YASHO
INDUSTRIES

Date: July 27, 2022

To,

BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai,
Maharashtra – 400 001

Sub: Intimation of Revision in Ratings under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015

Scrip Code: 541167

Dear Sir/ Madam,

Pursuant to Regulation 30(6) read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 and SEBI Circular: CIR/CFD/CMD/4/2015 dated September 9, 2015, we would like to inform you that based on India Ratings & Research letter dated July 26, 2022, the credit rating of the Company has been upgraded.

In accordance with the Regulation, please find below the details of the revision in ratings of the Company

Name of the Company	Credit Rating Agency	Type of Credit Rating	Existing	Revised
Yasho Industries Limited	India Ratings & Research	Long Term Issuer Credit Rating	IND BBB/Stable	IND BBB+/Stable

The report from the credit rating agency covering the rationale for revision in credit rating is enclosed.

This is for your information and record.

Thanking You,
For Yasho Industries Limited

Parag Vinod Jhaveri
Managing Director and CEO
DIN: 01257685

YASHO INDUSTRIES LTD. MUMBAI

Encl: As above

YASHO INDUSTRIES LIMITED
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IndiaRatings
& Research
A Fitch Group Company

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India Ratings Upgrades Yasho Industries to 'IND BBB+'/Stable; Limits Enhanced

Jul 26, 2022 | Chemicals

India Ratings and Research (Ind-Ra) has upgraded Yasho Industries Limited's (YIL) Long-Term Issuer Rating to 'IND BBB+' from 'IND BBB'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	March 2027	INR324.3 (reduced from INR423.54)	IND BBB+/Stable	Upgraded
Fund-based limits	-	-	-	INR1,400 (increased from INR1,100)	IND BBB+/Stable/IND A2+	Upgraded
Non-fund-based limits	-	-	-	INR505 (increased from INR405)	IND A2+	Upgraded

The upgrade reflects a significant increase in YIL's scale of operations, resulting in an improvement in the EBITDA margins and credit metrics during FY22.

Analytical Approach: Ind-Ra has taken a consolidated view of YIL and its wholly-owned subsidiary Yasho Industries Europe B.V. (YIEBV) to arrive at the ratings on account of the strong legal, operational and strategic linkages between them.

Key Rating Drivers

Significant Increase in Scale of Operations; Increasing Capacities to Drive Revenue Growth in Medium Term: YIL's revenue surged 70.76% yoy to INR6,126.61 million in FY22, mainly due to an increase in realisations and volumes, primarily led by the demand-supply dynamics in the chemical industry. The revenue per tonne grew to INR0.56 million in FY22 (FY21: INR0.47 million) due to an increase in sales of high value products. The sales volumes increased to 11,054 metric tonnes per annum (mtpa) in FY22 (FY21: 7,712mtpa), led by 100% utilisation of the capacity, which was enhanced during FY20-FY21 to 11,000 mtpa from 9,200mtpa, on the back of higher demand. Ind-Ra expects demand for YIL's products to continue to increase in the medium-to-long term, leading to a sustained growth in the revenue. The company's scale of operations is medium.

Healthy EBITDA Margins: The EBITDA margins expanded to 15.17% in FY22 (FY21: 13.63%) due to a decline in costs of raw material consumed, resulting from de-bottlenecking at its plants and increased penetration in the high-margin rubber, lubricant and specialty chemical segments. The company's return on capital employed was 21.6% in FY22 (FY21: 14.7%). The company expects the margins to improve further in the medium term on account of increased demand from the high-margin rubber and lubricant segments. YIL's margins are susceptible to sharp volatility in raw material prices, which are crude-based derivates and affected by the demand-supply dynamics in the industry. However, over the long term, Ind-Ra expects the increased share of high-margin segments in the revenue to partially mitigate the impact of fluctuations in raw material prices.

Strong Credit Metrics: The net leverage (net adjusted debt/EBITDA) improved to 2.61x in FY22 (FY21: 3.92x) and the interest coverage (EBITDA/gross interest expense) to 6.75x (2.99x) on account of an increase in the absolute EBITDA to INR929.69 million (INR490.03 million) and a decrease in the interest expense to INR137.80 million (FY21: INR163.99 million). However, the credit metrics are likely to deteriorate in FY23 due to the ongoing debt-led capex undertaken by the company for capacity expansion. However, Ind-Ra expects the credit metrics to remain healthy on the back of the strong absolute EBITDA.

