

Rating Rationale

May 27, 2022 | Mumbai

Yokogawa India Limited Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.660 Crore
Long Term Rating	CRISIL AA-/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA-/Stable/CRISIL A1+' ratings on the bank facilities of Yokogawa India Limited (Yokogawa India).

The ratings continue to reflect the established position of the company in the industrial automation industry backed by technological and product support from the parent, Yokogawa Electric Corporation (YEC), Japan. The ratings also factor in healthy orders and strong financial risk profile, supported by a debt-free capital structure. These strengths are partially offset by susceptibility to volatility in raw material prices and foreign exchange (forex) rates, intense competition, and economic and industrial cycles.

Operating income is expected to grow 7-10% over the medium term, with operating margin of ~9%, driven by healthy orders of around Rs 1,015 crore. Cash accrual is estimated at Rs 60 crore in fiscal 2022 owing to dividend payout. The financial risk profile will remain strong aided by comfortable liquidity, nil debt and healthy networth of over Rs 300 crore. In fiscal 2022, revenue remained stable; however, operating performance improved to an estimated 9%.

In fiscal 2021, the operating income grew by 7.3% on-year to Rs 1,316 crore, and the operating margin improved to 6.3% (2% in fiscal 2020). Profitability fell in the past two fiscals because of one-off loss owing to the upfront provisioning of two large strategic projects, with substantial business potential in the long run, undertaken at competitive pricing. In fiscal 2022, the operating margin is estimated at a healthy 9-10% in the absence of any substantial upfront provisioning for losses on new orders. The financial risk profile was strong, reflected in networth of Rs 318 crore and nil debt as on March 31, 2021.

Key Rating Drivers & Detailed Description

Strengths

Established position in the industrial automation and control systems segment

Yokogawa India is one of India's leading players in the industrial automation and control systems segment. The company has maintained its competitive position through continuous upgrade of technology and absorption of new technology from the parent, YEC. The company provides engineering and information technology (IT) services to domestic clients, YEC and its affiliates worldwide. The company also trades measurement equipment and recorders procured from YEC or its affiliates.

Healthy order book: Healthy order book of Rs 1,015 crore as on March 31, 2022, and expected orders of over Rs 1,300 crore in fiscal 2023 provide medium-term revenue visibility.

Strong financial risk profile: The financial risk profile will remain healthy over the medium term supported by healthy networth of over Rs 300 crore and nil debt.

Weaknesses

Susceptibility of operating margin to volatility in raw material prices and forex rates, and intense competition: The company imports its critical components from YEC or its affiliates, and imports account for 55-60% of raw material requirement. Therefore, sustained increase in raw material prices will impact the operating margin. Also, the operating margin is vulnerable to fluctuations in foreign currency rates as the company provides services to the parent and its affiliates. Furthermore, the industrial automation segment is intensely competitive, with many international players, such as Honeywell Automation India Ltd, Siemens Ltd ('CRISIL AAA/Stable') and ABB India Ltd ('CRISIL AAA/Stable/CRISIL A1+'), vying for a share in the Indian market.

Vulnerability to economic and industrial cycles: The company's growth is strongly correlated with industrial development in India. It caters to the power, petrochemical, fertiliser, sugar and chemical industries. Performance of these sectors has a direct correlation with economic and industry cycles. Slowdown in these sectors affects the company's topline and profitability. However, in the recent past, Yokogawa India has diversified into new segments such as water management and integrated projects for smart cities. It plans to diversify further into pharmaceutical, specialty chemicals and life sciences over the long term.

Liquidity: Superior

Liquidity is supported by cash balance of over Rs 100 crore as on March 31, 2021, and nil bank limit utilisation. Capital expenditure (capex) is funded through internal accrual. Expected cash accrual of Rs 55-65 crore per annum will sufficiently cover capex and incremental working capital requirement over the medium term.

Outlook: Stable

Yokogawa India will maintain its established market position over the medium term backed by continued support from the parent.

Rating Sensitivity Factors

Upward Factors

- Significant increase in revenue
- Sustained improvement in operating margin to 12-15%

Downward Factors

- Decline in operating margin below 5% and return on capital employed of below 20% on sustained basis
- Stretched working capital cycle weakening the liquidity
- Larger-than-expected debt weakening the capital structure or debt protection metrics

About the Company

Set up in 1987, Yokogawa India is a fully owned subsidiary of YEC. It manufactures industrial automation products and control systems, trades field instruments, and provides engineering and IT services to the parent and its affiliates .

Key Financial Indicators

As on/for the period ended March 31*		2021	2020
Revenue	Rs.Crore	1,316	1,227
Adjusted profit after tax (PAT)	Rs.Crore	49	1
PAT margin	%	3.7	0.1
Adjusted debt / adjusted networkth	Times	-	-
Interest coverage	Times	5.63	6.47

*CRISIL Ratings-adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Fund-based facilities	NA	NA	NA	25	NA	CRISIL AA-/Stable
NA	Non-fund-based limit	NA	NA	NA	515	NA	CRISIL A1+
NA	Non-fund-based limit*	NA	NA	NA	120	NA	CRISIL A1+

*Interchangeable with fund-based facilities up to Rs.50 crore

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	25.0	CRISIL AA-/Stable		--	24-03-21	CRISIL AA-/Stable		--	05-12-19	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--	17-02-21	CRISIL AA-/Stable		--	31-10-19	CRISIL AA-/Stable	--
Non-Fund Based Facilities	ST	635.0	CRISIL A1+		--	24-03-21	CRISIL A1+		--	05-12-19	CRISIL A1+	CRISIL A1+
			--		--	17-02-21	CRISIL A1+		--	31-10-19	CRISIL A1+	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities	25	MUFG Bank Limited	CRISIL AA-/Stable
Non-Fund Based Limit	90	State Bank of India	CRISIL A1+
Non-Fund Based Limit*	120	Mizuho Bank Limited	CRISIL A1+
Non-Fund Based Limit	125	MUFG Bank Limited	CRISIL A1+
Non-Fund Based Limit	300	ICICI Bank Limited	CRISIL A1+

This Annexure has been updated on 13-Mar-23 in line with the lender-wise facility details as on 02-Mar-23 received from the rated entity.

*Interchangeable with fund-based facilities up to Rs.50 crore

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Engineering Sector
CRISILs Criteria for rating short term debt

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