Date: August 12, 2024.

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001.

Scrip Code: **541167**

To,
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai – 400 051.

Symbol: **YASHO**

Dear Sir/ Madam,

Sub: Earnings Call Transcript

Further to our intimation on July 29, 2024, intimating of the earnings call to be hosted by the Company on August 5, 2024, please find transcript of the said earnings call for your reference and records.

The transcript of the earning call is also made available on the Company's website i.e. www.yashoindustries.com

You are requested to take the above information on record.

Thanking You,
Yours faithfully,
For Yasho Industries Limited

Rupali Sugriv Verma

Digitally signed by Rupali Sugriv Verma
Date: 2024.08.12 14:02:43 +05'30'

Rupali Verma
(Company Secretary & Compliance Officer)
Membership No. A42923

Encl: a/a

“Yasho Industries Limited

Q1 FY ’25 Earnings Conference Call”

August 05, 2024

MANAGEMENT: **MR. PARAG JHAVERI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – YASHO INDUSTRIES LIMITED**
MR. YAYESH JHAVERI – WHOLE TIME DIRECTOR – YASHO INDUSTRIES LIMITED
MR. DEEPAK KAKU – CHIEF FINANCIAL OFFICER – YASHO INDUSTRIES LIMITED

MODERATOR: **MS. MASOOM RATERIA – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY '25 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 star then zero on your touch-tone phone. Please note that this call has been recorded.

I now hand the conference over to Ms. Masoom Rateria from Orient Capital. Thank you and over to you.

Masoom Rateria: Thank you. Good evening, everyone. Thanks for connecting to Yasho Industries Q1 FY '25 Business con-call. Today we have with us from the management, Mr. Parag Jhaveri, Managing Director and CEO, Mr. Yayesh Jhaveri, Whole-Time Director, and Mr. Deepak Kaku, the CFO.

Before we proceed with the call, I would like to give a small disclaimer that the conference call may contain forward-looking statements which are based on the beliefs, opinions and expectations of the company and so on. A detailed disclaimer has been given in the company's investor presentation. I hope everyone had a chance to go through it, which was uploaded on the Stock Exchange yesterday.

I would like now to hand over the call to Mr. Parag Jhaveri. Over to you, sir.

Parag Jhaveri: Good afternoon, ladies and gentlemen. On behalf of Yasho Industries Limited, I extend a warm welcome to all of you joining us for today's results call. We greatly value your time and interest in our company's performance. I trust you have had a chance to review the financial results and investor presentation for Q1 FY '25, which are available on the Stock Exchange and on our company's website.

I am pleased to announce the successful completion and commissioning of our Pakhajan facility on April 9, '24. This facility is spread over 42 acres with an initial install capacity of 20,000 metric tons per annum. With this facility, our total capacity now stands at 32,500 metric tons. As we had earlier mentioned, we expect our customer approval to be obtained in the next few months and expect to utilize more than 90% capacity in FY '26.

With the start of this facility, we are confident that the next phase of expansion and growth of our company is ahead of us and we are confident that our efforts will generate wealth for our investors. We have also opened a subsidiary in the USA which will be operational in a few months time to expand our sales network in the region.

Talking about the financial highlights for the Q1 FY '25, our consolidated revenue from operations reached at INR172.87 crores reflecting a 15% year-on-year growth. We achieved a notable volume growth of approximately 27% year-on-year. Despite current shipping issues, we have grown our export volumes. Export contributed 61% of our revenue.

Our EBITDA margins were constrained due to the underutilization of the Pakhajan facility. Currently, utilization of the facility is about 10%. In Q2, we are expecting 20% after which we expect it to increase substantially in Q3 and Q4.

We expect the EBITDA margin will stabilize back to the previous level by Q3-Q4 of this year, which we expect it to grow further. It may also be noted that profit before tax margins were also impacted due to the depreciation and finance costs related to the new facility which we had expected. We understand that the current debt level has peaked and we do not intend to increase it any further.

