

MSTC Ltd.

MSTC was incorporated in 1964 as a trading company to deal in the export of scrap and since then it has grown into a large diversified, multi-product services and trading company. It was a canalizing agency for import of ferrous scrap until 1992, however after de-canalization, MSTC has established itself as one of the leading e-commerce service providers in the country. MSTC is one of the major players in trading of bulk raw material. It has entered the recycling business through a 50:50 joint venture with MIL for setting up a shredding plant and collection centres across the country. The company has three main business verticals viz., (i) E-commerce, (ii) Trading, and (iii) Recycling through MMRPL.

Positives: (a) MSTC is one of the leading PSU entities and provides transparent, fair and secure e-commerce services to customers, (b) Enjoys first mover advantage owing to domain expertise in providing e-commerce services, which boosts MSTC's business, (c) Expert & experienced management coupled with qualified workforce.

Investment concerns: The company's financials, both on the top-line as well as bottom-line, witnessed instable performance over FY16-18. MSTC registered fluctuation in top-line growth, while reported losses on the bottom-line front. Further, in 1HFY2019, the company has again posted loss of ~`15cr.

Outlook & Valuation: Considering the company's business segments like E-commerce, Trading & Recycling through MMRPL, which mainly cater to the commodity sectors (not very attractive). Moreover, given the instability on the top-line front coupled with losses on bottom-line front, we recommend **NEUTRAL** rating on the issue.

Key Financials

| Y/E March (` cr) | FY2016 | FY2017 | FY2018 | 1HFY19 |
|-------------------|---------------|--------------|--------------|--------------|
| Net Sales | 3,225 | 1,739 | 2,265 | 1,477 |
| % chg | - | (46.1) | 30.3 | - |
| Net Profit | (247) | 139 | (6) | (15) |
| % chg | - | (156.3) | (104.7) | - |
| OPM (%) | (5.2) | 7.3 | (18.2) | 4.5 |
| EPS (`) | (35.1) | 19.8 | (0.9) | (2.1) |
| P/E (x) | (3.6) | 6.5 | (139.0) | |
| P/BV (x) | 0.3 | 0.2 | 0.2 | |
| RoE (%) | (7.9) | 3.4 | (0.2) | |
| RoCE (%) | (1.9) | 1.0 | (3.8) | |
| EV/Sales (x) | (0.8) | 1.7 | 1.3 | |
| EV/EBITDA (x) | 15.8 | 22.7 | (7.1) | |

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: Mar 13, 2019

Issue Close: Mar 15, 2019

Issue Details

Face Value: ` 10

Present Eq. Paid up Capital: ` 70.4cr

Fresh issue: Nil

Post Eq. Paid up Capital: 70.4cr

Issue size (amount): ` 214cr -*** 226cr

Price Band: ` 121-128

Lot Size: 90 shares and in multiple thereafter

Post-issue implied mkt. cap: ** 852cr - *** 901cr

Promoters holding Pre-Issue: 89.8%

Promoters holding Post-Issue: 10.2%

*Calculated on lower price band

** Calculated on upper price band

Book Building

| | |
|-------------------|--------------|
| QIBs | 50% of issue |
| Non-Institutional | 15% of issue |
| Retail | 35% of issue |

Post Issue Shareholding Pattern

| | |
|-----------|-------|
| Promoters | 64.7% |
| Others | 35.3% |

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Company background

MSTC was incorporated in 1964 as a trading company to deal in the export of scrap and since then it has grown into a large diversified, multi-product services and trading company. It was a canalizing agency for import of ferrous scrap until 1992, however after de-canalization, MSTC has established itself as one of the leading e-commerce service providers in the country. MSTC is one of the major players in trading of bulk raw material. It has entered the recycling business through a 50:50 joint venture with MIL for setting up a shredding plant and collection centres across the country. The company has three main business verticals viz., (i) E-commerce, (ii) Trading, and (iii) Recycling through MMRPL.

