

## Press Release

**MSTC Limited**

May 15, 2019

**Rating Reaffirmed**



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

\* Refer Annexure for details

### Rating Rationale

Acuite has re-affirmed long term rating of **ACUITE A+ (read as ACUITE A plus)** and a short term rating of **ACUITE A1+ (read as ACUITE 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). In March 2019, GoI diluted 25 per cent of its stake through Initial Public Offer (IPO) thereby reducing its stake to 64.75 per cent as against previous stake of 89.75 per cent. The core activity of the company is diversified mainly into providing e-auction/e-procurement services and trading of bulk products like ferrous and non-ferrous scrap, coke, finished steel, coal and petroleum products.

Ferro Scrap Nigam Limited (FSNL) renders custodian services for warehouse/stockyard management to its holding company (MSTC).

### Analytical Approach

Acuite 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. Extent of Consolidation: Full

### Key Rating Drivers

#### Strengths

##### **Established track record and 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 64.75 per cent stake in MSTC.

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

##### **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. 729.60 crore as on March 31, 2018 as against Rs. 6286.99 crore in the previous year due to the accretion to reserves. The gearing levels have been at unity in the past two years ended FY'18 with the borrowings comprising of only working capital limits. The interest coverage ratio stood at 2.52 times in FY'18 and NCA/TD stood at 0.12 times in FY'18.

However, Acuite notices that the company currently is focusing on writing off of its bad debts as a measure to clean its balance sheet. This has led to deterioration in the operating profitability levels of

the company. During FY 2018-19, the company has made provision for doubtful debts of Rs 493.30 crore till 30th September'18 (prov). against its stretched receivable.

### Healthy scale of operations

The company is among the leading player offering e-auction and bulk trading of raw materials in the form of ferrous and non-ferrous scrap, coke, finished steel, coal and petroleum products. It has conducted over 28,500 auctions during FY 2018. During FY 2018, it has registered topline of Rs 2265.79 crore as against Rs 1742.63 crore in FY 2017, thereby registering a y-o-y growth of 30 per cent. Also during FY 2018-19, the company has clocked revenue of Rs 1476.91 crore till 30th Sept'2018 (prov).

### Weaknesses

#### Stretched receivables

The company has outstanding debtors of around Rs. 3981.53 crore as on March 31, 2018 as compared to Rs. 3740.88 crore as on March 31, 2017. Debtors over 6 months stood at Rs 1183.46 crore as on March 31, 2018 i.e ~ 30 per cent of its total debtors which is significantly higher. The high debtors position are primarily on account of debtors of Rs. 2939.79 crore from trading operations through facilitator operations; around Rs. 707.65 crores pending from several steel players such as SPS Steel Rolling Mills Limited, Concast Steel & Power Limited, Jai Balaji Industries Limited etc. In order to clean the balance sheet, the company has started to write off its receivable. In FY 2018, the company has written off Rs 459.41 crore. Further, during FY 2018-19, the company has made provision for doubtful debts of Rs 493.30 crore against its stretched receivable till 30th September'18 (prov).

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

#### Liquidity:

The liquidity position of the company is healthy marked by net cash accruals in the range of ~ Rs.90 crore crore during FY 2018 against nil debt obligations during the same period. The bank balance stood healthy at Rs 176.85 crore as on 31st March'18. Further, the healthy liquidity is reflected from ~ 5 per cent utilization of its fund based limit of Rs 620 crore for the 11 month ended April'2019.

### Outlook: Stable

Acuité 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 Gol. The outlook may be revised to 'Positive' in case of 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	2265.79	1742.63	3225.41
EBITDA	Rs. Cr.	(311.14)	140.94	180.06
PAT	Rs. Cr.	77.22	79.84	93.28
EBITDA Margin	(%)	(13.73)	8.09	5.58
PAT Margin	(%)	3.41	4.58	2.89
ROCE	(%)	18.12	19.90	18.13
Total Debt/Tangible Net Worth	Times	1.05	1.00	1.00
PBDIT/Interest	Times	2.52	2.73	2.51
Total Debt/PBDIT	Times	3.57	4.88	3.63
Gross Current Assets (Days)	Days	684	838	380

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation - <https://www.acuite.in/criteria-consolidation.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-February-2018	Cash Credit	Long Term	170.00	ACUITE A+/Stable (Assigned)
	Open Cash Credit	Short term	150.00	ACUITE A+/Stable (Assigned)
	Cash Credit	Long Term	200.00	ACUITE A+/Stable (Assigned)
	Bill Discounting	Short Term	488.00	ACUITE A1+ (Assigned)
	Cash Credit	Long Term	100.00	ACUITE A+/Stable (Assigned)
	L/C Import/ Inland	Short Term	400.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	2045.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	900.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	230.00	ACUITE A1+ (Assigned)
	Proposed Letter Of Credit	Short Term	139.00	ACUITE A1+ (Assigned)
	Proposed Letter Of Credit	Short Term	194.00	ACUITE A1+ (Assigned)

	Proposed Letter Of Credit	Short Term	84.00	ACUITE A1+ (Assigned)
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**\*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	ACUITE A+/Stable (Re-affirmed)
Open Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A+/Stable (Re-affirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A+/Stable (Re-affirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	488.00	ACUITE A1+ (Re-affirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A+/Stable (Re-affirmed)
L/C Import/ Inland	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A1+ (Re-affirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A1+ (Re-affirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2045.00	ACUITE A1+ (Re-affirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	900.00	ACUITE A1+ (Re-affirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	230.00	ACUITE A1+ (Re-affirmed)
Proposed Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	139.00	ACUITE A1+ (Re-affirmed)
Proposed Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	194.00	ACUITE A1+ (Re-affirmed)
Proposed Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	84.00	ACUITE A1+ (Re-affirmed)

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**About Acuite Ratings & Research:**

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