Press Release
MSTC Limited
March 06, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE A+ | Stable | Reaffirmed	-
Bank Loan Ratings	100.00	-	ACUITE A1+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	110.00	-	-

Rating Rationale

Acuité 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'.**

Rationale for reaffirmation:
The rating takes into account improving EBITDA margin, abielt fluctuating sacle of operations and healthy financial risk profile of MSTCL. The Company's revenue stood at Rs.722 Cr. in FY2023 as against Rs. 877.61 Cr in FY2022. The operating margins improved to 27.24 percent in FY2023 as against 1.27 percent in FY2022, the reason behind this robust improvement is favourable revenue mix with a higher share of the e-commerce business and scrap business, as well as a scaled-down trading business and better margin in service charges. The increasing share of the e-commerce business (40.31%) and scrap business (54.88%) in the revenue mix improved the EBITDA margin in FY2023. The financial risk profile of the company continues to be healthy with healthy debt protection metrics and low gearing. The overall gearing of the Company stood at 0.18 times as on March 31, 2023 as against 0.23 times as on March 31, 2022. The interest coverage ratio stood at 2256.92 times in FY2023 as against 90.71 times in FY2022.

Further, the rating continues to derive strength from 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. These strengths are partially offset by elongated working capital management of the company.

About 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. The company have registered office in Kolkata and current director of company are Mrs. Ruchika Chaudhry Govil, Mr. Vasant Ashok Patil, Mr. Adya Prasad Pandey, Mr. Bhanu Kumar, Mr. Subrata Sarkar, Mrs. Ashwini Kumar, and Mr. Manobendra Ghoshal.

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.

Unsupported Rating
ACUITE BBB+/Stable

Analytical Approach

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
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.

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.

- **Increasing profitability with shift in focus towards e-commerce business from trading business; abielt fluctuating scale of operations**

  MSTC profit margins improved, backed by a favorable revenue mix with a higher share of the e-commerce business and scrap business, as well as a scaled-down trading business and better margin in service charges. The increasing share of the e-commerce business and scrap business in the revenue mix and decrease in selling expenses improved the EBITDA margin in FY2023 and same has been continued in current year FY2024. EBITDA for FY2023 stood high at 27.24 percent as against 1.27 Percent in FY2022. PAT margin improved to 33.51 percent in FY2023 as against 22.69 percent in FY2022. The reason behind increase in PAT margin is owing to lower interest cost and increase in other income part (Interest on F.D). The operating revenue of the company stood at Rs 722 Cr in FY 20223 as compared to Rs 877.61 Cr in FY 2022. The reason behind the fluctuating revenue is on account of discontinued trading business in FY2023. Acuité expects the profit margin to improve further in near term backed by shift in e-commerce business.

- **Healthy financial risk profile**

The company demonstrated strong free cash flow generation, leading to significant deleveraging and a healthy net worth position supporting the company's healthy capital structure. The net worth of the company stood at Rs 785.55 Cr and Rs.652.95 Cr as on March 31, 2023 and 2022 respectively, mainly on account of accretion of reserves. The gearing stood at 0.18 times as on March 31, 2023 against 0.23 times as on March 31, 2022. Acuité expects the long pending sub-judice liability (classified as external debt) towards Standard Chartered Bank (SCB) to remain at similar levels over the medium term on account of the on-going litigations against the company. The robust debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 2256.92 times and 56.66 times as on March 31, 2023 respectively as against 90.71 times and 28.09 times as on March 31, 2022 respectively. TOL/TNW stood at 2.19 times and 1.75 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 0.41 times as on March 31, 2023 as against 0.58 times as on March 31, 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.

Weaknesses

- **Working capital intensive nature of operations**

The working capital management of the company remained high with high GCA days at 783 days as on March 31, 2023 as against 427 days as on March 31, 2022. The GCA days are majorly marked by high cash and bank balances. Inventory days stood at 4 days as on March 31, 2023 as against 2 days as on March 31, 2022. the inventory holding period stood low on account of material is directly shipped to the customer which eliminates the need for storage. Subsequently, the debtor days stood at 234 days as on March 31, 2023 as against 228 days as on March 31, 2022. The payable period stood at 171 days as on March 31, 2023 as against 128 days as on March 31, 2022 respectively.

