Yasho Industries Limited

September 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	51.51 (reduced from 52.00)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Reaffirmed
Short term Bank Facilities	55.50	**CARE A3 (A Three)**	Reaffirmed
Long term/Short term Bank Facilities	95.00	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/A Three)**	Reaffirmed
Total Facilities	**202.01 (Rs. Two hundred and two crore and one lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Yasho Industries Limited (YIL) continues to derive strength from experience of the promoters in the chemical industry, diversified product portfolio catering to varied end user industry and wide geographic coverage with exports contribution large part of the income.

YIL reported moderation in its Total Operating Income for FY20. The moderation was on account of muted average sales realization which declined on back of decline in key material prices. However, the sales volume continue to remain largely similar. Operating Profit margin witnessed improvement during FY20 on back of improved product mix, coupled with decline in average prices of key raw material which were not fully passed on to its customers. During Q1FY20, income was impacted owing to government-imposed lockdown to curb the CoVID 19 spread. However, as indicated by management, both domestic and export demand has picked up and capacity utilization have reached near to pre CoVID levels. Rating also favorably factors in the recently concluded capex to elevate the capacity and provide cushion to operating profit margins owing to benefits deriving from economies of scale. Further, the debt coverage indicators like Total Debt to Gross Cash Accruals continued to remain moderate.

The rating strengths continue to remain tempered by modest scale of YIL with presence in highly competitive industry setup, exposure to volatility in key raw material prices which are derivative of crude oil and foreign exchange fluctuations. Foreign exchange fluctuation risk is partially mitigated owing to natural hedge enjoyed by company owing to large portion of income being generated by exports. Although the leverage position improved on back of accretion to reserves, same continues to remain elevated.

Rating Sensitivities

Positive Factors

- Ability to improve scale of operations beyond Rs.400 crore on sustained basis
- PBILDT margin over 14.5% on sustained basis.
- Improvement in Total Debt / CFO below 4.0x on sustained basis.

Negative Factors

- Any large debt funded capex thereby deteriorating its Total Debt/CFO beyond 5.0x.
- Weakening of Interest coverage below 2.0x on sustained basis.
- Any change in prevailing pollution control/ environmental norms and/or regulatory ban on production & sales of certain chemicals thereby significantly impacting its business and profitability.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experienced promoters

YIL was founded by Mr. Vinod Jhaveri (Currently CFO and Whole Time Director) in 1992 as Vasu Preservatives Private Limited. Family members of Mr. Vinod Jhaveri are involved in the operations of YIL with Mr. Parag Jhaveri being the Chairman and Managing Director of YIL. 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. Under the promoters' leadership, over the past two decades, YIL has transformed from a manufacturer of aroma and speciality chemicals to a publicly listed diversified

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

manufacturer of chemicals broadly classified into food anti-oxidants, rubber accelerators, lubricants, aroma and speciality chemicals having a diversified geographic presence.

Diversified product portfolio and end user applications coupled with wide geographic reach

YIL manufactures a diverse product portfolio. The rubber range (used in manufacturing of tyres, conveyor belts etc.), Aroma range (used in personal care products and fragrances) and the Antioxidant range (used in edible oils, animal feeds etc.) are the key contributors to Total Operating Income followed by the speciality chemicals and Lubricant chemicals .With a diversified product profile, YIL is distanced from risks pertaining to any particular industry ensuring stability in revenue streams. Further, exports constituted 57% of Total Operating Income in FY20 (59% in FY19). In Q1FY21, YIL shown improvement in its export sales over Q1FY20, achieving 64% of total income from exports sales. YIL has presence across diverse export markets such as the USA, United Kingdom, Iran, Australia, South Africa, Singapore, Germany, UAE etc. which further enhances the diversification benefit.

Established manufacturing facilities, further enhanced by adding new unit

YIL has 3 manufacturing units located in Vapi, Gujarat. Post completion of capital expenditure, Unit 1, unit 2 and Unit 3 have an installed capacity of 3450 MTPA, 4550 MTPA and 1200 MTPA respectively. The manufacturing facilities are located close to the port located near Mumbai. Unit 1 is designed for manufacturing of aroma chemicals, food antioxidant chemicals and rubber chemicals (non Sulphur based) & specialty range of chemicals. Unit 2 is mainly designed for processing and manufacturing of rubber chemicals (Sulphur based) and lubricant additive range of chemicals. The company has successfully commissioned Unit 3 in May 2020. Unit 3 contains a warehousing facility for finished goods and small facility for manufacturing of specialty industrial chemicals facility. In FY20, units have operated at healthy capacity utilisation levels of 92% and 72% for Unit 1 and Unit 2 respectively [Based on post enhanced capacities for Unit 2]. CARE positively takes note of the timely completion of the large capital expenditure completed in the current financial year.

