

Press Release

MSTC Limited

September 16, 2021

Rating Reaffirmed and Withdrawn



Total Bank Facilities Rated	Rs.333.25 Cr (Reduced from Rs. 5500.00 Cr)
Long Term Rating	ACUITE A+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A1+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A+**' (read as **ACUITE A plus**) and the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 333.25 Cr. bank facilities of MSTC Limited (MSTCL). The outlook remains 'Stable'.

Acuite has withdrawn the long term rating of '**ACUITE A+**' (read as **ACUITE A plus**) and the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.5166.75 Cr bank facilities of MSTC Limited. The rating is being withdrawn on account of request received from the company and NOC received from the banker.

The ratings on the bank loan facilities of MSTCL continue to reflect the company's long track record and established position of the company in e-commerce segment, Government of India's (Gol) controlling stake and robust financial risk profile. The ratings also factor in the shift of focus to ecommerce segment from the trading segment. These strengths are partially offset by elongated working capital management of the company.

About the company

MSTC limited (formerly known as Metal Scrap Trade Corporation Limited), a West Bengal based company 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 (Gol) company transferring the shares of SAIL to the President of India under administrative control of Ministry of Steel (MoS). In March 2019, Gol 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/eProcurement 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 considered the consolidated business and financial risk profiles of MSTCL and its subsidiary FSNL to arrive at this rating. Extent of consolidation: Full.

The rating has been notched up based on the nature of the relationship between Government of India and MSTC and its strategic importance for trading and e-commerce activities.

Key Rating Drivers

Strengths

- **Established track record and controlling stake of the Government of India**

MSTC Limited is a Mini Ratna Category-I PSU under the administrative control of the Ministry of Steel, Government of India. The Gol currently has a 64.75 per cent controlling stake in MSTC. It is a strategically important entity and played a key role in government sector penetration in the B2B e-commerce industry enabling transparent practices for the sale of scarce natural resources and government assets through e-auction and e-procurement of goods/services/works by the government owned entities. Over the years, it has added various new products and services in its portfolio. Acuite believes that the controlling stake of Gol in

MSTC would be one of the key rating sensitivity factors.

- **Diversified revenue stream**

MSTCL has achieved revenues of Rs. 780.47 Cr in FY2021 as compared to revenues of Rs. 1232.92 Cr in FY2020. The sharp decline in top line was on account of low trading business and increased focus on e-commerce business. The company has achieved revenues of around Rs. 171.25 Cr in Q1 2021-22, largely driven by growth in marketing business and e-auction business. Covid 19 pandemic and lockdown protocols have led to severe disruptions during the Q1FY21, since at recipient end there were disruptions, affecting both the turnover and the profit during the reporting period. The scarp auctions were not much during the period which forms substantial part of our revenue.

The operating margin of the company stood at 12.38 per cent in FY20. However, the company incurred operating losses of 6.40 per cent in FY 2021 since the company had written off of its bad debts to the tune of Rs. 252.06 cr as a measure to clean its balance sheet. This has led to deterioration in the operating profitability levels of the company. However, the PAT margins improved to 14.47 per cent in FY2021 as against 7.87 per cent as on FY2020, since the provisions which were no longer required were written back to the tune of Rs. 196.81Cr. The RoCE levels stood at a comfortable level of about 29.20 per cent in FY2021 as against 31.62 per cent in FY2020.

- **Shift in focus towards e-commerce business from trading business**

The management continues to shift focus to low working capital intensive e-commerce business from high working capital-intensive trading business. The reason behind the shift is to reduce working capital intensity because of stretched receivables. Trading business led to provisions and write-offs (Rs. 252.06 Cr in FY21) because some large buyers did not accept the delivery of goods while the value of such goods declined later leading to balance sheet provisioning. Hence, reduced trading operations could release significant capital employed and e-commerce business remains the key focus area going forward. Under e-commerce business, revenues are generated in the form of service charges from the buyer or transaction fees are collected from the vendor/supplier before participation in the event.

