October 28, 2021

Sakuma Exports Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund Based/Non-Fund based- Working Capital	12.5	150.0	[ICRA]BBB (Stable)/[ICRA]A3+; Reaffirmed
Total	**12.5**	**150.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings factor in Sakuma Exports Limited's (SKL) established operational track record and its promoter's extensive experience of almost two decades in agricultural-commodities trading business. SKL is among the leading exporters of sugar from India and is expected to benefit from the favourable demand outlook for sugar exports from India over the medium term, supported by steady global sugar demand due to some moderation in sugar production in Brazil. The ratings also factor in SKL's risk mitigation policies with respect to commodity price fluctuations, foreign exchange fluctuations, credit risk, and its diversified customer and supplier base. The company's financial profile remains healthy, with sizeable net worth (Rs. 349.1 crore as on March 31, 2021) and low debt levels. This has translated into low gearing levels and healthy coverage metrics. Despite some likely increase in working capital debt, going forward, SKL's capital structure and coverage metrics are expected to remain healthy.

However, the ratings are constrained by moderation is SKL's scale of operations in recent years (operating income declined to Rs. 1,328.4 crores in FY2021 from Rs. 4,363.1 crore in FY2019) because of discontinuance of edible oil trading, lower availability of working capital bank lines and adverse impact of the pandemic. Despite the same, the company has been able to scale up its revenue in recent quarters and is expected to report good growth in the current fiscal. However, the company's product concentration has remained very high in recent years, with sugar accounting for almost the entire revenue. While the traded product mix is expected to diversify to some extent with increase in international trade (primarily through overseas subsidiaries), contribution of sugar in the traded product portfolio is expected to remain high, exposing SKL to the inherent cyclicality of the sugar industry. Additionally, the company's operating margins remain thin owing to the trading nature of operations. Further, being involved in agricultural commodities, the company's operations remain susceptible to the changes in Government policies, global demand-supply situations as well as the vagaries of agro-climatic conditions.

The Stable outlook reflects ICRA's expectation that SKL will continue to benefit from of the company's established operational track record, established relationships with its customers and vendors and steady demand outlook for sugar exports from India.

Key rating drivers and their description

Credit strengths

Experience of promoters in trading of agricultural commodities - SKL was incorporated by its promoter and founder chairman, the Late Chandan Mohan Malhotra and his son, Mr. Saurabh Malhotra, in 1999. The promoters have been involved in the trading of agricultural commodities for almost two decades. Over the years, the company has established relationships with customers and suppliers across the globe.

Dominant position in sugar exports from India; favourable industry outlook - SKL enjoys a strong position in sugar exports from India with market share of ~10% in volume terms. Furthermore, the outlook on sugar exports from India is favourable due to healthy harvest in the domestic market over the last and ongoing sugar seasons. As per Indian Sugar Mills Association (ISMA) , around 6.7 million MT of sugar has been exported in 11M SY2021[1]. ICRA expects sugar exports to largely sustain at previous season levels in SY2022 as well, given the steady demand in the international market and firm prices.

Well-defined risk mitigation policies - SKL has robust risk mitigation policies with respect to the hedging of commodities, foreign exchange fluctuations 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 payment from customers to mitigate the credit risk.

Healthy financial risk profile - The company's financial profile remains healthy, with sizeable net worth (Rs. 349.1 crore as on March 31, 2021) and low debt levels. This has translated in low gearing levels (0.02x in FY2021) and healthy coverage metrics with TD/OPBDITA of 0.3x and Interest coverage of 3.4 times in FY2021. Despite some likely increase in working capital debt, going forward, SKL's capital structure and coverage metrics are expected to remain healthy.

Credit challenges

Moderations in scale of operations – SKL's revenue has scaled up significantly till FY2019 generating revenues of Rs. 4,363.1 crore. However, the revenue declined by 42% in FY2020 and further by 48% in FY2021. The company's revenue declined because of discontinuance of edible oil trading, lower availability of working capital bank lines and adverse impact of the pandemic. Despite the same, the company has scaled up its revenue in recent quarters and is expected to report good growth in the current fiscal. SKL's ROCE also moderated in last two fiscals due to significant decline in revenue and accruals.

