

OUTPERFORMING



YUKEN INDIA LIMITED
ANNUAL REPORT 2018-19

Forward-looking statements

This document contains statements about expected future events and financial and operating results of Yuken India Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of the Yuken India Limited Annual Report 2018-19.

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CORPORATE INFORMATION

Board of Directors

Mr. Koichi Oba, Chairman
Mr. Hideharu Nagahisa
Capt. N S Mohanram
Mr. R Srinivasan
Dr. Premchander
Mrs. Vidya Rangachar
Mr. C P Rangachar, Managing Director

Chief Financial Officer

Mr. H M Narasinga Rao

Company Secretary

Mr. Vinayak Hegde

Bankers

State Bank of India
Bank of Tokyo Mitsubishi UFJ Ltd.
Mizuho Bank Ltd.
HDFC Bank Ltd.

Auditors

M/s. Walker Chandiook and Co., LLP
Chartered Accountants

Registered office

No. 16-C, Doddanekundi Industrial Area,
II Phase, Mahadevapura, Bengaluru – 560 048.

Corporate office & Main plant

P B No. 5, Koppathimmanahalli Village,
Malur-Hosur Main Road, Malur Taluk, Kolar District,
Karnataka – 563 130.

Registrar & Transfer Agent

Karvy Fintech Pvt. Ltd.

Karvy Selenium Tower B, Plot 31-32, Gachibowli,
Financial District, Nanakramguda, Hyderabad – 500 032.
Tel No.: 040-6716 1502/1509/1508
Fax No.: 040-2342 0814
Toll Free No.: 1800-3454-001
E-mail: einward.ris@karvy.com
Website: www.karvyfintech.com