We expect that the debt to EBITDA will be close to three by the end of this financial year. In conclusion, we are confident in our organization's promising trajectory and future prospects. We are committed to increasing our shareholder value in the long term. We appreciate the trust that our investors have in us and the dedication of Yasho team which drives our growth.

We may now proceed to any questions you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Tushar from Kamayakya Wealth Management. Please go ahead.

Tushar: Good afternoon, sir. And thank for the opportunity. Sir, my first question what was the reason for the negative PAT this quarter, ~~profits~~?

Parag Jhaveri: Sorry can you just go slow.

Tushar: Yes. I just wanted to know what was the reason for the negative PAT this quarter, profits?

Parag Jhaveri: As I said, we have commercialized the new plant and their depreciation and interest costs was a major reason to have a negative impact on the PAT.

Tushar: In your new capex, which was commercialized, you pointed out that you guided initially a EBITDA of 20%-22%. Do you hold that? Also, you are guided for company level 19%-20% EBITDA margin. Do you hold that guidance, sir?

Parag Jhaveri: Absolutely.

Tushar: With 50% utilization for this current financial year?

Parag Jhaveri: Yes.

Tushar: In terms of your product realization, how do you see the environment panning out?

Parag Jhaveri: Well, there is a current pressure on the selling price and so does also the raw material prices are also under pressure. Number two, there is some kind of a delay happening in export getting container availability all that thing. We believe that that should be over by the end of Q3 and early Q4 things should start stabilizing. But we can’t say due to the geopolitical situation what is going on currently. 100% nobody can say what is going to happen.

Tushar: Sir, I just wanted to know, the guidance for 50% utilization is on the back of soft order booking?

Parag Jhaveri: Yes, sir.

Tushar: Fair enough. I will get back in the queue. Thank you.

Moderator: Thank you. Our next question is from the line of Manan Shah from MoneyBee Investment Advisors. Please go ahead.

Manan Shah: Yes. Hi, sir. Thanks for the opportunity. I wanted to know with how many customers are we doing the trials currently and whether these are domestic or international customers and whether they are our existing customers or these are new customers with whom we are doing the trial?

Parag Jhaveri: Well, we are working with a number of customers in an export and also into the domestic field. Couple of them are new customers who we have identified in the past who could be on our roll call and a couple of them are already existing but we can expand the line with them with the new capacity available.

Manan Shah: Okay. And when do you think will we commence with the next phase of expansion that we have at Pakhajan?

Parag Jhaveri: I think I said in past also that till the time we don't achieve 70% utilization, we don't really work on next phase of expansion. We hope that we will be able to achieve by end of this year or the last quarter of FY '25. Then we will talk about it.

Manan Shah: Understood. And as you scale up the utilization at Pakhajan, do you anticipate you guys will need any more working capital debt or you will be able to manage with the current debt level that we have?

Parag Jhaveri: I think we will be able to manage with the current debt level. We don't expect too much requirement. Purely because of the sales, the selling prices drop and also the buying raw material prices drop. So the overall projection is not something which can be managed with the current thing. And also we will have some positive cash flow generated during this year. So that will help us.

Manan Shah: Sure. Thanks. I'll get back in the queue.

Parag Jhaveri: Thank you.

Moderator: Thank you. Our next question is from the line of Aman from Solidarity Investment Manager. Please go ahead.

Aman: Thank you for the opportunity, sir. Sir, I have a bookkeeping question. So if we annualize the Q1 FY '25 interest cost of INR14 crores and divided by the FY '24 borrowings, it implies sort of a 10% interest rate versus 8.75% that you communicated in the last quarter. So am I missing something in my calculation?

Parag Jhaveri: No.

Aman: So for us, the interest rate, is it 10% or is it 8.75% that we should work with?

Parag Jhaveri: It should be 8.75% or 8.75% to 9% with the bank.

Aman: Sir, but it comes out to be 10% if I annualize the Q1 FY '25 interest cost.

Parag Jhaveri: No, I don't think so, sir. No, it is not the case. I can send you the total working of the interest cost if required.

