November 22, 2024

Transoceanic Agro Comm Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	40.00	45.00	[ICRA]BBB (Stable); reaffirmed
Long-term Interchangeable – Cash credit	(15.60)	(16.10)	[ICRA]BBB (Stable); reaffirmed
Short-term – Non-fund based	172.00	180.00	[ICRA]A3+; reaffirmed
Short-term – Unallocated	13.00	-	-
Total	**225.00**	**225.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation considers Transoceanic Agro Comm Private Limited's (Transoceanic) stable business and comfortable liquidity profiles on a sustained basis, led by a modest working capital cycle and a low reliance on bank debt. Transoceanic reported healthy volume growth in FY2024, which is expected in FY2025 as well. In addition, the ratings continue to factor in the company's established relationships with reputed customers and suppliers along with its strong risk mitigation mechanisms, which alleviate the margin volatility for the most part.

The ratings are, however, constrained by Transoceanic's thin profit margins, given the trading nature of its operations in an intensely competitive, edible oil trading industry. Hence, industry players remain exposed to any adverse policy movements in producing countries such as Indonesia, Malysia etc., such as export bans, changes in duty structures as well as agroclimatic risks leading to low crop output. The company witnessed a sharp increase in finance expenses with a considerable increase in secured overnight financing rate (SOFR) in recent times. However, the impact of the same was largely offset as the company was able to largely pass on the same to its customers. Nonetheless, the company's coverage metrics witnessed some moderation due an increase in the finance expenses in FY2024. However, improvement in these metrics is expected over the medium term with the expansion of earnings and some softening in the interest rates. Transoceanic also relies on funding in the form of letters of credit (LCs) for its import business, thus, the adequacy of these limits, margin money as well as the ability to receive credit from suppliers remains critical for the business.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the healthy demand outlook for the edible oil business, its adequate risk-mitigating mechanisms, and its established relationships with customers and suppliers.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established operational track record in edible oil trading industry – The promoters commenced the business in 1947 and were involved in trading, clearing and forwarding services in the edible oils industry. The promoters further expanded the business in 1984 and started operating on a large scale as commission agents and traders in vegetable oils. Mr. Sunil Arora, Managing Director, has about 35 years of experience in the edible oil import and trading business.

Strong relationships with customers ensure repeat orders; established raw material sourcing with a supplier network –The company enjoys strong relationships with its customers, which ensure repeat orders. Being in the business for such a long time, the company has established sources for raw material with a sizeable credit period, both in the domestic as well as export markets. The company deals with reputed brands like Cargill, Bunge, and Adani Wilmar in the domestic segment.

Primarily back-to-back business model mitigates price fluctuation risk – Transoceanic largely fixes back-to-back selling and purchase agreements, which reduce the risk of price variations to a large extent. The company also hedges most of its forex exposure via forward contracts. In addition, it has implemented an adequate liquidity management system by maintaining free cash equal to the outstanding LCs. Further, the company can pre-close its LCs as the usance is longer than the receivable cycle. Transoceanic provides limited credit to its customers and avails debtor insurance, which largely mitigates the credit risks.

Modest working capital cycle reflected in low debtors and inventory levels resulting in limited dependence on debt – Transoceanic has a short working capital cycle with limited debtors and stock levels. The company also enjoys a longer credit period, especially from its overseas suppliers, which keeps working capital requirements low. Thus, its dependence on debt remains comfortable, reflected in a gearing of 0.7 times as on March 31, 2024.

Credit challenges

Exposure to regulatory, geopolitical and agroclimatic risks, as well as to changes in duty structures – India remains dependent on edible oil imports from countries like Indonesia, Malaysia, Ukraine, Russia, etc. Any issues in the producing countries such as export bans or events like the Russia–Ukraine conflict, or a bad crop may hamper the availability of raw material and spark a price rise. The Government of India also regulates import duty and agri-cess, which are also a risk for the industry. ICRA expects the margins to remain largely stable on account of its strong risk mitigating mechanism.

Highly competitive and fragmented nature of industry limit pricing flexibility; low profitability margins, given trading nature of operations – The Indian edible oil industry is intensely competitive due to numerous small and some reputed players. Moreover, the company has thin profit margins due to the trading nature of operations without any value addition. However, the company's earnings are supported by interest income on free fixed deposits with the banks.

