INVESTORS' PROTECTION FUND

Yuken India Ltd. (YIL)

15 October 2012

CMP: Rs. 168.5
Industry: Auto Parts & Equipments
BSE group/index: B / SMLCAP

Promoters
Yuken Kogyo Co. Ltd.
Benefic Investments & Finance Co. Pvt. Ltd.
Rangachar / Parthasarathy families

Date of incorporation
28 June, 1976

Registered office
PB 16, Whitefield Road
Whitefield, Bangalore 560 066

Company website
http://www.yukenindia.com/

Write to us at:
equity.research@outlook.com

Key Data *(as on 15 Oct'12)*

BSE	522108	ISIN	INE384C01016
Face Value	10	Mkt Cap (Rs. bn)	0.51
Current P/E	5.39	Current P/BV	0.99
52 week high-low	229.8 – 110.7	30 day daily trading volume (nos)	1,188
Equity Capital (Rs mn)	30	Networth (Rs mn)	513

Company business

Yuken India Ltd. (YIL) commenced commercial production of oil hydraulic equipments in 1978 in technical and financial collaboration with Yuken Kogyo Co. Ltd. of Japan. In 1980, YIL embarked on an indigenisation program and in 1986 acquired facilities for producing intricate iron castings required for its hydraulics division. The company manufactures a wide range of hydraulic equipments such as pumps, valves, cylinders, accumulators and power packs. Yuken India provides energy efficient machine tools to automobile manufacturers, infrastructure projects like Hydroelectric plants, Thermal power plants, Construction machinery, Steel plants etc.

The company was promoted by M. Varadarajan, M. Parthsarathy and C. P. Rangachar. The day-to-day operations are looked after by the MD, C. P. Rangachar.

Peer group analysis

YIL reported EBIDTA of Rs. 224 million in FY12 and had a comparable EBIDTA margin among its peer set. It reported EBIDTA margin of 13% and PAT margin of 6% in FY12. These are lower than that of Menon Pistons and ABC Bearings, but higher than that of IP Rings and Munjal Auto. As on 31 March 2012, its market price was almost equal to its book value (higher than most its peers other than Munjal Auto) and discounted its earnings 5.4 times (lower than ABC Bearings and IP Rings but higher than Menon Pistons and Munjal Auto).

FY12, Rs million	Yuken India Ltd.	Menon Pistons Ltd.	ABC Bearings	I P Rings Ltd.	Munjal Auto Ltd.
Total income	1719.1	1712.7	1977.6	815.1	6817.9
EBIDTA	223.9	225.4	302.8	97.7	661.0
EBIDTA margin	13.0%	13.2%	15.3%	11.9%	9.7%
PAT	103.6	100.2	153.4	5.8	443.2
PAT margin	6.0%	5.9%	7.8%	0.7%	6.5%
EPS	34.5	19.6	13.3	0.8	8.9
Cash accruals	132.4	141.7	218.1	60.4	543.5
BV/share	170.9	101.6	103.6	68.5	25.1
Debt/EBIDTA (x)	1.7	1.1	1.4	3.1	0.8
Debt/Equity (x)	0.7	0.5	0.4	0.6	0.4
ROANW	20.2%	19.3%	12.8%	1.2%	35.3%
ROACE	21.8%	24.1%	14.8%	5.8%	31.3%
P/BV	1.0	0.9	0.9	0.7	1.8
P/E	5.4	4.9	7.8	56.1	5.0

Source: Moneycontrol, Company

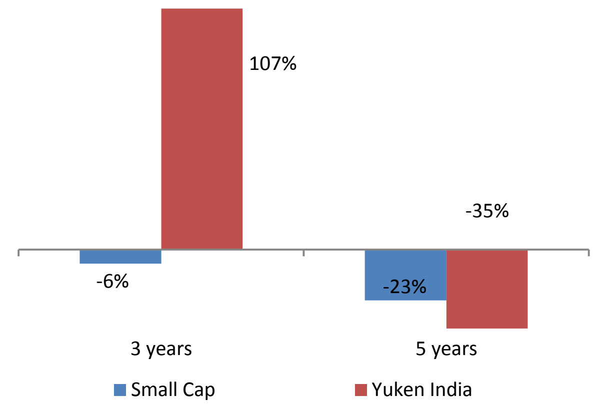
There are no listed hydraulics companies that are YIL's size for peer comparison. Hence we have compared it with auto ancillary companies of like size.

