

Self-reliant

Yuken India Limited | Annual Report 2019-20

Forward-looking statement

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 annual report.

CONTENTS

02

Corporate snapshot

04

Our competitive advantage

05

Chairman's message

06

The Managing Director's review

08

Management discussion and analysis

13

Board's Report

40

Report on Corporate Governance

56

Business Responsibility Report

67

Standalone Financial Statements

128

Consolidated Financial Statements

CORPORATE INFORMATION

Board of Directors

Mr. Hidemi Yasuki, Chairman

Mr. Hideharu Nagahisa

Mr. Kenichi Takaku, Additional Director w.e.f 09th May, 2020

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.

HDFC Bank Ltd.

MUFG Bank, Ltd.

Mizuho Bank Ltd.

Sumitomo Mitsui Banking Corporation

Auditors

M/s. Walker Chandiok 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, Koppalthimmanahalli Village,

Malur-Hosur Main Road, Malur Taluk, Kolar District,

Karnataka – 563 130.

Registrar & Transfer Agent

KFin Technologies Private Limited

(Formerly known as Karvy Fintech Private Limited),

Unit: Yuken India Limited

Karvy Selenium Tower-B, Plot Nos. 31 & 32, Financial District, Gachibowli, Nanakramguda, Serilingampally, Hyderabad- 500 008.

Phone: (040) 6716 1500/1592/1509/1508

Toll Free no.: 1800-345-4001

E Mail Id: Einward.ris@karvy.com

Website: www.kfintech.com



Self-reliant

At Yuken India Limited, we progressively invested in a business model where the majority of the components used in our products are sourced from a local and indigenous eco-system.

Reducing our vulnerability to import shocks.

Protecting us from global supply chain disruptions.

Strengthening our respect as a dependable solutions provider.

We believe that this self-reliant business model represents our biggest insurance in a sectoral slowdown and our biggest asset when conditions revive.

CORPORATE SNAPSHOT

YUKEN INDIA LIMITED.

Indo-Japanese.

Possessing multi-decade domain expertise.

Positioned to enhance value.



Our track record, helping strengthen our foundation

The Company was founded in 1976 in technical and financial collaboration with Yuken Kogyo Company Limited, Japan (YKC), global leaders in oil hydraulic equipment.



Our quality products have strengthened our recall

The Company manufactures hydraulic components like pumps, valves, cylinders and power unit systems. The Company possesses precision manufacturing technologies, modern equipment and robust quality systems to address the emerging needs of various industrial sectors.



Our capacities have enhanced our preparedness

Headquartered in Bengaluru. The Company possesses four state-of-the-art manufacturing facilities in Bengaluru, Malur (Karnataka), Mumbai and Haryana.

Location	Number of plants	Products
Bengaluru	4	Pumps, castings, solenoid coils, ironcores and powerpacks
Malur, Karnataka	3	Pumps, valves and power packs, chip compacting machines, castings and cylinders.
Mumbai	1	Power packs
Bahadurgarh, Haryana	1	Power packs



Our financial robustness has helped strengthen our credit rating

The Company maintained its credit rating at CARE BBB- in 2019-20 for long-term bank facilities, validating its business health.



Listing

The equity shares of the Company are listed on Bombay Stock Exchange where they are traded actively. The Company's market capitalisation stood at ₹390 crore as on 31st March, 2020.



60

Channel partners



15

Countries

Our widening distribution network has enhanced product accessibility

The Company's extensive distribution network is spread across the country, comprising more than 60 channel partners. The Company exports products to more than 15 countries.

Our quality standards are driven by credible accreditations

The Company strives to meet customer's expectations by providing world-class hydraulic products, components, castings and services through total employee commitment and continual improvement. The Company has been accredited with ISO 9001:2015 certification as a result of its emphasis on qualitative consistency.

Our longstanding clients have validated our quality

The Company addresses the demanding needs of prominent clients across all sectors with a greater focus on construction equipment, Plastic machinery, machine tools, defence, steel and power.

Our focused subsidiaries and associates have helped enhance our business capability

The Company comprises four focused subsidiaries and two associates.

The four subsidiaries: Grotek Enterprises Private Limited (manufactures precision ferrous castings), Coretec Engineering India Private Limited (manufactures cylinders, solenoid coils, ironcore and tooling for the foundry), Kolben Hydraulics Limited (manufactures hydraulic products for mobile applications in collaboration with global leaders in this segment) and Yuflow Engineering Private Limited (manufactures electric motors and manifolds).

