"Yasho Industries Limited Q1 FY24 Earnings Conference Call"

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MANAGEMENT:	**MR. PARAG JHAVERI – MANAGING DIRECTOR AND CEO, YASHO INDUSTRIES LIMITED** **MR. YAYESH JHAVERI – WHOLETIME DIRECTOR, YASHO INDUSTRIES LIMITED** **MR. DEEPAK KAKU – CFO, YASHO INDUSTRIES LIMITED**
MODERATOR:	**MR. BHAVYA SHAH – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY24 Earnings Conference Call of Yasho Industries Limited, organized by Orient Capital.

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. Bhavya Shah from Orient Capital. Thank you and over to you, Mr. Shah.

Bhavya Shah: Good evening everyone. Thanks for connecting to Yasho Industries Q1 FY24 Business Concall. Today we have with us the management, Mr. Parag Jhaveri – Managing Director and CEO, Mr. Yayesh Jhaveri – Wholetime Director and Mr. Deepak Kaku – CFO.

Before we proceed with the call, I would like to give a small disclaimer that the conference call may contain some forward-looking statements which are based on the beliefs, opinions and expectation of the Company as on date. A detailed disclaimer has also been given in the Company's Investor presentation. I hope everyone had a chance to go through it which has been uploaded on Stock Exchange today. I would now like to hand over the call to the management. Over to you, sir.

Parag Jhaveri: Good afternoon, ladies and gentleman. I extend a warm welcome on behalf of Yasho Industries Limited to all of you who have joined us for this Results Concall. We appreciate your time and interest in our Company's performance. I hope everyone had an opportunity to go through the Financial Results and Investor Presentation which have been uploaded on stock exchange.

As we step into the new financial year, we acknowledge the prevailing headwinds in the global economy characterized by challenging macroeconomic conditions, high cost inventories and significant price drop. These uncertainties have created a complex business environment, necessity, resilience and adaptability. However, despite these headwinds, Yasho Industries has continued to navigate through these turbulent times. We have devised robust strategy to ensure a more resilient performance in the upcoming quarters safeguarding the interest of our stakeholders.

During our attention to our Q1 performance, our consolidated revenue from operation was Rs. 150 crores. We have achieved volume growth of about 8% on quarter-on-quarter basis even amid challenging conditions. A significant contributing factor to our maintained margins has been our focus on improving the product mix and implementing dynamic pricing actions. This strategic approach has enabled us to optimize revenues and ensure operational efficiency.

Yasho Industries operate into 2 core categories. In first, consumer chemicals including food, antioxidants and aroma chemicals contribute to approximately 19% of our revenue. The second category, industrial chemicals encompass rubber, lubricant and other specialty chemical accounting for over 81% of our total revenue.

In terms of our operational performance, we are currently operating at about 75% of our capacity. We see some temporary slowdown in certain segment of the market which we expect to recover by the end of this year. We remain steadfast in our commitment to uphold our long-term goals and objectives, while nurturing the growth of the Company. Diversifying our revenue stream, however, overseas sales contribute over 64% of our total revenue. We have been engaging actively with our customers and we believe the potential to increase our offering for long term. In line with our growth strategy, our CAPEX initiatives, the Greenfield project at Pakhajan are well underway and expected to commence production in early FY25. We intend to focus on our few products from our existing portfolio. Following this expansion, we can accomplish total capacity will be approximately 30,000 metric tons per annum.

In conclusion, we are optimistic about the trajectory of our business and extension about the future prospect of Yasho Industries Limited. Our commitment to creating long-term value for our stakeholders coupled with prudent financial management and strategic initiatives will be instrumental in sustaining our growth in coming years. So, that is from my side. We will now open the floor for Q&A. Thank you very much.

Moderator: We will now begin the question and answer session. The first question comes from the lines of Shuchi Nahar. Please go ahead.

