Yasho Industries Limited
July 03, 2018

Ratings

Facility/Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	49.00	**CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Revised from CARE BB+; Stable/CARE A4+ (Double B Plus; Outlook: Stable / A Four Plus)**
Short-term Bank Facilities	18.50	**CARE A3 (A Three)**	**Revised from CARE A4+ (A Four Plus)**
Total facilities	**67.50 (Rupees Sixty seven crore and Fifty lakh only)**		

Details of facilities as per Annexure-1

Detailed Rationale & key rating drivers

The revision in the ratings assigned to the bank facilities of Yasho Industries Limited (YIL) factors in the increase in scale of operations, improvement in profitability, debt coverage indicators and working capital cycle during FY18 (refers to period April 1 to March 31).

The ratings further continue to derive strength from promoters' significant experience and track record of the promoters in specialty chemicals manufacturing business and long-standing relationship with their suppliers and customers with diversified product portfolio and established manufacturing facilities. The ratings continue to factor in the growing scale of operations with moderate profitability.

The ratings however, continue to remain tempered by exposure to volatility in raw material prices, leveraged capital structure, working capital intensive nature of operations and foreign exchange fluctuation risk and project execution risk.

The ability of YIL to further increase its scale while maintaining profitability margins and along with improving capital structure and manage the working capital requirement effectively would remain the key rating sensitivities.

Detailed description of key rating drivers

<u>Key Rating Strengths:</u>

Established track record and experienced promoters

YIL was originally set up by Mr. Vinod Jhaveri (age 79 years) in 1985 and is now being managed by the family members of Mr. Vinod Jhaveri, spearheaded by his son Mr. Parag Jhaveri who is the Chairman & Managing Director. Mr Parag Jhaveri has over 3 decades of experience in the chemicals industry. He looks after the overall management of the company and is supported by a team of professionals.

Diversified product portfolio and end user application

YIPL's product portfolio is comprised primarily chemicals for aroma & cosmetic (used in personal care products and fragrances), anti-oxidants (used in edible oils, animal feed etc.), rubber (used in manufacturing of tyre, conveyor belts etc.), specialty chemicals (having miscellaneous applications) & lube chemicals (used in lubricants, greases etc). Product wise, rubber range is the major contributor followed by aroma range. With a diversified product profile the company is distanced from risks pertaining to any particular industry ensuring stability in revenue streams. Further the entity also exports its products to countries like USA, Germany and Italy among others.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Established relationship with the customers

Over the years the company has been able to establish good and long standing relationship with the customers. The export clientele include reputed multinationals. The company has more than 10-15 years of relationship with these customers and is successful in getting repeat business from them. YIL has a team for marketing its products and it generally deals either directly with their customers which consists of end-users or with other customers through distributor channels.

Established manufacturing facilities

The company has two manufacturing units at Vapi, Gujarat. The existing plants of YIL are multipurpose and with some modifications they can be utilized to manufacture chemical products other than YIL's existing product line. The units are being run at optimal capacity. During FY18, YIL also incurred costs on debottlenecking works in the existing units. The resultant improved efficiency and optimization has majorly contributed to increased production by volume resulting in a stable growth of 28% in the company's net sales from FY17 to FY18. Further, the entity has got REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) registration for its products which is expected to benefit it in terms of increased market opportunity, increased presence and acceptance in EU and ability to be more competitive in markets other than EU.

Growing scale of operations with moderate profitability

The operations of the entity have grown at a CAGR of 14.92% during last 3 years ending FY18 supported by improvement in facilities along with support from slowdown in the Chinese market, thereby resulting in increased demand and price for Indian products. Further, PBILDT margins have remained at moderate level in the range of 10% to 12.50% while with proportionately lower interest and depreciation cost, PAT margins have been improving.