- **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 under the Receivables Purchase Agreement into loans/ debts as if owing by MSTC, claimed the amount from MSTC with interest and filed a case, being the Original Application in the Debt Recovery Tribunal(DRT), Mumbai in the year 2012, which MSTC has denied and disputed. Against this petition, an Interim order claiming Rs. 222.51 Cr was passed by the DRT, Mumbai on I6.09.2017, which has been set aside by the Debt Recovery Appellate Tribunal (DRAT), Mumbai by its order dated 07.08.2023. 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, 2023. Consequently, the recovery proceedings have since been dropped. As a result of which MSTC has got refund of Rs. 90 Cr (pre-deposit amount towards hearing of appeal) along with interest of Rs. 53.43 Cr. The attached properties have also been released. 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

- Growth in scale of operations while maintaining operating profitability
- Adverse outcome of the legal proceedings impacting the debt coverage metrics
- Further elongation of working capital cycle

Liquidity Position: Strong

The company's liquidity is Strong marked by healthy net cash accruals which stood at Rs. 263.80 Cr in FY2023 as against Its nil maturing long term debt obligations for the same period. The current ratio stood at 1.28 times as on March 31, 2023. The company maintains healthy cash and bank balances of Rs.922.25 Cr as on March 31, 2023, of this Rs.149.13 Cr is retained as current account balance and remaining as unencumbered cash. However, the working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 783 days in March 31, 2023 as compared to 427 days in March 31,2022. The GCA days are mainly effected by high cash and bank balances in FY2023. Company is expected to generate NCA in range of Rs.225-230 Cr in FY2024 against nil repayment obligations over the same period. Acuité believes that the liquidity of the company is likely to remain strong over the medium term

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 GoI, 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	722.00	877.61
PAT	Rs. Cr.	241.96	199.13
PAT Margin	(%)	33.51	22.69
Total Debt/Tangible Net Worth	Times	0.18	0.23
PBDIT/Interest	Times	2256.92	90.71

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

Not applicable

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Dec 2022	Term Loan	Long Term	8.25	ACUITE A+ | Not Applicable (Reaffirmed & Withdrawn)
	Proposed Long Term Bank Facility	Long Term	40.00	ACUITE A+ | Not Applicable (Reaffirmed & Withdrawn)
	Bank Guarantee/Letter of Guarantee	Short Term	125.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Proposed Short Term Bank Facility	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	50.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE A+ | Stable (Reaffirmed)
16 Sep 2021	Proposed Long Term Bank Facility	Long Term	50.00	ACUITE A+ | Stable (Reaffirmed)
	Term Loan	Long Term	8.25	ACUITE A+ | Stable (Reaffirmed)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Cash Credit	Long Term	100.00	ACUITE A+ (Reaffirmed & Withdrawn)
	Bills Discounting	Short Term	488.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Cash Credit	Long Term	200.00	ACUITE A+ (Reaffirmed & Withdrawn)
	Cash Credit	Long Term	150.00	ACUITE A+ (Reaffirmed & Withdrawn)
	Cash Credit	Long Term	170.00	ACUITE A+ (Reaffirmed & Withdrawn)
	Letter of Credit	Short Term	230.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Proposed Bank Guarantee	Short Term	150.00	ACUITE A1+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	125.00	ACUITE A1+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	84.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Proposed Letter of Credit	Short Term	194.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Proposed Letter of Credit	Short Term	139.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Letter of Credit	Short Term	900.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Letter of Credit	Short Term	2045.00	ACUITE A1+ (Reaffirmed & Withdrawn)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed & Withdrawn)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A+ | Stable | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	100.00	ACUITE A1+ | Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1. Ferro Scrap Nigam Limited (FSNL)

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.