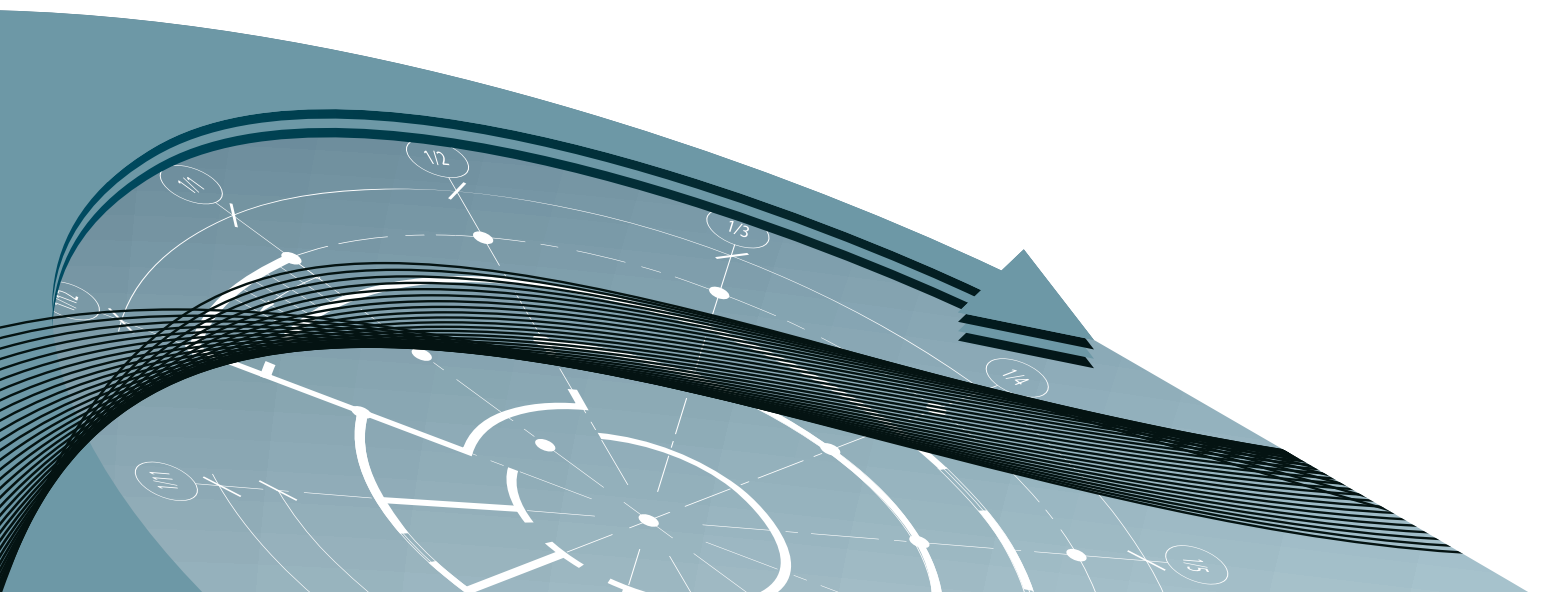
OUTPERFORMING

Over the last few years, Yuken India Limited transformed its business model, with the objective to enhance agility, relevance and competitiveness.

The business model began to deliver positive results in the last three years.

Creating a profitable launching platform capable of generating sustainable growth.

Reinforcing the Company's prospect as an outperformer.



THE DYNAMIC WORLD OF YUKEN INDIA LIMITED

Background

Yuken India Limited was set up in 1976 with technical and financial collaboration from Yuken Kogyo Company Limited, Japan (YKC), one of the global leaders in oil hydraulic equipment with industrial applications. The Company commenced commercial production in 1978.

Knowledge capital

Yuken India is headed by Mr. C P Rangachar, Founder and Managing Director, with active support of the Board of Directors and guidance from YKC Japan. The senior management is assisted by more than 50 qualified and experienced professionals.

Yuken employed 483 employees as on 31st March, 2019 with an average age of 40, possessing training and a rich exposure to technologies and practices.

Manufacturing presence

The Yuken India headquarters are located in Bengaluru. The Company's plants are located in Bengaluru, Malur (near Bengaluru), Mumbai and New Delhi, proximate to large downstream consuming clusters.

Strengths

The Company's professionals possess competence across manufacturing assets, technical expertise, technology, research & development, laboratories, infrastructure and utilities across manufacturing locations. The Group's robust marketing network comprises an effective sales and service team supported by pan-India dealers.

Credit rating

Yuken is a credible organisation with a credit rating of CARE BBB from CARE BBB- by the close of 2018-19.

Listing

Yuken India's shares are listed and actively traded on the Bombay Stock Exchange (BSE). The Company enjoyed a market capitalisation of Rs.811.62 crore as on 31st March, 2019.

Subsidiaries and associates

Subsidiaries: Grotek Enterprises Private Limited.

Coretec Engineering India Private Limited.

Yuflow Engineering Private Limited.

Associates: Kolben Hydraulics Limited (manufactures hydraulic products for mobile applications in collaboration with global leaders in this segment)

SAI India Limited (manufactures hydraulic motors in collaboration with SAI s.p.a-Italy)

Bourton Consulting (India) Private Limited (engaged in lean manufacturing consulting)

Products

The Company possesses precision manufacturing technologies, modern equipment and robust quality systems. These are utilised in the manufacture of hydraulic components like pumps, valves, package system, cylinders and castings, addressing the widening needs of a number of industrial sectors.

Yuken's offerings

Pumps: Yuken manufactures a wide variety of piston, vane and gear pumps.

Valves: Yuken manufactures a vast portfolio of valves comprising: direction controls, pressure controls, flow controls, modulators, cartridges, proportionals, servos and variants.

Hydraulic package system: Yuken manufacturers optimised hydraulic power-packs and diverse solutions for demanding sectors like machine tools, plastics, power generation, steel mills, renewable energy and defence.

Castings, Cylinders and Accessories

OUR OPERATING SUBSIDIARIES

Coretec Engineering India Pvt. Ltd.

Products

Manufacture of Hydraulic Cylinders, Solenoids, precision ground spools and toolings for the foundry sector

Capacity

Iron core
(720,000
numbers per
annum)

Solenoid
coils (540,000
numbers per
annum)

Spools
(200,000
numbers per
annum)

Cylinders (7,200
numbers per
annum)

Revenue (Rs. in crore) for 2018-19

30.98

Profit/(Loss) (Rs. in crore) for 2018-19
including OCI

(0.61)

Grotek Enterprises Pvt. Ltd.

