

**Press Release**  
**MSTC LIMITED**

**December 08, 2022**



**Rating Reaffirmed & Partly Withdrawn**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	48.25	ACUITE A+   Reaffirmed & Withdrawn	-
Bank Loan Ratings	10.00	ACUITE A+   Stable   Reaffirmed	-
Bank Loan Ratings	100.00	-	ACUITE A1+   Reaffirmed
Bank Loan Ratings	175.00	-	ACUITE A1+   Reaffirmed & Withdrawn
<b>Total Outstanding Quantum (Rs. Cr)</b>	110.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	223.25	-	-

**Rating Rationale**

Acuite has reaffirmed the long term rating of '**ACUITE A+**' (read as **ACUITE A plus**) and reaffirmed the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 110.00 Cr. bank facilities of MSTC Limited (MSTCL). The outlook remains '**Stable**'.

Further, Acuite has withdrawn the long term rating of '**ACUITE A+**' (read as **ACUITE A plus**) and the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the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.223.25 Cr bank facilities of MSTC Limited. The rating is being withdrawn on account of request received from the company along with the certificate of charge satisfaction. The rating has been withdrawn on Acuite's policy of withdrawal of ratings.

**Rationale for the rating**

The rating 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 (GoI) controlling stake and robust financial risk profile led by accelerated deleveraging. The ratings also factor in the improvement in the profit levels due to shift of focus to ecommerce segment from the trading segment. The strong liquidity position of the company, which is reflected in robust accruals, also provides reassurance to the rating. These strengths are partially offset by elongated working capital management of the company.

**About the Company**

**MSTC Limited** (formerly known as Metal and Scrap Trading 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 company 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). The company commenced e-commerce operations in 2002 and was awarded Mini-Ratna category I status in 2006. In March 2019, GoI diluted 25.10 per cent of its stake

through Initial Public Offer (IPO) thereby reducing its stake to 64.75 per cent as against previous stake of 89.85 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. MSTC's e-Commerce division has ISO 9001:2008 certification and the System Department is ISO 27000:2005 certified.

### **About the Group**

Ferro Scrap Nigam Limited (FSNL) is a wholly owned subsidiary of holding company (MSTC). Ferro Scrap Nigam Limited (FSNL) earns fee income from processing of scrap primarily for SAIL. The Cabinet Committee on Economic Affairs ("CCEA"), GoI, in its meeting held on 27th October, 2016, accorded its 'in principle' approval to disinvest entire equity shareholding held through MSTC in FSNL, through strategic disinvestment and transfer of management control.

### **Analytical Approach**

The team 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.

On account of being a 64.75 per cent subsidiary of the Government of India, the team has notched up the rating for MSTC based on the nature of the relationship between the Government of India and MSTC and the strategic importance of MSTC for trading and e-commerce activities.

**Extent of Consolidation:** Full

### **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 GoI 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. However, GoI has approved to disinvest entire equity shareholding held through MSTC in FSNL and transfer of management control. Acuité believes that the controlling stake of GoI in MSTC would be one of the key rating sensitivity factors.

#### **Accelerated deleveraging supported by increasing profitability**

The company demonstrated strong free cash flow generation, leading to significant deleveraging and a comfortable net worth position supporting the company's healthy capital structure. The tangible net worth of the company improved to Rs.652.95 Cr as on March 31, 2022 from Rs.557.75 Cr as on March 31, 2021 mainly on account of accretion of reserves. Gearing of the company further improved to 0.23 times as on March 31, 2022 as compared to 0.28 times as on March 31, 2021, following the repayment of term loans. However, Acuité expects the long pending sub-judice liability (classified as external debt) towards Standard Chartered Bank (SCB) and Indian Overseas Bank (IOB) to remain at similar levels over the medium term on account of the on-going litigations against the company. With higher retained earnings and net worth, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.75 times as on 31st March, 2022 as against 2.62 times as on 31st March, 2021. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 90.71 times and Debt Service coverage ratio at 28.09 times as on 31st March, 2022, supported by high profitability and consistent reduction in debt levels. Net Cash Accruals/Total Debt (NCA/TD) stood high at 1.47 times as on 31st March, 2022. Acuité believes that going forward even in the event of any adverse outcome of the legal

proceedings, the financial risk profile of the company will remain robust backed by steady accruals and no major debt funded capex plans.

