January 15, 2021

KSB Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	50.00	60.00	[ICRA] AA+ (stable); reaffirmed
Short-term – Fund-based	360.00	300.00	[ICRA] A1+; reaffirmed
Short-term – Non-fund based	1265.00	-	-
Long-term/Short-term- Non-fund based	-	1110.0	[ICRA] AA+ (stable)/[ICRA] A1+; reaffirmed
Long-term/Short-term- Unallocated	825.00	1030.00	[ICRA] AA+ (stable)/[ICRA] A1+; reaffirmed
Total	**2500.00**	**2500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the healthy order book of KSB Limited (KSB) as on September 30, 2020, its established market position leading to long-term revenue visibility, conservative capital structure and ample liquidity in the form of unencumbered cash and bank balances, and unused bank lines. The rating considers the technological support from KSB's parent, KSB SE & Co. KGaA (headquartered in Germany), a leading player in the global pump business, which has enabled it to foray into the domestic manufacturing of pumps for supercritical power plants and flue gas desulfurisation (FGD) units for power plants, among others. ICRA derives 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 standard pumps segment forms ~45% of the expected CY2020 revenues, while the project business forms ~55% of the expected CY2020 revenues. The rating is also supported by the company's favourable cost structure arising from its backward integration into the castings segment.

The company had an outstanding order book of Rs. 1,414.7 crore as on September 30, 2020 that provides healthy near-term revenue visibility. The closing order book only accounts for engineered pumps and excludes the cash-and-carry orders for submersible and other pumps. In 9M CY2020, the company's order intake and revenue profile were impacted by the pandemic because of deferment of sales, postponements and revaluation of capex cycles by customers and delay in new tenders and enquiries. However, with an expected recovery in industrial demand coupled with a healthy order book, the decline in CY2020 operating income is expected to be limited. KSB's healthy financial profile is characterised by healthy yearly accruals, zero long-term debt, a strong cash and cash equivalents position and sizable, unutilised fund-based limits. The liquidity position of the company is supported by sizable unencumbered cash and bank balances of Rs. 246.5 crore and Rs. 289.6 crore as on December 2019 and June 2020, respectively. Going forward, the company has moderate capex plans for automation and capacity enhancement, which are expected to be funded from internal accruals.

The rating is constrained by the company's vulnerability to raw material prices, increasing competition from established local and multinational corporations (MNCs), and the demand cyclicality inherent to its end-user industries. The working capital intensity also remains moderately high with elevated inventory levels because of the large lead time involved in the manufacturing of engineered pumps. The inventory position is expected to increase, going forward, given the long lead time for the Nuclear Power Corporation of India (NPCIL) order that will be dispatched only in CY2022-CY2023.

The Stable outlook reflects ICRA's opinion that KSB will continue to benefit from its established position in the domestic market, growing focus on export markets, technological support from parent entity and its conservative financial policy.

Key rating drivers and their description

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 7.0–7.5% and a large network of ~800 dealers. It offers a wide array of products in the standard and engineered segments. Its engineered pumps find application in the power (conventional and nuclear power), oil and gas, and fertiliser industries, while its standard pump business caters to general engineering (sugar, chemicals, textiles, pharmaceuticals and food processing industries), water and waste water treatment, building construction and domestic household sectors. The company also supplies submersible pumps to the agricultural sector. KSB is focussed on exports and its standard pump business by increasing its product offerings and providing after-sales services, 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 sector, with an operating income of over €2.4 billion in CY2019. The parent is focused on research and development (R&D) and has been successful in developing technologically advanced designs for both standard and engineered pumps. KSB benefits from this technology transfer, which has aided its foray into the domestic manufacturing of pumps for supercritical power plants and FGD units for power plants. It also enables it to command a slight price premium, in return for royalty to the parent.

Healthy order book provides revenue visibility – KSB has healthy revenue visibility in the near term led by it established presence in the pumps and valves industry, overall expected industrial demand recovery and a healthy closing order book of Rs. 1414.7 crore as on September 30, 2020. The growth in the order book is partly attributable to the NPCIL order of Rs. 412.6 crore (net of GST) for eight primary coolant pumps (nuclear power plants) and 10 motors with auxiliaries from NPCIL that was booked in CY2018 and CY2019. The closing order book only accounts for engineered or customised pumps and excludes the cash-and-carry orders for submersible and other pumps. The company also acquired new customers in West Asia, Japan, Bangladesh, Indonesia, Malaysia and Russia.

Strong financial profile characterised by robust capital structure, healthy coverage indicators and strong liquidity position - The capital structure of the company remained robust with a gross gearing of 0.1 time as on December 31, 2019 and June 30, 2020. The TD/OPBDITA, interest coverage and NCA/TD remained stable at 0.4 time and 28.3 times and 2.03 times, respectively, in CY2019. In H1 CY2020, because of a decline in accruals amid Covid-19, the debt protection matrices were impacted marginally, although remaining robust. The liquidity position of the company is supported by sizable unencumbered cash and bank balances of Rs. 246.5 crore and Rs. 289.6 crore as on December 2019 and June 2020, respectively.