Products

Manufacturer of precision ferrous castings

Capacity

12000 tonnes per annum

Revenue (Rs. in crore) for 2018-19

69.36

Profit (Rs. in crore) for 2018-19 including OCI

2.65

Yuflow Engineering Pvt. Ltd.

Products

Manufacturer of Electric motors and manifolds (just commenced)

Capacity

Electric Motors 18000 numbers
per annum and Manifolds 20000
numbers per annum

Revenue (Rs. in crore) for 2018-19

0.04

Profit/(Loss) (Rs. in crore) for 2018-19
including OCI

(0.63)

AT YUKEN INDIA, OUTPERFORMANCE IS DERIVED FROM THE ABILITY TO MATCH PROMISES WITH DELIVERY



Capacity expansion

Promise: We would significantly expand our capacity.

Delivery: We embarked on a substantial hydraulic components expansion that will enhance capacity by 50% by FY20.

What we promised our stakeholders in the last few years



Export presence

Promise: We would increase our direct exports.

Delivery: Our direct exports generated Rs.7.50 crore in 2018-19.



Knowledge capital

Promise: We resolved to largely retain our senior management and protect the knowledge capital of the Company (in terms of customer relationships, business experience, technologies and finance).

Delivery: We largely retained our senior management; retention was 95% in the three years ending 2018-19.



Foundry turnaround

Promise: We resolved to turn the operations of our foundry SBU around from a operating loss (EBITDA) of Rs.1.82 crore in 2016-17 and accumulated operating loss of Rs.16 crore upto that financial year.

Delivery: We turned our foundry SBU around in 2017-18 with operating profit of Rs.1.33 crore and Rs.6.27 crore in 2018-19.



Monetising real estate

Promise: We resolved to shift our Whitefield facility to a new location outside Bengaluru, transforming the former property into a residential facility.

Delivery: We completed the relocation of our Whitefield factory to Malur and embarked on the development of the former property with a reputed real estate company, strengthening cash flows from 2018-19 onwards.



Service income

Promise: We resolved to strengthen our service not just from the perspective of providing an assurance to customers but by being able to monetise it through revenues.

Delivery: We strengthened our service offerings across the sectors and we generated service income 0.50% of our annual revenues in 2018-19.



Presence in new segments

Promise: We resolved to seed our business with a presence in sunrise and mobility sectors like infrastructure, construction, agriculture and waste management that could increase substantially in line with the country's economic growth.

Delivery: We entered all the above segments (including renewable energy and Defence) in 2017-18; revenues from these segments accounted for 5% of the Company's revenues in 2018-19.

CHAIRMAN'S MESSAGE

The principal message that I wish to send out is that India continues to be one of the most exciting long-term stories in the global economy and Yuken India is attractively placed to capitalise on the country's long-term growth journey.



Dear Shareholders,

The global economic growth weakened by 20 bps from 3.8% to 3.6% in 2018 following a sustained slowdown in advanced economies.

This slowdown is expected to extend into 2019 on account of the expectations of a trade war between US and China, rebound in the price of oil, fallout of Britain's withdrawal from the European Union and increased global tensions arising out of sanctions on Iran.

India retained its position as the world's fastest growing economy through a major part of the year under review. The country grew attractively in the first half of 2018-19, but slowed considerably thereafter on account of a liquidity paralysis that affected a number of prominent downstream sectors. The Indian government responded to this reality by sustaining the pace of economic reforms.

The year under review was also influenced by the impending general elections in India in April-May 2019. In a post-Balance Sheet date development, the pro-business political party that had been in power between 2014 and 2019 returned with a sizable majority, which should translate into increased reforms in the coming years. In view of this, we believe that India's economic outlook, the short-term realities notwithstanding, appear optimistic across the medium-term.

Yuken India is attractively placed to capitalise on this reality. The Company services the mission-critical needs of core sectors within the country. The result is that each wave of the country's economic growth is likely to generate a positive pass-through for the Company. The Company is capital-light, enjoys long-standing customer engagements, possesses extensive domain knowledge and is attractively placed to grow its business through network.

