

Yuken India Limited (Revised)
October 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	39.03	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Assigned
Long Term Bank Facilities	14.00	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	68.50	CARE BBB-; Positive / CARE A3 (Triple B Minus; Outlook: Positive / A Three)	Assigned
Short Term Bank Facilities	30.00	CARE A3 (A Three)	Assigned
Short Term Bank Facilities	7.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	158.53 (Rs. One Hundred Fifty Eight Crore and Fifty Three Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook of the bank facilities of Yuken India Limited (YIL) reflects expected improvement in scale of operations and profitability on back of recovery in demand in end user industry. After witnessing subdued performance during FY21 and H1FY22 as the operations were affected by Covid-19, there has been improvement in profitability from Q3FY22 onwards led by increased sales on back of higher infrastructure spend as well as various cost cutting measures undertaken resulting from process automation.

The rating continues to derive strength from experience of its promoters Yuken Kogyo Company Limited, Japan (YKC), the company's established track record of more than four decades in the hydraulics equipment business, and established relationship with reputed clientele. There has been improvement in capital structure following closure of short term loan as well as improved collections from residential project being joint development agreement (JDA) with Brigade Enterprises Limited.

The ratings continue to be constrained by exposure of profitability to volatility associated with the key raw material prices as well as performance of end user industries. Company has also lined up sizeable investment plan exposing it to implementation and stabilization risk.

Rating Sensitivities

Positive factors- Factors that could lead to positive rating action/upgrade

- Significant improvement in sales while maintaining PBILDT margin > 9% on a sustained basis
- Significant improvement in collections from real estate project leading to improvement in capital structure

Negative factors- Factors that could lead to negative rating action/downgrade

- Consistent subdued performance of the company resulting in interest coverage of less than 1.25x and elevated debt levels.

Outlook: Positive

Positive outlook reflects likely improvement in profitability of the company aided by recovery in end user industry and cost cutting measures being undertaken. Additionally, post completion of current capex being undertaken, share of exports are

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

expected to go up which would also augur well for its operating cashflows. The outlook may be revised to 'Stable' if YIL's margins remains lower than envisaged or there is material deterioration in its capital structure and liquidity profile.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with technical support from YKC

YIL has more than four decades of track record in its line of business with technical and financial collaboration with Yuken Kogyo Company Limited, Japan (YKC). The day-to-day affairs of the company are looked after by Mr C.P. Rangachar (MD), Mr A.Venkatakrishnan (CEO) and Mr Narasinga Rao (CFO) who have commendable experience in the hydraulic industry and are assisted by team of well-experienced professionals. YKC is one of the leading manufacturers of hydraulic equipment in the world having presence in UK, Taiwan, China and Hong Kong and provides technical know-how and assistance to YIL for manufacturing hydraulic equipment. For the FY ending March 31, 2021, YKC earned revenue of 23.11 billion Yen as against 26.15 billion Yen in FY20. Networth of YKC stood at 17.33 billion Yen as on March 31, 2021. YKC holds 40% in Yuken India and has been supporting it by way of arranging additional WC limits based on its Corporate Guarantee.

Reputed clientele with established relationship

YIL's clientele comprises leading corporates such as Tata Steel Ltd, SAIL, HMT, BHEL, Alstom, Tata-Hitachi, JCB, SAIL, NTPC, Toyota, Honda, Toshiba, etc. Over the period the company has developed strong relationships with the customers which results in repeat orders. YIL enjoys a strong network of about 58 dealers and servicing capability which differentiates it from competition.

Improvement in operational performance post revival in demand from the end user segment and is likely to sustain

YIL's FY20 and H1FY21 operational performance had moderated as a result of muted demand for the hydraulic components from the end user industry viz. machine tool industry, plastic machine manufacturing companies and infrastructure. The revival in demand started gaining momentum from the Q3FY21 as evident by 77% of FY21's TOI earned in H2FY21. YIL is in the process of automating the production process of pumps and valves with an objective to manufacture export quality products. In a strategic shift, YIL plans to establish itself as a key supplier to its parent company in a span of 5 years which would augur well for its operating cashflows.

Key rating weaknesses

Moderate capital structure and debt coverage indicators

Though the company's capital structure improved due to closure of Rs.25 Cr short term loan availed to pay off the income tax charged on recognising sale of property rights funded by cash flow from Brigade, the capital remains leveraged at 0.97x as on March 31, 2021 (adjusted for the actual cash flows received under JDA). Further, the company has received term loan sanction of Rs.25 crore to undertake the capex to modernise and automate the manufacturing plant. There has been improvement in cashflows under JDA and in scenario of continuance of same, said sanction may not be utilized by YIL. The company's interest coverage ratio declined from 1.59x during FY20 to 1.46x during FY21 due to subdued performance on account of muted demand in the first half of FY21.

Volatile raw material prices

YIL has no long-term contract with the suppliers of raw materials and solely depends upon the established relationships. The prices of YIL's major raw material, i.e., steel and castings have witnessed high level of price volatility in the past. Almost major portion of YIL's orders are fixed price contracts, and hence, the company is subject to risk associated with adverse movement in raw material prices.

Liquidity analysis: Adequate

Liquidity of the company mainly derives comfort from its parentage which has arranged banking lines for Yuken India Limited from Japan based banks by extending Corporate Guarantee to secure the facilities. Company has flexibility of drawing additional facilities over and above drawing power from these banks to tide over any short term cash flow mismatch. Improvement in cash generation from its core business operations, revival in demand from the end user industry and timely and continuous receipt of cashflows from residential project has aided in maintaining adequate liquidity position. The average fund utilization for the 12 month period ended June '21 was 46%.

Analytical approach: Consolidated as subsidiaries and associates operate in supporting functions (mainly suppliers) to YIL. List of subsidiaries and associates of the company is attached as Annexure-6.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Financial Ratios - Non Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Short term instruments](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the Company

YIL was established in June 1976 with technical and financial collaboration of YKC. YIL manufactures wide range of hydraulic equipment such as vane pumps, piston pumps, pressure controls, flow controls, directional valves, modular valves, electro proportional valves, gear pumps, accumulators, cylinders and hydraulic power units which find its applications in various industries such as Steel, Machine tools, Power, Automobiles, Infrastructure, etc. The entire product range of YIL is broadly classified as elements (hydraulic pumps and valves), systems (assembled products) and castings (foundry division). YIL is an ISO 9001:2015 company and has four manufacturing facilities for hydraulic division at Bahadurgarh (Haryana), Peenya (Bangalore), Mumbai and Malur (Karnataka); two for foundry division at Mahadevpura (Bangalore) and Malur (Karnataka) and one facility for gear pumps at Malur (Karnataka).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	243.96	213.64
PBILDT	16.81	14.75
PAT	3.02	5.19
Overall gearing (times)	0.76	0.62
Interest coverage (times)	1.59	1.46

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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-Cash Credit	-	-	-	14.00	CARE BBB-; Positive
Non-fund-based - ST-BG/LC	-	-	-	7.00	CARE A3
Fund-based - LT-Term Loan	-	-	February, 2026	39.03	CARE BBB-; Positive
Fund-based - ST-Working Capital Demand loan	-	-	-	30.00	CARE A3
Fund-based/Non-fund-based-LT/ST	-	-	-	68.50	CARE BBB-; Positive / CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB-; Positive	-	1)CARE BBB-; Stable (01-Oct-20) 2)CARE BBB-; Negative (07-Jul-20)	1)CARE BBB; Stable (03-Oct-19)	1)CARE BBB; Stable (12-Feb-19)
2	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3	-	1)CARE A3 (01-Oct-20) 2)CARE A3 (07-Jul-20)	1)CARE A3+ (03-Oct-19)	1)CARE A3+ (12-Feb-19)
3	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (12-Feb-19)
4	Fund-based - LT-Term Loan	LT	39.03	CARE BBB-; Positive	-	-	-	-
5	Fund-based - ST-Working Capital Demand loan	ST	30.00	CARE A3	-	-	-	-
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	68.50	CARE BBB-; Positive / CARE A3	-	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	a. Total Outside Liabilities/Total Net worth 2.0x c. DSCR > 1.5x b. Interest Cover >2.0x c. DSCR > 1.5x
B. Non financial covenants	Not stipulated

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Fund-based - ST-Working Capital Demand loan	Simple

Annexure 5: Bank Lender Details for this Company –To view the lender wise details of bank facilities please [click here](#)**Annexure 6: List of subsidiaries and associates:**

Sr.	Name of company	% Shareholding
	Subsidiaries	
1	Yuflow Engineering Private Limited	100%
2	Grotek Enterprises Private Limited	100%
3	Coretec Engineering India Private Limited	100%

4	Kolben Hydraulics Limited	85.92%
	Associates	
5	Sai India Limited	40%
6	Bourton Consulting (India) Private Limited	29.54%

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About CARE Ratings:

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