The two associates: SAI India Limited (manufactures hydraulic motors in collaboration with SAI s.p.a-Italy) and Bourton Consulting (India) Private Limited (engaged in lean manufacturing consulting).

Our experienced management helps us in providing strategic direction and ensures growth

The Company's business is steered by the able leadership and experience of Mr. C P Rangachar, Managing Director, under the guidance of the Board of Directors. The Board is supported by a strong team of experienced professionals and skilled workers at the Company's manufacturing facilities. The strength of the Yuken team stood at 464 nos excluding trainees and casuals as on 31st March, 2020.

Products overview

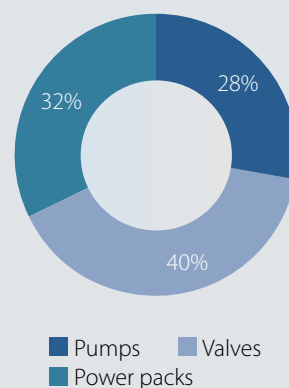
The Company provides a variety and types of products which find application in multiple industrial sectors. Over the years, the Company has been enjoying a large base of clientele, spanning 30-plus sectors.

Product	Pumps	Valves	Others
Types	Vane pumps Piston pumps Gear pumps SERVO systems	Pressure control Direction control Mobile valves Flow control Modular valves Logic valves Proportional valves	Hydraulic power units Cylinders Motors Actuators Accumulators Chip compacting machines (Kiriko) filters Accessories
Variants	Variable displacement piston pumps: A, AR, A3HG series PV2R Series Vane Pumps	Low noise type relief valves Shock-less type valves Solenoid operated valves Reducing modular valves	Electro-hydraulic controls Power-saving products Customized power units
Performance	Revenue share: 28%	Revenue share: 40%	Revenue share: 32%
Application segments	Plastics, Machine Tools, Power, Steel, Construction Equipment, Automotive, Presses, Railways, Material Handling, Drill Rigs, Rubber, Paper, Cement, Mines, Marine etc.		

Products capacities (units per annum)



Product wise revenue, 2019-20



Revenue by geography, 2019-20

Domestic – 97%

International – 3%

Revenue by geography, 2018-19

Domestic – 98%

International – 2%





Chairman's message

Dear shareholders,
The world is passing through a period of change never seen before.

The economic slowdown and the pandemic have transformed the way we will live and also the way business will be conducted.

This dramatic change also opens up a number of opportunities.

Important opportunities for companies like ours will be from equipment manufacturers wanting to reduce their dependence on imports and source more locally.

The Indian Government is actively implementing its 'Atmanirbhar' (self dependence) policy.

We expect to benefit from this development.

Your Company has been operating for over four decades in India and has gained a significant rich experience.

It has built a network of local vendors, enhancing its flexibility, responsiveness and competitiveness.

We are seeing the impact of this trend already.

However, the short-term is challenging for a company like ours but in the medium-term there is a good future for us.

Hidemi Yasuki,
Chairman

The Managing Director's review

Dear shareholders,

Overview

The global and Indian economic slowdown of 2019 was accelerated by the outbreak of the Covid-19 pandemic. The effects of this were visible from January 2020 and only deepened as the months passed.

A national lockdown was imposed from the last week of March 2020, to contain the spread of Covid-19, reversed an anticipated recovery of the Indian economy in 2020-21. Demand, supply chain, discretionary spend and capital expenditure were adversely affected.

The pandemic is transforming the way people work and their way of living.

Capital expenditure by companies and personal expenditure have been severely curtailed to the bare essentials.

Your Company is responding quickly to the changing environment. The revenues and profits of your company can decline during the current financial year if the market does not revive. We have taken action to minimize this decline and protect our business health.

Your Company's performance in 2019-20 followed the national GDP growth.

The Country's GDP declined to 3.1% in the last quarter of the financial year, the lowest in 11 years.

Consequently, the Company's revenues declined 29% to ₹246.22 crore; EBIDTA% declined 2% to ₹18.67 crore;

consolidated profit after tax declined 4% to ₹2.78 crore.

With careful management, your Company continued to be cash-positive despite the sharp revenue erosion.

The decline in the Company's revenues in 2019-20 was due to a demand decline in two of its major market sectors.

The growth of India's automobile industry contracted from 21% in 2018-19 to 5% in 2019-20 on account of a reduction in disposable incomes, sales aversion in the face of a transition to BS VI standard and shared mobility in the country, eroding direct vehicle ownership.

As a result, the Company's revenues from the Machine Tool Sector dwindled from 35% in 2018-19 to 20% in 2019-20 and to only 17% in the fourth quarter of the year under review.

