Press Release

Sakuma Exports Limited

December 27, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 200.00 crore
Long Term Rating	ACUITE BBB/ Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** on the Rs. 200.00 crore bank facilities of Sakuma Exports Limited (SEL). The outlook is **'Stable'**.

Sakuma Exports Limited (SEL) is based out of Mumbai and was establish as partnership firm in 1998 and subsequently reconstituted as a public limited company in August 2005. The company is engaged in trading of agro commodities such as sugar, edible oil, rice, maize and other agricultural commodities. The company has established its presence in agro commodity trading business under the leadership of Late Mr. Chander Mohan Malhotra and current operations are managed by his son Mr. Saurabh Malhotra.

Sakuma Group consist of SEL along with its five subsidiaries located at Singapore, Dubai, Ghana, Canada and Tanzania. The group is primarily engaged in trading of Agro commodities of which Sugar and Edible oil are the major products and contributes to around 45.39 percent and 40.34 percent of its consolidated revenue in FY2019.The group has developed a market for its products in India, the Middle East, South and South East Asia, Far East, Australia, Europe, and Africa.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of the "Sakuma Group" for arriving at this rating. The consolidation is of parent company Sakuma Exports Limited (India) with its subsidiaries Sakuma Exports Pte Ltd (SEPL), Sakuma Exim DMCC (SED), Sakuma Exports Ghana Ltd (SEGL), Sakuma Exports Canada Limited (SECL) and Sakuma Exports Tanzania Pvt Ltd (SETPL). The company along with its subsidiaries referred as "Sakuma Group". Extent of consolidation: FULL.

Key Rating Drivers

Strengths

- **Establish Track record and experience management**

  Sakuma group was promoted by Late Mr. Chander Mohan Malhotra and is currently managed by his son Mr. Saurabh Malhotra, the promoters of the group have been engaged in the same industry for more than two decades. The group has two decades of operational track record in trading of Agro commodity products. The extensive experience of the promoters is also reflected through the established relationship with its customers and suppliers. The key customers of the group include reputed names like Indian Sugar Exim Corporation Limited, Wilmar Sugar PTE Limited and other international agro commodities traders with no major concentration in revenues. Also, under the leadership of experienced promoters and their established network the group has demonstrated ability to maintain growth momentum over the last four years, aided by diversified product profile and wide geographical presence. The group's geographical outreach spans to countries in the Middle East, South and South East Asia, Far East, Australia, Europe, Commonwealth Independent States and Africa. The senior management team is ably supported by a strong line of mid-level managers. Acuité believes that the Sakuma group will continue to benefit from its established position, long track record of operations and established relations with its customers and suppliers.

- **Moderate financial risk profile**

  Sakuma group's financial risk profile is moderate marked by a moderate networth, moderate total outside liabilities to tangible networth and healthy debt protection indicators. The group's networth stood moderate at around Rs. 307.41 crores as on March 31, 2019 which has witnessed sequential improvement from Rs.150 crores as on March 31, 2017 on account of healthy accretion to reserves, which is inturn a result of improvement in its scale of operations over the last three years, the improvement in networth is also aided by equity infusion by the promoters to support the increase in scale of operations.

  The group has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible networth (TOL/TNW) levels of 0.87 times and 5.07 times as on March 31, 2017. Though, the TOL/TNW levels were high in the past, the same has moderated to around 2.07 times as on March 31, 2019. Acuite expects the leverage levels to remain in the same range of 2.00 – 2.50 times over the medium term on account of increase in its incremental working capital requirements.

  The Group's net cash accruals stood healthy at Rs. 70.43 crores in FY2019 as against Rs. 49.49 crore in FY2018 which have supported in minimizing the reliance on external debt resulting in healthy gearing and debt levels. The net cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.55.00-70.00 crores which are expected to partially support the incremental working capital requirements. The interest coverage ratio stood at 10.79 times as on 31 March 2019 as against 4.41 times as in 31 March 2018 due to decline in debt levels and interest outgo. The Debt service coverage has also improved to 4.44 times as on 31 March 2019 as against 2.32 times as on March 31, 2018. Acuité believes that the group will be able to maintain its moderate financial risk profile over the medium term on back of its low debt levels.