Aman: Okay, that would be great. So my second question is, sir, what is going to be the cash outflow on account of interest payment and principal repayment in FY '25 and FY '26 respectively?

Parag Jhaveri: FY '25, there is no repayment for the term loan. The term loan will start only from April'25.

Aman: Okay.And sir, what would be the repayment in FY26?

Parag Jhaveri: That FY '26 will be something about INR45 to INR50 crores.

Aman: Okay. And sir, my third question is, I just wanted to understand the operating leverage better in the Pakhajan plant. So, sir, if we assume the current level of capacity utilization, sir, what will be the fixed cost that is employee cost plus other expenses on a 12-month basis? And if let's say the capacity ramps up to 50%, in that case, what would be the fixed cost?

Parag Jhaveri: **Well** Fixed cost is fixed cost. It is not going to change with what capacity utilisation I am doing it. There will be a constant fixed cost. So I can work it out and you can send me the mail, we can get with all the details on that.

Aman: Okay, sir. Thank you. So those were my questions. I'll get back in the queue.

Parag Jhaveri: Thank you.

Moderator: Thank you. Our next question is from the line of Rohan Patel from Turtle Capital. Please go ahead.

Rohan Patel: Hello. Am I audible, sir?

Parag Jhaveri: Yes.

Rohan Patel: Yes. I'm new to this company, but I just wanted to understand the capex that you have done, the additional to the tune of INR461 crores. So what kind of asset turn are you targeting at optimum utilization of debt assets?

Parag Jhaveri: Well, our optimum utilization with this 20,000 metric tons, we should get a revenue of about INR550 crores plus/minus something.

Rohan Patel: INR550 crores plus kind of.

Parag Jhaveri: Yes. Plus/minus, maybe 5% here and there.

Rohan Patel: Got it. And what would be the margin profile of Debt asset? Like what kind of a margin…?

Parag Jhaveri: At a company level, between it should be 19% to 20% EBITDA.

Rohan Patel: Okay. And so currently it's operating at this quarter at 10%. And what are you expecting the capacity utilization by year end?

Parag Jhaveri: Well, at year end we should have a utilization at the new facility about 45% to 50%. And the Vapi should optimum run at a full capacity, almost 90% capacity.

Rohan Patel: Okay. So by the next year, we can expect that both of the capacities will be operating at optimum level.

Parag Jhaveri: Yes. For FY'26, we are expecting to both, the company should run with almost 90% plus capacity utilization.

Rohan Patel: And when we do that 90%, we will be at a level of -- in FY'26, we can expect a revenue of INR400 crores to INR500 crores from new capacity.

Parag Jhaveri: We are expecting a revenue between INR1,200 crores to INR1,300 crores in FY'26 because of the selling price.

Rohan Patel: Okay**,** That was from my side. Thank you.

Moderator: Thank you. Our next question is from the line of Abhishek, an individual investor. Please go ahead.

Abhishek: Hi, sir. Just wanted to understand one thing. Our revenue is up by around 15% year-on-year for Q1 FY'25. Could you provide any more insights into the main drivers behind this growth? Specifically, how did the increase in export volumes contribute to this performance?

Parag Jhaveri: Well, in export, we have grown in volume, but the drop in number, the selling price. Okay. So that's why you can see the slight drop in export percentage from 63% to 61%. The volume term, we have a healthy growth of almost about 27% definitely. That has also been contributed from a new facility, but some productivity comes from that route.

Abhishek: Okay. And about EBITDA and PAT margins, they are significantly affected by increasing depreciation and higher employee expenses. So can you elaborate on the extent of this impact and any strategies that you are planning to manage this?

Parag Jhaveri: This was well anticipated by us that the Q1 will have an impact and may not have a positive earning by the company, purely due to the capitalization of the new facility, what was about INR488 crores or something we have capitalized. And the interest on that, the depreciation and also the plant operational cost will be impacted when the plant is running at 10% capacity and a lot of still trials and the stabilisation going on, the cost is quite high. So those are the factors majorly impacted on our profitability.

