March 28, 2024

Sakuma Exports Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term fund-based - Others	104.00	121.50	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Long term/Short term- Unallocated limits	61.00	43.50	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	**165.00**	**165.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Sakuma Exports Limited (SEL) derives comfort from the established relations of the management with reputed clients worldwide, the company's stable operational track record and the extensive experience of the promoters of over two decades in the agricultural commodities trading business. SEL is among the leading traders of sugar in India. The ratings also factor in SEL's risk mitigation policies on commodity price fluctuations, foreign exchange movements and credit risk, and its diversified customer and supplier base.

While the financial performance remained healthy in FY2023, it moderated in FY2024 with the export restrictions on sugar announced by the Government of India. The company has presence in exports, domestic sales, third country trade of the agri commodities which has enabled it to mitigate the impact of the restrictions on sugar exports to certain extent. The company is also making efforts to diversify to other commodities like maize, etc. Despite the decline in sales, the debt levels remain comfortable translating into comfortable coverage indicators with interest coverage ratio of 6.59 times in FY2023 and 6.26 times in 9M FY2024.

The company's operating margins remain thin owing to the trading nature of the operations, which coupled with the seasonality of the business, increased the borrowings and dependence on creditors and advances at year end.

Further, being involved in agricultural commodities, the company's operations remain susceptible to changes in Government policies, the prevalent geo-political issues, regulations of various countries concerning the import of various commodities as well as the vagaries of agro-climatic conditions. Further, as a major portion of SEL's revenue is generated from sugar exports, the global demand-supply situation and the resultant commodity price changes have a significant impact on the business operations and the financial performance of the company.

The Stable outlook reflects ICRA's expectation that while the profit generation will moderate, SEL will be able to maintain a comfortable risk profile as the debt levels remain low.

Key rating drivers and their description

Credit strengths

Well-defined risk mitigation policies - SKL has robust risk mitigation policies to hedge the fluctuations in commodity prices, foreign exchange rates and credit risk. While the company enters into forward contracts to hedge its forex risk, it uses mechanisms like back-to-back purchase and sale arrangements, commodities exchange, etc to hedge the commodity price fluctuation risks. The company's sales are also partly backed by letters of credit or advance payments from customers to mitigate the credit risk.

Healthy financial risk profile - The company's financial profile remains stable, with a healthy net worth Rs. 450.7 crore as on September 30, 2023, restricting the reliance on external debt largely to working capital facilities only to meet the incremental funding requirements with the increase in the scale of operations. Over the years, SEL has continued to have a healthy capital structure with a gearing ratio of 0.03 times and TOL/TNW of 1.34 times. Further, the coverage indicators have been healthy, supported by low interest and debt with an interest coverage ratio of 4.79 times. Despite some increase in the working capital debt, SEL's capital structure and coverage metrics are expected to remain healthy going forward.

Credit challenges

Lower operating margin owing to trading nature of business - SEL's margin remains thin with an OPBDITA margin of 1.4% in FY2023 and 0.7% in H1 FY2024 owing to the trading nature of the operations and the inherent seasonality in business operations coupled with the exposure of the company to agro-climatic risks, being a dealer of agricultural commodity. Further, any adverse changes in regulatory policies related to sugar exports will have a direct effect on the operations of the company. However, the interest and finance expenses have remained low, given the significant reliance on customer advances and creditors to support the growth requirements. Nonetheless, given the inherent thin margins in the trading business, the net profitability has also remained thin at 0.9% in FY2023 and H1 FY2024.

Product concentration risk, with sugar contributing to majority of revenues – SEL's product concentration has remained very high in recent years, with sugar accounting for almost the entire revenue. From October 2023, the Government has announced export restrictions on sugar and therefore the annual turnover in expected to witness a sizeable decline in FY2024. In order to tide over the situation, the company will be venturing into maize and sugar trading in the domestic market as well as importing sugar from other countries and selling them in the export markets through subsidiaries. While the traded product mix may diversify to some extent with the increase in international trade (primarily through overseas subsidiaries), the contribution of sugar in the traded product portfolio is expected to remain high, exposing SEL to the inherent cyclicality of the sugar industry.

Susceptible to changes in Government policies, global demand-supply situation and agro-climatic conditions - The import and export of agricultural commodities are susceptible to Government regulations. Any adverse change in import/export duties on agricultural commodities or changes in the minimum support prices may affect the product's competitiveness. Further, the volume of export (particularly sugar) may vary from year to year, subject to policy announcements by the Government of India based on the level of sugar production. Also, as a major portion of the company's revenue is generated from sugar exports, the global demand-supply situation will have a significant impact on the business operations and financial performance of the company. Being involved in agro-commodity trading, the company also remains exposed to agro-climatic risks, changing crop patterns and the associated cyclicality in the business. The company's product mix, thus, has to continually adapt to the changing crop patterns.