Installed Capacity

Product Name	Unit	Installed Capacity
Hydraulic Pump, Valve, Accumulator Cylinder	Numbers	395,400
Cast Iron & Alloyed Iron Castings	Metric Tonnes	2,400

As of March 2011, data for 2012 has not been reported

Price Performance



3 years: 1 Oct 09 to 1 Oct 2012
5 years: 1 Oct 07 to 1 Oct 2012

Public Shareholders >1%

Sl. No.	Name of the Shareholder	No. of Shares held (mn)	Shares as % of Total No. of Shares
1	Tricot Investments Ltd.	2.74	23.7
2	Oriental Insurance Co. Ltd.	0.36	3.1
3	Shaunak Jagdish Shah	0.24	2.1
	Total	3.34	28.9

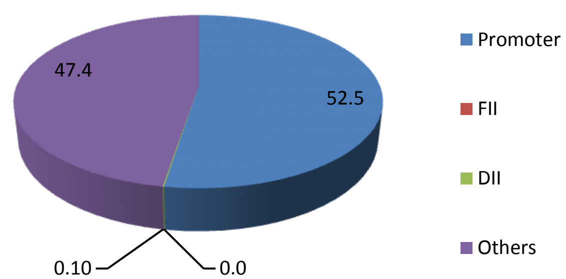
Source: BSE

Change in Shareholding Pattern (%)

Year	Promoters	DII	FII	Others
Jun-12	52.5	0.1	-	47.4
Mar-12	52.5	0.1	-	47.4
Dec-11	52.5	0.1	-	47.4
Mar-11	52.5	0.1	-	47.4
Mar-10	52.5	0.1	-	47.4
Mar-09	52.5	0.1	15.4	32.0
Mar-08	52.5	0.1	19.3	28.1
Mar-07	52.5	0.1	18.9	28.5

Source: BSE

Shareholding Pattern (%)



Source: BSE, as at 30 June 2012

Key strengths

Backing of a strong multinational company

YIL has been promoted in financial and technical collaboration with Yuken Kogyo Company Ltd. Japan. Yuken Japan has been in the hydraulics business since the last 54 years. The company is listed on the Japanese stock exchange and has capital of ¥ 4.1 billion. Yuken Kogyo is one of the leading hydraulic manufacturers in South-East Asia.

Moving away from single industry concentration

To avoid dependence on the automobile industry, Yuken has diversified its sales to include machine tool manufacturers, plastic machinery manufacturers, material handling equipment manufacturers, hydraulic presses, dam hydraulics, power projects etc. This will ensure a steady stream of revenues in event of cyclicality / slump in the auto industry.

Backward integration

Castings for hydraulic components are of high grade and precision, and require mechanised moulding machines, electric furnace and elaborate quality control equipment. Manufacturers of hydraulic components always had problem in establishing a source which can meet their requirements of castings. To ensure supply of high quality castings, YIL took over a running foundry in Whitefield in 1986 and turned it around, thereby ensuring supply as per its requirements and customer specifications.

Key concerns

Significant competition in the business

YIL competes with many domestic and foreign manufacturers, some of which are much larger and have greater financial, distribution and marketing resources than the company. This results in lower sales prices and decreased profit margins. Sales are affected by a variety of factors, including:

- price;
- product quality;
- design and development; and
- delivery time.

Customers can easily switch suppliers in case they are not satisfied.

Rapid technological changes

To cater to increasing customer demand with strong technology and domain knowledge, the Yuken group has to invest high amounts in research, equipments and facilities. The Yuken group has to anticipate and develop new products in a fixed time schedule and enhance the existing products in order to keep pace with rapid changes in technology. Given the significant competition in the hydraulics industry, there is continuing concerns on input costs and it is always not possible to pass on cost increases through pricing.

Industry overview

Hydraulic products from application industries are classified as under:

- Industrial
- Automobile & Transport
- Marine
- Aerospace

Following are the elements of hydraulic systems :

- Pumps
- Actuators - Liner (cylinders), Rotary - (motors)
- Control Elements - Valves : pressure, Flow and Directional
- Accessories - Reservoirs, coolers, filters, storage units, tanks, accumulators

Most Indian industries have a wide range of specifications for their hydraulics requirements. Due to this the range of products in the oil hydraulic industry is also quite wide resulting in a very small batch for each product. It is, therefore, difficult to specify a minimum economically viable capacity for the industry. While there has been a continued overall growth in the oil hydraulic products business volume growth in individual products has been very low. Current production technology is largely dictated by production volumes, quality requirements and costs. Since the Indian hydraulics industry has to manufacture a large variety of products with low volumes, the industry is not able to use the modern high production lines.