Also, there was another small impact came from our Europe subsidiary. You must have seen that there was a stand-alone balance sheet at the India level. The company had made a profit, but due to the correction in the selling price in Europe, we have lost about INR2 crores and that's why that impact has come from the europe subsidiary. The old stock which we had and we need to sell at a little bit lower price than what we have transferred, that is impacted and we don't foresee that going to happen in the next quarter onwards or this quarter onwards.

Abhishek: Okay, got it, sir. And one more follow-up was like, with respect to a newly launched product, what percentage of your total revenue has it contributed and like how do you plan to optimize your product mix?

Parag Jhaveri: Currently from Pakhajan, the new products are at a very insignificant level.

Abhishek: Okay. Yes, that would be all from my side.

Parag Jhaveri: Well, the product mix optimization can happen only from Vapi. Pakhajan has a dedicated line. We don't change the product at Pakhajan.

Abhishek: Okay, sir. Thank you for the details.

Moderator: Thank you. Our next question is from the line of Jayesh Shah, an individual investor. Please go ahead.

Jayesh Shah: Hi, thank you for taking my question. So my first question would be so the establishment of the wholly owned subsidiary in the US is a notable development. So how do you intend to leverage this subsidiary to strengthen your market position and distribution network in the American market and what are the key milestones do you aim to achieve with this new entity?

Parag Jhaveri: Well, the purpose of having a subsidiary to reach out to the more end users in the USA whom we have identified in the last two years time that there are potential, but provided we have a ready stock in the USA. And we also learnt from our Europe subsidiary that when we have a stock point there we can grow much better. So the purpose is to reach out to more customers and to expand our profit margin by 3% to 5% further on that sales.

Jayesh Shah: Okay, that was good. So I just also wanted my another follow up is so considering that international sales for the company account for over 61% of your revenue. So what are your long term objectives for expanding in these markets? Are there any particular international regions or segments you are prioritizing for growth?

Parag Jhaveri: Well, currently our focus is purely on to the industrial segment of the range and that is where we want to grow. Not only in Europe, USA we are also trying to establish ourselves in like South America, the Middle East and many other regions we are trying to capture.

Jayesh Shah: Okay, another follow up and last question from my side would be how do you plan to tackle the pricing pressures that have led to a 300 basis point reduction in the export revenue and are there any specific strategies in place to counteract these pressures and improve profitability in your international markets?

Parag Jhaveri: I don't think there is a pressure on us or there is something what we lost. For me, always my measurement is on the volume growth rather than the value what we achieve. And I think we are - I am quite satisfied with the volume growth what we are having and what kind of commitment we are getting into it. So there is not much I think kind of a thing which is putting us into the very much at an unease position. We are confident that we will bounce back to 65% plus in export sales. It's a momentary low in an export side.

Jayesh Shah: Okay, thank you so much. That was it from my side. Thank you.

Parag Jhaveri: Thank you.

Moderator: Thank you. Our next question is from the line of Sahil Vohra from M&S Association. Please go ahead.

Sahil Vohra: ~~Yes sir.~~ I wanted to ask with the recent completion of the Pakhajan project, how do you anticipate this will affect your production capacity and operational efficiency? Given that the facility is now fully automated and requires minimal workforce, could you provide a detailed timeline for when you expect to see the full benefits of this expansion?

Parag Jhaveri: Well, we expect to have this full expansion by end of Q3 or by Q4. We should achieve at least 70% to 80% utilization by that time. By that time we expect also the full customer qualification whom we are tapping up.

Sahil Vohra: Okay, sir. My follow-up would be following the completion of this project and other strategic investments, what are the capital expenditure plans for the remainder of FY'25? And also, are there any additional projects or expansion on the horizon?

Parag Jhaveri: Well, generally company spend on a repair capex is about INR5 crores to INR10 crores not more than that for this year. And for the further capex we have not planned anything yet. Once we achieve a 70% + utilization from the new facility, we'll talk about that. That should happen somewhere in the last quarter or the first quarter of FY26.

