

**MEMORANDUM
OF
UNDERSTANDING
2014-15
BETWEEN**



MSTC LIMITED

AND



**GOVERNMENT OF INDIA
MINISTRY OF STEEL**

MEMORANDUM OF UNDERSTANDING FOR 2014-15

This Memorandum of Understanding is made between MSTC Limited and Ministry of Steel, Govt. of India for the year 2014-15.

VISION

To emerge as a dominant B2B player in the area of trading with particular emphasis on Steel Industry.

MISSION

MSTC will endeavour to organize and expand a market for the various commodities handled by it by making the transactions as transparent as possible through extensive use of e-commerce.

CORPORATE OBJECTIVES:

- a) To emerge as a diversified trading house with particular emphasis on bulk raw materials for steel industry sourced both indigenously and internationally and towards this end gradually build up tie-ups with international trading houses, develop warehousing system and logistics.
- b) To plan and organize disposal of scrap and secondary arisings, unserviceable stores, etc. of organizations, both in the public sector and private sector and to popularise e-auction.
- c) To promote e-commerce / e-transactions in above areas and also in transactional sale of prime products.
- d) To undertake these activities so as to ensure an optimum return on capital employed and to attain a return of 15% on the Net worth.
- e) To ensure customers' satisfaction by providing prompt and efficient dealing with customers, principals and other business associate.
- f) To develop and maintain a competent, dedicated and motivated workforce.
- g) To achieve the aforesaid objectives, promote Joint Ventures with selected domain experts in the area of mining, logistics, warehousing, value addition to the merchandise etc.

COMMON PARAMETERS (Common to all PSEs)**1 Static Financial Parameters (50%)**

CRITERIA DESCRIPTION	Unit	Weight	<u>Excellent</u>	<u>Very Good</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	Documentary evidence and source/origin of documents
<u>(I) Growth/ Size/ Activity</u>								
(a) Sales Turnover	Rs Crore	15	6000.00	5000.00	4760.00	4538.30	4321.90	As per Annexure
(b) Gross Operating Margin	Rs Crore	10	290.00	267.00	250.00	238.30	226.90	-do-
<u>(II) Profitability</u>								
PAT/ Net Worth	%	5	10.52	9.36	8.39	7.69	7.01	-do-
<u>(III) Costs and Output Efficiency</u>								
PAT per Employee	Rs Lakh	5	26.40	23.25	20.69	18.85	17.10	-do-
<u>(IV) Liquidity/ Leverage</u>								
Current Ratio	Ratio	5	1.23	1.19	1.15	1.13	1.10	-do-
<u>(V) Efficiency of Assets Use</u>								
Recovery from Outstanding Debtors as on 31/03/2014 (more than 1year)	%	10	28	22	20	18	16	-do-
Sub Total 1 (I to V)		50						

2 Dynamic/Non-financial Parameters (50%)

CRITERIA DESCRIPTION	Unit	Weight	<u>Excellent</u>	<u>Very Good</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	Documentary evidence and source/origin of documents
<u>(I) Research & Development:-</u>								
Feasibility Study on recovery of precious metal from e-Waste and preparing Action Plan	Date	2	31.01.15	28.02.15	15.03.15	28.03.15	After 28.03.15	-do-
<u>(II) Initiatives for Growth:-</u>								
(a) Incremental e-Commerce Business	%	5	15	10	8	6	4	-do-

