

## Press Release

### FOMENTO RESOURCES PRIVATE LIMITED

April 16, 2021



#### Rating Upgraded

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

\* Refer Annexure for details

#### Rating Rationale

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

#### Reason for rating upgrade

The rating upgrade is reflected by significant surge in scale of operations and profitability along with healthy revenue visibility and comfortable financial risk profile. The revenue of the company has improved to Rs.167.15 crore in FY2020 from Rs.108.19 crore in FY2019. This is because of trading of dumped iron ores along with addition of few mines who can supply iron ore to FRPL for trading. Further, it has improved to around Rs.304.00 crore for FY2021 (Provisional). Operating margins significantly improved to 32.32 per cent in FY2020 from 5.51 per cent in FY2019 and it is expected to be maintained at the same levels. This growth is on the back of Hon'ble Supreme Court's order dated 13th October, 2020, which permitted transportation of extracted iron ore from owned mines.

Acuité believes that management's extensive experience along with parent company support will be helpful to upscale the operations to the expected levels.

#### About the Company

Incorporated in 2010, Goa based Fomento Resources Private Limited (FRPL) is engaged in the business of trading in iron 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.

#### Analytical Approach

Acuité has considered the standalone financial and business risk profile of FRPL to arrive at the rating. The rating has been notched up for parent support from Sociedade De Fomento Industrial Private Limited. Also, the removal of 'CE' suffix is in accordance with Acuité's criteria on explicit credit enhancement.

#### Key Rating Drivers

##### Strengths

- **Experienced management**

FRPL started its operations in 2010 under the leadership of managing director, Mr. Ambar Auduth Timblo who has graduated from London School of Economics (LSE), UK with BSc in economics and looks after the overall operations of the business. Other directors includes Mr. Shankar Narayan who looks after finance and accounts. Mr. Shafeeq Ismail Mitha who looks after IT. Management possesses 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. 66.23 crore as on March 31, 2020 as against Rs. 51.29 crore as on March 31, 2019.

FRPL will continue to receive support from SFI for debt servicing at the back of comfortable financial flexibility marked by mutual funds of Rs.351.67 crore, bank deposits of Rs.48.40 crore and cash and bank balance of Rs.18.08 crore. Further, SFI's own debt obligation is modest around Rs.4.99 crore.

SFI has won Nadidith, Odisha mine along with 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 in FY2022.

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

- **Significant improvement in scale of operations and profitability**

The revenue of the company has improved to Rs.167.15 crore in FY2020 from Rs.108.19 crore in FY2019. This is majorly because of state government's permission to supply dumped iron ore along with addition of two new mines from Goa who supplies their dumped iron ore along with Gogte Minerals, Maharashtra from whom FRPL is able to buy iron ore. FRPL sells 100 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. Further, revenue stood at Rs.304.00 crore (Provisional) for FY2021. This is majorly because of the Hon'ble Supreme Court's order dated 13th October, 2020, which permitted transportation of extracted iron ore from owned mines. Operating margins significantly improved to 32.32 per cent in FY2020 from 5.51 per cent in FY2019. This is majorly because of increase in selling price during FY2020. Profit after Tax (PAT) margin significantly improved to 22.57 per cent in FY2020 from negative 15.14 per cent in FY2019.

Acuité believes that the scale of operations will continue to improve in near medium term at the back of additional mining sites to be added in near future and profitability is expected to be maintained around 30 per cent in near medium term.

- **Moderate financial risk profile**

The financial risk profile of FRPL is healthy marked by healthy tangible net worth, debt protection metrics and moderate coverage indicators. The tangible net worth of FRPL stood at Rs.1482.08 crore as on 31 March, 2020 as against Rs.1472.60 crore in the previous year. The gearing (debt to equity) stood healthy at 0.22 times as on 31 March, 2020 as against 0.23 times as on 31 March, 2019. The total debt of Rs.325.44 crore as on 31 March, 2020 comprises term loan of Rs.141.52 crore, unsecured loans Rs.176.87 crore and Rs.7.05 crore working capital facility from bank. The coverage indicator of the company stood healthy marked by healthy Interest Coverage Ratio (ICR) ICR improved to 2.39 times for FY2020 as against 0.79 times for FY2019. DSCR improved to 0.83 times in FY2020 as against 0.35 times in the previous year. Total outside liabilities to tangible net worth stood at 0.26 times as on 31 March, 2020 as against 0.25 times as on 31 March, 2019.

Acuite believes that the financial risk profile will remain moderate in near to medium term at the back of healthy revenue visibility and net cash accruals.

## **Weaknesses**

- **Intensive working capital operations**

The working capital of FRPL is intensive marked by high Gross Current Asset (GCA) days of 646 for FY2020 as against 762 in the previous year. This is majorly because of the loans and advances of Rs.175.16 crore as on 31 March, 2020 to its two group companies. The debtor days stood high at 226 for FY2020 as against 39 in FY2019. Further, inventory days stood at 28 for FY2020 as against 51 for FY2019. The average bank limit utilisation stood at ~70 to 75 percent for last six months ending February, 2021.

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.

**Liquidity Position: Strong**

FRPL has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.43.59 in FY2020 as against negative Rs.9.10 crore in FY2019, while its maturing debt obligation was Rs.59.44 crore and Rs.55.05 crore for the same period. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 646 in FY2020. Further, the reliance on working capital borrowings is moderate, the cash credit limit in the company remains utilised at ~70 to 75 percent during the last 6 months' period ended February, 2021. The current ratio of the company stood at 1.60 times as on March 31, 2020. The liquidity is further strengthen with support from the parent company.

Acuite believes that the liquidity will remain strong in near to medium term at the back of expected improvement in scale of operations and net cash accruals.

**Outlook: Stable**

Acuite believes that FRPL will maintain a 'Stable' outlook over the medium term on the back of its experienced management and established presence in the industry. 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, capital structure 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.

**Rating Sensitivities**

- Significant improvement in scale of operations along with profitability margins.
- Significant changes in financial risk profile and working capital operations of the firm.

**Material Covenants**

None

**About the Rated Entity - Key Financials**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr	167.15	108.19
Profit after tax (PAT)	Rs. Cr	37.72	(16.38)
PAT margin	%	22.57	(15.14)
Total debt / Tangible Net worth	Times	0.22	0.23
PBDIT / Interest	Times	2.39	0.79

**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-52.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Jan-2020	Cash Credit	Long Term	7.00	ACUITE BB (CE)/Stable (Assigned)
	Term Loan	Long Term	94.79	ACUITE BB (CE)/Stable (Assigned)
	Term Loan	Long Term	42.00	ACUITE BB (CE)/Stable (Assigned)

**\*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 BBB-/Stable (Upgraded from ACUITE BB/Stable (CE))
Term Loan	31-01-2016	10.50%	31-05-2023	94.79	ACUITE BBB-/Stable (Upgraded from ACUITE BB/Stable (CE))
Term Loan	30-06-2017	10.50%	31-07-2022	42.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB/Stable (CE))

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**About Acuité Ratings & Research:**

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