# "Yasho Industries Limited Q1 FY2023 Earnings Conference Call"

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**MANAGEMENT:** **MR. PARAG JHAVERI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - YASHO INDUSTRIES LIMITED**
**MR. YAYESH JHAVERI – WHOLE TIME DIRECTOR & CHIEF FINANCIAL OFFICER - YASHO INDUSTRIES LIMITED**
**MR. MITESH CHHEDA – ACCOUNTS MANAGER - YASHO INDUSTRIES LIMITED**

**Moderator**: Ladies and gentlemen, good day and welcome to the Yasho Industries Limited Q1 FY2023 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions or expectations of the company as on the date of this call. These statements are now the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Parag Jhaveri, MD and CEO from Yasho Industries Limited. Thank you and over to you Sir!

**Parag Jhaveri**: Good evening everybody. On behalf of Yasho Industries Limited, I extend a very warm welcome to everyone for joining us on our call today. On this call, we are joined by our Whole Time Director and CFO Mr. Yayesh Jhaveri, our Chartered Accountant, Mitesh Chheda, Accounts Manager and SGA, our Investor Relations Advisor.

I hope everyone had an opportunity to go through the financial results and investor presentation which have been uploaded on stock exchange and on our company's website. Let me give you a quick snapshot of Indian chemical industry, the opportunity for us and then Mr. Yayesh will walk you through the financial performance.

Despite the current prevailing uncertainties, the fundamental of the Indian economy have remained strong with exception of short-term challenges such as increased energy cost and freight costs caused by the Russia-Ukraine War, increase inflation and supply chain disruption. The long-term outlook remain intact. Over the last two to three years, uncertain events have changed the overall business strategy and most of the large MNCs in the world look for more reliable and sustainable partners to keep the wheel running round the clock.

There are more than 70,000 chemicals which are produced in India, many homegrown manufacturers have upskilled today to become large scale global exporter. Our company, Yasho Industries Limited is a three decade old organization and has been backed by strong human capital of 580 plus permanent employees. They are the key gauging force of the organization consistent success. Over the last few decades, your company has grown brick by brick and has become one of the prominent manufacturers of specialty chemicals. We manufacture more than 140 chemicals under two categories; one of which, manufactures food antioxidants and aroma chemicals. We categorize this as consumer chemicals which contribute about 21% of total revenue. Second one caters to various industries that is rubber chemicals, lubricant additives and special chemicals. We categorize these chemicals as a industrial chemicals which contribute more than 79% of the total revenue. We have always focused on continuous growth and expansion of serving over 2000 plus clients and catering to some of the largest company across industries.

Our team always strives to maintain high quality standards with a mindset of continued improvement. Since last two decades, we are a recognized suppliers in a 50 plus global countries across Europe, America, Middle East and Asia with overseas sales contributing more than 65% of our revenue.

In terms of operational performance, we are pleased to report strong quarterly performance. Total revenue for Q1 FY2023 stood at Rs.187.55 Crores a growth of 39.9% on year-on-year basis. This was achieved by working at a near full capacity and a favorable product mix. We continue to see interest in our product from our customers and are confident to grow the business keeping of medium to long-term view in mind.

Over the last five to six quarters, our product mix has steadily shifted towards industrial chemicals, which include lubricant additives, rubber chemicals and performance chemicals, which we used to call specialty chemicals. With existing capacity we will be able to maintain business momentum for next two years as we are operating at optimal capacity.

As highlighted earlier to serve rising customer demand, we are investing in Greenfield project to expand capacity in industrial chemicals. This project will come at newly acquired land at Pakhajan**,** Gujarat where we intend to expand production capacity in phase one. In phase one, we intend to manufacture industrial chemicals and will add approximately 15,500 metric tonnes per annum capacity. This capacity is designed as multipurpose start to serve diverse industries.

Following this expansion, the company's total capacity will be 26,500 metric tonne per annum. After receiving all necessary government approval the project is expected to complete in 18 to 24 months. New Greenfield capacity will help in improving the product mix to encapsulate the upcoming opportunities in the global market. We continue to gain market share in value added chemicals which have made a significant contribution in recent years to our growth and profitability. Sustained efforts and improvements in our technical capabilities and R&D activities have played an instrumental role in bringing us this far and we are hopeful that it will help us grow further over the years to come.