CRITERIA DESCRIPTION	Unit	Weight	Excellent	Very Good	Good	Fair	Poor	Documentary evidence and source/origin of documents
(b) Comprehensive Study on business opportunity of MSTC over a period of 5 years	Date	5	31.01.15	28.02.15	15.03.15	28.03.15	After 28.03.15	-do-
(c) Supply of imported Thermal Coal	Rs Crore	5	2000.00	1500.00	1250.00	1000.00	750.00	-do-
(III) Productivity and Internal Processes:-								
Study of Customer Satisfaction across business segment	Date	5	15.02.15	28.02.15	15.03.15	28.03.15	After 28.03.15	-do-
(IV) Project Management & Implementation:-								
Development of e-Auction portal for UPASI	Date	5	15.02.15	28.02.15	15.03.15	28.03.15	After 28.03.15	-do-
(V) Technology, Quality, Innovative practices:-								
Development of Mobile bidding System for Scrap e-Auction	Date	5	15.02.15	28.02.15	15.03.15	28.03.15	After 28.03.15	-do-
(VI) Human Resources Management:-								
(a) Study on Succession Planning	Date	1	15.02.15	28.02.15	15.03.15	28.03.15	After 28.03.15	-do-
(b) Competency building								
• Training of Senior Management in Management Development Programme	Nos.	2	12	10	8	6	4	-do-
• Skill Development training for IT/e-Commerce personnel	Nos.	5	20	15	12	10	8	-do-
(VII) Enterprise Specific Parameters:-								
Reduction of qualified Audit Para(s) with financial implication	%	10	50	40	35	30	25	-do-
Sub Total (I to VII)								
Grand Total								

Note:-

1. Composition of Sales Turnover:-

<u>Particulars</u>	Rs in Crore	
	<u>Excellent</u>	<u>Very Good</u>
Sale of Goods	5784.23	4794.53
Facilitator (Service Charges only)	23.40	22.71
e-Commerce(Service Charge only)	122.87	118.92
Other Operating Revenue	69.50	63.84
Sales Turnover	6000.00	5000.00
Less: Purchase of Goods	5710.00	4733.00
Gross Operating Margin	290.00	267.00

2. For the parameter '**Recovery from Outstanding Debtors as on 31.03.2014**' should also include debtors under litigation. It is also directed that MSTC shall provide effort report to TF at the time of evaluation of the parameter. Sundry Debtors related to litigation will be duly considered by the TF while determining the % age of reduction of Sundry Debtors.
3. For the parameter '**Reduction of Qualified Audit Para(s) with financial implication**', the Para(s) outstanding as on 31.03.2014 should also include Para(s) under litigation. At the time of evaluation MSTC will also submit a report on the effort made by it to reduce the para(s) specially those under litigation. Audit Para(s) related to litigation will be duly considered by the TF while determining the % age of reduction of Audit Para(s).
4. For the purpose of calculation of Ratios based on numbers of Employees, the number of employees would be the same as on 31st March 2014.
5. **Negative Marking for Non-Compliance of Corporate Governance**
Department of Public Enterprises has issued guidelines of Corporate Governance vide O.M. No. 18(8)/2005-Gm Dated 14th May 2010. Listed CPSEs will follow both SEBI Guidelines and DPE guidelines while non-listed CPSEs would require to mandatorily follow the DPE Guidelines on Corporate Governance. In the MoU for 2014-15, "Compliance of Corporate Governance" will not be a parameter, however, for non-compliance, negative marking will be imposed and MoU Score will be increased in the following manner:

Sl.	Annual Score	Grading	Penalty Marks	Difference in Score From 'Excellent' Grade
01	85% and Above	Excellent	0	0.00
02	75%-84%	Very Good	0	0.00
03	60%-74%	Good	0.5	0.02
04	50%-59%	Fair	0.5	0.02
05	Below 50%	Poor	1.0	0.04

If a CPSE fails to submit the Self-evaluation report of Corporate Governance through Administrative Ministry, its score will be inflated accordingly.

6. Negative Marking for Non-Compliance of other Guideline/Regulations

a. Procurement from MSME

CPSEs will have to follow the Public Procurement Policy for Micro, Small and Medium Enterprises (MSMEs) Order, issued vide D.O. No. 21(1)/2011-M.A. dated April 25, 2012, and non-compliance with the aforesaid order will be penalized up to 1 mark at the discretion of Task Force at the time of MoU Evaluation.

b. Non-Compliance of DPE Guidelines

CPSEs have to give a certificate regarding implementation of Guidelines issued by DPE within prescribed timelines and format specified through its administrative ministry as per details in OM No. DPE/14(38)/10-Fin Dated 28th June 2011. Non-compliance of DPE Guidelines determined on the basis of certificate submitted will be penalized up to 1 mark at the discretion of Task Force at the time of MoU Evaluation.

c. Other Non-Compliance

Non-compliance of any directives of government including submission of data for Public Enterprise (PE) survey, MOSPI data updation on their website etc, and non-compliance of requirements of regulators in serious cases may be penalized upto 1 marks depending on the degree and seriousness of non-compliance. CPSE have to give a certificate regarding compliance of directives of Government and requirement of regulators (Annexure VIII).

