“Yasho Industries Limited

Q2 FY ‘23 Earnings Conference Call”

November 08, 2022

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

Moderator: Ladies and gentlemen, and welcome to the Yasho Industries Limited Q2 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Under disclaimer to this effect has been included in the financial results and investor presentation, which has been shared with you earlier and available on the stock exchange website.

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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yayesh Jhaveri, Whole-Time Director and CFO from Yasho Industries Limited. Thank you, and over to you, sir.

Yayesh Jhaveri: Thank you. Good evening, everybody. I extend a very warm welcome to everyone and thank you for joining us on Yasho Industries Q2 FY '23 Earnings Conference Call. On this call, we are joined by our Chartered Accountant, Mr. Mitesh Chheda. 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 we shall walk through the financial performance.

The macro environment continues to remain challenging. In many parts of the world, high inflation sustained rise in input costs, uncertainties around availability of critical inputs, currency fluctuations, etc. The food security for a growing global population at affordable price continues to be under threat owing to climate change impact of the ongoing war, particularly when the available land is also shrinking. Despite this, the fundamental of Indian economy remains strong in long-term perspective.

There are more than 70,000 chemicals which are produced in India. Many homegrown manufacturers have upskilled today to become large-scale global exporter. Your company, Yasho Industries Limited is a three decade old organization, backed by strong human capital of 580 plus permanent employees. They are the key engaging 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.

Yasho manufactures more than 140 chemicals under two categories. Consumer chemicals, which contribute about 20% of the total revenue and industrial chemicals, which contribute more than 80% of the total revenue. We have always focused on continuous growth and expansion by serving over 2,000 plus clients and continue catering to some of the largest companies across the industry. Against this backdrop of operating environment, I'm happy to report that we have delivered yet another strong performance in Q2 FY '23.

While the overall growth was mainly led by volume scale-up and favorable product mix, the price correction on account of increased cost, currencies, etc, have also contributed to the growth. I once again thank all the Yasho's team members for the customer centric and our business partners continue to support and trust in our relationship.

Our team always tries to maintain high-quality standards with a mindset of continued improvement. Since the last two decades, we are a recognized supplier in 50 -plus global countries across Europe, America, Middle East and Asia, with overseas sales contributing more than 69% of our revenue. Our business outlook remains robust, and we are confident of delivering 10% to 15% growth in FY '23 with continued improvement in margins and returns.

Despite strong numbers in the first half, the outlook for the coming quarters is cautious. The energy crisis in Europe, ongoing Russi Ukraine war and inflationary US economy has led to a short-term slowdown in demand across the economy. Manufacturing activities remain impacted by inflationary trends triggered by rising energy costs and supply chain interruptions. We have always aimed to optimize performance by a way of improving product mix, better productivity and efficiencies.

In terms of operational performance, we are pleased to report strong quarterly performance. Total revenue for Q2 FY 2023 stood at INR 192.4 crores, a growth of 40.2% on a year-on-year basis. This was achieved by working at a near full capacity and a favorable product mix. We continue to see our interest in our product from customers and are confident to grow the business keeping of medium- to long-term view in mind. Over the last six to seven quarters, our product mix has steadily shifted towards industrial chemicals, which now brings 80% of the revenue for the company. With existing capacity, we will be able to maintain business momentum for the next year too 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 a newly acquired land at Pakhajan, Gujarat, where we intend to expand production capacity in Phase I. We are glad to inform that the environmental clearance is received for the project and the construction has started in full swing. Up to H1 FY '23, we have incurred total cash capex of approximately INR 64 crores in Phase 1, we intend to manufacture industrial chemicals and will add approximately 15,500 metric tons per annum capacity. This capacity is designed as multipurpose to serve diverse industries.

Following this expansion, the company's total capacity will be around 26,500 metric tons per annum. 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 we 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 up this part, and we are hopeful that it will help us grow further over the years to come.

Let me now take you over the financial performances. Q2 FY 2023 has been a strong quarter for us as all our key products witnessed robust demand. On quarterly performance, total revenue for Q2 FY 2023 stood at INR 192.4 crores, a growth of 40.2% on a year-on-year basis. Export market has contributed around 69%, whereas the remaining 31% is in the domestic market.

The revenue contribution from respective verticals are as follows: Consumer Chemicals contributed 20% of the total revenue and Industrial Chemicals contribute 80% of the total revenue. EBITDA for the company stood at INR 36.3 crores for Q2 FY 2023 with a margin of 18.8%. the net profit for the quarter stood at INR 21.4 crores, a growth of 56% on a year-on-year basis. With this, I conclude the presentation and open the floor for further discussion. Thank you.

Moderator: We have the first question from the line of Rushabh from RBSA Investment Manager please go ahead.

Rushabh: I just want to understand, sir, on the Rubber Chemicals side, since largely there is a big competition in China here, and we believe there has been some pricing change from Chinese players. So if you can show some light how aggressive or how the pricing change from the Chinese players in the current scenario?