- **Efficient working capital management and robust risk management practices**

  Sakuma group is being efficient in managing its working capital cycle which is evident from the Gross Current Asset (GCA) days of 76 in FY2019 and 62 in FY2018. This is mainly on account of moderate receivable days of 68 in FY2019 and 43 days in FY2018. The groups average bank limit utilisation for the last six months till November, 2019 stood in range of ~25 to 30 percent. However, the non-fund based limits were utilized at an average of 60 to 70.00 per cent over the last six months period through November 2019. Further, the group ensures price risk mitigation by entering in back-to-back orders. Foreign exchange (forex) risk is mitigated partially be entering into forward covers, and margin collection from customers to partially mitigate forex and raw material price volatility risks.

Weaknesses

- **Product concertation risk and tepid industry scenario**

  Sakuma group product portfolio is skewed towards Sugar and Edible Oil. These two products contributes to 45.39 percent and 40.34 percent in FY2019, respectively. Thus, scale remains susceptible to inherent risks related to trading in these commodities which can be observed in current year performance. The operating income of the group has declined to Rs. 4,363.09 crore in FY2019 as against Rs. 4,545.75 crore in FY2018. The group has registered operating income of Rs.983.00 crores as on September 2019 which account 22.53 percent of revenues in previous year. The decline is due to change in product mix, and slowdown in global markets like Middle East, Europe. The growth is expected to remain sluggish in FY2020 due to economic slowdown and decline in consumption for products in global markets.

- **Susceptibility of revenues and margins to government regulations and agro climatic risks**

  The revenues and margins of the group are susceptible to import and export of agro commodities are exposed to government regulations, fluctuation in raw material prices of agro commodities on account of agro climatic risks. Further, availability of raw material is based on agro climatic conditions. Any adverse impact of change in import/export duties on agro commodities or government policy regarding minimum support price may affect bargaining power with customers, pricing and hence demand. Acuite believes that the group will continue to remain exposed to these risks inherent to nature of agro-commodity business.

Rating Sensitivities
- Moderate financial risk profile and efficient working capital cycle
- Decline in revenues, margins and slowdown in the industry.
- Higher than expected reliance on working capital limits leading to deterioration in debt coverage indicators.

Material Covenants
None.

Liquidity Position: Adequate
The group has adequate liquidity marked by net cash accruals which stood at Rs.70.43 crore against no maturing long term debt obligations during the last three years. The working capital operations stood comfortable marked by gross current asset (GCA) days of 76 in FY2019 as compared to 62 days in FY2018. The cash credit limit remained utilized at ~25 to 30 per cent during the last six months period ended November 2019. The unencumbered cash and bank balances stood at Rs. 23.10 crore as on March 31, 2019. The current ratio stood at 1.52 times as on March 31, 2019 as against 1.47 times as on 31 March 2018. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on healthy net cash accruals against no long term maturing repayment obligations and moderate nature of working capital operations.

Outlook: Stable
Acuité believes the Sakuma group will maintain 'Stable' outlook on account of its established position in trading of agro commodities and extensive experience of promoters and its moderate financial risk profile. The outlook may be revised to 'Positive' in case there is a substantial and sustained improvement in its profitability levels while maintain the growth in its scale of operations. The outlook may be revised to 'Negative' if there is significant deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	4,363.09	4,545.75
PAT	Rs. Cr.	69.83	49.01
PAT Margin	(%)	1.60	1.08
Total Debt/Tangible Net Worth	Times	0.08	0.19
PBDIT/Interest	Times	10.79	4.41

Status of non-cooperation with previous CRA (if applicable)
CRSIL vide its press release dated 23 July, 2019 on account of inadequate information and lack of management cooperation had migrated the rating on bank facilities of SEL to 'CRISIL BB+/Stable- Issuer not cooperating'

Any other information
None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Consolidation of Companies - https://www.acuite.in/view-rating-criteria-22.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	80.00*	ACUITE BBB/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00#	ACUITE BBB/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	95.00	ACUITE BBB/ Stable (Assigned)

**Fully interchangeable with PCL/PCFC/FDBN/PSCFC.*
#Fully interchangeable with PCFC/FDBP/FUDBP/LC.

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About Acuité Ratings & Research:

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