During the year under review, the Company capitalised on the fundamental robustness of the Indian economy and the increased capital spending by large players. This translated into increased revenues in 2018-19 and an attractive increase in order book by the close of the year under review. I am optimistic that this business foundation should translate into sustainable growth across the coming years.

On behalf of Yuken, I take this opportunity to thank all the stakeholders for their esteemed support. We are committed to enhance shareholder value and remain humbled by the trust and support extended.

Koichi Oba,
Chairman

MANAGING DIRECTOR'S PERSPECTIVE

As India's economy grows larger, Yuken is attractively positioned to capitalise its products and solutions.



Dear Shareholders,

I am pleased to report a creditable performance by the Company for the year ended 31st March, 2019.

Overview

The Indian economy slowed through the course of the year, reporting a 40 bps decline in GDP growth from 7.2% in 2017-18 to 6.8% in 2018-19. The country ended the year under review with a downward bias, reflected in 5.8% growth in the fourth quarter, the lowest in the last few years.

This economic slowdown was perceptible during the second half of the financial year under review, marked by a liquidity paralysis triggered by one of the largest non-banking finance companies in India unable to address debt servicing and repayment. The result was a hesitant national consumer sentiment and delayed purchases, reflected most visibly in a slowdown of the country's automobile sector with a trickle-down effect that extended across most related sectors.

It is against this background that Yuken reported attractive profitable growth in 2018-19: a revenue growth of 28% was corresponded by 37% increase in EBITDA and 150% growth in profit after tax (excluding exceptional item). The profitable growth was a measure of the Company's competitiveness and its capacity to succeed across market cycles.

Business model

At Yuken India, we strengthened our business model to enhance value in a sustainable way.

The reinvented Yuken has been positioned to capitalise on national economic growth; if the country's GDP grows, so will Yuken.

The Company has broad-based its excessive dependence on a handful of customer sectors to a wider number, making it possible to seed the business with new applications, create multiple revenue engines and enhance the flexibility to shift from one sector (that could be in a temporary slowdown) to another (that could be poised for robust growth).

At Yuken, we possess the fundamentals to scale our revenues from Rs.345 crores in 2018-19 to a projected Rs.1000 crores in next five years.

Performance, 2018-19

The Company reported robust growth through all four quarters. The Company reported sequential quarter-on-quarter growth, starting from Rs.70 crore revenues in the first quarter and growing every subsequent quarter thereafter to Rs.94 crore during in the fourth quarter of the year under review.

This revenue growth was corresponded by stabilised margins (EBITDA) at around 10% across all quarters. This was a reflection of the responsiveness of the Company's profitability to an increase in revenues.

The proportion of revenues derived from new sectors was 5% during the year under review. By seeding new segments, the Company has crested multiple revenue engines expected to mature in the foreseeable future.

The Company finished the year under review with most of its business segments in attractive health, indicating that the performance of 2018-19 is likely to sustain.

This performance could have been better but for a delayed capacity expansion in the components business. The delay affected the Company's revenues by 15%. The Company's proposed 25% capacity expansion was delayed to September 2019, which should reflect in revenues from the second half of the current financial year. The Rs.50 crore expansion is expected to enhance component capacity from 6.72 lac units per annum to 9 lac units per annum with the potential to enhance annual revenues by more than Rs.100 crores.

Five pillars of the business

At Yuken, we believe that the trade war between US and China could encourage a number of US capital goods buyers to seek alternative suppliers, benefiting India in general and a company like Yuken in particular.

At Yuken, we are optimistic of our prospects for a number of reasons.

One, we accelerated our business development on the one hand and deepened our engagement with customers around product designs, resulting in proactive and customised product development. By integrating into the business plans of customers, the Company strengthened its business development activity: the right product at the right time.

Two, products for new applications developed by the Company can be adapted for other applications, shrinking time-to-market. The Company is increasingly addressing nascent sectors with attractive potential. The proportion of revenues derived from new sectors was 5% during the year under review. By seeding new segments, the Company has created multiple revenue engines, expected to mature in the foreseeable future.