The manufacture of oil hydraulic products involves highly precision manufacture of components, their inspections and testing. The tolerance involved in the various components are in microns, Due to sophistications involved in the manufacture, testing and components of the fluid power products, the industry needs high capital investment. Like so many other industries the major impediment in modernisation is resource constraints. The profitability of the Oil hydraulic industry has been eroding with increased competition of fully imported components of cheaper prices and increasing labour costs.

The bulk of the exports of the oil hydraulic products are of as indirect exports, namely, as components of larger plant and machinery being exported. By and large direct exports by individual companies are minimal. It is also to be recognised that to be able to export these products, it is necessary to have a highly technical marketing and after sales service set up in the countries in which exports have to be made. These are at present above the capability of the industry.

Government Policies

The manufacturing of oil hydraulic components has been de-licenced since the 1990s. With the liberalisation of Indian economy, a number of multinational companies made investments in India for different hydraulics products and technologies. In the field of hydraulic components, some new entrants with 100% owned or Joint Venture Companies entered the market the latest technologies (GL Rethrox Industries, Hagulands Denision, Vickers Systems International etc.)

Company fundamentals

Integrated business model

YIL has been certified as a ISO-9001:2008. Seeing the need for high torque, low speed Hydraulic Motors, in 1989 YIL entered into a joint venture with SAI Spa of Italy. SAI Spa is one of the largest manufacturers of radial piston motors in the world. SAI India Ltd. has grown to become the preferred supplier of hydraulic motors to major OEM's in India.

Key financial indicators

YIL reported 14% growth in total income to Rs. 1.7 bn. This is attributed to a 24% growth in revenues from the sale hydraulic systems, a 7% growth in sale of hydraulic pumps & valves and an 83% growth in sale of castings (though values were small).

EBIDTA increased 14% to Rs. 224 mn from Rs. 197 mn in FY11 due to a tight control on employee costs. Finance cost jumped 42% to Rs. 41 mn from Rs. 29 mn in FY11 on account of larger borrowings to finance the working capital of the company and higher bank charges. Depreciation and amortization expenses marginally increased to Rs. 29 mn (Rs. 25 mn in FY11).

As a result growth in PBT was restricted to 4.8% to Rs 154 million. PAT was up a marginal 5.7% to Rs 104 million, higher than PBT growth on account of marginal tax growth.

Quarterly results

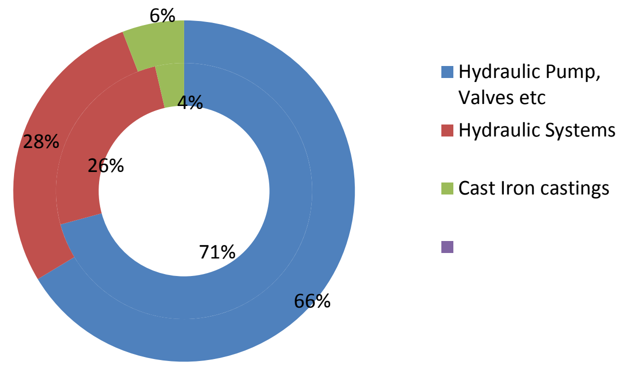
Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change[1]	Jan '12 to Mar '12	% Change[2]
Total income	369.6	365.7	1.1%	539.3	(31.5%)
Total expenditure	348.6	334.0	4.4%	471.2	(26.0%)
EBIDTA	31.7	38.6	(17.9%)	76.3	(58.5%)
PAT	4.9	14.7	(66.7%)	37.8	(87.0%)
EPS (for the quarter)	1.6	4.9	(67.3%)	12.6	(87.3%)

[1] quarter on quarter comparison
[2] sequential comparisons

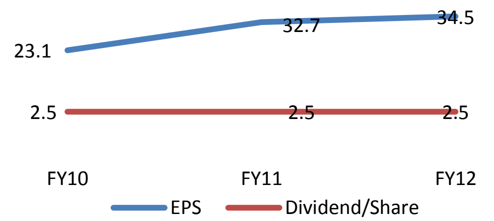
During the quarter ended June 2012, the company incurred a forex loss of Rs 8.9 million (for the quarter ended June 2011 this loss was Rs 0.9 million)

