November 16, 2017

KSB Pumps Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	9.15	[ICRA]AA/Stable; Reaffirmed
Short-term – Fund-based	56.60	[ICRA]A1+; Reaffirmed
Short-term – Non-fund Based	151.00	[ICRA]A1+; Reaffirmed
Total	**216.75**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 216.75-crore[1] bank lines of KSB Pumps Limited (KSB)[2]. The outlook on the long-term rating is Stable.

Rationale

The ratings takes into account KSB's relatively strong and established market position, a well diversified product portfolio spanning the entire pumps and valves industry and technological support from parent KSB AG, Germany a leading player in the global pump business. The ratings are also supported by the company's favourable cost structure arising from its backward integration into castings manufacturing. The financial profile of the company is characterised by robust capital structure with a gearing of 0.01x in CY2016, healthy coverage indicators and strong liquidity position. While the current macro-economic scenario remains a significant drag on fresh order booking, the ratings derive comfort from KSB's leadership position in captive power plants, presence in cast and forged valves and the strong prospects for some of KSB's key user industries like Power and Nuclear Energy in the pumps business over the medium to long term. The ratings also factor in the company's vulnerability to the ferrous and non ferrous commodity cycles, increasing competition from established local and MNC players and demand cyclicality that is characteristic to most of its end-user industries.

Going forward, ICRA expects the KSB's financial risk profile to remain comfortable over the medium term supported by its favorable business risk profile and a conservative financial policy. The company has incurred sizeable capex in CY16 and 9mCY17 for setting up a new manufacturing facility and the benefits of same are expected to accrue over the medium term.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

- **Wide range of products spanning across different lines helps diversify revenue sources and established market position in the engineered pumps business** – KSB is in the business of manufacturing and sale of power pumps and industrial valves. In pump division (~83-84% of total revenues), the company has presence in engineered pump and standard pump business with strong market position in the engineered pump segment. The engineered pumps find its application in power, petro-chemical and fertilizer industries whereas standard pump business caters to the need of general engineering segment which includes a wide array of industries like Waste Water treatment, Sugar, Chemical, Textile, Food processing etc.
- **Technological and management support from parent KSB AG, Germany** – KSB AG Germany is one of the leading companies in the pumps manufacturing world over. The company's parent has focused on R&D and has been successful in coming up with technologically advanced designs for both standard and engineered pumps. KSB India benefits from technology transfer from KSB AG Germany in return for royalty to KSB Germany.
- **Favourable cost structure arising from KSB's backward integration in castings** – Consistently pursuing cost and time management, company forayed into foundry business with an aim for backward integration as castings and forgings form ~35% of the total inputs in pumps and valves.
- **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 0.01x in CY2016 and 0.2x in H1 CY2017. Coverage indicators also remain robust given low debt and marginal interest outgo. The liquidity position of the company remained supported by Cash and Bank balance of Rs. 202.2 crore and 187.1 crore as on December 2016 and June 2017 respectively.

Credit weaknesses

- **Vulnerability to commodity prices – ferrous and non ferrous metals** – Metal components and castings account for ~40% of the company's raw material costs which makes the company's cost base highly sensitive to adverse price movements in the commodity market given that the company has not entered into any kind of a fixed price arrangement with its suppliers.
- **Pressure on margins due to high competitive intensity in Engineered as well as in Standard pump business –** The Company is facing high competition from established local and MNC players in the engineered pumps segment coupld with lower demand. The standard pump business is characterised by its fragmented nature and the company faces high competition from unorganised players. The same has put pressure on the operating margins of the company which has declined from 13.2% in CY2015 to 12.0% in CY2016 and 10.6% in H1 CY2017. The company is also exposed to the demand cyclicality that is characterised to most of its end-user industries.
- **Moderately high working capital intensity** – The working capital intensity has deteriorated from 14.8% in CY2015 to 17.1% in CY2016 and further deteriorated to 25.0% in H1 CY2017 on account of large orders under execution as well as new product introductions for the standard pump segment.

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 company KSB AG, is the fourth largest player in the Indian industrial pumps and valves business. KSB manufactures a wide range of pumps used in the power, oil & gas and other industries. KSB has five plants located in Pune & Nasik in Maharashtra and Coimbatore in Tamil Nadu, with a total manufacturing capacity of 150,500 pumps, 186,000 valves and 9,200 tonnes of castings (Ferrous and non-ferrous).

Key financial indicators (Audited)

	CY2015	CY2016
Operating Income (Rs. crore)	820.7	827.9
PAT (Rs. crore)	64.1	60.4
OPBDIT/ OI (%)	13.2%	12.0%
RoCE (%)	17.7%	15.7%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.1
Interest Coverage (times)	62.5	57.5
NWC/ OI (%)	14.8%	17.1%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					November-2017	October-2016	September-2015	September-2014
1	Cash Credit	Long term	9.15	-	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)
2	Working capital demand loan	Short term	56.60	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
3	Non fund-based	Short term	151.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

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

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	3.55	[ICRA] AA (Stable)
Cash Credit	-	-	-	2.80	[ICRA] AA (Stable)
Cash Credit	-	-	-	2.80	[ICRA] AA (Stable)
Working capital demand loan	-	-	-	17.75	[ICRA] A1+
Working capital demand loan	-	-	-	14.00	[ICRA] A1+
Working capital demand loan	-	-	-	14.00	[ICRA] A1+
Working capital demand loan	-	-	-	10.85	[ICRA] A1+
Short-term – Non-fund Based	-	-	-	74.50	[ICRA] A1+
Short-term – Non-fund Based	-	-	-	64.50	[ICRA] A1+
Short-term – Non-fund Based	-	-	-	12.00	[ICRA] A1+

Source: The company

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