Three, the Company is strengthening offerings across hydraulic accessories; the expansions by the Company are expected to be margins-accretive, strengthening overall competitiveness. The Company's integration of electronics into hydraulic products possesses game-changing implications. The Company incubated a team specialising in embedded electronic capabilities, which could potentially reduce electricity consumption and related costs, a competitiveness driver that could replace imports with indigenous next-generation Yuken products.

Four, the Company's relocation to a new facility and property redevelopment in the last two years has begun to generate cash flows resulting from apartment sales, which should more than double this year. The Company will be entitled to 41.20% of the sale proceeds, which started from the third quarter of the last financial year (extending across the next few years). The Company expects to

allocate this sizable inflow (estimated at Rs. 75 crore in two years) into debt repayment and business development.

Five, the increased investments in capacity should translate into enhanced revenues from the current financial year. In the last two years, the Company invested around Rs.35 crore in its business; in the next two years, the Company expects to invest another Rs.50 crore with the objective to double hydraulics production capacity, double foundry capacity and treble ancillary capacity (subsidiary).

Conclusion

The Yuken that we are building will be increasingly insulated from national economic downsides on the one hand, while leveraging the full potential of the economic upside on the other.

The Company is capital-light, nimble, experienced, broadbased and focused.

We believe that as India's economy grows larger, Yuken will be attractively positioned to capitalise its products and solutions.

C P Rangachar,
Managing Director

YUKEN INDIA. POSITIONED TO ENHANCE VALUE

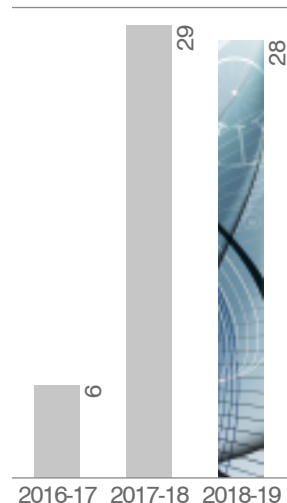
India's GDP growth

Aligned with national economic growth

GDP growth %

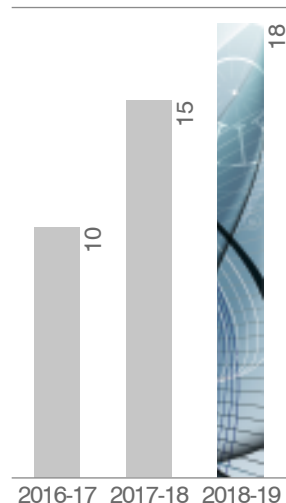


Yuken India revenue growth %



Broad-based sectoral relevance

Number of sectors addressed



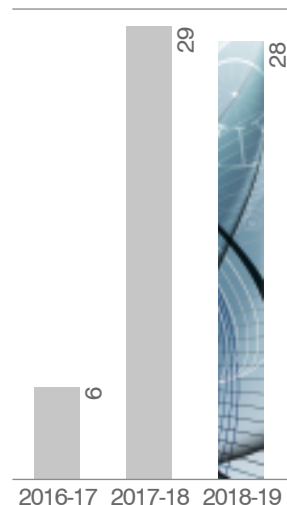
Revenues from top 3 sectors as % of overall Yuken India revenues



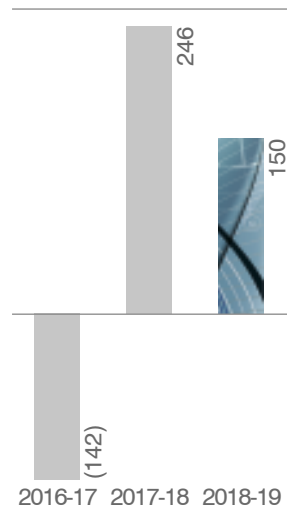
Outcomes

Profitable growth

Revenue growth %



PAT growth %



Profit and value-accretive business model

Cash profit as a % of revenues



Sizable cash flows

Net cash flow from operations (Rs. in crore)