India announced a ban on plastics in June 2019, effective October 2019. Even as some states banned the use of plastics, others did not. In this confusion, capital investment in the plastic sector was postponed. The sales to the plastics sector shrank by 4% in 2019-20 from 18% to 14%.

Besides, the lockdown that affected the movement of products in the second half of March 2020 resulted in a critical loss of despatches in a fortnight when sales are disproportionately high.

Your Company's joint venture with Brigade Enterprises Limited to develop the surplus land received a good response from customers. We sold 82% of the apartments and received ₹32.09 crore as our share of the proceeds upto 31st March, 2020.

Starting March 2020, there has been a disruption in construction activities due to the pandemic. We expect a delay of 12 months in the completion of the project.

Some positives

In line with medium-term optimism for the country's prospects, your Company continued to enhance its capacity by more than 25% with an investment of ₹50 crore.

This will stand us in good stead in the medium term as the economy starts reviving and domestic supplies will be preferred over imports.

The Company moved with speed to restructure in line with the downturn. The benefit will be visible from the current year onwards.

Your Company has initiated several measures like increasing productivity, automation of repetitive processes,

consolidation of manufacturing locations and optimizing the supply chain by rationalising the number of vendors.

Outlook

Even as the overall Indian economy is projected to slacken in the current financial year, some green shoots are visible.

The plastic sector is turning around, riding on an increased demand for sanitiser bottles across the world.

The Indian government is focusing on the completion of part-finished industrial projects and funds are being made available through various economic stimuli.

A tighter import control environment is enhancing the offtake of Indian manufactured products.

The Atmanirbhar Bharat direction by the Government indicates self-reliance and a wider industrial base.

A favourable 2020 monsoon is expected to recharge the rural economy, catalyse consumption, propel infrastructure and lead the Indian economy out of a downtrend.

This, in turn, is expected to revive traction for material handling equipment, tractors and construction equipment, which are among the sectors we address.

Conclusion

Your Company is working to capitalize on the economic upturn as it happens.

The Company possesses unique multi-national linkages and also a strong local eco-system.

Consequently, 90% of its world class products and components are manufactured within India.

Many companies in our field have been affected by disruption in their international supply chain.

Our localization is in line with the national priority and a major competitive advantage.

As a result of our strategic self-reliance, the best is yet to be.

C P Rangachar

Managing Director

Management discussion and analysis



Global economic overview

The global economy grew 2.9% in CY 2019 compared to 3.6% in CY 2018. This sharp decline was precipitated by an increase in global trade disputes that affected the cross-border movement of products and services, a slowdown in the global manufacturing sector, weak growth coming out of some of the largest global economies and the impact of Brexit. The result was that global trade grew a mere 0.9% in CY 2019, pulling down the overall economic growth average. The 'Great Lockdown', as a result of the pandemic Covid-19, is projected to shrink the global growth significantly starting from the CY 2020.

(Source: World Economic Outlook, April 2020, CNN, Economic Times, trading economics, Statista, CNBC)

Global growth over the years

	World output	Advanced economies	Developing and emerging
2015	3.5	2.3	4.3
2016	3.4	1.7	4.6
2017	3.9	2.5	4.8
2018	3.6	2.2	4.5
2019	2.9	1.7	3.7

(Source: IMF)

Indian economic review

India emerged as the fifth-largest world economy in CY 2019 with a gross domestic product (GDP) of USD2.94 trillion. India jumped 14 places to 63 in the 2020 World Bank's Ease of Doing Business ranking. There was a decline in consumer spending that affected India's GDP growth during the year under review. India's growth for FY2019-20 was 4.2% compared with 6.1% in the previous year. Manufacturing growth was seen at 2%, a 15-year low as against 6.9% growth in FY19.

A sharp slowdown in economic growth and a surge in inflation weighed on the country's currency rate; the Indian rupee emerged as one of the worst performers among Asian peers, marked by a depreciation of nearly 2% since January 2019. Retail inflation climbed to a six-year high of 7.35% in December 2019. During the last week of the financial year under review, the national lockdown affected freight traffic, consumer offtake and a range of economic activities.

Y-o-Y growth of the Indian economy

	FY2016-17	FY2017-18	FY2018-19	FY2019-20
Real GDP growth (%)	8.3	7	6.1	4.2

Growth of the Indian economy, 2019-20

	Q1, FY20	Q2, FY20	Q3, FY20	Q4, FY20
Real GDP growth (%)	5.2	4.4	4.1	3.1

(Source: Economic Times, CSO, Economic Survey, IMF, EIU)