Press Release

Sakuma Exports Limited

August 07, 2020

Rating Update

Total Bank Facilities Rated*	Rs. 200.00 crore
Long Term Rating	ACUITE BBB/Negative (Reaffirmed and Outlook revised to Negative)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the 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 revised to **'Negative'** from **'Stable'**.

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.

Revision in Outlook

The revision in outlook is majorly on account of a significant decline in operating performance in FY2020 due to outbreak of COVID – 19, leading to lockdowns across the world including places like USA, Middle East, Europe, and Singapore as well as in India. SEL, has the majority of its exports to these countries/continents, which contributes to 80-85 percent of the total revenues. Also, the operating performance of SEL has been impacted on account of import restrictions for edible oil from nations like Malaysia, UAE and United Kingdom. Further, the revision in outlook also factors in the unavailability of adequate working capital bank lines to commensurate with its expected growth in near to medium term. However, the rating has been reaffirmed on account of establish track record of operations, longstanding relationships with its customers, adequate liquidity and comfortable debt protection metrics.

The operating income of the group has declined to Rs. 2546.54 crore in FY2020 (Provisional) as against Rs. 4,363.09 crore in FY2019, registering Y-o-Y decline ~41.41 percent. The decline is due to lockdowns across the globe, limited availability of raw material coupled with logistical challenges faced due to Covid-19. The operating margins and net profit margins have declined to 1.10 percent to 0.70 percent in FY2020 (Provisional) as against 2.09 percent and 1.60 percent in FY2019. The net cash accruals has also significantly declined to Rs. 19.61 crore in FY2020 (Provisional) as against Rs.70.43 crores in FY2019. Acuité expects the company's operating performance will be impacted in FY2021 as well. Further, any higher-than anticipated deterioration in financial risk profile or working capital management will impart a negative bias towards the rating.

About Company

Sakuma Exports Limited (SEL) is based out of Mumbai and was established as a 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 contributing to around 90.00 percent of its consolidated revenue in FY2020 and 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.

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 the second generation, 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 the ability to sustain their liquidity during the pandemic, 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 leverage 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 moderately marked by a moderate networth, moderate total outside liabilities to tangible networth and healthy debt protection indicators. The group's networth stood moderate at Rs. 330.27 crore as on March 31, 2020 (Provisional) as against 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 moderate accretion to reserves. 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 2.41 times as on March 31, 2020 (Provisional). The gearing has stood improved to 0.01 times as on March 31, 2020 (Provisional). Acuite expects the leverage levels to remain in the same range of 1.00 – 2.00 times over the medium term on account of increase in its incremental working capital requirements.

  The Group's net cash accruals, however, stood declined at Rs.19.61 crore in FY2020 (Provisional) as against Rs. 70.43 crores in FY2019 and Rs. 49.49 crore in FY2018 which stood sufficient to 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.20.00-40.00 crores which are expected to partially support the incremental working capital requirements. The interest coverage ratio stood strong at 15.99 times as on 31 March 2020 (Provisional) as against 10.79 times as on 31 March 2019 and 4.41 times as in 31 March 2018 due to a decline in debt levels and lower 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's ability to maintain its financial risk profile will remain a key monitorables.

Weaknesses

- **Decline in revenues and margins backed by elongation in working capital cycle due to COVID-19.**
  The operating income of the group has declined to Rs. 2546.54 crore in FY2020 (Provisional) as against Rs. 4,363.09 crore in FY2019, registering Y-o-Y decline ~41.41 percent. The decline is majorly on account of lockdown in several countries across the globe, limited availability of raw material and supply-side challenges faced due to Covid-19. The operating margins and net profit margins have declined to 1.10 percent to 0.70 percent in FY2020 (Provisional) as against 2.09 percent and 1.60 percent in FY2019. The decline in operating performance is due to change in product mix, low consumption for sugar in FY2020 and slowdown in global markets like the Middle East, Europe. Further, elongation of a working capital cycle is observed marked by an increase in gross current asset days to 146 days in FY2020 (Provisional) as against 76 days in FY2019. The same is due to stretched receivables which stood at 132 days in FY2020 (Provisional) as against 68 days in the previous year. The group's average bank limit utilisation stood comfortable for the last six months ending July, 2020 at ~ 35.00 percent. However, the group has been facing challenges with respect to working capital limits. Acuité believes the company's ability to tie up for increased bank limits to commensurate with its expected growth in near to medium term will be a key rating sensitivity factor.

- **Product concertation risk and tepid industry scenario**
  Sakuma group product portfolio is skewed towards Sugar and Edible Oil. These two products contribute to 90 percent in FY2020 (Provisional) as against 85.73 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 growth is expected to remain sluggish due to economic slowdown and consumption for products is likely to improve in global markets over near to medium term.

- **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, the 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 the nature of agro-commodity business.

Rating Sensitivities

- Any deterioration in the ssfinancial risk profile
- Higher than anticipated deterioration in operating performance
- Ability to tie up additional bank lines or infusion of fresh equity

Material Covenants

None.

Liquidity Position: Adequate

The group has adequate liquidity marked by net cash accruals which stood at Rs.19.21 crore against no maturing long term debt obligations during the last three years. The working capital cycle is observed marked by an increase in gross current asset days to 146 days in FY2020 (Provisional) as against 76 days in FY2019. The cash credit limit remained utilized at ~ 35.00 per cent during the last six months period ended in July 2020. The unencumbered cash and bank balances stood at Rs. 25.53 crore as on March 31, 2020 (Provisional). The current ratio stood at 1.38 times as on March 31, 2020 (Provisional) as against 1.52 times as on 31 March 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Negative

Acuité has revised the outlook of the Sakuma group on account of the significant decline in operating performance in FY2020 due to outbreak of COVID – 19 and unavailability of adequate working capital bank lines to commensurate with its expected growth in near to medium term. The outlook may be revised to 'Stable' in case of group's demonstrated ability to sustain its revenues, profitability along with maintaining its working capital cycle. Conversely, the rating may be downgraded in case of any deterioration in working capital management and/or sharp decline in its revenues or profitability of the company leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	2,556.44	4,363.09
PAT	Rs. Cr.	18.29	69.83
PAT Margin	(%)	0.72	1.60
Total Debt/Tangible Net Worth	Times	0.01	0.08
PBDIT/Interest	Times	15.99	10.79

Status of non-cooperation with previous CRA (if applicable)

CRISIL vide its press release dated July 23, 2019 has classified the rating of Sakuma export limited to 'CRISIL BB+/Stable Issuer not cooperating' based on best-available information.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Trading entities-https://www.acuite.in/view-rating-criteria-61.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation of Companies : https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Dec-2019	Cash Credit	Long Term	80.00*	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long Term	25.00#	ACUITE BBB/ Stable (Assigned)
	Proposed Bank Facility	Long Term	95.00	ACUITE BBB/ Stable (Assigned)

**Fully interchangeable with PCL/PCFC/FDBN/PSCFC.*

#Fully interchangeable with PCFC/FDBP/FUDBP/LC.

*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/Negative (Reaffirmed; Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00#	ACUITE BBB/Negative (Reaffirmed; Outlook revised)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	95.00	ACUITE BBB/Negative (Reaffirmed; Outlook

					revised)

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

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.