Sahil Vohra: Okay, sir. Got it. Sir, lastly what are your expectations for revenue and profit growth in the upcoming quarters as to what strategies are you implementing to achieve these targets given the current market conditions?

Parag Jhaveri: Well, as we said that from Pakhajan this quarter or quarter 2 will be about 20% and then there will be ramp-up. That's what we are anticipating also today same thing and so we are quite confident that we should be able to achieve what we have projected since potential of about INR900 crores plus in FY '25.

Sahil Vohra: Okay, sir. Thank you so much.

Parag Jhaveri: Thank you.

Moderator: Thank you. Our next question is from the line of Rohan Patel from Turtle Capital. Please go ahead.

Rohan Patel: Yes thanks for the follow-up opportunity. Sir, I just wanted to understand once the Pakhajan facility is to be commissioned and operating at the optimum level in FY26 and it will start generating cash flow. So do we have any plans for reducing the borrowing because lately it has been above our normal level?

Parag Jhaveri: Sorry, I couldn't hear you properly. Can you repeat it if you don't mind?

Rohan Patel: Yes to keep it short do you have any debt repayment plans after once your Pakhajan facility starts generating cash flow?

Parag Jhaveri: Unfortunately, no, my dear friend. I generally don't plan repayment but we will try to restrict this to close by end of FY '25 we should be close to three and then company has a lot of aspiration to grow. So, we will not allow the debt to grow from three or below. We prefer to be into the zone of 2 - 2.5 times to EBITDA. That's the zone we want to be there always. And I think we will work towards that very strongly. So, we are not expecting to increase any debt. Whatever we make the money, we will like to plug it back to the company for the future expansion. As you know, that in Pakhajan, there is a huge opportunity to grow for us. This is just the beginning.

Rohan Patel: Okay, so there is still opportunity to expand in Pakhajan.

Parag Jhaveri: Well, Pakhajan is only right now what we anticipate of the future or optimal capacity is just only 10% what we have put up today. We have so much of land available in Pakhajan and we need to leverage that first.

Rohan Patel: Okay, and in the quarter 3 FY '24 presentation there was a on one of the pages that total revenue potential of somewhat 3-4 product is around INR5,500 crores. So, are those products made in Pakhajan facility?

Parag Jhaveri: Yes.

Rohan Patel: Okay, and the revenue potential this is for Yasho Industries or this is a addressable market for us?

Parag Jhaveri: That is an addressable market for Yasho Industries the product line.

Rohan Patel: Yes, okay. And can you explain just broadly what would be the competitive landscape for this product?

Parag Jhaveri: Well, there is some competition come from Europe there is a competition from North America and also there is a competition from China itself. So, competition is always there. We are not in the monopoly zone anymore in today's world. But we are in a unique place with the government support make in India people preference of an alternate supply chain, which is helping us to get into the new market. So, with the existing customers, we are able to expand our share of the business. So, that's helping us.

Rohan Patel: Okay. So, can we like from Pakhajan facility, we are expecting somewhat INR500 crores, INR550 crores kind of revenue on an addressable market of somewhat INR5,000 crores?

Parag Jhaveri: Yes, that's what we have said that from that side that is a target for FY '26.

Rohan Patel: Okay. So, can we increase our market share in this product? Is there room for us to do so from 10% to say 20%?

Parag Jhaveri: Well, market size is very huge. We are just a couple of billion dollars and we are only 100 million revenue we are talking about less than that. So, I don't think there should be any challenge for us to grow our share from $100 million to $200 million or $250 million.

Rohan Patel: Okay. Thank you. That was my question.

Parag Jhaveri: Thank you.

Moderator: Thank you. Our next question is from the line of Aakash Javeri from Time & Tide Advisors. Please go ahead.

Aakash Javeri: Thank you so much for the opportunity. So, my question was regarding, would you throw some light on the demand environment for rubber chemicals and lubricant additives especially lubricant additives? Because we recently read that Lubrizol is investing about $200 million dollars in India over the next four years to put up their second biggest facility globally. So, over a period of time, how do we see the market growing with any pricing pressure or how will growth in the industry look like?