Now I hand over the call to Mr. Yayesh Jhaveri for giving you a glimpse on the financial performance.

**Yayesh Jhaveri**: Thank you Mr. Parag. Good afternoon everyone. Q1 FY2023 has been a strong quarter for us as all of our key products witnessed robust demand. On quarterly performance total revenue for Q1 FY2023 stood at Rs.188 Crores a growth of 40% on year-on-year basis. Exports market has contributed around 70% whereas the domestic market remaining 30%. The revenue contributions from respective verticals are as follows: consumer chemicals contribute 21% of the total revenue and industrial chemicals contribute 79% of the total revenue. EBITDA for the company stood at Rs.35 Crores in Q1 FY2023 with a margin of 18.7%. The net profit for the quarter stood at around Rs.21 Crores, a growth of 11% on a year-on-year basis.

We would also like to inform you that India Ratings and Research have upgraded the credit rating of the company. Long-term credit ratings have been upgraded to Ind BBB+ with stable outlook.

With this I conclude the presentation and open the floor for further discussions. Thank you.

**Moderator**: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Viraj Shah from Shah Investments. Please go ahead.

**Viraj Shah**: Sir I have a couple of questions as the current geopolitical situation has affected the overall supply chain and increase the raw material cost, are we able to pass on and increase the cost to plan?

**Parag Jhaveri**: In some cases yes if the cost escalation happened during the quarter we cannot as the price has already been fixed before the start of the quarter what we have achieved is a mix of product line where we are able to increase our profitability.

**Viraj Shah:** Can you throw some light on lubricant segment how much time do we take to approve the products of lubricant?

**Parag Jhaveri**: In a typically it can happen between six months to three years depending on the application of the product. If it is a kind of an engine or some of the key critical performance then it will take longer period if it is an industrial product it will happen between six months to 18 months.

**Viraj Shah**: Thank you Sir.

**Moderator**: Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

**Keshav**: Good evening. Congrats for other great quarter. Sir 550 Crores revenue we are targeting from day one would come from 15,500 metric tons capacity, but currently with about 30% lesser, we are going much higher revenues so could you help understand if we will be getting into higher value products or if the 550 Crores would be the initial target that up subsequently and also it will already have business ready to supply things with a short last time from the commencement of the plant?

**Parag Jhaveri**: The number one the product mix what we intend to do it at the Pakhajan project is not a very high value product. It is mid segment product what we intent. Number two question of scaling up yes initially or we expect to achieve a 60% capacity utilization that is in 2024-25.

**Keshav**: Yes just trying to rationalize that 15500 metric tonne capacity contributing 554 currently what our products are we going for lower value products compared to what products are right now?

**Parag Jhaveri**: Well it is a question regarding which product has more demand. It is not a question of high price, end of the day look for the bottom margin so the bottomline is very crucial. We are currently talking about the indication what we have given 550 Crores on generalized condition, not today's price band, today's price could be different but we do not know what is going to be in after 18 months or 24 months, the price band so we are talking about the prices which was prevailing before the pandemic when there is a normal situation crisis situation, today situation you know very well there is a lot of supply chain issues a lot of price variations so that we are not considering.

**Keshav**: Sir if I am not wrong with highest share this quarter in exports so could the large positive shift in US contribution explain for superior gross margins this quarter and is this sustainable split or it could vary going forward?

**Parag Jhaveri**: Honestly speaking, I cannot forecast down the road how it is going to be the market because there is a lot of challenges right now, still the war is on, there is a gas issue which European customers are facing severely and people talk about recession rising up, butmaybe a little bit of slow down in the demand so we are still holding back our forecast or kind of guidance that we will grow by 10% to 15% over the last year.

**Keshav:** Last one question if I see a trajectory of the last two years so there has been a secular trend in their export contribution going up, probably single digit has moved to 30% plus so could you help understand if most of this business we are doing is a reliably sticky because the segments we are in should have taken as a reasonable time to get approvals from customers become a part of their formulation then subsequently scale?

