# Yuken India Limited

October 01, 2020

## Ratings

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| **Long Term Bank Facilities** | **14.00 (Reduced from 22.00)** | **CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** | **Revised from CARE BBB; Negative (Triple B; Outlook: Negative) and outlook revised from Negative** |
| **Short Term Bank Facilities** | **7.00** | **CARE A3 (A Three)** | **Reaffirmed** |
| **Total Facilities** | **21.00 (Rs. Twenty-One Crore Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the long-term rating of Yuken India Limited (YIL) takes into account the continued subdued operational and financial performance with company continues to report net losses in Q1FY21 and prospects of an elongated recovery in business may impact profitability in near to medium term. Company's performance has been impacted due to slowdown in end user industry and shut down of plant due to lockdown resulting in delay in order execution. Though company has started witnessing positive traction in receiving new orders, its scale of operations is likely to fall in FY21. Nevertheless, CARE takes note of continuing adequate liquidity position aided by cash flows from residential project under JDA (Joint development agreement) and sufficient unutilized cash credit (CC) limits. During FY20, YIL received Rs.25.98 Cr from JDA and till July, 20 87% of the flats in the project are booked. 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. The internal cash accruals from operations are likely to be insufficient for repayment of above debt and therefore, YIL's ability to maintain sufficient liquidity to cover the above debt repayment will be key rating monitorable. The ratings of the company are also constrained by its moderate capital structure due to debt funded capex undertaken by it. Company had also lined up sizeable investment plan exposing it to implementation and stabilization risk though it may only take up essential capex depending upon cash flows and defer the remaining portion to conserve liquidity.

Nevertheless, the ratings assigned to the bank facilities of YIL continue 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.

**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

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

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

**Detailed description of the key rating drivers**

**Key rating strengths**

***Experienced promoters with technical support from YKC***

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

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, 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. 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 60 dealers and servicing capability which differentiates it from competition. The order book position stands at Rs. 46.95 crore as on July 31, 2020.

**Key rating weaknesses**

***Operations continue to be affected by muted demand from end user segment, which got further accentuated by COVID-19 crisis***

After reporting strong performance metrics in FY19, YIL's operational performance moderated in FY20 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. Moreover, the Covid-19 crisis and resultant lockdown in the country led to further deterioration of the performance of the company. Due to slowdown in end user industries, company sales have declined significantly from Rs. 341.33 crore in FY19 to Rs. 243.96 crore in FY20 resulting in decline in PBDIT margins from 9.84% to 6.89% during the period. All the segments of the company were impacted in FY20 and continued to be under performing in Q1FY21 as well. The company's operations continued to remain moderate in Q1FY21 and reported total revenue of Rs. 14.66 Cr and reported PBILDT loss of Rs. 7.28 Cr. The cash loss to the extent of Rs. 6.68 Cr reported during Q1FY21 were partly funded by the cash flow from residential JDA project worth Rs. 3.48 Cr and the rest by realization of account receivables.

***Moderate capital structure and debt coverage indicators***

The company's capital structure remains leveraged due to the term debt availed for capex incurred towards shifting its facility to the present location & expansion and short term debt availed to pay the capital gain tax incurred on the recognition of sale of development rights under the JDA. As on March 31, 2020 the company had Rs. 41.61 Cr (PY: Rs. 23.12 Cr) as term loans and Rs. 86.86 Cr (PY:Rs. 88.14 Cr) as short term debt. The company had to avail term loan for undertaking capex as the cash flow from JDA did not pick up as anticipated.

Interest coverage ratio deteriorated from 4.32x in FY19 to 1.59x during FY20 due to moderation in operational performance and total debt/PBILDT was 7.64x as on March 30, 2020 against 3.59x the previous year.

***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.

<u>Liquidity: Adequate</u>

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. The average fund utilisation for the 12 month period ended June '20 was 52%. Moreover, the company has not availed moratorium under the RBI's COVID relief package to defer the debt obligations but has rolled over the STL repayment of Rs. 25 crore from Mar'20 to Mar'21.

**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-5.

**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 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 9001:2008 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 Consolidated Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 344.22 | 243.96 |
| PBILDT | 33.86 | 16.81 |
| PAT | 119.40 | 3.02 |
| Overall gearing (times) | 0.65 | 0.76 |
| Interest coverage (times) | 4.32 | 1.59 |

**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 | - | - | - | 14.00 | CARE BBB-; Stable |
| 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 | 14.00 | CARE BBB-; Stable | 1)CARE BBB; Negative (07-Jul-20) | 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 (07-Jul-20) | 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<br>b. Interest Cover >2.0x<br>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 the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Non-fund-based - ST-BG/LC | Simple |

**Annexure-5: 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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