Parag Jhaveri: Well, we are seeing there is growth happening in the market. We do see a couple of people are putting up larger blending facilities in many regions globally. And that is giving us the confidence that yes, there will be demand continuous demand. And the industry is growing healthy growth of 3% to 4% year-on-year. So, it's not a question of we are snatching somebody's business but we are also getting a small pie of the growth of the market itself.

Aakash Javeri: Okay. Sure, sir. Thank you so much. That's all. All the best.

Parag Jhaveri: Thank you

Moderator: Thank you. Our next question is from the line of Nitya from KamayaKya. Please go ahead.

Nitya: Yes. Hi, sir. So, I noticed that the debt to equity has now touched nearly two times. So, I just wanted to understand to have a better margin profile and a more comfortable balance sheet. Are there any plans to dilute some equity through a QIP?

Parag Jhaveri: No.

Nitya: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Utkarsh, an individual investor. Please go ahead.

Utkarsh: Thank you for the opportunity. Can we expect the current interest and depreciation of this quarter to be the steady state number going forward?

Parag Jhaveri: Yes.

Utkarsh: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Arman from Blue Sky Capital. Please go ahead.

Arman: Yes. My first question is, if I heard it correctly, so we are targeting a revenue for FY '25 as the INR900 crores, right?

Parag Jhaveri: Yes.

Arman: And what will be the overall margin? What will be our overall EBITDA margin on that?

Parag Jhaveri: About 19% to 20%.

Arman: Okay. Including the one-off which we had in Q1, right? Because of the ramp-up and which we have done. Is that so the reason?

Parag Jhaveri: I think we are talking about FY '25 margin. So, yes.

Arman: Yes FY '25.

Parag Jhaveri: As so Q1 margin was anticipated by us. Nothing has come as a shock or news to us because we know that the plant has been commissioned. We know that the utilization is going to be low for the first 2 quarters. But that can be offsetted by the Q3, Q4 utilization.

Arman: And just an understanding of the investor, I want to take one of the largest players in the rubber chemical industry is operating at a margin of 14%, but we have been regularly cloaking margin of 17%, 18%. So, what has been our USP to outperform even the largest player in the rubber chemical industry? Our margins have been 400 basis points more than regularly on from them?

Parag Jhaveri: Well, we are not into the commodity, number 1. We are more into the performance and the so-called specialty chemistry within the rubber the space or also into the lubricant space. And a lot of our specialty chemicals are really specialized in that nature. And that is helping us to hold up the margin and allow us to grow.

Arman: Okay, Thanks a lot.

Moderator: Our next question is from the line of Manan Shah from Moneybee Investment Advisor. Please go ahead.

Manan Shah: Yes. Hi. Thanks for the follow-up. I wanted to understand that what is pushing these new customers to prefer Yasho over the existing competition? Is it that we are at a better price point compared to our competition or there are other reasons which are helping us to get into these markets?

Parag Jhaveri: Well, there are multiple reasons, but definitely one of the reasons could be the better pricing by Yasho offering to them. Number two, as I said earlier, that the people are looking for an alternate supply chain. So that's one of the major reasons also. And I think the last couple of years, since from pandemic 2020, we have proven ourselves that we can deliver the material despite of all the challenges going on due to the geopolitical reasons we are able to maintain.

Manan Shah: Okay. So once these trials are done, do we expect any long-term supply contract arrangement that these customers will enter into with us, which will give us some visibility or this will be more as and when required, they'll be giving us the orders?

Parag Jhaveri: No, there will be definitely a long-term supply agreement with the various customers.

Manan Shah: Okay. Understood. Sure. Thanks.

Parag Jhaveri: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now end the conference over to the management for closing comments.

Parag Jhaveri: I would like to thank everyone for taking time out and joining on the call today. I hope we have been able to respond to your queries adequately. We look forward to your continued support as we navigate the road ahead together. If you have any queries, you may kindly reach out to our Investor Relationship Partner, Orient Capital. Thank you so much, ladies and gentlemen, and have a good day. Thank you.

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