Press Release

MSTC LIMITED

January 30, 2025

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	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE A+' (read as ACUITE A plus)** on the Rs. 10.00 Cr. bank facilities and reaffirmed the short-term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs. 100.00 Cr. bank facilities of MSTC Limited (MSTCL). The outlook remains **'Stable'.**

Rationale for reaffirmation:

The rating reaffirmation continues to reflect MSTCL's moderation in operating performance in FY2024 on a standalone and consolidated basis. Further it continues to consider its healthy financial risk profile, coupled with strong liquidity position on both consolidated and standalone basis for FY2024. Additionally, the rating continues to benefit from MSTCL's long-standing operational track record, its established position in the e-commerce segment, and its status as a Mini Ratna Category-I PSU under the administrative control of the Ministry of Steel, Government of India, with the Government of India holding a controlling stake.

However, these strengths are partially offset by the company's intensive nature of working capital operations and potential susceptibility to any unfavourable outcome of the pending litigation on its overall financial risk profile.

About the Company

MSTC Limited (formerly known as Metal and Scrap Trading Corporation Limited) was incorporated in September 1964 for the 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 the administrative control of the 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 percent of its stake through an Initial Public Offer (IPO), thereby reducing its stake to 64.75 percent as against the previous stake of 89.85 percent. 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 has a registered office in Kolkata, and the current directors of the company are Mr. Bhanu Kumar, Mr. Subrata Sarkar, Mrs. Ashwini Kumar, Mr. Manobendra Ghoshal, and Mr. Vinod Kumar Tripathi.

Unsupported Rating

ACUITE BBB+/Stable

Analytical Approach

On January 21st, 2025, MSTCL's divested its entire stake in Ferro Scrap Nigam Limited (FSNL), thus FSNL ceases to be a subsidiary of MSTCL. On the back of this divestment, Acuite has considered the standalone business risk profile of MSTCL post April 2024, while considered consolidated financial and business risk profile of MSTCL and FSNL till FY2024.

On account of being a 64.75 per cent subsidiary of the Government of India, the team has notched up the rating for MSTCL based on the nature of the relationship between the Government of India and MSTCL and the strategic importance of MSTCL 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 percent 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 to its portfolio. Acuité believes that the controlling stake of GoI in MSTCL would be one of the key rating sensitivity factors

- **Stable operating income and healthy margins**

  On a consolidated level MSTCL has reported moderate y-o-y growth of 5.00 percent in FY2024 as compared to FY2023. Revenue stood at Rs 758.07 Cr, in FY 2024 as against Rs 722 Cr. in FY 2023. The reason behind stable operating income is favourable revenue mix with an e-commerce business and scrap business. Under e-commerce business, revenues are generated in the form of service charges from the buyer, or transaction fees collected from the vendor/supplier before participation in the event. Operating profit margins ranged declined to 22.26 percent in FY2024 from 27.24 percent in FY2023on account of increase in employee costs and selling expenses (which the company has shown as provisions and write-offs) in FY2024.

  On a standalone basis MSTCL's revenue stood at Rs 316.25 Cr. in FY 2024 as against Rs 324.72 Cr. in FY 2023. Further, it recorded revenue of Rs. 140.96 Cr. in H1FY2025 as compared to revenue of Rs.163.47 Cr. in H1FY2024. The continuing moderation in revenues is on account of lower e-commerce revenues, which declined primarily due to subdued demand levels for scrap as compared to the previous year. The operating profit margins ranged between 28.21-45.19 percent in the last two years ending in FY2024. The company recorded an operating profit margin of 53.6 percent in H1 of FY2025 as compared to 61.91percent in H1FY2024. Acuité believes that going forward improvement in revenues and profitability from the e-commerce segment will be key monitorable.

- **Healthy financial risk profile**

  On a consolidated level MSTCL demonstrated strong free cash flow generation, leading to significant deleveraging and a healthy net worth position supporting its healthy capital structure. The net worth of the company stood at Rs 882.99 Cr. and Rs. 785.55 Cr. as on March 31, 2024, and 2023, respectively, mainly on account of the accretion of reserves. The gearing stood at 0.16 times as on March 31, 2024 against 0.18 times as on March 31, 2023. 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 ongoing litigations against the company. The robust debt protection metrics—interest coverage ratio and debt service coverage ratio—stood at 421.61 times and 264.82 times as on March 31, 2024, respectively, as against 2256.92 times and 56.66 times as on March 31, 2023, respectively. TOL/TNW stood at 1.42 times and 2.19 times as of March 31, 2024, and 2023, respectively. The debt to EBITDA stood at 0.40 times as on March 31, 2024, as against 0.41 times as on March 31, 2023.

