

Sociedade De Fomento Industrial Private Limited

Instrument	Amount	Rating Action
	In Crore	May 2016
Issuer Rating	NA	Ir A-(Stable); Affirmed

ICRA has affirmed the issuer rating of IrA- (pronounced as I R A minus) to Sociedade De Fomento Industrial Private Limited (SFI)[†]. The outlook on the rating is Stable.

The rating continues to factor in comfortable liquidity profile of the company supported by low gearing level and healthy unencumbered cash/liquid investments, despite the increase in financial commitments towards subsidiaries during FY2016. Further SFI has secured the approval of mining plan from Indian Bureau of Mines (IBM) and environment clearance from Pollution Control Board (PCB) to resume its mining operations during FY2016. The resumption of mining operations was delayed due to delays in getting necessary state / central government approvals and high incidence of local taxes coupled with low international iron ore prices. However the removal of export duty, and conclusion of negotiations with transporters along with necessary approvals led to the start of mining operations since March 2016 though ramp-up would happen post monsoon. The steady mining operations would be the primary cashflow generator for the company. ICRA also notes that SFI's financial commitments towards subsidiaries – primarily for shipping and steel ventures, has been higher than was earlier envisaged but it is now provided for with limited amount remaining pending (less than 10% of committed investments). Moreover, both the projects have achieved financial closure and are progressing as per estimated schedule for commissioning. The ratings also take comfort from the long standing experience of the promoters in mining industry in Goa, their established relations with key customers in international markets, low-cost mining operations of the company, and the logistical advantages in terms of proximity to port and access to inland waterways.

The ratings are however constrained by uncertainties in mining business and the nascent stage of new investments undertaken by the company. The mining operations of the company are vulnerable to volatility in iron ore prices, fluctuations in the exchange rates, and adverse development in the regulatory framework such as changes in statutory levies or trade policies. While iron ore prices have recovered from their multi-year low levels, the sustainability of these prices remains to be seen which could adversely impact the profitability and cash flows from mining operations. The ratings are further constrained by the nascent stage of ongoing expansions into shipping and special steel manufacturing businesses. While SFI's investment in its subsidiaries is largely over, the performance of these subsidiaries going forward would determine the extent of financial support from SFI as well as the returns on its investments. The performance of shipping vertical would depend on signing of charter agreements for half of its committed ships as the company has signed long term charter agreement for first two ships and the bulk charter rates, which have declined further over the last one year. ICRA notes that the contracted debt in the shipping venture is non-recourse on SFI. For the steel business a reversal in the operating environment remains to be seen for pick-up in demand and realisations.

While the assessment of future liquidity of the company is based on the resumption of mining operations from FY2017 onwards and limited support being extended to group companies / subsidiaries, any unanticipated investments / financial support to group companies / subsidiaries could translate into lower liquidity cushion and remains a key rating sensitivity.

Company Profile

SFI, established in 1957, is engaged in iron ore mining company in Goa, India and belongs to the Fomento group of companies. SFI is one of the oldest iron ore mining companies in India with five operational mines in Goa. These mines currently have an estimated reserve base (2P) of about 33 million tonnes with mining validity being extended till November 2027 pursuant to Supreme Court's directive on restoration of mining activities. SFI also holds varying stakes in other group companies engaged into steel manufacturing, logistics, trading activities, hydropower generation, and shipping businesses.

[†] For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications.

Recent Results

For FY15, company reported profit after tax of Rs. 62.4 crore on an operating income of Rs.32.5 crore as against profit after tax of Rs. 22.5 crore on an operating income of Rs. 36.5 crore in FY14. The operations during these years were impacted due to ban on mining activities in Goa. The company maintained healthy balances of cash and liquid investments which stood at Rs.1654 crore as on 31 March 2015 as against total borrowings of Rs. 873.5 crore (FY14: Rs. 1849.5 crore liquid assets against Rs. 466.7 crore borrowings). Besides, there is a charge of Rs. 245 crore on cash and liquid assets of SFI for a stand-by letter of credit availed by its shipping venture.

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