Credit challenges

Margins vulnerable to movement in raw material prices and high competitive intensity – The company faces intense competition from established local and MNC players in the engineered pumps segment. The standard pump business is characterised by its fragmented nature, and KSB faces high competition from domestic and unorganised players. It is also exposed to the demand cyclicality of its end-user industries. The operating margins remained stable at 11.6% in CY2019 (compared to 11.9% in CY2018) because of high margin engineered projects, while the company effectively passed on increases in raw materials to its customers in the standard business. The H1 CY2020 profitability was impacted by the pandemic because of declining sales and lower absorption of fixed costs; although with fulfilment of deferred sales in Q3 CY2020, the operating and net margins recovered to 11.0% and 7.0%, respectively, for 9M CY2020. These profitability levels are expected to moderate slightly in CY2020 owing to the ongoing pandemic

Moderately high working capital intensity - The company's working capital intensity remains moderately high at 18.5% in CY2019 and 22.4% in H1 CY2020 compared to 26.7% in CY2018. The reduction in working capital is because of moderation in the receivables period with a dedicated task force to manage receivables. The inventory levels remain elevated because of the large lead time involved in the manufacturing of engineered pumps, apart from the normal inventory requirements. The inventory position is expected to increase, going forward, given the long lead time for the NPCIL order that will be dispatched only in CY2022-CY2023.

Liquidity position: Strong

The company generated healthy funds flow from operations (FFOs) of Rs. 111.2 crore in CY2019 supported by healthy order intake and steady accruals. The company has a limited capex plan of ~Rs. 40.0 crore in CY2020 to be financed by internal accruals. It has no long-term debt. Further, the liquidity is supported by significant unencumbered cash and cash equivalents of Rs. 246.5 crore in CY2019 and Rs. 289.6 crore as on June 30, 2020. Further, the liquidity is supported by unutilised fund-based limits with average utilisation of 14.1% of sanctioned limits for 12 months ended October 2020.

Rating sensitivities

Positive triggers – ICRA could upgrade KSB's rating if the company significantly grows its scale and size, and continues to diversify its product portfolio and increase its market share in the domestic and export markets. KSB's ability to maintain a robust capital structure, ample liquidity and RoCE in excess of 25.0% will be key for an upward movement in its rating.

Negative triggers – Negative pressure on KSB's rating could arise if the company's operating margins decline below 9.5% on a sustained basis, or order intake is significantly impacted, or its working capital intensity increases significantly over the current levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KSB Limited. As on June 30, 2020, the company had one subsidiary and one associate company, which are listed in Annexure-2.

About the company

KSB, a 40.5% subsidiary of the €2.4-billion German company, KSB SE & Co. KGaA, is one of the top five players in the Indian industrial pumps and valves sector. 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 tonne of castings (ferrous and non-ferrous) per annum. KSB MIL Controls Limited is an associate company (49% ownership of KSB Limited) specialising in the manufacturing of control valves.

Key financial indicators

	CY2018 (Audited)	CY2019 (Audited)	H1 CY2020 (Limited Audit)
Operating Income (Rs. crore)	1093.1	1293.9	475.9
PAT (Rs. crore)	67.3	95.3	17.9
OPBDIT/OI (%)	11.9%	11.6%	6.6%
PAT/OI (%)	6.2%	7.4%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7	0.7
Total Debt/OPBDIT (times)	0.3	0.4	1.0
Interest Coverage (times)	34.8	28.3	18.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018
					15-Jan-2021	21-Nov-2019	02-Nov-2018	19-Oct-2018	16-Nov-2017
1	Long-term – Fund-based	Long term	60.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Short-term – Fund-based	Short term	300.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Short-term – Non-fund based	Short term	-	-	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
4	Long-term/Short-term-Non-fund based	Long term/ Short term	1110.0	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	-	-	-	-
5	Long-term/Short-term-Unallocated	Long term/ Short term	1030.0	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	[ICRA]AA+ (Stable)/ [ICRA] A1+	-	-	-

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term- Fund based	NA	NA	NA	60.00	[ICRA] AA+ (stable)
NA	Short term- Fund based	NA	NA	NA	300.00	[ICRA] A1+
NA	Long-term/Short-term - Non-fund based	NA	NA	NA	1110.00	[ICRA] AA+ (stable)/ [ICRA] A1+
NA	Long-term/Short-term- Unallocated	NA	NA	NA	1030.00	[ICRA] AA+ (stable)/ [ICRA] A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Pofran Sales and Agency Limited	100.00%	Full Consolidation
KSB MIL Controls Limited	49.0%	Equity Method

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Gaurav Jain
+91 20 6606 9922
gaurav.jain@icraindia.com

Vanshika Gupta
+91 20 66069919
vanshika.gupta@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

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.

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For more information, visit 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
Website: 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) 2556 0194/ 6606 9999