

## KSB Limited

November 02, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	9.15	75.00	[ICRA]AA+(stable) upgraded from [ICRA] AA (stable)
Short-term – Fund-based	56.60	240.00	[ICRA]A1+; reaffirmed
Short-term – Non-fund based	151.00	885.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>216.75</b>	<b>1200.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has upgraded the long-term rating to [ICRA]AA+ (pronounced ICRA double A plus) from [ICRA]AA (pronounced ICRA double A) for the Rs. 75-crore (enhanced from Rs. 9.15-crore) fund-based facilities of KSB Limited (KSB)<sup>1</sup>. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1125-crore (enhanced from Rs. 207.6 crore) short-term facilities of the company.

### Rationale

The upgrade takes into account the healthy long-term revenue visibility backed by recent order inflows, established market position coupled with consistent profitability track record, conservative capital structure and ample liquidity in the form of unencumbered bank balances and unused bank lines. The company's profitability that has moderated in the past is expected to remain at similar levels, going forward. The ratings remain supported by technological support from its parent, KSB SE & Co.KGaA, a leading player in the global pump business, which has enabled it to foray into the domestic manufacturing of pumps for nuclear power plants. The healthy order inflow is supported by a large tender of Rs. 486.0 crore from Nuclear Power Corporation of India Limited (NPCIL) for supplying eight pumps and ten motors to its facility in Gorakhpur, Haryana. The company has incurred a sizeable capex (Rs. 160 crore) over the last two years for setting up a new manufacturing facility in Shirwal (Maharashtra), which is serving as the centre for manufacturing and testing engineered pumps, especially for super critical nuclear pumps for the NPCIL. Going forward, the company has moderate capex plans for automation and capacity enhancement, which will be funded from internal accruals. The ratings are also supported by the company's favourable cost structure arising from its backward integration into castings manufacturing. The ratings derive comfort from KSB's leadership position in the energy, oil and gas, and nuclear (pumps) sectors in the domestic market, as well as its growing presence in exports markets. The financial profile of the company remains healthy with a robust capital structure and gearing of 0.01x in CY2017, strong coverage indicators and sufficient liquidity position.

The ratings remain constrained by the company's vulnerability to the ferrous and non-ferrous commodity cycles, increasing competition from established local and multinational corporations (MNC), and the demand cyclicity inherent to its end-user industries. Going forward, ICRA expects KSB's financial risk profile to remain comfortable over the medium term, supported by its favourable business risk profile and a conservative financial policy.

<sup>1</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

ICRA expects KSB to continue to benefit from its healthy financial profile, established position in the domestic market, product diversification in the pumps industry and strong technological support from its parent, KSG SE & Co. KGaA. The outlook may be revised to Positive with an improvement in operating efficiencies, increase in market share, improvement in margins and sustained growth in accruals. The outlook may be revised to Negative if cash accrual is lower than expected, or if there is a drastic deterioration of working capital intensity.

## Key rating drivers

### Credit strengths

**Established presence in the industry with product diversification** – KSB is a leading player in the domestic pumps and valves industry with an approximate market share of 8% and a large dealer network of ~800 dealers. It has a wide array of products in the standard and engineered segments. Its engineered pumps find application in the power (conventional and nuclear), oil and gas, and fertiliser industries, while its standard pump business caters to the general engineering segment that includes waste water treatment, sugar, chemicals, textiles, and food processing industries. The company also supplies submersible pumps to the agricultural sector. KSB is focussing on its standard pump business by increasing its product offerings, which are expected to support future growth.

**Technological support from parent, KSB SE & Co.KGaA, Germany** – KSB SE & Co.KGaA, Germany, is a leading global company in the pumps manufacturing segment, with an operating income of over € 2.2 billion. The parent is focused on research and development and has been successful in developing technologically advanced designs for both standard and engineered pumps. KSB benefits from this technology transfer that enables it to command a slight price premium, in return for royalty to the parent.

**Favourable cost structure arising from KSB's backward integration into castings** – The company is constantly pursuing cost and time management. Consequently, it forayed into the foundry business for backward integration, as castings and forgings form ~40% of the total inputs in pumps and valves.