Improvement in PAT and GCA, despite decline in the operating income

YIL reported decline in its TOI by 13.49% during FY20. The decline was on account of moderation in average sales realization as the key materials are derivative of crude oil. Given the pandemic impact started early in global market, demand for the product witnessed moderation particularly in Q4FY20 which led to further moderation in average sales realization. Despite the decline in TOI, YIL was able to improve upon its operating profit margin which witnessed the expansion of over 200bps for FY20. Improved operating profit margin was attributed to change in product mix towards to high margin yielding products coupled with lower key raw material cost. Similar trend was witnessed during Q1FY21. Increase in Exports sales helped company achieve moderate performance in Q1FY21 despite Covid-19 impact. The Gross cash accruals too improved in congruence to operating profit margin and higher depreciation. Going forward, ability of YIL to improve its scale of operations will continue to remain a key rating sensitivity.

Key Rating Weaknesses

The moderation in the leverage indicators; albeit coverage indicators improve marginally

The overall gearing as on March 31, 2020 stood at 3.95 times as against 4.83 times as on March 31, 2019. Despite improvement, the overall gearing continues to remain elevated. Similarly, the debt coverage indicators also continued to remain suppressed with TD/GCA ratio of 7.20 times in FY20 (7.62 times in FY19). The interest coverage (PBILDT/interest) improved marginally from 2.54 in FY19 to 2.70 in FY20. The total debt as on March 31, 2020 has increased to Rs.168.65 crore from Rs.150.51 crore on March 31, 2019 on account of increase in working capital borrowing to meet increased working capital requirement and increase in term loan to fund capex. Since the capital expenditure has been completed, incremental cash flows are expected to lead to improvement in YIL's debt coverage indicators going forward.

Working capital intensive nature of operations

YIL has maintain sufficient inventory is required to meet customer orders in a timely manner and limit the exposure to raw material price fluctuations. Since key raw materials are imported and are subject to price volatility, YIL has limited bargaining power against its suppliers thus creating the need to maintain sufficient inventory. Limited bargaining power against suppliers also leads to limited ability to stretch payables. In FY20, YIL's operating cycle elongated to 125 days as compared to 104 days in FY19. The elevation in operating cycle is attributed to sizable decline in TOI (impacting denominator) while marginal increase in both finished goods inventory and receivables as on Mar. 31, 2020. The stretched operating cycle leads to high utilization of working capital limits.

Exposed to volatility in raw material prices and forex risks

Since, the majority of the raw materials are crude oil derivatives; YIL is exposed to volatility in raw material prices. Apart from the crude oil based commodities, YIL 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.

Liquidity: Adequate
Liquidity of YIL is adequate marked by sufficient cash accruals against long term obligations. Against the debt repayment obligation of Rs.13.44 crore in FY21, YIL is expected to achieve GCA in range of 19 – 22 crore in FY21. The GCA stood at Rs.5.76 crore in Q1FY21, which has shown consistent improvement over years. YIL has cash and cash equivalents of Rs.8.37 crore as on March 31, 2020. The utilization of its fund based working capital limits remained at 84.74% over the trailing twelve months ended august 2020. Company has availed moratorium for principal deferment from March, 2020 to August, 2020.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Policy on Curing Period
Liquidity Analysis of Non-financial sector
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector

About the Company
Yasho Industries Limited (YIL) was initially setup by Mr. Vinod Harilal Jhaveri in 1992 as Vasu Preservatives Private Limited and it commenced operations in 1993; the company was renamed Yasho Industries Pvt Ltd in 1996 and then changed to Yasho Industries Limited in February, 2018.
YIL operates in the Business-to-Business (B2B) segment, manufacturing a variety of chemicals that can be broadly classified as, Food Antioxidants, Rubber Accelerators, Lubricant Additives, Aroma chemicals and Speciality chemicals. YIL's products are used as intermediates in end user industries of pharmaceuticals, construction, industrial machinery, food, flavours & fragrance. YIL has three manufacturing units with a total manufacturing capacity of 9200 Metric Tonnes Per Annum (MTPA) as on August 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total operating income	343.42	300.28	72.96
PBILDT	40.06	41.79	11.02
PAT	11.89	11.99	2.85
Overall gearing (times)	4.83	3.95	-
Interest coverage (times)	2.54	2.70	2.52

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	95.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	55.50	CARE A3
Fund-based - LT-Term Loan	-	-	-	51.51	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	95.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (11-Oct-19) 2)CARE BBB-; Stable / CARE A3 (16-Sep-19)	1)CARE BBB-; Stable / CARE A3 (24-Jul-18) 2)CARE BBB-; Stable / CARE A3 (03-Jul-18)	1)CARE BB+; Stable / CARE A4+ (12-Jul-17)
2.	Non-fund-based - ST-BG/LC	ST	55.50	CARE A3	-	1)CARE A3 (11-Oct-19) 2)CARE A3 (16-Sep-19)	1)CARE A3 (24-Jul-18) 2)CARE A3 (03-Jul-18)	1)CARE A4+ (12-Jul-17)
3.	Fund-based - LT-Term Loan	LT	51.51	CARE BBB-; Stable	-	1)CARE BBB-; Stable (11-Oct-19) 2)CARE BBB-; Stable (16-Sep-19)	1)CARE BBB-; Stable (24-Jul-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/Packing Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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

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