Yayesh Jhaveri: Yes. And you're perfectly right that in a few chemicals which are more on the commodity side, yes, the prices of the Chinese materials are coming down, but not much on our specialty range. So we are very much cushioned by that because most of our specialty rubber chemicals we do not see much of a Chinese competition. So we are well cushioned against the Chinese. Yes, in a few commodity chemicals, yes. But we understand that this is just a time being issue. And let us see in future how it works out and then we will have to rework our strategy. But at the moment, we are not seeing that much of an influx from the Chinese as a competition.

Rushabh: And if you have to say, what is the current, India market share in global rubber chemicals industry? And what is the supply that situation, there are some new capacities coming in China also. What is the situation now?

Yayesh Jhaveri: No. In fact, what we have understood that from a couple of our customers in Europe and China that they have started increasing the prices. So it's quite, the things are still too premature to comment on how the global situation would be. Because let the capacities come up, but not everybody gets registered, as you know, we have more than 40 products plus registered under REACH. So how many are let the capacities can keep coming up, but then who are the real competitors that we will have to see.

Rushabh: And what would be the India share in the total rubber chemical industry? Current….

Yayesh Jhaveri: Too difficult for me to give those numbers at the moment.

Moderator: We have the next question from the line of Utkarsh S an Individual Investor please go ahead.

Utkarsh S: Thank you for the opportunity. I just had a question on your new capex. So, their capacity is going to increase by around 2.5x. So I just wanted to ask what gives the management the confidence that this capacity will get utilized. And also what is the supply-demand dynamics of your products like in the industry?

Yayesh Jhaveri: Coming on the new project capacity utilization, we are very confident that by 2025, we should, 2024-2025, we should be achieving almost 60% of the capacity. Because we already have the, it is just in the initial phase, we are only doing on the industrial products and the products that we are manufacturing currently. So it's just the capacity expansion, and we already have our customers shown us the desire to buy more product if we can deliver. So we are very confident that we can definitely reach this capacity even seeing at today's time.

Utkarsh S: And what is the optimum utilization you can reach? Is it a 100 percent

Yayesh Jhaveri: We will see by when, how the whole world scenario moves and how it happens. And then we have a Phase II also will be coming up. This is just a Phase I that we are doing at the moment.

Utkarsh S: And generally, your plants can operate at 100%? Or what is the optimum utilization, it can operate?

Yayesh Jhaveri: Because we are having a mixed manufacturing capacity, so we can definitely work at 99% to 100%.

Utkarsh S: And at 26,500 tons, what is the peak revenue that you can do?

Yayesh Jhaveri: Peak revenue should be up somewhere around INR 1,250 crores. So there should be an additional of around INR 550 crores to INR 600 crores, that's what we are estimating.

Utkarsh S: Sorry, I didn't get that. Can you please repeat? I didn't get that.

Yayesh Jhaveri: Peak revenue should be between INR 1,250 crores, INR 1,300 crores.

Utkarsh S: Okay. And what kind of EBITDA margins do you think you'll do? Will it be similar to current or will it get…

Yayesh Jhaveri: Yes, it should be similar to current and maybe better also. Because here we will be optimizing the best resources available.

Utkarsh S: So in the last 10 quarters, your margins have gone up from 13% to 18% in this quarter EBITDA margins. What can we assume as a sustainable number?

Yayesh Jhaveri: No, we would not like to commit on any of the numbers. But as you have seen from our past history that we always keep improving our margins quarter-by-quarter. So we will be working at the best.

Utkarsh S: And I had a question on the cost inflation. Are you experiencing any cost inflation in your business? And if so, are you able to pass it on?

Yayesh Jhaveri: Yes. Definitely, we are able to pass it on as we have contracts which are, we do not have any long-term contracts with the customers at the moment because looking at today's scenario, nobody wants to commit for a longer future. So this is much more of a cushioning period for us, where we can increase, we can pass on our cost to our customers.

Utkarsh S: With the lag?

Yayesh Jhaveri: We feel this is a temporary situation. So right now, yes, the things will be haywire, but definitely everything will fall into pieces again back.

Utkarsh S: Okay. And sir, what are your raw materials? What raw medicals are you?

Yayesh Jhaveri: So we use a lot of raw materials like Diphenylamine, Hydroquinone, Di isobutylene.

Utkarsh S: And have these, a lot of chemical prices and even crude has corrected in this quarter. So does that also reflect in your raw material costs?

Yayesh Jhaveri: Definitely, it does. Because we have to pass on the benefits to our customers.

Utkarsh S: And you're currently operating at 100%. Am I right?

Yayesh Jhaveri: Yes, almost.

Utkarsh S: So until your new capacity comes in one year approximately, we can assume that this quarter is a steady state quarter going forward till the new capacity comes, right?

Yayesh Jhaveri: It is almost steady. But as I have said during my speech that due to our product mix, we can definitely still there is much more scope to improve.

Utkarsh S: Improve on the margins or improve on the revenue?

Yayesh Jhaveri: Everything.

Moderator: Thank you. We have the next question from the line of Gunit from CCIPL.