Sizeable funding requirements, particularly for import business, by way of non-fund-based limits – Transoceanic uses LCs for import procurement of edible oil, which is reflected in high TOL/TNW. The availability of adequate LC limits and high margin money thereon is key to operate this business segment. Moreover, its ability to get a sizeable credit period from its suppliers remains critical for effective management of its funding cycle.

Liquidity position: Adequate

The company's liquidity position is **adequate,** with sufficient cushion in cash credit limit of ~Rs. 70 crore as of September 2024 and free cash and bank balance of ~Rs. 68 crore as of October 2024. The average cash credit utilisation was ~30% in the 15-month period ending in September 2024, given that fund-based requirements remain modest. Owing to the trading nature of its operations, no major capex is needed. The company has sufficient cushion in its LC limit and required margin money for the planned revenue for the current fiscal.

Rating sensitivities

Positive factors – A ratings upgrade would be driven by a sustained improvement in earnings, while maintaining the current liquidity profile and coverage ratios. A specific credit metric for an upgrade would be TOL/TNW of less than 1.7 times, on a sustained basis.

Negative factors – A ratings downgrade would be driven by the sharp decline in revenues and profit margins or any significant deterioration in the liquidity position. In terms of specific credit metrics, PBDITA[1]/interest and finance charges of less than 3.0 times, on a sustained basis, could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of Transoceanic.

About the company

Transoceanic has been operating since 1990 and trades in edible oils. The promoters started the business in 1947 when the Delhi-based Arora family commenced trading, clearing and forwarding services in the vegetable oil industry. The company was originally called M/s Punjab Oil Traders. The promoters further expanded the business in 1984 and started operating on a large scale as commission agents and traders in vegetable oils. Over the years, the group has strengthened its presence as one of the oldest and largest agents and traders of edible oil products in North India. The day-to-day operations are looked after by Mr. Sunil Arora, who has more than 30 years of experience in the edible oil industry, and his nephew, Mr. Sumit Arora.

Key financial indicators (audited)

Transoceanic - Standalone	FY2023	FY2024
Operating income	2,819.0	2,473.6
PAT	3.8	7.2
OPBDIT/OI	0.2%	0.6%
PAT/OI	0.1%	0.3%
Total outside liabilities/Tangible net worth (times)	3.5x	3.4x
Total debt/OPBDIT (times)	2.9x	3.1x
Interest coverage (times)	1.0x	1.3x
PBDITA/Interest and finance charges	2.4x	1.9x

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Transoceanic has ratings under issuer not cooperating category (INC) from CRISIL (CRISIL B+/Stable/A4 INC) via a press release dated April 30, 2024, and CARE (CARE BB+/Stable/A4+ INC) via press release dated May 13, 2024.

Any other information: None

[1] *Profit before depreciation, interest, tax and amortisation*

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	45.00	22-Nov-2024	[ICRA]BBB (Stable)	04-Sep-2023	[ICRA]BBB (Stable)	30-Jun-2022	[ICRA]BBB (Stable)	-	-
Interchangeable Cash Credit#	Long Term	(16.10)	22-Nov-2024	[ICRA]BBB (Stable)	04-Sep-2023	[ICRA]BBB (Stable)	30-Jun-2022	[ICRA]BBB (Stable)	-	-
Letter of Credit	Short Term	180.00	22-Nov-2024	[ICRA]A3+	04-Sep-2023	[ICRA]A3+	30-Jun-2022	[ICRA]A3+	-	-
Unallocated	Short Term	-	-	-	04-Sep-2023	[ICRA]A3+	30-Jun-2022	[ICRA]A3+	-	-

Source: Company, #sublimit of letter of credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term Interchangeable – Cash credit	Simple
Short-term – Non-fund based	Very Simple

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	Cash Credit	–	–	–	45.00	[ICRA]BBB (Stable)
NA	Interchangeable Cash Credit	–	–	–	(16.10)	[ICRA]BBB (Stable)
NA	Letter of Credit	–	–	–	180.00	[ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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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