Commitments / Assistance from the Government

With a view to enabling MSTC to achieve long and short-term objectives specified in the MOU, it is agreed that Govt. shall assist MSTC in the matters detailed below:

Ministry of Steel (MoS) will assist in increasing e-Commerce business with various Departments/Ministries/PSUs particularly with the PSUs under MoS and also in recovering outstanding dues from other Govt. departments/PSUs.

Considering the importance of Independent/Non-Official Director (NOD's), administrative Ministries/Departments will assist regarding timely action on filling up position of Independent/Non-Official Directors on the board of MSTC Ltd.

Delegation of Power:

Normal delegation of power approved in respect of MOU-signing companies and/or Mini Ratna shall also be followed in respect of MSTC.

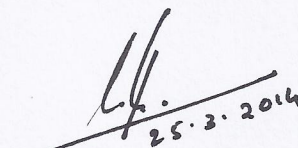
Action Plan for implementation and monitoring of the MOU

MSTC will submit a report to the Government within 30 days of the end of each quarter. In addition, Audit Committee constituted by the Board and Board will review the performance as is being done in 2013-14.

A joint review of performance will be undertaken on expiry of 6 months.



**S. K. TRIPATHI
CHAIRMAN-CUM-MANAGING
DIRECTOR,
MSTC LIMITED,
KOLKATA**



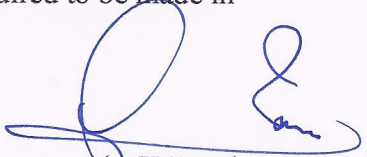
**G. MOHAN KUMAR, IAS,
SECRETARY TO THE GOVERNMENT
OF INDIA,
MINISTRY OF STEEL,
NEW DELHI**

Explanatory Note on Accounting treatment for Outstanding against Export of Gold Jewellery

No provision is required against outstanding on account of export of gold jewellery for which CAG has made a comment in the Annual Accounts of FY 2012-13.

1. MSTC has already obtained 45 decrees in its favour amounting to Rs.696.95 Crore (approx) out of 46 cases filed against foreign buyers in foreign courts. MSTC has already initiated execution process for all these cases.
2. MSTC had made a claim for Rs. 451 Cores to ECGC, the insurance company for non-realisation of export proceeds from foreign buyers. On repudiation of the claim, MSTC has filed cases against ECGC before the National Consumer Disputes Redressal Commission (NCDRC). Final hearing already started and will be concluded on 13.04.2014. Judgement is expected soon. It is expected that the judgement will be pronounced in favour of MSTC. In case ECGC settles MSTC's claim, all awards received from the foreign courts will be subrogated to them as per terms of the insurance policy.
3. MSTC has been provided with landed property as collateral by one Associate for which original title deeds are in its possession of MSTC and the same is covered by a mortgage agreement. As per the valuation done in 2010, the price was Rs. 38 Crore. Since the same land is situated in Raigad District of Maharashtra where second airport is coming up, MSTC is hopeful to recover the entire due of that Associate amounting to Rs.170 Crore. MSTC has already filed a suit for permission to sell. Pending final order, the Court has granted ad-interim stay order on sale and transfer of the land. MSTC is hopeful to complete the sale process by next financial year i.e. 2014-15.

4. In addition to above, CBI during their investigation process have recovered properties/FDs worth Rs. 114 Crore. MSTC has approached CBI Court and got an order on 28.02.2014 for transfer of Rs. 9 Crore to MSTC. Applications are being made for transfer of another Rs.15 Crore from CBI to MSTC. Similar exercise will be done for transfer of Rs. 23 Crore recovered by ED to MSTC.
5. From above it may be noted that MSTC is expected to realize around Rs. 621 Crore only from ECGC and sale of land and the same is much more than the outstanding amount shown in books of Rs.598 Crore for non-provision of which CAG has made the comment.
6. Keeping the above in view, Management feels that no provision is required to be made in books at this stage.