Lower operating margin owing to trading nature of business - SKL's margin remains thin with OPBDITA margin of 1.2% in FY2021 and 1.0% in Q1 FY2022 owing to the trading nature of operations. The interest and finance expenses for the company has remained low given the low working capital intensity of operations. Consequent to which operating profitability has largely trickled down to the net profit levels. Nonetheless, given the inherent thin margins in the trading business, the net profitability has also remained thin at 0.8% in FY2021.

Product concentration risk, with sugar contributing majority of revenues – SKL's product concentration has remained very high in recent years, with sugar accounting for almost the entire revenue. While the traded product mix is expected to diversify to some extent with increase in international trade (primarily through overseas subsidiaries), contribution of sugar in the traded product portfolio is expected to remain high, exposing SKL to the inherent cyclicality of sugar industry

Susceptible to changes in Government policies, global demand-supply situation and agro-climatic conditions - The imports and exports of agricultural commodities are susceptible to Government regulations. Any adverse change in the import/export duties on agricultural commodities or changes in the minimum support prices may affect the product's competitiveness. 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.

Liquidity position: Adequate

SKL's liquidity is expected to remain **adequate**, supported by cash and liquid investments (~Rs. 13.2 crore as of March 31, 2021) and undrawn working capital facilities of Rs. 20.9 crore as on March 31,2021. SKL's fund flow from operation is expected to be more than sufficient for meeting its debt servicing obligations and fixed overheads over the near-term. Additionally, SKL does

[1] SY- Sugar Year

not have any major capex requirement, owing to trading nature of operations. The company plans to avail incremental working capital bank lines, which will help the company to scale up its operations over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade SKL's rating if there is substantial growth in revenues with diversification in its traded product portfolio; and healthy internal accruals leads to strengthening of liquidity profile on sustained basis

Negative factors – Negative pressure on SKL's rating could arise if there is a decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Deterioration in working capital cycle impacting the company's liquidity position could also a trigger for rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SKL. As on March 31, 2021, the company had five subsidiaries that are listed in Annexure-2

About the company

SKL was set up as a partnership firm in 1999 by Mr. Chander Mohan Malhotra and his son, Mr. Saurabh Malhotra. It was subsequently converted into a public limited company in August 2005. The company is involved in trading of agro-commodities like sugar, edible oils, pulses, cotton and rice. However, most of the company's revenue is generated through trading of sugar (accounted for ~99.9% of revenue in FY2021 and 59% in FY2020). Earlier, SKL was also involved in trading of edible oils, which contributed 17% to revenues in FY2020 and 40% in FY2019. However, the company discontinued the oil business from mid-. SKL is also involved in international trade of agro-commodities through five overseas subsidiaries in Dubai, Singapore, Ghana, Tanzania and Bahrain.

Key financial indicators (audited)

SKL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2546.0	1328.4
PAT (Rs. crore)	18.3	11.0
OPBDIT/OI (%)	0.7%	1.2%
PAT/OI (%)	0.7%	0.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	0.2
Total Debt/OPBDIT (times)	0.2	0.3
Interest Coverage (times)	7.3	3.4

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 (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 28, 2021	Oct 7, 2021			
1	Fund Based/ Non-Fund based Working Capital	Long term/ Short term	150.0	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB(Stable)/ [ICRA]A3+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based/ Non-Fund based Working Capital	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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Bank of Maharashtra	Fund Based/ Non-Fund based Working Capital	NA	NA	NA	23.0	[ICRA]BBB(Stable)/[ICRA]A3+
NA*	Fund Based/ Non-Fund based Working Capital	NA	NA	NA	127	[ICRA]BBB(Stable)/[ICRA]A3+

Source: *Company, * Proposed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	SKL Ownership	Consolidation Approach
Sakuma Exim DMCC	100.0%	Full Consolidation
Sakuma Exports PTE Limited	100.0%	Full Consolidation
Sakuma Exports (Ghana) Limited	100.0%	Full Consolidation
Sakuma Exports Tanzania Private Limited	100.0%	Full Consolidation
GK Exim FZE W.L.L.	100.0%	Full Consolidation

Source: *SKL annual report FY2021*

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

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