Shuchi Nahar: Sir my question is regarding some of your peers who did huge CAPEX, now they have gone into losses due to low utilization and high depreciation and finance cost, so how confident are we given our CAPEX size that we will utilize the capacities fully? And second, what will be the utilization in the first year post the CAPEX is commercialized?

Parag Jhaveri: Our confidence on utilization of CAPEX is still very high, reason being that many of our large customers who are waiting for us to start the production in the new facility which will come on board after that only, reason being that their demands are high and our current capacity is very limited to offer that. So, our current production site, products have been approved, but they want to validate from the new production site and then only they will come on board. We intent to start the trials by October, November somewhere if everything goes well, we all get commissioned in place and the commercials should start sometime in early 25.

Shuchi Nahar: And now second question if I can take, can you give me some qualitative colors on the new molecules that you are going to make in the new plant? And who all(7.23mins) are we competing within India? Are we competing with China too in the new molecules?

Parag Jhaveri: Yes, it is a mix of that, China is always practically present in every field of chemical segment, so one cannot say that China is not present, but our major focus is where we are taking lead is

#1) Make in India, that is going to help us a lot in the current phase of the growth and #2) we are going to get into the well-established market that is the European and American market which will help us to grow the product business.

Moderator: Thank you. The next question comes from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: Sir my first question is that our margins are a bit subdued because of the dynamic environment, but in 2026, when we expect to reach on more optimum utilization level what do you think the normalized EBITDA margin of the Company could look like?

Parag Jhaveri: I think the Q1 was very much, you can use the word unusual quarter, very much unpredicted, lot of high cost inventories there, unexpected price drop by the competitor of some part of the world and the sentiment, the prices are going down, so that has reduced the margin. Couple of our product in specialty segments has a very limited demand currently, so that has put a little pressure on our margin. We are working hard to ensure that we come back to the margins of 18% first and we have growth or the commitment from the customers coming in for the future business is very strong. Indications are coming that they need our product. People are coming back to us, so that is a sign and we hope that we should be able to influence margin in next few quarters, not the immediate quarter, but in the second half definitely the margin will improve for the Vapi operation and it is too early to talk about FY25 and FY26 margins today, how the situation evolves globally that is going to take up decision, but with mainly the CAPEX coming in to the industrial segment which is giving us a better margin, we definitely improvise our margins further from here.

Anirudh Shetty: Sir my second question is you mentioned the Make in India opportunity, so can you elaborate more on that and can you also give some more color around opportunities for our domestic manufacturer and the government wants to do more Make in India and more and more requirements seemed turn to customer to source from domestic guys, can you talk about that opportunity a little more**?**

Parag Jhaveri: See the last 2 years, the Make in India particularly in last 12 months, the government is pushing hard to many large PSUs and the large companies to use the local component in their production and in that respect, we are getting more enquiries, more business is getting transferred into reality step by step, so we hope with our new plant coming up on stream that we should be able to capitalize on that and that should also help us to utilize the new facility.

Anirudh Shetty: And one question, the 17,500 expansion that we are doing, how much of that expansion is basis visibility from customers who are already working with Yasho and for products that we are already supplying to vis-à-vis new customers that you will have to look for to fill the balance?

Parag Jhaveri: Yes, we have to bring in couple of new customers with whom we are already in contact for last several months. They all have shown a very keen interest. As I said that the trial will start somewhere in October and November, once we give them a sample, they will come and do the audit of the facility, so that is why we are expecting a commercialization only by early FY25. That will take a minimum 3 months to 6 months or sometime a little longer time and that was another reason why we are giving guidance we can utilize between 60% and 65% in the capacity as even the Q1 of FY25 will not be a robust, but it will fully ramp up the sales from that facility.

Moderator: Thank you. The next question comes from the line Darshan Shah. He is an Individual Investor.

Darshan Shah: Sir my first question is to our new facility at Pakhajan, so what kind of product mix are we looking at between lubricants, rubber chemicals and specialty chemicals?