### **Increasing profitability with shift in focus towards e-commerce business from trading business**

The operating revenue of the company improved to Rs 877.61 Cr (considering misc. income of Rs. 1.47 Cr.) in FY 2022 as compared to Rs 780.47 Cr in FY 2021. 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 which led to significant provisions and write-offs in the trading business in FY22. However, 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. Henceforth, reduced trading operations could release significant capital employed and e-commerce business remains the key focus area going forward. In FY22, the company has started trading backed by 110 per cent BG from the customer to reduce the risks associated with trading business. The value of procurement is covered by irrevocable Bank Guarantee (BG) issued by any Nationalized Bank. Till September 2022, the company has been able to achieve a revenue of Rs. 463.72 Cr (Prov).

The profit margins improved, backed by a favorable revenue mix with a higher share of the e-commerce business, as well as a scaled-down trading business and better margin in service charges. The increasing share of the e-commerce business in the revenue mix improved the EBITDA margin in FY22, as compared to the thin margins in the trading nature of business. The PAT margin of the company increased to 22.69 per cent in FY2022 from 14.47 per cent in FY2021, owing to lower interest cost on reduced debt levels. The RoCE levels for the company stood comfortable at 30.50 per cent in 2022 as against 20.25 per cent in FY2021. Acuité expects the profit margin to improve further in near term backed by further shift in e-commerce business.

### **Weaknesses**

#### **Working capital intensive nature of operations**

The working capital management of the company has improved in FY22, although marked by high Gross Current Assets (GCA) of 427 days on 31st March 2022 as compared to 551 days on 31st March with increased efficiencies in debtor management. The debtor period stood reduced to 469 days as on March 31, 2022 as compared to 851 days as on March 31, 2021. Due to pandemic, there was elongation in realization in trading business. However, the inventory holding stood low at only 2 days as on 31st March 2022. Acuité believes that with the significant reduction of trading business and shift in focus to e-commerce segment backed by 110 per cent BG from the customer, the cash conversion cycle is expected to improve over the medium term.

#### **Pending legal disputes**

Standard Chartered Bank (SCB) paid to MSTC towards purchase of exports bills for gold jewelry during 2008-09, under a Receivable Purchase Agreement. As per the agreement, SCB would purchase the bills raised by MSTC on foreign buyers and pay 95 per cent of the amount to MSTC and foreign buyers would be paying against the bill directly to SCB on respective due dates of the bills. The said export transactions were also insured by SCB with ICICI Lombard General Insurance Company. On non-receipt of proceeds from the foreign buyers, SCB claimed the amount from the insurance company. The insurance company repudiated the claim of SCB. Thereafter SCB converted the receivables into debt and filed a case in Debt Recovery Tribunal, Mumbai. MSTC has been contesting the case in DRT and other forums against the said claim of SCB. The matter is presently sub-judice. MSTC has shown liability in its books for Rs.143.62 crore (as borrowings with corresponding debtors) and interest payable of Rs.78.89 crore (as other liabilities) as on March 31, 2022, as Standard Chartered

Bank (SCB) claimed a sum of Rs. 222.51 Cr. from MSTC and DRT directed MSTC to pay the sum claimed. MSTC went for appeal, also filed for waiver of deposit and the application was disposed of directing MSTC to deposit a sum of Rs. 90 Cr as pre-deposit under section 21 of the Recovery of Debts and Bankruptcy Act, 1993. Thereafter, the amount was deposited and the order was complied. Pending the appeal before DRAT, the recovery officer has finalized the auction programme to sell the attached immovable properties of MSTC Limited (viz. Residential and office flats at Mumbai & residential flats at Kolkata). Other proceedings challenging the claim of SCB are also pending before various forums including the Hon'ble High Court, Bombay and in the Civil Court at Alipore, Kolkata initiated by MSTC both against SCB and the Insurance Company. Any adverse outcome of the legal proceedings impacting the debt coverage indicators is a key rating sensitivity.

