crs. The gearing levels have been at unity in the

past two years ended FY'17 with the borrowings comprising of only working capital limits. Steady profitability and moderate levels have translated into healthy debt protection metrics with interest coverage of 2.73 times in FY'17 and NCA/TD ranging between 0.13 to 0.16 times in the past two years ended FY'17.

Weaknesses

• Stretched receivable cycle

The group has outstanding debtors of around Rs. 3740 crs as on March 31, 2017 as compared to Rs. 2921 crs in the previous year. The high debtors position are primarily on account of trade debtors of Rs. 2755 crores from trading and e-commerce operations; around Rs. 571 crores pending under litigation from several steel players such as SPS Steel Rolling Mills Ltd, Global Coke Ltd etc; an amount of Rs. 143.62 crores pending towards gold jewellery exported to UAE, Singapore and Kuwait; and an amount of Rs. 352 crores due from Haldia Petrochemicals Ltd (HPL) which will be liquidated by February 2021.

SMERA believes that the realization of the outstanding debtors would be a key credit monitorable going forward.

• Declining scale of operations

MSTC has two main line of operations, viz. trading and e-commerce. Trading activities constitute trading of iron ore, coke/coal, billets, naphtha, TMT bars etc and accounts for around 9 per cent of the total volume of business in FY'17. The trading activities are both in the domestic and export market. The company has witnessed significant decline in the trading operations in the past three years ended FY2017 thus leading to dip in total revenues. However, MSTC also acts as a facilitator for procurement of raw material for secondary steel producers and petrochemical industry on behalf of buyers and charge mark up on percentage basis. In this facilitator business model, the company has been able to fetch substantial growth in volumes and commission earned. The company has earned a commission income from this segment of Rs. 46.82 crores as compared to Rs. 29.64 crores in the previous year. In the e-commerce segment, MSTC acts as a service provider for selling agency business, e-sales and e-procurement. E-commerce includes coal block auction, power tariff auction, fixation of interest rate auction, etc. The company derives commission income out of e-commerce activities also. The commission from e-commerce activities has increased from Rs. 122.28 crores in FY2016 to Rs. 155.98 crores in FY2017. The turnover levels of the group have declined in the past three years ended FY'2017. The revenues of the company has reduced to Rs. 1742 crs in FY'17 from Rs. 5690 crs in FY'15. The decline in revenue has been mainly due to dip from trading operations while the commission from e-commerce business has increased steadily over the years. The company has earned revenues of around Rs. 816 crs till December 2017. (provisional).

Outlook: Stable

SMERA believes that the outlook on MSTC will remain stable over the medium term on account of the company's established track record and controlling stake of GoI. The outlook may be revised to 'Positive' in case of its ability to increase its scale of operations and significant improvement in its receivables position. The outlook may be revised to 'Negative' in case the company fails to increase its scale of operations or further deterioration in its receivables position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1742.63	3225.41	5690.19
EBITDA	Rs. Cr.	140.94	180.06	165.84
PAT	Rs. Cr.	79.84	93.28	103.41
EBITDA Margin	(%)	8.09	5.58	2.91
PAT Margin	(%)	4.58	2.89	1.82
ROCE	(%)	19.90	18.13	27.67
Total Debt/Tangible Net Worth	Times	1.00	1.00	1.32
PBDIT/Interest	Times	2.73	2.51	2.72
Total Debt/PBDIT	Times	4.88	3.63	6.67
Gross Current Assets (Days)	Days	838	380	306

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities- <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument<https://www.smera.in/criteria-complexity-levels.htm>**Rating History (Upto last three years)**

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	170.00	SMERA A+ / Stable
OCC	Not Applicable	Not Applicable	Not Applicable	150.00	SMERA A+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	SMERA A+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A+ / Stable
L/C Import/ Inland	Not Applicable	Not Applicable	Not Applicable	400.00	SMERA A1+
Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	400.00	SMERA A1+
Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	2045.00	SMERA A1+
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	488.00	SMERA A1+
Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	900.00	SMERA A1+
Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	230.00	SMERA A1+
Letter Of Credit(proposed)	Not Applicable	Not Applicable	Not Applicable	139.00	SMERA A1+
Letter Of Credit(proposed)	Not Applicable	Not Applicable	Not Applicable	194.00	SMERA A1+
Letter Of Credit(proposed)	Not Applicable	Not Applicable	Not Applicable	84.00	SMERA A1+

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ABOUT SMERA

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