Gunit: My questions on the margin side. We have seen a margin improvement year-on-year. And currently, it's up to 16%. So I would just like to understand that the peak of the cycle wherein the realizations are peaking and…

Yayesh Jhaveri: Sorry, can you just speak a little bit slowly?

Gunit: Yes. So our realizations have peaked at 16% right now. So I just want to sorry, our margins have peaked at 16% right now. So I just want to understand that is this the peak of the cycle wherein due to higher realization margins are peaking, but which may not be sustainable going forward in the future? So I would just like to understand your opinion and comments on this?

Yayesh Jhaveri: No. We will definitely be maintaining this margins. And this is the reason that you're seeing that we were shifting more towards the industrial products and moving out from the consumer products, because we are concentrating more on where we are being able to sustain our margins. So, this product mix will definitely continue, and we should definitely be able to sustain the margins.

Gunit: All right. Great. And is the pricing formula based or, I mean, do we pass on any increase in raw material…

Yayesh Jhaveri: It is passed on…

Gunit: Potentially, there should not be much effect of raw material prices going up and down.

Yayesh Jhaveri: No. It wouldn't be much of an impact.

Moderator: We have the next question from the line of Anurag from Roha Asset Managers.

Anurag: Thank you for the opportunity. Sir, across Europe and USA, if you can comment on end user industries, which we are catering to, how is the demand shaping up across our two, three key segments, that would be helpful?

Yayesh Jhaveri: Sorry, can you just repeat slowly?

Anurag: Sir, USA and Europe, these two geographies, how is the demand shaping up for some of our key product segments, if you can comment on that?

Yayesh Jhaveri: Yes. For us, yes, we haven't heard much of a recession in the Europe because our orders have not been impacted much on these. While in the US, still there is a slowdown, but there is no, we don't see or nor do they see any recession, recession coming in. So we are not seeing right now much of an impact, but maybe on days to come ahead, we might get a much clearer idea. And everything looks, till now we are cautious, but yes, but it looks pretty seasoned.

Moderator: We have a follow-up question from the line of Utkarsh S an Individual Investor.

Utkarsh S: Thank you again I just want to on your working capital cycle, so you think this can reduce further. I think it stands at around 100 days currently?

Yayesh Jhaveri: Yes. And I think it will remain the same, almost will be 95 to 100 days.

Utkarsh S: So you carry inventory for almost three months. Is that the nature of the sector itself, or?

Yayesh Jhaveri: Yes, because we are much of a rely on the imports. So we need to carry inventories at our own warehouses to ensure the supplies to the customers on time. And at least, we carry almost around two months raw materials.

Utkarsh S: And your borrowing I had a question on that. On your capex is entirely funded by debt? Or are you, like can you tell me how are you going to fund your capex?

Yayesh Jhaveri: The capex is funded by around INR 240 crores from bank loans and around INR 110 crores from our internal accruals.

Utkarsh S: After you take this INR 240 crores, your debt should stand at around INR 450 crores?

Yayesh Jhaveri: Yes, approximately.

Utkarsh S: And what is the plan for debt repayment after this new capacity comes?

Yayesh Jhaveri: Yes, we will take a call at that time.

Utkarsh S: Yes. But you would have some calculations as to how much cash flow you will generate per year...

Yayesh Jhaveri: So we are already generating cash flows, but we would like to disclose all these things once we reach that time.

Utkarsh S: Yes, sir, because our debt will become a bit high after that?

Yayesh Jhaveri: We are aware of that. And as I've been telling some other investors also that we will be maintaining our margins, and we will take care of things wisely.

Utkarsh S: So the plan would be to repay the debt as the new capacity comes up, right?

Yayesh Jhaveri: Yes. Definitely.

Utkarsh S: Directionally, that's good to know. And just one more last question. How is the competitive intensity in the products you sell, do you have any direct competitors?

Yayesh Jhaveri: Yes. We do have, but those are category wise.

Utkarsh S: Those are what wise? Sorry?

Yayesh Jhaveri: The category-wise.

Utkarsh S: Okay. So can you name some of these?

Yayesh Jhaveri: We have a competitor like NOCIL, Camlin Fine Science, Clean Science from India, from US we have R.T.Vanderbilt, BASF.

Utkarsh S: And how does this, how is the competitive intensity as? Are you able to, do you have pricing power? Or I'm just trying to understand the nature of the sector.

Yayesh Jhaveri: My friend, if you have seen my results, my turnover is increasing so definitely, I'm more-and-more competitive.

Utkarsh S: Thank you Sir

Moderator: Thank you. We have a follow-up question from the line of Gunit from CCIPL.

Gunit: Yes. I'm sorry if I'm repeating this, but what is the deadline for the new project that's coming up? By when can we expect it to be commercialized?

Yayesh Jhaveri: We are expecting the commercialization after the end of 2023or early 2024.

Gunit: Alright thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Yayesh Jhaveri for closing comments.

Yayesh Jhaveri: Thank you once again for joining us on the call. If you have any further queries, you may please contact us. Thank you very much, and have a very good evening. Thank you.

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