Parag Jhaveri: Darshan, we are not going to give clear guidance here on that part, but our products are from the industrial segment of the Company which is coming on line.

Darshan Shah: Sir my second question is, I saw in your investor presentation you mentioned about Phase-1 and so I believe we have more 45% to 50% of land available for phase 2, so what is next in phase 2? Is there any guidance relating to same?

Parag Jhaveri: Darshan, currently our focus is to establish facility and ramp up the production. We will look at the phase 2 only in the beginning of 26, how quickly we are going to ramp up and sell the production and utilize the CAPEX. Once we achieve 70% to 75%, we always think about the next CAPEX, already we have plan in drawing room, but we don't talk about it unless and until we achieve there.

Darshan Shah: Is that would we be expecting a similar kind of facilities there to make similar kind of products or we will be trying to venture into something new?

Parag Jhaveri: The Company always get into chemistry where they are comfortable and where they have been established. Anything new always is a challenging and anything new what we introduce is always first come from Vapi facility and then ramp up for any when we see the opportunity of growth, we take it to the Pakhajan.

Darshan Shah: Sir, would it be right to ask you at this point of time, what would be the kind of investment because I see about Rs. 400 crores has gone into Phase-1, so similar kind of thing in phase 2 also?

Parag Jhaveri: No, I don't think so, Darshan that is not required. Of this Rs. 400 crores, almost Rs. 250 crores has gone for land development in the long-term CAPEX. The facility we need to build up like Effluent treatment plant, utility blocks, warehousing, so when we go for the next phase we don't need any of this thing, admin block or everything is ready now, so just the production equipment and the production building required, so don't need so much CAPEX.

Darshan Shah: So, that should help our financial profile as well okay.

Moderator: Thank you. The next question comes from the line of Aman Thadani of Solidarity Investment Managers. Please to ahead, sir.

Aman Thadani: Parag sir, my first question is, by my calculation we did an EBITDA per ton of around 1 lakh this quarter, but basis the past conference calls, we guide for a long-term sustainable EBITDA per ton number of 70,000 to 80,000. Now my question is that 3 years out with more proportion of higher margin industrial revenues with more scale and more direct sales versus distribution, what could this EBITDA per ton number look like?

Parag Jhaveri: Let me be honest in my defense we always like to give a percentage guidance rather than a per ton absolute guidance. When you are in a current situation where the prices are bottomed per ton is difficult to sustain the market, but what we thrive to do the percentage we work on that is slightly under pressure. We are seeing that our consumption ratio or naked ratio has little bit deteriorated, first we want to improve that and then we will take it further from there. As a chemical Company, the production quantum fill the criteria rather than we look at the absolute number. If we have the quantum, number will fall in automatically in the line and what is a good sense for Yasho is that in the last quarter we were able to sell more quantities than the previous quarter and that is a good sense for us and that sense that we are able to recover what we lost or we are holding on and we are adding some more volumes.

Aman Thadani: Sir, my second question is what is the current net debt position and what would be the incremental debt required till we complete our Phase-1 expansion?

Parag Jhaveri: I think our total debt what we are looking at is about Rs. 500 crores till the FY24, that is the number what we have including working capital.

Aman Thadani: And sir one request like in your quarterly presentation, can you also give the volume breakup number among the 2 segments that is consumer and industrial, so that it would help us better understand the drivers of our performance?

Parag Jhaveri: I think we can give that. That is not a problem. We will do it from next time.

Moderator: Thank you. The next question comes from the lines of Saloni Shah. She is an Individual Investor. Please go ahead.

Saloni Shah: I have few questions, first one being, sir can you comment on the macro factors as to like how it is playing out because we can see some pricing change from the Chinese players, so could you just help me throw some light on how aggressive or how this pricing change from the Chinese players is affecting us in the current scenario?