- **Robust financial risk profile**

The robust financial risk profile of the company is marked by high net worth, low gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs. 557.75 Cr as on 31st March, 2021 as against Rs. 472.70 Cr as on 31st March, 2020 due to accretion of reserves. The gearing stood below unity at 0.28 times in FY2021 as against 0.55 times in FY2020. The total debt of Rs. 154.39 Cr as on March 31st, 2021 consists of working capital borrowings of Rs. 144.97 Cr, long term borrowings of Rs. 4.32 Cr and current obligations of Rs.5.10 Cr as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.62 times as on March 31, 2021 as against 3.17 times as on March 31, 2020. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 20.47 times as on March 31, 2021 and Debt Service Coverage Ratio at 10.71 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.85 times as on March 31, 2021. Acuite believes that going forward the financial risk profile of the company will remain robust backed by steady accruals and no major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 551 days as on March 31, 2021, as compared to 476 days as on 31st March 2020. The high GCA days are on account of high debtor period which stood at 851 days as on 31st March 2021 as compared to 702 days as on 31st March 2020 and high level of current assets due to recoveries pending from government authorities. The high debtors position were primarily on account of debtors from trading operations which the company had reduced to around Rs. 889.66 Cr as on March 31, 2021 as compared to Rs. 1462.64 Cr as on March 31, 2020. Due to Covid-19, there was some delay in realization in trading business. However, the inventory holding stood low at 2 days as on 31st March 2021. Acuite believes that the working capital operations of the firm will remain almost at the same levels as evident from the high debtor days over the medium term.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Further write-offs on account of long-due debtors
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by healthy net cash accruals of Rs. 131.64 Cr in FY2021 as against long term debt repayment of only Rs.5.10 Cr over the same period. The company maintained healthy cash and bank balances of Rs.245.44 Cr as on March 31, 2021, of which unencumbered is Rs 231.14 Cr. The current ratio stood moderate at 1.11 times as on March 31, 2021 as compared to 1.10 times as on March 31, 2020. However, the working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 551 days in 31st March 2021 as compared to 476 days in 31st March 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term with the shift in focus to low working capital intensive e-commerce business from high working capital-intensive trading business.

Outlook: Stable

Acuite believes the company's outlook will remain stable over the medium term on account of the company's established track record, controlling stake of Gol, shift in focus towards ecommerce business from trading operations and strong financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins or deterioration in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	780.47	1232.92
PAT	Rs. Cr.	112.96	97.02
PAT Margin	(%)	14.47	7.87
Total Debt/Tangible Net Worth	Times	0.28	0.55
PBDIT/Interest	Times	20.47	7.21

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Cr)	
24-June-2020	Cash Credit	Long term	170.00	ACUITE A+/Stable (Reaffirmed)

	Open Cash Credit	Long term	150.00	ACUITE A+/Stable (Reaffirmed)
	Cash Credit	Long term	200.00	ACUITE A+/Stable (Reaffirmed)
	Bill Discounting	Short Term	488.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long term	100.00	ACUITE A+/Stable (Reaffirmed)
	L/C Import/ Inland	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	2045.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	900.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	230.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter Of Credit	Short Term	139.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter Of Credit	Short Term	194.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter Of Credit	Short Term	84.00	ACUITE A1+ (Reaffirmed)
15-May-2019	Cash Credit	Long term	170.00	ACUITE A+/Stable (Reaffirmed)
	Open Cash Credit	Long term	150.00	ACUITE A+/Stable (Reaffirmed)
	Cash Credit	Long term	200.00	ACUITE A+/Stable (Reaffirmed)
	Bill Discounting	Short Term	488.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long term	100.00	ACUITE A+/Stable (Reaffirmed)
	L/C Import/ Inland	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	2045.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	900.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	230.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter Of Credit	Short Term	139.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter Of Credit	Short Term	194.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter Of Credit	Short Term	84.00	ACUITE A1+ (Reaffirmed)
12-March-2018	Cash Credit	Long term	170.00	ACUITE A+/Stable (Assigned)
	Open Cash Credit	Long 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)

***Annexure – Details of instruments rated**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	170.00	ACUITE A+ (Withdrawn)
Indian Bank	Open Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A+ (Withdrawn)
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A+ (Withdrawn)
Punjab National Bank	Bill Discounting	Not Applicable	Not Applicable	Not Applicable	488.00	ACUITE A1+ (Withdrawn)
Bank Of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A+ (Withdrawn)
Union Bank	L/C Import/ Inland	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A1+ (Withdrawn)
Union Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A1+ (Withdrawn)
Punjab National Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2045.00	ACUITE A1+ (Withdrawn)
Indian Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	900.00	ACUITE A1+ (Withdrawn)
Bank Of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	230.00	ACUITE A1+ (Withdrawn)
Bank Of India	Proposed Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	139.00	ACUITE A1+ (Withdrawn)
Indian Bank	Proposed Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	194.00	ACUITE A1+ (Withdrawn)
Union Bank	Proposed Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	84.00	ACUITE A1+ (Withdrawn)
State Bank of India	Term Loan	30-June-2019	7.00%	31-Mar-2025	8.25	ACUITE A+/Stable (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A+/Stable (Reaffirmed)

Punjab National Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	125.00	ACUITE A1+ (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A1+ (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in</p> <p>Srijita Chatterjee Analyst - Rating Operations Tel: 033-6620 1212 srijita.chatterjee@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022- 67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.