Key Rating Weaknesses:

Moderately leveraged capital structure

YIL's capital structure remained moderately leveraged and with moderate debt coverage metrics. The company's debt profile comprises of term loans, working capital borrowings and unsecured loans from promoters. Infusion of equity through Initial Public Offering (IPO) has been partially offset by increased borrowings due to working capital requirements to support growing scale of operations, obtain licenses, resulting in debt coverage indicators improving slightly in FY18 on account of improved cash accruals. Going forward, in view of additional debt availed for capex and increased interest cost the debt coverage indicators are expected to remain modest.

Working capital intensive nature of operations

The operations of YIPL are not order backed to a large extent. Thus, it has to maintain sufficient inventory of all the variety of the chemicals manufactured to meet the timely needs of the customers. Some raw materials like clove oil are seasonal products which need to be stocked adequately to ensure production throughout the year. Liquidity position of the entity remained moderate with current ratio with high utilization of working capital limits to support the operations. However, during FY18, inventory days have come down on account of company's increased emphasis on streamlining logistics and better forecasting methods thus resulting in improved gross current assets days.

Project execution risk

Subsequent to REACH registration, YIL's products are expected to have an increased demand in the European market. However, their existing units running at full capacity is currently not adequate to meet the production levels for expected increased demand. Therefore YIL is planning to undertake a capacity addition at their existing units where they shall be purchasing new plant and machinery. The total cost of the project is Rs.40 crore and is proposed to be funded partly by IPO proceeds, internal accruals and a term loan of Rs.29 crore from bank. Financial closure has been achieved and the capex is expected to be completed by May 2019. In view of the foregoing, YIL faces risk of timely project completion within envisaged cost and timelines.

Exposed to volatility in raw material prices and forex risks

Since, the majority of the raw materials are crude derivatives, YIL is exposed to volatility in raw material prices. Apart from the crude based commodities, the company is also vulnerable to clove oil price volatility (used in aroma chemicals). The company is also exposed to foreign exchange risk. Natural hedge partly mitigates forex fluctuation risks, but risks continue due to exist due to timing mismatches that may arise.

Intense competition

The specialty chemicals sector in India has a dominating presence of a few global leaders and MNC's. This has implications on the competitiveness of Indian players as only a few Indian players have the scale or capabilities to compete with the global giants on product development and innovation. Furthermore, the industry is highly competitive and fragmented with large number of organized and unorganized players. The competition is so intense that even if the raw material prices fall, YIL is required to price its end product by factoring the same, else there is risk of YIL losing business to competitors who also align their prices with movement in raw material.

Applicable criteria

Criteria on assigning Outlook to Credit Rating
CARE's default recognition policy
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Rating Methodology – Manufacturing companies

About the Company

Yasho Industries Ltd (YIL) was originally set up by Mr. Vinod Harilal Jhaveri (age 79) in 1985 as Vasu Preservatives Pvt Ltd and commenced operations in the same year; this company was renamed Yasho Industries Pvt Ltd in 1996 and then changed to Yasho Industries Limited in February, 2018. The company is into manufacturing of a wide range of chemicals comprising of aroma chemicals, anti-oxidants, rubber chemicals, specialty and lube chemicals. Its customer profile comprises of manufacturers of pharmaceuticals, tyres, industrial machinery, food, flavours, fragrance etc. YIL has two manufacturing units at Vapi, Gujarat. In March 2018, YIL came up with an Initial Public Offering of Rs. 28.99 crore and listed its shares on BSE SME exchange. The company's operations are managed by Mr. Vinod Harilal Jhaveri and his family members, spearheaded by his son Mr. Parag Jhaveri who is the Chairman & Managing Director.

Brief Financials (Rs. crore)	FY18 (A)	FY17 (A)
Total operating income	254.15	198.39
PBILDT	31.58	24.69
PAT	7.97	3.67
Overall gearing (times)	2.11	2.10
Interest coverage (times)	2.07	1.76

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Facilities

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	49.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	18.50	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	49.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+ (12-Jul-17)	-	-
2.	Non-fund-based - ST-BG/LC	ST	18.50	CARE A3	-	1)CARE A4+ (12-Jul-17)	-	-

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