Parag Jhaveri: I think Saloni, the raw material prices has a swung drastically except some minerals and the natural products, everything has been crashed with a 50% to 100% here, purely due to the low demand in part of the world which everyone knows, so that is causing a problem and also the Europe has a little growth or no growth which is also causing a big problem and that we believe a kind of sense we are getting today that the pricings have been bottomed out looks like, we see somewhere some start in the certain category and if after the summer vacation which is now going on that is after somewhere in mid-September, we will have more clarity how strongly the Western world is coming back to the business.

Saloni Shah: And my second question is, sir could you provide an update on the demand trends in our key end user industry across Europe and the states like I am particularly interested in understanding how the demand is showing up?

Parag Jhaveri: Already I said that the exports are slow for mainly into the segment in Europe which we have seen the drastically drop in our export to Europe. To our surprise, USA still showing a very strong sign, also the Latin America is also showing a good sign, along with that the Middle East. Except Europe, we see the good sign which is coming up in last 2 months and we see the revival of the business in all this parts of the world. Also, the part of the Asia is not so doing good, but North America, South America, Middle East, all these places have picked up the uptake or we are getting more business maybe for immediate supply or the next 3-month supply, so we see the positive sign here.

Moderator: Thank you. The next question comes from the lines of Shubham Ajmera from Arora Family Office. Please go ahead.

Shubham Ajmera: Sir I wanted to ask about the capacity utilization which you are having currently and post completion of this ongoing CAPEX, so normally how much time it will take to reach the optimum utilization for this new CAPEX?

Parag Jhaveri: For the new facility, we believe that within 2 years we should be able to achieve the optimum capacity utilization. So, by FY26, Company should run at 90% utilization minimum.

Shubham Ajmera: So, in next 2 to 3 years any other CAPEX plans other than the ongoing CAPEX?

Parag Jhaveri: No, not at the moment. We will come back to you right only in the beginning of 26.

Shubham Ajmera: So, which means utilization to optimum level by financial year 26 and then will may do some new CAPEXs for the ongoing work?

Parag Jhaveri: Absolutely. That is what we always do, first we achieve 70% utilization then we talk about the further CAPEX till then there is no point.

Shubham Ajmera: And just one more question like what would be the margins on this, overall margins once we reach the optimum utilization in that case?

Parag Jhaveri: I think we are expecting a reasonable increase in the utilization. Currently, we are at 17%-18% and we should at least improvise our couple of notch there 2%-3% up further, 20 plus minimum.

Moderator: Thank you. We have our next question coming from the line of Samyak Jain. He is an Individual Investor.

Samyak Jain: This quarter we show a decline in the topline by 16% on year-on-year basis, was that completely of both volume dip as well as the price dip? Also can you please quantify that between price and volume?

Parag Jhaveri: I already said we have growing volumes by 6% compare to last quarter to this quarter, but quarter 1 of last year to quarter 1 of this year we have declined in volumes, but when I am comparing with my Q4 of our 23 to Q1 of 24, we have gained volumes. Also, when you talk about the Q1 of 23, a lot of factors or influence and that time the demand was robust and the price was high so the topline was there. Last 6 months, the raw material prices also declined sharply and that is also affecting the selling price, so that is why topline has been reduced. As I said, we are happy that we should be able to improvise our volume growth in this quarter compared to previous quarter that is Q4 of 23.

Samyak Jain: So, my next question will be like in FY24, what are your growth projections? Will you continue to maintain the 10% to 12% of the growth rate as previously guided or alternatively will the new capacity coming in Q4 significantly contributes to FY24 numbers?

Parag Jhaveri: Number 1, let me answer the second question first, new facility is not going to contribute any topline in the current year. We don't anticipate any major sales from there, so that is not there. Now let me answer question 1, we do expect a growth in this year, last year what we did is about 90% of our utilization, overall, we tried to overcome that. Now, our current capacity is 12,500 metric ton in Vapi and we wish that we will achieve above 95% utilization in this year.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Parag Jhaveri: Thank you friends for joining this call and looking forward to see you again after Q2 calls.

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