(A K Basu)
Director(Finance)

Note on Volume of Business, composition of Sales Turnover and Adjusted Sales Turnover

MSTC has 2 (two) business verticals i.e. e-Commerce and Trading which are enumerated as below:-

- (1) **E-Commerce** –includes (i) Disposal of Scrap, (ii) Sale of Prime material like coal, iron Ore, chrome ore, manganese ore, agri products etc. through e-Auction and (iii) e-Procurement of materials for customers

List of Principals includes Ministry of Defence, PSUs like IOCL, ONGC, State Electricity Boards, Coal India, MOIL, OMC etc. The mode of disposal include e-Auction and for e-Procurement includes e-Tender, e-Reverse Auction. MSTC earns Service Charge on disposed/sold/procured value. Only the service charge amount is considered as part of Sales Turnover

- (2) **Trading-** Purchase/Procure and Sale of Imported & Domestic industrial materials.

Trading segment supplies industrial raw materials like Heavy Melting Scrap(HMS), Low Ash Metallurgical Coke(LAM), Crude Oil, HR Coil, Pig Iron, DR Pellets/ Iron Pellets, thermal coal etc. and procures them both from international and domestic markets. The customers include Govt. Power utilities, Steel Industries, Coke Manufacturers Oil Sector etc. Trading Department imports industrial bulk raw materials on back to back basis and also finances such imports.

MSTC procures raw materials both on 'Purchase & Sale' mode and 'Facilitator' mode by opening L/C in favour of suppliers.

In case Purchase Order is placed by MSTC on Supplier as Purchaser then the transactions is shown as Purchase and Sale in the books of MSTC.

In 'Facilitator' mode where ultimate buyers have contract of supplies from Suppliers directly, MSTC only provides financial facilities by opening of L/Cs on behalf of buyers for making payment to suppliers. In such cases 'buyer' is the ultimate buyer and MSTC acts as a 'facilitator', as such transactions are not included in purchase and sale figure of MSTC. Only the service charge amount on facilitator mode of sale is considered as part of 'Sales Turnover'.

Global Economic slowdown as struck in 2008 has still been looming large except for some respite in 2010-11. All sectors of economy have been hit hard mainly due to poor demand scenario and dwindling investment especially from Foreign Institution. Liquidity in the market is bare minimum on account of high interest rate and inflation. Dollar has also been on the steep rise making imports more costly. In spite of the fiscal measures to tide over the problem the situation continues to be grim. Steel Sector also has been impacted adversely due to low demand and poor liquidity in the market. MSTC customers in secondary steel sector are forced to scale down their production due to low demand and crashing down of the price of raw material already purchased. As a result, the lifting of MSTC material has slowed down and realizations of outstanding become meagre.

In addition to the above, MSTC is not bullish on this business due to inherent risks and fragility to market fluctuations involved in it. Therefore, MSTC is evaluating option to taper down this business slowly in future and in fact severed business relationship with some of the existing customers on realization of the dues. This has also been supported by Shri C A Joseph, Under Secretary, Ministry of Steel.

The composition of Total Volume of Business, Sales Turnover and Gross Operating Margin (excluding FD interest) are as follows:

Composition of Sales Turnover (Rs in Crore)

	<u>Excellent</u>	<u>Very Good</u>
Sale of Goods	5784.23	4794.53
Facilitator (Service Charges only)	23.40	22.71
e-Commerce(Service Charge only)	122.87	118.92
Other Operating Revenue	69.50	63.84
Sales Turnover	6000.00	5000.00
Less: Purchase of Goods	5710.00	4733.00
Gross Operating Margin	<u>290.00</u>	<u>267.00</u>

Total Volume of Business (Rs in Crore)

	<u>Excellent</u>	<u>Very Good</u>
e-Commerce (Value of materials transacted)	16800.00	15415.00
Trading: Purchase & Sale Mode	5710.00	4733.00
Facilitator Mode	1800.00	1747.00
Total Volume of Business	<u>24310.00</u>	<u>21895.00</u>

Adjusted Sales Turnover

In Trading segment MSTC procures raw materials in 2 (two) modes i.e. Purchase & Sale mode and Facilitator mode. The value of materials procured through 'Facilitator' mode transaction is not included in 'Sales Turnover'. Only the service charge amount on facilitator mode of transaction is considered as part of Sales Turnover.