**Parag Jhaveri:** What happened here that the wherever we got approval the ramp up do not happen overnight, they start increasing the volumes with a new vendors in phases, so for certain categories we have already crossed that phases and the customers are increasing the buying from Yasho and that is helping us to grow particularly in that segment but otherwise we see this should continue and we are optimistic that the export we should able to maintain this issue or maybe a little bit improvise further going forward.

**Keshav:** I will come back with you. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

**Alisha Mahawla**: Good evening. Thank you for taking my question. Just wanted to understand the current capacity of 11,000 tonnes what is the current capacity utilization level?

**Parag Jhaveri:** It is almost full. Please understand we have a fungible capacity so to give exact number is not feasible because when we change the product the output and the time everything changed but currently I can say that we are running with that full capacity or optimal capacity.

**Alisha Mahawla**: So growth over the next two years will be just from changing product mix?

**Parag Jhaveri:** Absolutely this is what we are seeing for last two calls at the further growth in the company will be changing product mix which will help us to grow topline as well as the bottom line.

**Alisha Mahawla**: Sure and the target of the guidance is 10% to 15% growth?

**Parag Jhaveri:** Yes.

**Alisha Mahawla**: Understood and also within our segments while you are saying it is going to be change in product mix so I do understand that there is a higher focus in industrial chemicals but within that also we have three segments so where are we seeing of relatively stronger demand where incrementally do we see the growth coming and also what is the impact of that so going to be on the margins to change in product mix?

**Parag Jhaveri:** Right now we are not expecting because already we did a lot of changes and that will help us to grow in Q1 so we expect a similar trend to continue but one must understand here that even the currency there is a major role here okay so that change of topline and bottom line both so we need to that is why we are not giving this a higher guidance despite having your robust growth in Q1 what we achieved.

**Alisha Mahawla**: You are saying margins, done in Q1 is what looks sustainable?

**Parag Jhaveri:** Yes.

**Alisha Mahawla**: Like I was asking within the industrial chemical segment between rubber chemicals lubricant additives and specialty chemicals which segment are we witnessing relatively higher growth?

**Parag Jhaveri:** I think we are seeing your growth in all the segments so we see the sustained demand in that but we do anticipate some kind of a slowdown because right now it is difficult to predict our major customers are in vacation mode, it is a summertime in Europe and USA so we will have more clarity by end of September, early October which way we are going ahead.

**Alisha Mahawla**: One last question before I get back into queue what are the key raw materials and from where are we sourcing them?

**Parag Jhaveri:** We have a couple of key raw material one of them is a hydrophenol which we source from Europe and USA and Japan feed basis, another one is diphenamide which again we source from USA, Europe and China. Third one could be a lot of amineswhich we buy locally as well as import from Europe and a partly from China and one of raw material for aroma chemicals we import from Indonesia and Madagascar.

**Alisha Mahawla**: Okay Sir I will get back in the queue.

**Moderator**: Thank you. The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

**Ayush Agarwal**: Congratulations on a very good set of numbers yet again. My first question is I was saying that until last quarter we used to give a nice breakup on our different segments of rubber, specialty and lubricant while starting this quarter we have categorized them under industrial consumers so any reason for that and I mean it was a nice break up where we could track development on where the growth was happening and everything so how do we keep a track of that going head if you do not share those numbers?

**Parag Jhaveri:** See what happened at the many of our product has cost application, many of our rubber chemical goes into specialty so food goes into the certain performance chemicals and not into the food side it is difficult for us to categorize those one and the second reason is that we need to be aware once we are growing at distance rate we need to be aware about our competition who is looking at Yashoery carefully and so just not to give too much of our insight about what now where the company's growth is coming and what we are doing so we need to re-categorize this or segments and this is probably to step by company interest.

**Ayush Agarwal**: No because I mean even if we go for website we see that there are many products under each segments so I do not know and we do not give product specific information we just gives so I mean but it was really specific information it was more of category so why I understand that different products goes into multiple categories but it was really helpful that breakup that you used to be so I would strongly suggest that we continue with that I thought you would be able to make a better informed decision so that was my first question. Second Sir for the last two to three quarters we have been saying that we have been running at optimal capacity but the country surprises us with very strong numbers each quarter so my next question is that now this 180-190 Crores is the base that we see to continue in the next few quarters or do you think we can scale up even further?

