

## Press Release

### FOMENTO RESOURCES PRIVATE LIMITED

January 17, 2020



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 143.79 Cr.
<b>Long Term Rating</b>	ACUITE BB (CE**) / Outlook: Stable

\* Refer Annexure for details

\*\*Credit enhancement in the form of letter of comfort from Sociedade De Fomento Industrial Private Limited (SFI).

#### Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB (CE)**' (**read as ACUITE double B credit enhancement**) to the Rs.143.79 crore bank facilities of Fomento Resources Private Limited (FRPL). The outlook is '**Stable**'.

Incorporated in 2010, Fomento Resources Private Limited (FRPL) is engaged in the business of trading in mineral ore. However, due to continuing ban of mining activity in the state of Goa, the trading of iron ore is completely at halt from Goa region. Soon after its incorporation, and as a means of business expansion, the company acquired mining rights in Bimbol Mine, Goa vested with the company Eyestar Finance and Leasing Private Limited (EFLPL). FRPL is part of Fomento Group which is into diversified business including Mining & Mineral Development, Trading (Domestic & Exports), Hospitality, Media, Logistics (Surface and Marine). Before setting up of FRPL, the group operated mines in Goa, Maharashtra and Karnataka through Prime Mineral Exports Private Limited (PMEPL) and Fomento (Karnataka) Mining Company Private Limited (FKPL) respectively. PMEPL and FKPL were subsequently merged with FRPL pursuant to the order of Hon'ble High Court of Bombay at Goa dated 28th January, 2015. The company's day-to-day operations are managed by its Managing Director, Mr. Ambar Timblo along with other directors which includes Mr. Shankar Narayan and Mr. Shafeeq Mitha.

#### Standalone (Unsupported) Rating: ACUITE B / Stable

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of Fomento Resources Private Limited (FRPL) to arrive at the rating and subsequently factored in benefits derived from parent support from Sociedade De Fomento Industrial Private Limited (SFI). The rating has been notched up on account of parent support.

#### Key Rating Drivers

##### Strengths

###### • Experienced management

FRPL started its operations in 2010 under the leadership of its managing director, Mr. Ambar Auduth Timblo who has graduated from London School of Economics (LSE), UK with B.Sc. in economics. He looks after the overall operations of the business along with other directors which include Mr. Shankar Narayan who looks after finance and accounts and Mr. Shafeeq Ismail Mitha who looks after IT. Management has experience of around two decades in mining industry. The extensive experience has enabled the company forge healthy relationships with suppliers.

Acuité believes that the company will continue to benefit from its experienced management, expertise in mining industry and established relationships with suppliers.

- **Support from parent company**

Incorporated in 1957, Sociedade De Fomento Industrial Private Limited (SFI) is engaged in mining and trading of iron ore. However, since the mining activity is banned in goa, company is engaged in trading of iron ore. It is one of the oldest mining company in India with five iron ore mines in Goa. It is a flag ship company of Fomento Group of companies. SFI also holds varying stakes in other Group companies engaged in steel manufacturing, shipping, logistics, trading activities, hotels and media (print and broadcast). FRPL has received letter of comfort from parent company Sociedade De Fomento Industrial Private Limited (SFI) for the entire credit limits sanctioned from the banks. The parent company, SFI has infused unsecured loans to the tune of Rs. 51.29 crore as on March 31, 2019 as against Rs.34.65 crore as on March 31, 2018.

FRPL will continue to receive support from SFI for debt servicing at the back of comfortable financial flexibility marked by mutual funds of Rs.308.86 crore (80 per cent lien marked to bank facilities), bank deposits of Rs.103.73 crore (Rs.80.34 crore held as security against guarantees), receivable on sale of shares of Rs.29.56 crore and cash and bank balance of Rs.21.21 crore. Further, SFI's own debt obligation is modest around Rs.9.00 crore.

SFI has participated in 17 auctions in Odisha and Jharkhand for mining of iron ore and bauxite. It has been successful in its bid for Bauxite mineral block at Nanar (Rajapur), Dist. Ratnagiri, Maharashtra of area 144.95 Hect. (103.11 Hect. Mineralized area) and production is expected to start within 15 to 18 months.

Acuité believes that FRPL will continue to receive support from SFI and will maintain its debt levels.

- **Moderate financial risk profile:**

The financial risk profile of FRPL is moderate marked by low gearing and healthy net worth. The gearing (debt-equity) stood low at 0.23 times as on 31 March, 2019 as against 0.28 times as on 31 March, 2018. The total debt as on 31 March, 2019 of Rs.337.12 crore majorly comprises term loan of Rs.201.20, unsecured loans from related parties of Rs.128.96 crore and working capital facility of Rs.6.96 crore. The tangible net worth of the company is healthy marked by Rs.1472.60 crore as on 31 March, 2019 as against Rs.1494.91 crore in the previous year. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 0.25 times as on 31 March, 2019 as against 0.29 times as on 31 March, 2018.