Issue details

MSTC is raising ~`214-226cr through offer for sale of equity shares in the price band of `121-128. The company will dilute 25.1% (at upper price band) of its pre-offer paid-up equity share capital.

Exhibit 1: Pre and Post IPO shareholding pattern

| | No of shares (Pre-issue) | % | No of shares (Post-issue) | % |
|--------------|--------------------------|---------------|---------------------------|---------------|
| Promoters | 63251200 | 89.8% | 45580800 | 64.7% |
| Others | 7148800 | 10.2% | 24819200 | 35.3% |
| Total | 70400000 | 100.0% | 70400000 | 100.0% |

Source: Source: RHP, Note: Calculated on upper price band

Note: A discount of `5.5 per equity share is offered to Retail Investors.

Objectives of the Offer

- Carry out the disinvestment of equity shares by selling shareholder in the company.
- Achieve the benefits of listing the equity shares on the stock exchange.

Income Statement

| Y/E March (` cr) | FY2016 | FY2017 | FY2018 | 1HFY19E |
|-----------------------------|----------------|--------------|--------------|---------------|
| Net Sales | 3225 | 1739 | 2265 | 1477 |
| % chg | | (46.1) | 30.3 | (34.8) |
| Total Expenditure | 3,393 | 1,613 | 2,679 | 1,410 |
| Raw Material | 2723 | 1227 | 1590 | 1107 |
| Personnel | 140 | 149 | 211 | 79 |
| Others Expenses | 530 | 237 | 877 | 224 |
| EBITDA | (168) | 126 | (413) | 67 |
| % chg | | (175.3) | (427.5) | (116.1) |
| (% of Net Sales) | (5.2) | 7.3 | (18.2) | 4.5 |
| Depreciation & Amortisation | 12 | 12 | 12 | 6 |
| EBIT | (179) | 114 | (426) | 60 |
| % chg | | (163.6) | (473.2) | (114.2) |
| (% of Net Sales) | (5.6) | 6.6 | (18.8) | 4.1 |
| Interest & other Charges | 97 | 68 | 67 | 33 |
| Other Income | 83 | 137 | 528 | 15 |
| (% of PBT) | (42.6) | 74.7 | 1,518.3 | 35.3 |
| Recurring PBT | (194) | 183 | 35 | 41 |
| % chg | | (194.5) | (81.0) | 19.3 |
| Tax | 53 | 44 | 40 | 56 |
| (% of PBT) | (27.2) | 23.8 | 114.9 | 135.9 |
| PAT (reported) | (246.7) | 139.7 | (5.2) | (14.9) |
| Extraordinary Items | 0 | 1 | 1 | (0) |
| ADJ. PAT | (247.1) | 139.2 | (6.5) | (14.9) |
| % chg | | (156.3) | (104.7) | 129.9 |
| (% of Net Sales) | (7.7) | 8.0 | (0.3) | (1.0) |
| Basic EPS (`) | (35.1) | 19.8 | (0.9) | (2.1) |

Source: Company, Angel Research

Exhibit 2: Balance Sheet

| Y/E March (` cr) | FY2016 | FY2017 | FY2018 | 1HFY19 |
|-----------------------------|--------------|---------------|---------------|--------------|
| SOURCES OF FUNDS | | | | |
| Equity Share Capital | 88 | 176 | 352 | 352 |
| Reserves& Surplus | 3,059 | 3,884 | 3,310 | 2,927 |
| Shareholders Funds | 3,147 | 4,060 | 3,662 | 3,279 |
| Total Loans | 6,533 | 6,884 | 7,662 | 3,019 |
| Deferred Tax Liability | 20 | - | - | - |
| Total Liabilities | 9,700 | 10,944 | 11,323 | 6,299 |
| APPLICATION OF FUNDS | | | | |
| Net Block | 617 | 658 | 690 | 715 |
| Capital Work-in-Progress | 41 | 22 | 104 | 169 |
| Investments | - | 26 | 88 | 78 |
| Current Assets | 36,926 | 41,273 | 43,162 | 38,573 |
| Inventories | 192 | 744 | 42 | 58 |
| Sundry Debtors | 25,816 | 34,599 | 36,172 | 31,881 |
| Cash | 10,076 | 4,888 | 5,548 | 5,537 |
| Other Assets | 842 | 1,042 | 1,401 | 1,095 |
| Current liabilities | 31,922 | 35,054 | 36,055 | 36,268 |
| Net Current Assets | 5,004 | 6,219 | 7,107 | 2,305 |
| Deferred Tax Asset | 3,215 | 3,322 | 3,387 | 3,031 |
| Mis. Exp. not written off | - | - | - | - |
| Total Assets | 9,700 | 10,944 | 11,323 | 6,299 |