Environmental and Social Risks

Environmental Risks- Entities like SEL that are involved in the trading of agro-commodities are directly exposed to climate risks, which affect sugarcane production and yield. Further, excessive or deficient rainfall in the sugarcane producing regions affects cane availability. However, the company primarily sources order-backed sugar from mills based in Maharashtra and northern Karnataka, having high sugar recovery rates and longer crushing season with adequate availability of cane, thereby mitigating the climatic risks to a certain extent.

Social Risks- The worldwide societal shift to less sugar-intensive food products because of the health issues related to high sugar consumption could structurally reduce the demand for sugar products. However, such changes in consumer behaviour or any other drivers of change are expected to be relatively slow-paced.

Liquidity position: Adequate

SEL's liquidity position remains adequate. The company's cash flows from operations are constrained by high working capital requirements, especially during the peak season coinciding with the sugar cycle. The company funds its working capital through working capital facilities and advances from customers. Notwithstanding the high working capital requirements during the peak season, sufficient cushion is available against the drawing power.

Rating sensitivities

Positive factors – ICRA could upgrade SEL's ratings if there is a substantial growth in revenues with the diversification in its traded product portfolio, and healthy internal accruals that would strengthen the liquidity profile on a sustained basis.

Negative factors – Pressure on SEL's ratings could arise if the revenues decline and the operating margins deteriorate, resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle impacting the company's liquidity position could also be a trigger for downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Sakuma Exports Limited. List of the companies are enlisted in Annexure II

About the company

Sakuma Exports Limited (SKL/Sakuma) was started as a partnership firm in 1999 by Mr. Chander Mohan Malhotra and his son - Mr. Saurabh Malhotra, and was subsequently converted into a public limited company in August 2005. The company is involved in the trading of agro-commodities like sugar from its Indian entity and other agro-commodities such as edible oil, pulses, cotton and rice through its overseas subsidiaries. However, most of the company's revenue is generated through sugar trading (accounted for ~99.18% of the revenue in FY2023 and 99.78% in H1 FY2024).

SEL was also involved in the trading of edible oil in the past, which contributed to 17.3% of the revenue in FY2020 and 40.3% in FY2019. However, the company stopped the trading of edible oils from mid-FY2020 as the business was impacted by import restrictions. Sakuma's customer portfolio comprises some of the large and globally established agro-trading companies.

Key financial indicators (audited)

SEL (consolidated)	FY2022	FY2023	9M FY2024*
Operating income	2,853.4	3,173.1	1,623.6
PAT	27.4	28.4	14.0
OPBDIT/OI	1.1%	1.4%	1.0%
PAT/OI	1.0%	0.9%	0.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.4	-
Total debt/OPBDIT (times)	2.7	0.4	-
Interest coverage (times)	8.8	6.6	6.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

SEL (standalone)	FY2022	FY2023	9M FY2024*
Operating income	2531.7	2,855.9	1,489.9
PAT	22.7	24.0	12.1
OPBDIT/OI	1.0%	1.4%	0.9%
PAT/OI	1.0%	0.8%	0.8%
Total outside liabilities/Tangible net worth (times)	1.0	0.4	-
Total debt/OPBDIT (times)	3.1	0.4	-
Interest coverage (times)	7.9	6.2	5.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) Mar 26, 2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Mar 28, 2024	Jan 31, 2023	Oct 28, 2021	Oct 07, 2021	-
1	Fund based/Non-fund based-Working capital facilities	Long Term/ Short Term	-	-	-	-	[ICRA]BBB (Stable)/ [ICRA] A3+	[ICRA]BBB (Stable)/ [ICRA] A3+	-
2	Fund based - Others	Long Term/ Short Term	121.50	-	[ICRA]BBB (Stable)/ [ICRA] A3+	[ICRA]BBB (Stable)/ [ICRA] A3+	-	-	-
3	Unallocated limits	Long Term/ Short Term	43.50	-	[ICRA]BBB (Stable)/ [ICRA] A3+	[ICRA]BBB (Stable)/ [ICRA] A3+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Others	Simple
Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term/Short term - Fund based - Others**	-	-	-	121.50	[ICRA]BBB (Stable)/[ICRA] A3+
NA	**Long term/ Short term - Unallocated limits**	-	-	-	43.50	[ICRA]BBB (Stable)/[ICRA] A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Source: *SEL annual report FY2023*
Note: *ICRA has taken a consolidated view of the parent (SKL), its subsidiaries while assigning the ratings.*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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