  On a standalone level also, the financial risk profile stood healthy, marked by healthy net worth, low gearing, and healthy debt protection metrics. Its net worth stood at Rs. 658.62 Cr. and Rs. 593.28 Cr. as on March 31, 2024, and 2023, respectively. The gearing level stood at 0.22 times as on March 31, 2024, against 0.24 times as on March 31, 2023. Debt protection metrics— interest coverage ratio and debt service coverage ratio—stood robust at 602.69 times and 370.63 times as on March 31, 2024, respectively, as against 2198.02 times and 1688.05 times as on March 31, 2023, respectively. The debt to EBITDA stood at 0.50 times as on March 31, 2024, as against 0.45 times as on March 31, 2023.
  Acuité believes that going forward, financial risk profile of the company is expected to remain healthy, backed by steady accruals and no major debt- funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

  On a consolidated level, the working capital management of the company improved yet remained intensive with high GCA days at 415 days in FY2024 as against 783 days in FY2023. The GCA days in FY2024 improved on account of lower debtor days. Further, the GCA days are also led by high cash and bank balances of Rs.269.65. Inventory days stood at 3 days in FY2024 as against 4 days in FY2023. The inventory holding period stood low as the material is directly shipped to the customer, which eliminates the need for storage. The debtor day stood at 250 days in FY2024 as against 234 days in FY2023.
  Further, on a standalone basis the working capital management of the company improved yet remained intensive with high GCA days at 704 days in FY2024 as against 1520 days in FY2023. The GCA days in FY2024 improved on account of lower cash and bank balances as compared to previous year. Further, the GCA days are also led by high cash and bank balances of Rs.242.29 Cr. The debtor day stood at 366 days in FY2024 as against 375 days in FY2023.
  Going ahead, the working capital operations are expected to remain at similar levels over the medium term.

- **Pending legal disputes**

  Standard Chartered Bank (SCB) paid to MSTCL towards the purchase of export bills for gold jewellery 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 percent of the amount to MSTC, and foreign buyers would be paying against the bill directly to SCB on the 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 the Debt Recovery Tribunal, Mumbai. MSTCL under the Receivables Purchase Agreement into loans/debts as if owing by MSTCL, claimed the amount from MSTCL with interest, and filed a case, being the original application in the Debt Recovery Tribunal (DRT), Mumbai, in the year 2012, which MSTCL 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. MSTCL has shown liability in its books for Rs.143.62 crore (as borrowings with corresponding debtors) as on March 31, 2024. Consequently, the recovery proceedings have since been dropped. As a result of which MSTCL 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

On a consolidated level, MSTCL's liquidity stood strong, marked by healthy net cash accruals, which stood at Rs. 228.52 Cr. in FY2024 as against its nil maturing long-term debt obligations for the same period. The current ratio stood at 1.47 times as on March 31, 2024. Further, the cash and bank balances remained healthy at Rs.269.65 Cr. as on March 31, 2024; of this, Rs.135.25 Cr. is retained as a current account balance and the remaining amount is unencumbered cash.

On a standalone level, MSTCL's liquidity is strong, marked by healthy net cash accruals, which stood at Rs.179.23 Cr. in FY2024 as against its nil maturing long-term debt obligations for the same period. The current ratio stood at 1.40 times as of March 31, 2024. The company maintains healthy cash and bank balances of Rs.242.29 Cr. as on March 31, 2024, of this Rs.119.71 Cr. is retained as current account balance and remaining as unencumbered cash. Further, in H1FY2025, it has generated Rs. 85.66 Cr. of net cash accruals and is expected to generate healthy accruals over the medium term against nil repayment obligations. Acuité believes that the liquidity of the company is likely to remain strong over the medium term.

Outlook: Stable

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	758.07	722.00
PAT	Rs. Cr.	204.37	241.97
PAT Margin	(%)	26.96	33.51
Total Debt/Tangible Net Worth	Times	0.16	0.18
PBDIT/Interest	Times	421.61	2256.93

Key Financials :

Standalone:

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	316.25	324.72
PAT	Rs. Cr.	171.91	239.23
PAT Margin	(%)	54.36	73.67
Total Debt/Tangible Net Worth	Times	0.22	0.24
PBDIT/Interest	Times	602.69	2198.02

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

Not applicable

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
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Group And Parent Support: https://www.acuite.in/view-rating-criteria-47.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
06 Mar 2024	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE A+ | Stable (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	100.00	ACUITE A1+ (Reaffirmed)
08 Dec 2022	Term Loan	Long Term	8.25	ACUITE A+ (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	40.00	ACUITE A+ (Reaffirmed & Withdrawn)
	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE A+ | Stable (Reaffirmed)

Annexure - Details of instruments rated

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

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

Sr. No.	Company name
1	GOI (Government of India)
2	MSTC Limited

Contacts

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About Acuité Ratings & Research
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