

October 3, 2013

Facilities	Amount (Rs. Crores)	Rating
Cash Credit	55.00	SMERA B+/Stable (Assigned)
Term Loan	2.75	SMERA B+/Stable (Assigned)

SMERA has assigned a rating of '**SMERA B+**' (read as **SMERA B Plus**) to the above mentioned bank facilities of Sahyog Cotton & Oil Private Limited (Sahyog). The outlook is '**Stable**'. The rating is constrained by the company's weak financial profile and low margin business. The rating is further constrained by the fragmented, competitive and agro-commodity nature of the industry in which the company operates. However, the rating draws comfort from the promoter's long-standing experience and the company's proximity to raw material sources.

Sahyog is engaged in manufacturing and trading of cotton seeds and cotton seed products. The company has a weak financial profile marked by high total leverage of 6.33 times as on March 31, 2012 on account of high working capital requirement and low net worth. The company's interest coverage is moderate at around 1.36 times in FY2011-12 (refers to financial year, April 01 to March 31). The company's debt mainly comprises short-term borrowings for raw material purchases. Sahyog has inherently thin margin business characterized by high and fluctuating raw material cost (accounting for about 96 per cent of the total income in FY2011-12). The company's PAT margins remained weak at 0.31 per cent during FY2011-12 (provisional), increasing from 0.09 per cent in FY2011-12. Further, the rating is constrained by the highly fragmented, competitive and agro-commodity nature of the company's business, which provides limited pricing flexibility. At present, there are around 800 cotton oil seed crushers in Gujarat.

The rating draws comfort from the promoter's long-standing experience of more than three decades in the industry and the company's experienced second line of management. The rating positively factors in the company's proximity to raw material sourcing area. Sahyog is located in the Shapar region of Saurashtra, an area with high cotton acreage and abundant availability of cotton seed throughout the year. Sahyog procures cotton seeds either locally or through delivery at commodity exchange.

Outlook: Stable

SMERA believes Sahyog will maintain its moderate business risk profile in the medium term on the back of its established operations and the promoters' long-standing experience in the business. The outlook may be revised to 'Positive' in case the company achieves better working capital management along with improvement in profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of further stretch in working capital cycle and deterioration in capital structure.

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About the company

Sahyog, incorporated in 2005, is engaged in manufacturing and trading of cotton seeds and cotton seed products including cotton wash oil, cotton seed cakes and cotton seed soaps. Sahyog is promoted by Mr. Natwarlal T. Faldu. The company has a manufacturing facility with 31 oil expellers in Shapar, Rajkot. Sahyog has recently undertaken backward integration by establishing a ginning unit at its existing factory location. The capital outlay for the backward integration is Rs.3.66 crores and the unit is likely to commence operations by September 2013.

In FY2012-13 (as per provisional financials), Sahyog registered net sales of Rs.157.37 crores and PAT of Rs.0.60 crores as compared with net sales of Rs.151.35 crores and PAT of Rs.0.47 crores in FY2011-12. The company's net worth stood at Rs.10.64 crores as on March 31, 2013 (provisional).

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