January 31, 2023

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 facilities	150.00	-	-
Long term/Short term fund-based - Working capital facilities	-	104.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Long term/short term- Unallocated limits	-	61.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed/assigned
Total	**150.00**	**165.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the healthy financial performance of Sakuma Exports Limited (SEL) in FY2022 and H1 FY2023 with expectations of continued steady growth in revenues and profits in the near term. The ratings also derive comfort from the established relations of the management with reputed clients worldwide, evident from 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 exporters of sugar from India and is expected to benefit from the steady demand outlook for sugar exports from India over the medium term, supported by firmed up global prices of the sweetener. 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.

ICRA also notes that the financial profile of the company remains stable, with a healthy net worth of Rs. 399.3 crore as on September 30, 2022 and low debt levels. This has translated into low gearing levels and healthy coverage metrics with an interest coverage ratio of 8.8 times in FY2022 and 7.0 times in H1 FY2023, notwithstanding the advances made for warehouse purchase overseas. With the continued growth in the scale of operations, SEL's working capital requirements are likely to increase going forward that would require increased bank facilities and maintenance of adequate liquidity.

However, the ratings remain constrained by high product concentration, with sugar accounting for almost the entire revenue, exposing SEL to the inherent cyclicality of the sugar industry and the changes in regulation. Additionally, 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. The company's liquidity position moderated in FY2022 as it advanced a sizeable amount for the purchase of a warehouse in Middle East, resulting in reliance on customer advances and creditors, besides some short-term borrowings from promoter company.

Further, being involved in agricultural commodities, the company's operations remain susceptible to the changes in Government policies, prevalent geo-political issues, regulations of various countries concerning the imports of various commodities as well as the vagaries of agro-climatic conditions. Further, as a major portion of the company'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 SEL will continue to benefit from of the company's established operational track record, established relationship with its customers and vendors and a steady demand outlook for sugar exports from India.

Key rating drivers and their description

Credit strengths

Dominant position in sugar exports with reputed refineries and global traders as large customers; favourable industry outlook - SEL has a strong position in sugar exports from India, being present in the business for over two decades. The company has demonstrated a healthy YoY revenue growth of 115% in FY2022 and 35% in H1 FY2023, benefiting from favourable demand prospects for Indian sugar in the global market, besides firm prices. Notwithstanding the high customer concentration with the top 10 customers accounting for 75-80% of the revenues, the company trades with large buyers domestically (coastal refineries, Wilmar Group, EID Parry) as well as globally (Viterra, COFCO), indicating a favourable counterparty credit profile.

With exports of 11.2 million metric tonnes in SY2022 and an export quota of 6 million metric tonnes in SY2023, the outlook for exports in the near term remains comfortable, supported by favourable prices. Sugar production till January 15, 2023, was around 15.68 million metric tonnes (15.08 million metric tonnes as on January 15, 2022). Higher sucrose diversion and permitted exports as well as consumption would keep the sugar closing inventory levels at 5.5 million metric tonnes by September 2023 with some moderation expected in the production levels. Nevertheless, the near-term export prospects remain healthy, evident from the 5.5-million-metric-tonnes export contracted (1.8 million metric tonnes already exported between October and December 2022 in SY2023) that augurs well for the company.

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 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. 399.3 crore as on September 30, 2022. Despite the debt levels being higher than the previous fiscals on account of incremental working capital borrowings corresponding to the increasing scale of operations, SEL has comfortable gearing levels of 0.2 times and healthy coverage metrics with interest coverage of 8.8 times in FY2022. Additionally, irrespective of some likely increase in working capital debt, going forward, SEL's capital structure and coverage metrics are expected to remain healthy with expectations pertaining to cash generation being retained in the company for growing business requirements.

Credit challenges

Lower operating margin owing to trading nature of business - SEL's margin remains thin with an OPBDITA margin of 1.1% in FY2022 and 1.2% in H1 FY2023 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 for the company have remained low, given the significant reliance on customer advances and creditors to support growth requirements. Nonetheless, given the inherent thin margins in the trading business, the net profitability has also remained thin at 1.0% in FY2022.

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. 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. Further, 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 considering 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 moderate. The company's cash flows from operations are constrained by high working capital requirements, especially during the peak season coinciding with the sugar cycle. During the past fiscal, there has been a sizeable increase in the scale of operations of the company, which resulted in negative cash flows during the year. However, in order to meet the incremental working capital requirements of the business, the company was able to avail working capital facilities from various banks and loans from its promoter company. There has been a sizeable payout during the year on account of capital advances funded through its internal accruals. 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 even though the sanctioned limits were lower and the company is in the process of getting additional limits sanctioned.

Rating sensitivities

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

Negative factors – Pressure on SEL's ratings could arise if there is a decline in revenues and deterioration in operating margins, 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 a downgrade.

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 company's standalone financial profile

About the company

SEL 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 the trading of agro-commodities like sugar, edible oils, pulses, cotton and rice. However, most of the company's revenue is generated through the trading of sugar (accounted for ~99.9% of revenue in FY2021 and 99% in FY2022). Earlier, SEL was also involved in the trading of edible oils. However, the company discontinued the oil business from mid of FY2020. SEL is also involved in international trade of agro-commodities through five overseas subsidiaries in Dubai, Singapore, Ghana, Tanzania and Bahrain.

Key financial indicators

SEL (consolidated)	FY2021 Audited	FY2022 Audited	H1FY2023 Unaudited
Operating income (Rs. crore)	1327.0	2847.9	1356.3
PAT (Rs. crore)	11.0	27.4	11.3
OPBDIT/OI (%)	1.2%	1.1%	1.2%
PAT/OI (%)	0.8%	1.0%	0.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.8	0.5
Total debt/OPBDIT (times)	0.3	2.7	0.1
Interest coverage (times)	3.4	8.8	7.0

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

SEL (standalone)	FY2021 Audited	FY2022 Audited	H1FY2023 Unaudited
Operating income (Rs. crore)	1034.9	2526.2	1166.6
PAT (Rs. crore)	7.1	22.7	8.9
OPBDIT/OI (%)	1.1%	1.1%	1.2%
PAT/OI (%)	0.7%	0.9%	0.8%
Total outside liabilities/Tangible net worth (times)	0.2	1.0	0.7
Total debt/OPBDIT (times)	0.4	3.1	0.1
Interest coverage (times)	3.4	7.9	6.1

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 (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					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 - Working capital facilities**	Long Term/ Short Term	104.00	-	[ICRA]BBB (Stable)/ [ICRA] A3+	-	-	-	-
3	**Unallocated limits**	Long Term/ Short Term	61.00	-	[ICRA]BBB (Stable)/ [ICRA] A3+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Working capital facilities	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-1: 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- Working capital facilities**	-	-	-	104.00	[ICRA]BBB (Stable)/[ICRA] A3+
NA	**Long term/ Short Term - Unallocated limits**	-	-	-	61.00	[ICRA]BBB (Stable)/[ICRA] A3+

Source: *Sakuma Exports Limited*

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

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: *SEL annual report FY2022*

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

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About ICRA Limited:

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