**Parag Jhaveri:** It is difficult to answer this question whether we can do better than what we had done this in the last quarter ,company is always working hard to get best out of it. I cannot comment whether we can do better than this but we will try to maintain or maybe extracted deep further the next one or two quarters may happen as I said the reasons that there is a geopolitical tension going on there is a little bit slow down anticipated in our major market which is Europe and USA, Northern and western world where we are expecting some kind of slowdown. We are not looking at a drastic drop in demand but definitely people are postures at the moment so I cannot say that we will be continuing to grow at this space but definitely will be grow by 10% to 15% I can say that.

**Ayush Agarwal**: Thank you. The next question is from the line of Pankaj Jain from Mahaveer Investments. Please go ahead.

**Pankaj Jai:** Thank you for the opportunity that I had two questions one is when I see your working capital cycle books it is slightly on an elevated level so can you just give break up on this working capital cycle and maybe on the debtor, creditors and inventory and what would be the steady state working capital we can look at the company and what are the measures to reduce this working capital cycle going forward?

**Parag Jhaveri:** Honestly speaking I do not see that the working capital cycle has been deteriorated; it is already improved before a year we were at almost 120 days now we are running at about 95 to 100 days working capital cycle. We are doing best in the current circumstances so we need to keep our higher inventory in the current situation because of the supply chain issues which are not yet been resolved yet to inbound markers are not coming on time and sometimes there is some products are not available so the level what we are having today that is the best as long as the data are concerned this is global norm, Yasho cannot setup its own standard we have to follow my customers norm what they are buying at 45 days or 60 or 75 days so that is a credit line what we offer to our customer so what we are doing at 95 to 100 days of working capital cycle that is the best we do not see to improve any further from here.

**Pankaj Jai:** Got it. Can you please break up the days for debtors creditors and inventory of the total working capital cycle in terms of days?

**Parag Jhaveri:** I think it will need that just drop a mail to us or the IR and will definitely use this data to you right now I do not have in front of me. I am sorry.

**Pankaj Jai:** No problem Sir I will reconnect offline. Sir my second question is regarding the new capacity expansion which we are trying that Pakhajan in Gujarat so have we received the easy approval over there and what would be the opportunity from this facility in the global market can I just throw some light on that?

**Parag Jhaveri:** Number one we are not yet got the EC approval. As soon as we get, we will definitely intimate to the BSE and everyone will be get notification once we get it. We are waiting I think for some reason we are not getting any approval yet afterward kind of an opportunity also looking at what we see good demand of the product what we intend to produce that that is all industrial chemicals which we have a plan to do and we are quite confident that we will be able to grow as what we are plan.

**Pankaj Jai:** Sir if you can just tell us any tentative timeline of the approval and the facility coming up?

**Parag Jhaveri:** Honestly speaking we are waiting for last couple of weeks and then what we understand that there is some changes happen internally within the officers so the signing has been delayed, cannot comment accurately if the government work on behalf of government I cannot give you any assurance, but once we get it we are already geared up everything is in just waiting for the approval then we can kick in and we will do our best but at least 18 months from that day minimum and 24 maximum will be able to operationalize the plant.

**Pankaj Jai:** Thank you Sir and all the best.

**Moderator:** Thank you. The next question is from the line for Riya Varma from MR Securities. Please go ahead.

**Riya Varma**: Thank you for taking my questions so I two questions firstly this witness that there is an increase in the revenue of industrial chemicals so if you could throw some light on the same in demand scenario as compared to last year and secondly we have seen that domestic revenues have increased or what is the reason for the same has the company on boarded any new clients?

**Parag Jhaveri:** I think what is happening here that we are getting bigger opportunities in a global market which is helping us to grow still there is a supply chain issues persistent which is allowing us company to spread its wing to the get more clientele under it is umbrella that is helping us to grow the market also that existing clients are increasing their offtake from Yasho if I say earlier to doing 30% we will be doing now 40% or 50% of their needs so those are the factors are helping us to grow in industrial segment.