The coverage indicators are weak. However, as mentioned the company is supported by its parent.

Acuité believes that the financial risk profile of FRPL will continue to remain moderate over the medium term on account of its healthy net worth, support from SFI and future business developments like commencement of dump mining in Goa whose capacity is 4lakh metric tonnes.

## Weaknesses

- **Modest scale of operations and weak profitability**

The revenue of the company has deteriorated y-o-y marked by Rs.102.24 crore in FY2019 as against Rs.195.87 crore in FY2018 and Rs.477.34 crore in FY2017. The deterioration in revenues is because of the ban on mining activity in Goa from FY2017-18. Further, company's revenues are driven by exporting of iron ore bought from Gogte Minerals, Maharashtra. FRPL sells around 94 per cent of iron ore to its Singapore based associate company Fomento Associated Singapore Holdings Private Limited (FASH). The counter party risk and risk related to the changes in the nature of the iron ore is borne by FASH. Operating margins also deteriorated significantly from 12.89 per cent in FY2017 to negative 21.74 per cent in FY2018 and 0.01 per cent in FY2019. Profit after Tax (PAT) margin deteriorated from 5.43 per cent in FY2017 to negative 30.05 per cent in FY2018 and negative 16.02 per cent in FY2019. Profitability margins were affected due to external factors like trade disputes, reduction in steel capacity in China and various environmental disasters along with Brazil's economic crisis.

Acuité believes that scale of operations will remain at modest levels at the outset of ban on mining activity in goa.

- **Intensive working capital operations**

The working capital of FRPL is intensive marked by high Gross Current Asset (GCA) days of 806 for FY2019 as against 462 in the previous year. This is majorly because of the loans and advances of Rs.157.53 crore as on 31 March, 2019. The debtor days stood at 39 for FY2019 as against 126 in FY2018. Further, inventory days stood at 51 for FY2019 as against 49 for FY2018. The average bank limit utilisation stood at ~80 to 90 percent for last six months ending November, 2019.

Acuité believes, going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Susceptibility to heightened regulatory risks**

Over the past few years, the mining industry has witnessed irregularities (including illegal mining, over mining, encroachment of forest areas, and underpayment of government royalties, and conflicts with the tribal population regarding land rights) in ore-rich states, especially Karnataka, Goa, and Odisha. This led the Hon'ble Supreme Court to impose a ban on mining. The business risk profile remains constrained by high regulatory risk.

#### **Rating Sensitivity**

- Significant improvement in scale of operations along with profitability.
- Deterioration in business risk profile of SFI leading to deterioration in capital structure further impacting FRPL's debt servicing.

#### **Material Covenants**

No major covenants apart from gearing and financial indicators

#### **Liquidity Position: Stretched**

FRPL has stretched liquidity marked by weak net cash accruals to its maturing debt obligations. The company generated negative cash accruals of Rs.9.10 crore in FY2019 as against negative Rs.49.85 crore in FY2018 and positive net cash accruals of Rs.36.57 crore in FY2017, while its maturing debt obligation was Rs.59.44 crore in FY2019 as against Rs.55.05 crore in FY2018 and Rs.13.80 crore in FY2017. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 806 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilised at ~80 to 90 percent during the last 6 months' period ended November, 2019. The company maintains unencumbered cash and bank balances of Rs.1.79 crore as on March 31, 2019. The current ratio of the company stood at 1.41 times as on March 31, 2019.

Acuité believes that the liquidity of FRPL will remain stretched but the repayments will be duly supported by infusion of unsecured loans from its parent company.

#### **Outlook: Stable**

Acuité believes that FRPL will maintain a 'Stable' outlook over the medium term on the back of its experienced management, established presence in the industry and parent support. The outlook may be revised to Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue and profit margins or deterioration in the capital structure or liquidity position owing to significant debt funded capex or working capital borrowings.

#### **About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	102.24	195.87
PAT	Rs. Cr.	(16.38)	(58.85)
PAT Margin	(%)	(16.02)	(30.05)
Total Debt/Tangible Net Worth	Times	0.23	0.28
PBDIT/Interest	Times	0.79	(0.33)

#### **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-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Group and parent support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Criteria for Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Not Applicable.

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB (CE) /Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	94.79	ACUITE BB (CE) /Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	42.00	ACUITE BB (CE) /Stable (Assigned)

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