Although, the value of materials procured through 'Facilitator' mode transaction is not included in 'Sales Turnover', the receivable on account of facilitator mode of transaction is included under 'Trade Receivable' in books. The Adjusted Sales Turnover is 'Sale Turnover' plus value of material procured through 'Facilitator' mode. This adjustment is required at the time of calculating Average Collection Period of Trade Receivable (Debtors Turnover Ratio) so that the ratio reflects a correct picture.



(A K Basu)
Director (Finance)

Annexure-III

Absolute Value for MoU 2014-15

Rs in Crore

	<u>Excellent</u>	<u>Very Good</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>
Sales Turnover	6,000.00	5,000.00	4,760.00	4,538.30	4,321.90
Gross Operating Margin	290.00	267.00	250.00	238.30	226.90
Gross Margin (PBDIT)	260.00	233.50	215.90	201.81	188.20
Profit before Tax (PBT)	130.00	114.50	101.90	92.81	84.20
Profit after Tax (PAT)	85.80	75.57	67.25	61.25	55.57
Depreciation	4.00	4.00	4.00	4.00	4.00
Cash Profit (PAT+Depreciation)	89.80	79.57	71.25	65.25	59.57
Trading Profit(PBT+Depreciation)	134.00	118.50	105.90	96.81	88.20
Net Worth	815.43	807.60	801.23	796.63	792.28
Investment	15.81	15.81	15.81	15.81	15.81
Capital Employed	799.62	791.79	785.42	780.82	776.47
Gross Block	35.00	35.00	35.00	35.00	35.00
Current Assets	4,600.00	4,530.00	4,450.00	4,400.00	4,345.00
Current Liabilities & Provision	3,750.00	3,815.00	3,875.00	3,900.00	3,950.00
Total Employment (Nos.)	325	325	325	325	325
Returns on Capital Employed(PAT/CE) (%)	10.73%	9.54%	8.56%	7.84%	7.16%
Cash Profit/Net Worth (%)	11.01%	9.85%	8.89%	8.19%	7.52%
Trading Profit/Net Worth (%)	16.43%	14.67%	13.22%	12.15%	11.13%
Gross Margin(PBDIT)/Gross Block (%)	742.86%	667.14%	616.86%	576.60%	537.71%
Profit before Tax (PBT)/Capital Employed (%)	16.26%	14.46%	12.97%	11.89%	10.84%
Profit after Tax(PAT) / Net Worth (%)	10.52%	9.36%	8.39%	7.69%	7.01%
PAT per Employee (Rs in Lakh)	26.40	23.25	20.69	18.85	17.10
Current Ratio (Current Assets/Current Liab. & Prov)	1.23	1.19	1.15	1.13	1.10

Statement indicating MoU Target and Actual Results for the period for 2009-2014 **Rs in Crore** **Annexure VI**