**Riya Varma**: Right and I was asking you have you seen the domestic revenues have increased so what is the reason for the same as the company on boarded any new clients?

**Parag Jhaveri:** We have kept on adding new clients always on our kitty and that is going to be an ongoing process but along with that also some of the existing customers also increase the offtake with Yasho so that is helping us to grow and we hope that we can maintain this same trend.

**Riya Varma**: Thank you this is helpful.

**Moderator**: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

**Alisha Mahawla**: Thank you for taking my question again. Just wanted to note that while the capacity is like you mentioned 18 to 24 months and easy also is slightly delayed is there no scope for debottlenecking at that existing facility?

**Parag Jhaveri:** Alisha we did whatever we could, we do not have space only ,we have space for only for the change of the product or maybe as I said that sometimes the low margin both we fix it out and we go for high margin product but that is also to a certain extent we cannot go full fledge because when the customers are buying baskets we cannot say no.

**Alisha Mahawla:** Understood and just one more question was with respect to the pricing so do we follow a cost plus model should depending on how the costs of the raw material moves the pricing will move or we have relatively better pricing power you could just share some comment on that?

**Parag Jhaveri:** Certainly there is a cost plus model definitely first in place because below certain costs we do not offer the product at all to the customer some of list product where we do not look at a cost us but definitely we charge premium on that and that is helping us to increase our market.

**Alisha Mahawla:** Sure and any plans to enter into any other chemicals or any other segments?

**Parag Jhaveri:** Right now we have a strong R&D we have expanded our band strength from before you were eight people now we have more than 30 people working in R&D so we are working on many new chemicals but that will be informed to the board and everybody we get into the real production it is too early to talk about that.

**Alisha Mahawla:** And just one last question the Greenfield facility that we are setting up in Gujarat will this only be for industrial chemicals and within that any one particular segment or will it also their multi-purpose facility?

**Parag Jhaveri:** Well it will be type of industrial chemicals, we can make it for you if you want but the intention is that to go for a bulk production there , in Vapi we have more than 140 products, in a new Greenfield projects we are talking less than 10 products so we are looking to optimize our efforts, we want to increase the certain product capacity there is market demand that we can step in.

**Alisha Mahawla:** Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

**Keshav**: Sir thanks for the follow-up target industries are all fairly mature so firstly I would like to understand how we have been able to win business so is this the China supply chain shifting to us? the target index industry we cater to our all fairly mature so I would like to understand how we have been able to win business in industries with the China supply chain shifting to us and we got benefit of that?

**Parag Jhaveri:** All industrial chemicals about 20% has impact on China, we are competing against well established western players in the market I think what is happening is that there is sudden demand or somewhere they are not able to fulfill the needs of the customers and customers had been started buying with us and we have prove ourselves that in a difficult time we can capture your needs and that is how we are able to increase the share of our product or something the quantum with close customers and that is the strength of Yasho, number one, we have a consistent quality, number two we keep our commitment and we do work on a long-term supply agreement when I say long-term supply agreement there is always a loss of either quarterly or 6.3% the price division so those are factors are hiking us to grow from market.

**Keshav:** Okay and so we would be right to assume that we will target the one or two of their suppliers?

**Parag Jhaveri:** We try to become e number 2 supplier, we are not number 1 yet we have so that will be happen only after the Pakhajan unit will kick in, till then we do not have capability.

**Keshav:** Sir I am just connecting the dots you said that the new facility will have a lower number of products so we will be working on our existing strong products and scaling them up going forward that is the approach?

**Parag Jhaveri:** Absolutely you are right that is approach we know the potential of our product we have been asked by many other customers for more quantity and that is why we came up with this plant and now we are in the process of assuring the future needs of them we are telling them that okay we are running behind the schedule by a quarter is what I see but we are keeping our customer informed well that we are working at our end and we will be back soon.

**Keshav:** Great Sir. Thanks a lot.

**Moderator:** Thank you as there are no further questions I now have the conference over the management for your closing comments.

**Parag Jhaveri:** Thank you once again for joining us on call if you have any further queries please contact SGA, our Investor Relationship Advisor. Thank you. Have a good day.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Yasho Industries Limited that concludes this conference. We thank you for joining us. You may now disconnect your lines.