Source: Company, Angel Research

Exhibit 3: Cash Flow Statement

| Y/E March (` cr) | FY2016 | FY2017 | FY2018 | 1HFY19 |
|----------------------------------|-------------|-------------|-------------|-------------|
| Profit before tax | -194 | 183 | 33 | 40 |
| Depreciation | 12 | 12 | 12 | 6 |
| Change in Working Capital | 105 | -652 | -127 | 351 |
| Interest / Dividend (Net) | 0 | 1 | 0 | 0 |
| Direct taxes paid | -73 | -53 | -47 | -23 |
| Others | 374 | (10) | 223 | 148 |
| Cash Flow from Operations | 223 | -519 | 95 | 523 |
| (Inc.)/ Dec. in Fixed Assets | -14.0 | -19.4 | -26.3 | -19.3 |
| (Inc.)/ Dec. in Investments | 319 | 397 | 37 | (5) |
| Cash Flow from Investing | 305 | 377 | 11 | -25 |
| Issue of Equity | 0 | 0 | 0 | 0 |
| Inc./(Dec.) in loans | -231 | 122 | 3 | -300 |
| Dividend Paid (Incl. Tax) | 0 | 0 | 0 | 0 |
| Interest / Dividend (Net) | (121) | (110) | (97) | (60) |
| Cash Flow from Financing | -351 | 12 | -94 | -359 |
| Inc./(Dec.) in Cash | 177 | (130) | 11 | 139 |
| Opening Cash balances | -86 | 91 | -39 | -28 |
| Closing Cash balances | 91 | (39) | (28) | 111 |

Source: Company, Angel Research

Exhibit 4: Key Ratios

| Y/E March | FY2016 | FY2017 | FY2018 |
|--|--------|--------|---------|
| Valuation Ratio (x) | | | |
| P/E (on FDEPS) | (3.6) | 6.5 | (139.0) |
| P/CEPS | (3.8) | 5.9 | 124.8 |
| P/BV | 0.3 | 0.2 | 0.2 |
| EV/Sales | (0.8) | 1.7 | 1.3 |
| EV/EBITDA | 15.8 | 22.7 | (7.1) |
| EV / Total Assets | (0.3) | 0.3 | 0.3 |
| Per Share Data (₹) | | | |
| EPS (Basic) | (35.1) | 19.8 | (0.9) |
| EPS (fully diluted) | (35.1) | 19.8 | (0.9) |
| Cash EPS | (33.5) | 21.6 | 1.0 |
| Book Value | 447.0 | 576.7 | 520.1 |
| Returns (%) | | | |
| ROCE | (1.9) | 1.0 | (3.8) |
| Angel ROIC (Pre-tax) | 45.2 | 1.9 | (7.5) |
| ROE | (7.9) | 3.4 | (0.2) |
| Turnover ratios (x) | | | |
| Asset Turnover (Gross Block) | 0.3 | 0.2 | 0.2 |
| Inventory / Sales (days) | 2 | 16 | 1 |
| Receivables (days) | 292 | 726 | 583 |
| Payables (days) | 246 | 537 | 420 |
| Working capital cycle (ex-cash) (days) | 48 | 204 | 164 |

Source: Company, Angel Research

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