Particulars	2009-10		2010-11		2011-12		2012-13		2013-14		2014-15	
	MOU	ACTUAL	MOU	ACTUAL	MOU	ACTUAL	MOU	ACTUAL	MOU	Expected in 2013-14	(Projected) Very Good	
Capacity Utilisation (for each plant separately)												
Production (in Qty.)												
Production(in Rs. Cr.)												
E Commerce	5,000.00	6,353.57	4,708.00	8,167.75	7,260.00	16,005.03	12,100.00	15,482.46	16,000.00	16,811.00	15415.00	
Trading	4,000.00	6,384.87	4,892.00	5,933.02	2,200.00	5,746.15	5,280.00	10,024.20	6,200.00	6,000.00	6480.00	
Total	9,000.00	12,738.44	9,600.00	14,100.77	9,460.00	21,751.18	17,380.00	25,506.66	22,200.00	22,811.00	21895.00	
Profit & Loss Statement Items												
Sales Turnover, excluding interest and other income(Operating Turnover)	4,125.00	4,272.25	3,436.00	1,884.45	2,320.00	2,625.31	2,420.00	6,366.03	4,300.00	4,424.76	6000.00	
(Sales Turnover shall not include excise duty, VAT or any other duty , tax etc												
EBITDA (Earnings Before Interest Taxes, Depreciation and Amortization	80.00	281.77	134.00	254.35	70.00	279.78	186.40	330.47	252.00	221.82	233.50	
Depreciation	2.00	1.68	2.50	1.30	3.00	2.08	4.00	2.45	4.00	2.50	4.00	
EBIT(Earnings Before interest and Taxes)	78.00	280.09	131.50	253.05	67.00	277.70	182.40	328.02	248.00	219.32	229.50	
Interest Expenses		141.83	52.00	102.45		101.55	70.00	134.62	100.00	113.00	115.00	
Profit Before Tax	78.00	135.99	79.50	149.40	67.00	176.15	112.40	193.40	148.00	106.32	114.50	
Tax	26.52	49.90	27.03	50.24	22.78	57.76	38.22	62.67	50.32	36.15	38.93	
Profit after tax	51.48	86.09	52.47	99.16	44.22	118.39	74.18	130.73	97.68	70.17	75.57	
Share Capital	2.20	2.20	2.20	2.20	2.20	2.20	8.80	8.80	8.80	8.80	8.80	
Net Worth	369.98	408.45	420.98	505.21	482.52	596.06	595.90	695.96	744.94	749.71	807.60	
Investment	15.81	15.81	15.81	15.81	15.81	15.81	15.81	15.81	15.81	15.81	15.81	
Capital Employed	354.17	392.64	405.17	489.40	466.71	580.25	580.09	680.15	729.13	733.90	791.79	
Number of Employees	320	311	320	308	325	318	325	319	325	325	325	

Annexure VII**Self-declaration/certification by CPSE**

It is hereby certified that the targets and actual achievements in respect of financial parameters have been worked out as per MoU Guidelines by adopting the norms and definitions laid down in MoU Guidelines for the year 2014-15. In case, any deviation is found at the time of appraisal of performance, DPE is free to evaluate as per MoU Guidelines. CPSE has no right of claim in this regards.



(B B Singh)
Director (Commercial)

Annexure VIII

Self-declaration for Compliance of Directives of Government & Regulators

It is hereby certified that the CPSE has complied all the directives of government and requirements of regulators. In case, any deviation is found at the time of appraisal of performance, DPE is free to evaluate as per Guidelines, directives issued by the government/regulators. CPSE has no right of claim in this regards.



(Authorised Signatory)

DOCUMENTARY EVIDENCE AND SOURCE/ ORIGIN OF DOCUMENTS

Sl No.	Parameters	Documentary evidence and source/ origin of documents
1	Volume of e-Commerce Business	Annual Report
2	Volume of Trading Business	-do-
3	Sales Turnover	-do-
4	Gross Operating Margin	-do-
5	Gross Margin	-do-
6	Profit before Tax	-do-
7	Profit after Tax	-do-
8	Net Worth	-do-
9	Capital Employed	-do-
10	Number of Employees	-do-
11	Current Ratio	-do-
12	Recovery from Outstanding Debtors as on 31/03/2014	Statement signed by GM(F&A)
13	Feasibility Study on recovery of precious metal from e-Waste- and preparing Action Plan	Study Report of Agency
14	Comprehensive Study on business opportunity of MSTC over a period of 5years	-do-
15	Supply of Imported Thermal Coal	Statement signed by head of the Department
16	Study of Customer Satisfaction across business segment	Study Report of Agency
17	Development of e-Auction portal for UPASI	Development Report submitted to competent authority since it will be developed in-house
18	Development of Mobile bidding system for scrap e-Auction	-do-
19	(i) Study on Succession Planning	Report of Agency
	(ii) Competency building	
	• Training of Senior Management in Management Development Programme	Money Receipts/Quotation/ Letter of Nomination
	• Skill Development training for IT/e-Commerce personnel	-do-
20	Reduction of qualified Audit Para(s) with financial implication	Annual Report