Diversified Product Portfolio, Geographical Presence: YIL has 148 products in its portfolio, catering to the food antioxidants (five products), aroma chemicals (13), rubber accelerators (87), lubricant additives (22) and specialty chemicals (21) segments. Of these, rubber chemicals, lubricant additives and specialty chemical contributed around 74% to YIL's revenue in FY22. While, aroma chemicals and food antioxidants are highly competitive segments and offer low margins. The company has shifted its focus on sale of high-margin segments, which generate EBITDA of 18%-25%. Thus, Ind-Ra expects revenue contribution from the higher margin segments to increase, leading to an improvement in the profitability.

Apart from sales to the domestic market, YIL exports its products to 52 countries across Europe, the US, the Middle East and Asia. Exports accounted for around 64% of the company's total revenue in FY22 (FY21: 65%).

Experienced Promoters: The company's promoters have more than three decades of experience in the chemicals industry, leading to established relationships with its customers. Parag Jhaveri, the managing director of the company, and Yayesh Jhaveri, director, who oversee the day-to-day operations of the company, have experience of more than two decades in the industry.

Liquidity Indicator - Stretched: YIL's average utilisation of the fund-based and the non-fund-based limits was 74% and 86%, respectively, for the 12 months ended May 2022. The adjusted working capital cycle slightly reduced to 164 days in FY22 (FY21: 168 days), due to an increase in the adjusted creditor period (excluding letter of credit-backed creditors) to 33 days (21 days). The company has a policy of maintaining two-to-three months of inventory owing to the variety of products manufactured across various segments. The cash flow from operations declined to INR30.67 million in FY22 (FY21: INR225.83 million) due to unfavourable changes in working capital. This, along with the capex of INR597.64 million incurred for capacity expansion in FY22 (FY21: INR139.93 million), caused the free cash flow to turn negative to INR566.97 million (INR85.90 million).

Ongoing Debt-led Capex: YIL is increasing its production capacity by 15,500mtpa over the next two years by setting up a new unit at Pakhajan, Dahej, in Gujarat. The total project cost is estimated at INR3,500 million, which is to be funded by term debt of INR2,400 million from banks, equity infusion of INR423 million (already undertaken during FY22), unsecured loans from promoters of INR100 million (already undertaken during FY22) and the remaining through internal accruals. As of 31 May 2022, YIL had incurred around INR532 million against purchase of land funded by the way of equity infusion and unsecured loans from promoters. Nevertheless, the funding risk is mitigated to a great extent as the proposed term debt is entirely tied up as on date. Hence, the company's ability to timely complete the said capacity expansion project and commence its operations without any cost and time overrun remains critical.

Exposed to Industry Cyclicality and Forex Risks: The automobile industry, which is the end-user for the rubber and lubricant segments, is highly cyclical and any slowdown in the sector could affect YIL's profitability. As articulated in Ind-Ra's chemical outlook, companies catering to the auto, textiles and construction sectors, and in certain bulk commodities space are likely to witness a slow recovery cycle throughout FY22. However, YIL's presence in other segments could partly mitigate this risk.

YIL is also exposed to forex risks, as exports constitute 60%-65% of its revenue, and imports account for 50%-60% of its overall raw material costs. As informed by the management, the company entirely hedges its exposure. However, the agency believes this might not be sufficient to protect margins in the event of any sharp currency fluctuations.

Rating Sensitivities

Positive: A sustained increase in the scale of operations, leading to the net leverage remaining below 3.0x, while maintaining the liquidity and successful completion of debt-led capex without any cost and time overrun will be positive for the ratings.

Negative: A significant decrease in the scale of operations, elongation of the working capital cycle leading to deterioration in the liquidity position or any delay in completion of the ongoing capex leading to the net leverage exceeding 4.0x on a sustained basis would be negative for the ratings.

Company Profile

Incorporated in 1985, YIL manufactures aroma chemicals, food antioxidants, rubber chemicals, lubricant additives and specialty chemicals. Vinod Jhaveri is the promoter.

Yasho Industries Europe B.V. is a wholly-owned subsidiary of YIL based in Europe. It operates as stock point for YIL and is engaged in trading of products manufactured by YIL.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	**FY22**	**FY21**
Revenue (INR million)	6,126.61	3,594.36
EBITDA (INR million)	929.69	490.02
EBITDA margin (%)	15.17	13.63
Interest coverage (x)	6.75	2.99
Net leverage (x)	2.61	3.92
Source: YIL, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Types	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating	4 May 2021
Issuer rating	Long-term	-	IND BBB+/Stable	IND BBB/Stable
Term loan	Long-term	INR324.3	IND BBB+/Stable	IND BBB/Stable
Fund-based limits	Long-term/Short-term	INR1,400	IND BBB+/Stable/IND A2+	IND BBB/Stable/IND A2
Non-fund-based limits	Short-term	INR505	IND A2+	IND A2

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity
Term loan	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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