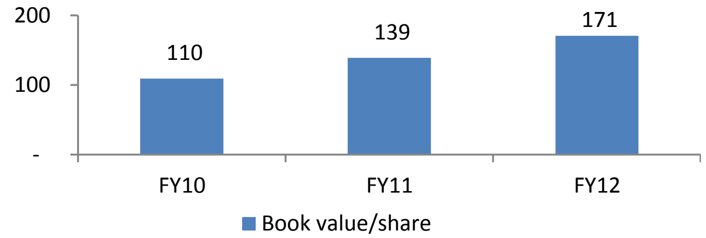
Ratios

Segment-wise contribution to total revenue

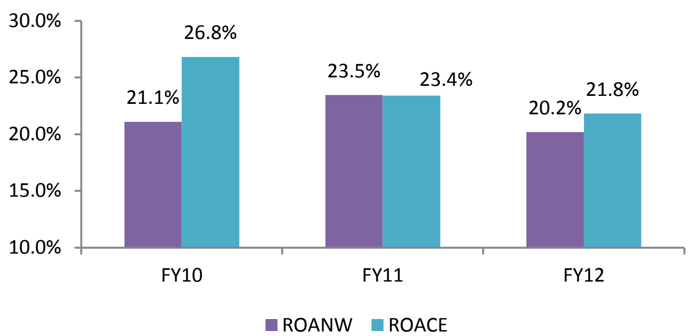


Key ratios

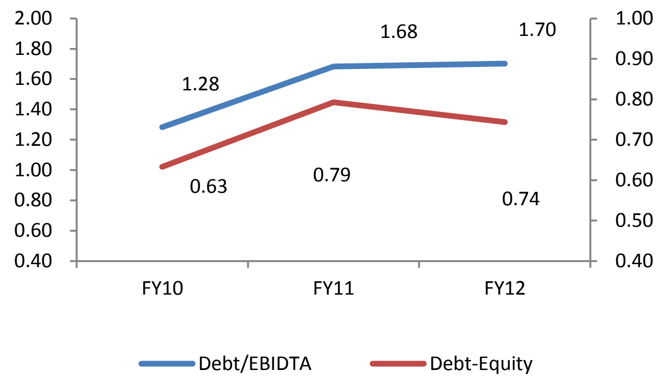




Profitability ratios



Leverage ratios



Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total Income	1,152.6	1,518.4	1,719.1
PBDIT	162.6	196.9	223.9
Interest	33.8	29.0	41.3
PBDT	128.8	167.9	182.6
Depreciation	25.2	25.2	28.8
Profit Before Tax	103.6	142.7	153.8
Extra-ordinary items	0.8	4.0	-
PBT (post extra-ord items)	104.4	146.7	153.8
Tax	34.3	48.6	50.2
Reported Net Profit	69.3	98.0	103.6
Equity Dividend	7.5	7.5	7.5
Equity Dividend (%)	25.0	25.0	25.0

Valuation ratios	FY10	FY11	FY12
P/E	6.7	7.4	4.8
P/BV	1.4	1.7	1.0
EV/EBIDTA	4.0	5.3	3.8

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	30.0	30.0	30.0
Reserves & Surplus	298.6	387.9	482.8
Net worth	**328.6**	**417.9**	**512.8**
Borrowings	207.9	331.3	381.3
Current Liabilities & Provisions	350.3	378.7	487.6
Total liabilities	**886.8**	**1,127.9**	**1,381.7**
Net fixed assets	238.2	258.1	507.6
Capital work in progress	4.3	93.6	7.5
Investments	22.1	31.5	31.5
Current Assets	552.6	675.3	772.4
Loans and Advances	67.0	63.5	62.7
Fixed Deposits	2.6	5.9	-
Total assets	**886.8**	**1,127.9**	**1,381.7**

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	104.4	146.7	153.8
CF from Operations	220.5	51.3	154.1
CF from Investments	7.8	(138.1)	(195.6)
CF from Financing	(220.1)	78.7	39.2
Inc/(dec) in Cash	8.2	30.1	23.0
Closing Balance	30.1	22.9	19.1