### Rating Sensitivities

- Sustenance of revenue growth along with improvement in profitability margins
- Adverse outcome of the legal proceedings impacting the debt coverage metrics
- Further elongation of working capital cycle

### Material covenants

None

### Liquidity Position: Strong

MSTC's liquidity position is strong with healthy cash accruals, nil working capital utilisation, and adequate cash and liquid investments. The net cash accruals stood high at Rs. 219.91 Cr as on March 31, 2022 as against debt repayment of only Rs. 5.10 Cr. over the same period. The company maintains healthy cash and bank balances of Rs.380.92 Cr as on March 31, 2022, of this Rs.305.65 Cr is retained as current account balance and remaining as unencumbered cash. The current ratio stood moderate at 1.25 times as on March 31, 2022 as compared to 1.11 times as on March 31, 2021. However, the working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 427 days in 31st March 2022 as compared to 551 days in 31st March 2021. Acuité 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. Further, any adverse outcome of the legal proceedings can be comfortably serviced through estimated robust cash flows from operations.

### Outlook: Stable

Acuité 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, increased 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 further deterioration in its working capital cycle.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	877.61	780.47
PAT	Rs. Cr.	199.13	112.96
PAT Margin	(%)	22.69	14.47
Total Debt/Tangible Net Worth	Times	0.23	0.28
PBDIT/Interest	Times	90.71	20.47

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

None

## Any other information

None

## Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

## Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Sep 2021	Cash Credit	Long Term	170.00	ACUITE A+ (Withdrawn)
	Cash Credit	Long Term	200.00	ACUITE A+ (Withdrawn)
	Cash Credit	Long Term	150.00	ACUITE A+ (Withdrawn)
	Letter of Credit	Short Term	900.00	ACUITE A1+ (Withdrawn)
	Proposed Letter of Credit	Short Term	84.00	ACUITE A1+ (Withdrawn)
	Letter of Credit	Short Term	230.00	ACUITE A1+ (Withdrawn)
	Proposed Letter of Credit	Short Term	194.00	ACUITE A1+ (Withdrawn)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Withdrawn)
	Letter of Credit	Short Term	2045.00	ACUITE A1+ (Withdrawn)
	Bank Guarantee	Short Term	125.00	ACUITE A1+ (Reaffirmed)
	Proposed Bank Facility	Short Term	150.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	8.25	ACUITE A+   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	50.00	ACUITE A+   Stable (Reaffirmed)
	Cash Credit	Long Term	100.00	ACUITE A+ (Withdrawn)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Withdrawn)
	Bills Discounting	Short Term	488.00	ACUITE A1+ (Withdrawn)
Proposed Letter of Credit	Short Term	139.00	ACUITE A1+ (Withdrawn)	



24 Jun 2020	Letter of Credit	Short Term	230.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	2045.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	84.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	150.00	ACUITE A+   Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	194.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	139.00	ACUITE A1+ (Reaffirmed)
	Bills Discounting	Short Term	488.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	170.00	ACUITE A+   Stable (Reaffirmed)
		Long		ACUITE A+   Stable (Reaffirmed)
15 May 2019	Cash Credit	Term	200.00	
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	100.00	ACUITE A+   Stable (Reaffirmed)
	Letter of Credit	Short Term	900.00	ACUITE A1+ (Reaffirmed)
	Bills Discounting	Short Term	488.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	194.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	230.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	200.00	ACUITE A+   Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	84.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	139.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	900.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	2045.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	170.00	ACUITE A+   Stable (Reaffirmed)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	150.00	ACUITE A+   Stable (Reaffirmed)
	Cash Credit	Long Term	100.00	ACUITE A+   Stable (Reaffirmed)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	125.00	ACUITE A1+   Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A+   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A+   Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A1+   Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1+   Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.25	ACUITE A+   Reaffirmed & Withdrawn

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### About Acuité Ratings & Research

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