Yuken India Limited

July 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	22.00	**CARE BBB; Negative (Triple B; Outlook: Negative)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Short-term Bank Facilities	7.00	**CARE A3 (A Three)**	**Revised from CARE A3+ (A Three Plus)**
Total Facilities	**29.00 (Twenty nine crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ST rating and outlook of LT rating takes into account subdued performance of the company during Q3FY20 and Q4FY20 due to slowdown in end user industry and prospects of an elongated recovery in business leading to further impact on profitability.

The company's performance was largely impacted by moderation in hydraulic division performance where the segment achieved sales of Rs. 208.4 crore in FY20 as against Rs. 286.6 crore in FY19 which led to lower absorption of fixed costs and hence deterioration in PBDIT margins and cash profits of the company. While the company continues to receive cashflows from residential project under JDA, majority of it is utilized towards capex. While the company has not availed moratorium under RBI's Covid-19 regulatory package, repayment of STL of Rs. 25 crore has been deferred from March 2020 to March 2021. Company had also lined up sizeable investment plan exposing it to implementation and stabilization risk though company may only take up essential capex depending upon cash flows and defer the remaining portion by couple of years to conserve liquidity.

Nevertheless, ratings assigned to the bank facilities of Yuken India Limited continues to derive strength from experience of its promoters Yuken Kogyo Company Limited, Japan (YKC), company's established track record of more than four decades in the hydraulics equipment business, and established relationship with reputed clientele.

Rating Sensitivities

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

- PBILDT margin > 9% on a sustained basis
- Significant improvement in collections from real estate project

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

- Consistent subdued performance of the company resulting in losses and elevated debt levels.

Outlook: Negative

The revision in outlook reflects the prospects of an elongated recovery in business to pre-pandemic levels amidst the weak demand scenario. While the company has commenced operations in all of its units from last week of May, current capacity utilization levels have been low. The outlook may be revised to 'Stable' in a scenario of quick turnaround in operations of the company or higher than envisaged collections from residential project.

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) 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 equipments in the world having presence in UK, Taiwan, China and Hong Kong and provides technical know-how and assistance to YIL for manufacturing hydraulic equipments. The promoter group holds 52.5% equity stake in YIL as on June 30, 2020. For the FY ending March 31, 2020, YKC earned revenue of 26.15 billion Yen as against 30.0 billion Yen in FY19. Networth of YKC stood at 16.71 billion Yen as on March 31, 2020.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Reputed clientele with established relationship

YIL's clientele comprises leading corporates from various industries such as Tata Steel Ltd, SAIL, HMT, Jyoti, 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 thus providing stability to the revenues. YIL enjoys a strong network of about 50 dealers and servicing capability which differentiates it from competition. The order book position continues to remain strong, with company having orders of around Rs.45 crore as on June 30, 2020.

Key Rating Weaknesses

Subdued operational performance in FY20

The company's performance in FY20 was primarily impacted by the muted demand from machine tool industry and plastic machine manufacturers which together contribute around 50-55% of the revenue. In addition to this, shut down of all facilities post lockdown imposed due to COVID-19 in the month of March also impact company's performance. In FY20, YIL reported total operating income of Rs.246.22 Cr at PBILDT margin of 8.1% as against Rs.344.22 Cr at PBILDT margin of 9.84% in FY19. Resultantly, company's cash profits also declined from Rs. 27.6 crore in FY19 to Rs. 10.6 crore in FY20. During Q4FY20, company incurred PBT loss of Rs. 3.2 crore as against PBT profit of Rs. 6.1 crore. Nevertheless, company received cash inflow of Rs. 6.38 crore during Q4FY20 from sale of residential units which helped the company in maintaining liquidity.

Moderate capital structure

The company incurred capex towards modernisation of existing facilities and setup of additional capacity and the same was partly funded by long term borrowing and receipt of JDA income. As on March 31, 2020 the company's total debt was Rs. 128.12 Cr as against Rs. 111.25 Cr as on March 31, 2019. The existing debt profile of company includes, term loans (availed for the movement of facility from Whitefield to Malur, capacity addition and plant modernisation), and working capital borrowings. The interest coverage ratio deteriorated to 1.74x in FY20 from 4.32x in FY19. However, the interest coverage after adjusting for the JDA income is 2.94x for FY20.

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: 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. Nevertheless, in light of expected lower 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 will be critical for company to maintain its liquidity position. CC utilization of the company continues to remain above 85% for 12 months ending Jun'20.

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-4.

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
Rating Methodology - Manufacturing Companies
Short term instruments

About the Company

YIL was established in June, 1976 with technical and financial collaboration of YKC. YIL manufactures wide range of hydraulic equipments 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 9001:2008 company and has three manufacturing facilities for hydraulic division at New-Delhi, Peenya (Bangalore), Mumbai and Malur (Karnataka); two for foundry division at Mahadevpura (Bangalore) and Malur (Karnataka) and one facility for gear pumps at Peenya (Bangalore).

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

Brief Financials (Rs. crore)	FY19 (A)	FY20(Abridged)
Total operating income	344.22	246.22
PBILDT	33.86	18.97
PAT	119.40	3.02
Overall gearing (times)	0.65	0.73
Interest coverage (times)	4.32	1.74

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

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	-	-	-	22.00	CARE BBB; Negative
Non-fund-based - ST-BG/LC	-	-	-	7.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	22.00	CARE BBB; Negative	-	1)CARE BBB; Stable (03-Oct-19)	1)CARE BBB; Stable (12-Feb-19)	1)CARE BBB-; Stable (13-Mar-18)
2.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3	-	1)CARE A3+ (03-Oct-19)	1)CARE A3+ (12-Feb-19)	1)CARE A3 (13-Mar-18)
3.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (12-Feb-19)	1)CARE BBB-; Stable (13-Mar-18)

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

Cash Credit	Detailed explanation
A. Financial covenants	a. Total Outside Liabilities/Total Net worth <2.5x b. Interest Cover >2.0x c. DSCR > 1.5x
B. Non Financial covenants	Not stipulated

Annexure-4: List of subsidiaries & Joint venture

Sr.	Name of company	% Shareholding
	Subsidiaries	
1	Yuflow Engineering Private Limited	100%
2	Grotek Enterprises	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 complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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