**Healthy long-term order inflows to improve revenue visibility; large NPCIL order for nuclear pumps** – The closing order book grew by 27.9% to Rs. 520.0 crore as on December 31, 2017 and further increased to Rs. 883.2 crore as on June 30, 2018. The company received a large order of Rs. 486.0 crore (including Goods and Services Tax or GST) for eight nuclear pumps and ten motors with auxiliaries from NPCIL in January 2018. These pumps are to be delivered by FY2022-FY2023 to the Anu Vidyut Pariyojna Projects 1 and 2, Gorakhpur, Haryana. The closing order book only accounts for engineered pumps and excludes the cash-and-carry orders for submersible and other pumps.

**Financial profile characterised by robust capital structure, healthy coverage indicators and strong liquidity position** – The capital structure of the company remained robust with a gearing of 0.02x and 0.04x as on December 2017 and June 2018, respectively. The coverage indicators also remained healthy, given the low debt and marginal interest outgo. The liquidity position of the company remains sufficient, supported by cash and bank balances of Rs. 91.3 crore and Rs. 114.7 crore as on December 2017 and June 2018, respectively.

### Credit challenges

**Pressure on margins due to high competitive intensity in engineered and standard pumps business** – The company faces intense competition from established local and MNC players in the engineered pumps segment, coupled with decreasing demand from key end-user industries such as energy and power. KSB is exposed to the demand cyclicity inherent to most of its end-user industries. The standard pump business is characterised by its fragmented nature, and KSB faces high competition from domestic and unorganised players. The margins have declined from 13.2% in CY2015 to 11.5% in CY2017. During H1CY2018 the margins have remained stable at 10.5% (10.7% in H1CY2017) and are expected to remain at similar levels going forward.

**Moderately high working capital intensity** – The company’s working capital intensity remains moderately high on account of the lead time involved in the manufacturing of engineered pumps, apart from the normal inventory requirements. The working capital increased to 26.3% in CY2017 on account of year-end debtors that were subsequently realised. The intensity remained elevated at 29.9% as on June 30, 2018 on account of large orders under execution.

**Vulnerability to commodity prices of ferrous and non-ferrous metals** – Metal components and castings account for ~40% of the company’s raw material costs, which makes the cost base highly sensitive to adverse price movements in the commodity market, given that KSB does not enter into any kind of fixed price arrangements with its suppliers.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

KSB, a 40.5% subsidiary of the € 2.2-billion German firm, KSB SE & Co.KGaA, is one of the top five players in the Indian industrial pumps and valves sector with a market share of ~8%. KSB manufactures a wide range of pumps for the agricultural, waste water treatment, energy (nuclear and conventional power), and oil and gas sectors, as well as other industries like paper, textiles, pharmaceuticals, and food processing. KSB has six plants across Pune, Nasik and Satara in Maharashtra, and Coimbatore in Tamil Nadu, with a total manufacturing capacity of 150,500 pumps, 186,000 valves and 6,000 tonnes of castings (ferrous and non-ferrous) per annum. KSB MIL Controls Limited is an associate company (49% ownership) specialising in the manufacturing of control valves.

### Key financial indicators (audited)

	CY2016	CY2017	H1 CY2018
Operating Income (Rs. crore)	825.7	944.3	466.1
PAT (Rs. crore)	63.9	65.7	32.6
OPBDIT/OI (%)	12.8%	11.5%	10.6%
RoCE (%)	17.1%	16.5%	13.5%
Total Debt/TNW (times)	0.0	0.0	0.0
Total Debt/OPBDIT (times)	0.1	0.1	0.3
Interest coverage (times)	33.7	29.6	47.1

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Nov 2018	Date & Rating Oct 2018	Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Oct 2016	Date & Rating in FY2016 Oct 2015
Fund based facility	Long Term	75.00	75.00	[ICRA] AA+ (stable); upgraded	[ICRA] AA (stable); reaffirmed	[ICRA] AA (stable); reaffirmed	[ICRA] AA (stable); reaffirmed	[ICRA] AA (stable); reaffirmed
Fund based facility	Short term	240.00	240.00	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed
Non-fund based facility	Short term	885.00	885.00	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term- Fund based limits	NA	NA	NA	75.00	[ICRA] AA+ (stable)
NA	Short term- Fund based facility	NA	NA	NA	240.00	[ICRA] A1+
NA	Short term-Non-fund based	NA	NA	NA	885.00	[ICRA] A1+

Source: Company

## ANALYST CONTACTS

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Gaurav Jain**

+91 20 6606 9122

[gaurav.jain@icraindia.com](mailto:gaurav.jain@icraindia.com)

**Vanshika Gupta**

+91 20 6606 9919

[vanshika.gupta@icraindia.com](mailto:vanshika.gupta@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents