Yuken India Limited (Revised)

September 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	44.54 (Reduced from 53.03)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)
Long-term/short-term bank facilities	68.50	CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Positive/CARE A3 (Triple B Minus; Outlook: Positive / A Three)
Short-term bank facilities	36.50 (Reduced from 37.00)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total bank facilities	**149.54 (₹ One hundred forty-nine crore and fifty-four lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Yuken India Limited (YIL) reflects the significant improvement in the scale of operations and profitability, led by a recovery in demand from the end-user industries and several cost optimisation measures taken by it. This, along with the consistent cash flows from its residential project in a joint development agreement (JDA) with Brigade Enterprises Limited, translated into higher operational cash flows and an improvement in the capital structure.

The ratings continue to derive strength from the experience of its promoter – Yuken Kogyo Company Limited, Japan (YKC), the company's established track record of more than four decades in the hydraulic equipment business, and its established relationships with a reputed clientele.

That said, these rating strengths are constrained by the exposure of profitability to the volatility associated with key raw material prices as well as the performance of end-user industries. The company has also lined up a sizeable investment plan, exposing it to implementation and stabilisation risks.

Rating sensitivities

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

- Significant improvement in sales >₹450 crore while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin >10% on a sustained basis.

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

- Consistent subdued performance of the company, resulting in interest coverage of less than 2x and total debt (TD)/PBDIT of more than 4.5x.

Detailed description of the key rating drivers

Key rating strengths

Improvement in operational performance post revival in demand from the end-user segment: Driven by a revival in demand, the scale of operations reached pre-COVID levels. The total operating income (TOI) grew by 55% during FY22. The

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

company achieved sales of ₹94.06 crore in Q1FY23 and expects to sustain a similar scale of operations quarter-on-quarter. The realisations improved due to cost control measures, process improvement, and focus on automation. The PBILDT margins, which had been in the range of 7-8% earlier, have improved to more than 10% during FY22 and the company expects to maintain steady-state margins of 11-12% going forward. Furthermore, YIL is also looking to export its products to the parent company and is likely to contribute 15-20% of its sales in the medium term.

Experienced promoters with technical support from YKC: YIL has more than four decades of track record in its line of business, with a technical and financial collaboration with YKC. The day-to-day affairs of the company are looked after by CP Rangachar, Managing Director; A Venkatakrishnan, Chief Executive Officer; and Narasinga Rao, Chief Financial Officer, who have commendable experience in the hydraulics industry and are assisted by a team of well-experienced professionals. YKC is one of the leading manufacturers of hydraulic equipment in the world, having a presence in the UK, Taiwan, China, and Hong Kong, and provides technical know-how and assistance to YIL for manufacturing hydraulic equipment. YKC holds 40% in Yuken India and has been supporting it by way of arranging additional working capital (WC) limits based on its corporate guarantee (CG).

Reputed clientele with established relationships: YIL's clientele comprises leading corporates such as Tata Steel Ltd, the Steel Authority of India (SAIL), HMT, Bharat Heavy Vehicles Limited (BHEL), Alstom, Tata-Hitachi, JCB, NTPC, Toyota, Honda, and Toshiba, among others. Over the period, the company has developed strong relationships with its customers, which has resulted in repeat orders. YIL enjoys a strong network of about 58 dealers and servicing capabilities, which differentiates it from its competitors.

Key rating weaknesses

Moderate capital structure, albeit improvement in the capital structure and debt coverage indicators: Although the company's capital structure improved, it remains leveraged at 0.75x as on March 31, 2022, from 0.97x as on March 31, 2021 (adjusted for the actual cash flows received under the JDA). Led by improvement in cash accruals, the TD/ross cash accruals (GCA) improved to 4.4x as on March 31, 2022, from 8.1x (PY), and the interest coverage improved to 4.22x during FY22 from 1.46x (PY). The company has also lined up a sizeable investment plan backed by both, debt and internal accruals, exposing it to implementation and stabilisation risks.

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

Liquidity: Adequate

The 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 CGs to secure the facilities. The company has the flexibility of drawing additional facilities over and above drawing power from these banks, to tide over any short-term cash flow mismatches. Improvement in cash generation from its core business operations, revival in demand from the end-user industry, and receipt of cash flows from the residential project have aided in maintaining an adequate liquidity position. The average fund-utilisation for the 12-month period ended June 30, 2022, was 74%.

Analytical approach

Consolidated, as the subsidiaries and associates operate in supporting functions (mainly suppliers) to YIL. The list of subsidiaries and associates of the company is attached as Annexure-6.

Applicable criteria

Policy on Default Recognition
Consolidation
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Manufacturing companies

About the company

YIL was established in June 1976 with the technical and financial collaboration of YKC. YIL manufactures a 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 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 ISO9001:2015 company and has four manufacturing facilities for its hydraulic division, at Bahadurgarh in Haryana, Peenya in Bengaluru, Mumbai and Malur in Karnataka; two for its foundry division, at Mahadevpura in Bengaluru and Malur in Karnataka; and one facility for gear pumps at Malur in Karnataka.

Brief Financials (₹ crore)	March 31, 2021(A)	March 31, 2022 (A)	Q1FY23(UA)
TOI	213.64	331.81	94.06
PBILDT	14.75	34.65	9.58
PAT	5.19	13.76	3.29
Overall gearing (times)	0.62	0.61	0.61
Interest coverage (times)	1.46	4.22	5.12

A: Audited, UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	13.50	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	6.50	CARE A3+
Fund-based - LT-Term Loan	-	-	-	February 2026	31.04	CARE BBB; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	-	30.00	CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	68.50	CARE BBB; Stable/CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Cash credit	LT	13.50	CARE BBB; Stable	-	1)CARE BBB-; Positive (October 06, 2021)	1)CARE BBB-; Stable (October 01, 2020) 2)CARE BBB; Negative (July 07, 2020)	1)CARE BBB; Stable (October 03, 2019)
2.	Non-fund-based - ST-BG/LC	ST	6.50	CARE A3+	-	1)CARE A3 (October 06, 2021)	1)CARE A3 (October 01, 2020) 2)CARE A3 (July 07, 2020)	1)CARE A3+ (October 03, 2019)
3.	Fund-based - LT-Term loan	LT	31.04	CARE BBB; Stable	-	1)CARE BBB-; Positive (October 06, 2021)	-	-
4.	Fund-based - ST-Working capital demand loan	ST	30.00	CARE A3+	-	1)CARE A3 (October 06, 2021)	-	-
5.	Fund-based/Non-fund-based-LT/ST – WCDL/CC/LC/BG	LT/ST*	68.50	CARE BBB; Stable/ CARE A3+	-	1)CARE BBB-; Positive/ CARE A3 (October 06, 2021)	-	-

*Long-term/Short-term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	Nil
B. Non-financial covenants	Nil

Annexure-4: Complexity level of the 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 - ST-Working capital demand loan	Simple
4.	Fund-based/Non-fund-based-LT/ST – WCDL/CC/LC/BG	Simple
5.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Annexure-6: List of subsidiaries and associates

Sr. No.	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%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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