Yasho Industries Limited

October 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	52.00 (enhanced from Rs.16 crore)	**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 (enhanced from Rs.65.00 crore)	**CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Reaffirmed**
Total	**202.50 (Rs. Two hundred and two crore and fifty lakhs 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) continue to derive strength from significant experience of promoter in the chemical industry and its diversified product portfolio catering to varied end user industry. The ratings continue to favorably factor the growth in scale of operations, steady profitability, improvement in operating cycle and debt coverage indicators. CARE also takes note of the successful completion of capital expenditure to enhance YIL's manufacturing capacity in envisaged time and cost parameters.

The rating strengths continue to remain tempered by YIL's exposure to volatility in key raw material prices and foreign exchange fluctuations risk. Despite the improvement, YIL's overall gearing levels continue to remain elevated on back of recently concluded capex.

Ability of YIL to maintain high capacity utilization on enhanced capacities, thereby scaling up its Total Operating Income and control its operating cycle would be key rating sensitivities.

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 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 application

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 Lube range and other product segments. With a diversified product profile, YIL is distanced from risks pertaining to any particular industry ensuring stability in revenue streams. Further, exports constituted 59% of Total Operating Income in FY19 (56% in FY18). 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 completion of capital expenditure

YIL has 2 manufacturing units located in Vapi, Gujarat. Post completion of capital expenditure, Unit 1 and unit 2 have an installed capacity of 3450 MTPA and 4500 MTPA respectively. The manufacturing facilities are located close to the JNPT port at GIDC, Vapi. 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. In FY19, both units have operated at healthy capacity

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

utilisation levels of 93% and 98% for Unit 1 and Unit 2 respectively [Based on pre enhanced capacities]. CARE positively takes note of the timely completion of the large capital expenditure completed in the current financial year.

Improving scale of operations and moderate profitability which is in line with expectations
YIL's scale of operations has improved in FY19 as is evident from a 35% growth in Total Operating Income in FY19. The improvement is in line with what was envisaged by CARE at the time of last review. The growth is supported by healthy capacity utilisation levels and slowdown in the Chinese market, thereby resulting in an increased demand for Indian products. Further, PBILDT margins have remained at moderate level in the range of 11.50% to 12.50% between FY17-FY19. Going forward, ability of YIL to improve its scale of operations will continue to remain a key rating sensitivity.

Key Rating Weaknesses
The leverage and debt coverage indicators continue to remain elevated
The overall gearing as on March 31, 2019 stood at 1.79 times as against 2.11 times as on March 31, 2018. Despite improvement, the overall gearing continues to remain elevated. YIL has recently concluded the predominantly debt funded capacity expansion plan, which led to elevation in overall gearing. YIL got listed on SME exchange which brought the incremental equity during FY18 to support the capital structure.
Similarly the debt coverage indicators also continued to remain suppressed with TD/GCA ratio of 5.91 times in FY19 (8.19 times in FY18).

Working capital intensive nature of operations
The operations of YIPL are not order backed, 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. However, since FY18, inventory days have seen a downward trend on account of company's increased emphasis on streamlining logistics and better forecasting methods thus resulting in improved gross current assets days. The downward trend in inventory days has led to an improvement in the operating cycle. The operating cycle stood at 104 days in FY19 as compared to 141 days in FY18. Although improved, the operating cycle continues to remain elongated.

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 to exist due to timing mismatches that may arise.

Intense competition
The global chemical sector is highly competitive with China being the largest producer as well as consumer of chemical products. Post imposition of stringent environment norms in China, many non-compliant capacities were shut down, creating a supply vacuum globally, leading to an advantage to Indian producers. Despite this, producers such as YIL which have an improving but moderate scale of operations continue to face stiff competition from both organized as well as unorganized producers. Organized producers have strong Research and Development capabilities which help them to create niche positions in specific specialty chemicals. In case of commodity chemicals, where limited product differentiation exists, competition is largely based on price and availability of adequate capacity to service large orders. Given the global nature of the industry, YIL faces competition from organized/unorganized players globally as well as in the domestic market. Going forward, ability of YIL to continue to improve its scale of operations and profitability amidst the competitive environment will be a key rating monitorable.

Liquidity: Adequate
YIL's reported cash flow from operations has improved to Rs. 38.27 crore in FY19 as compared to an operational cash loss of Rs. 5.24 crore in FY18. In FY20, YIL is expected to generate gross cash accruals of approximately Rs. 23-26 crore which is sufficient to cover its repayment obligations for FY20.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for 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 name of entity subsequently changed with the change in constitution of the company.

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 two manufacturing units with a total manufacturing capacity of 7950 Metric Tonnes Per Annum (MTPA).

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	254.15	343.42
PBILDT	31.58	40.06
PAT	7.97	11.89
Overall gearing (times)	2.11	1.79
Interest coverage (times)	2.07	2.54

A: Audited; Q1FY20 financials are not available; Financials classified as per CARE Rating's standards

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	-	-	August 2024	52.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	95.00	CARE BBB-; Stable / CARE A3	1)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 (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	52.00	CARE BBB-; Stable	1)CARE BBB-; Stable (16-Sep-19)	1)CARE BBB-; Stable (24-Jul-18)	-	-

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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