KSB Limited

October 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	9.15	9.15	[ICRA] AA (stable); reaffirmed
Short-term – Fund-based	56.60	56.60	[ICRA] A1+; reaffirmed
Short-term – Non-fund based	151.00	151.00	[iCRA] A1+; reaffirmed
Total	**216.75**	**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 Limited (KSB)[2]. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation takes into account KSB's relatively strong established market position and diversified portfolio across all products and services in the pumps and valves industry. ICRA notes the technological support from its parent, KSB SE & Co.KGaA, a leading player in the global pump business. The ratings also take into consideration the strengthening of the order book position in standard and engineered pumps supported by a large tender of Rs. 486.0 crore (including goods and service tax (GST)) from Nuclear Power Corporation of India Limited (NPCIL) for supplying eight pumps and ten motors to its facility in Gorakhpur, Haryana. KSB incurred a sizeable capex in CY2016 and CY2017 for setting up a new manufacturing facility in Shirwal (Maharashtra) that is serving as the centre for manufacturing and testing engineered pumps, especially the super critical nuclear pumps for the NPCIL order. 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 remains healthy with a robust capital structure and gearing of 0.01x in CY2017, strong coverage indicators and sufficient liquidity position. The ratings also 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 the exports market. The company is focussed on growing its standard pump business and developing after sales services to help maintain stability in its revenues. The ratings also factor in the company's vulnerability to the ferrous and non-ferrous commodity cycles, increasing competition from established local and multinational corporations (MNC), and the demand cyclicality 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.

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 there is a drastic deterioration of working capital intensity.

[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

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 segment. 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 the waste water treatment, sugar, chemicals, textiles, and food processing industries. The company also supplies submersible pumps to the agricultural sector. The company is focussing on the 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 India benefits from this technology transfer that enables it to command a slight price premium, in return for royalty to KSB SE & Co.KGaA.

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

Growth in order book 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 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 Gorakhpur, Haryana, Anu Vidyut Pariyojna Projects 1 and 2. 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. 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 cyclicality inherent to most of its end-user industries. The standard pump business is characterised by its fragmented nature and the company faces high competition from domestic and unorganised players. The same has put pressure on the operating margins of the company, which have declined from 12.8% in CY2016 to 11.5% in CY2017 and 10.5% in H1 CY2018.

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 and Co.KG&A, 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 used in 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). 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:

Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Oct 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Oct 2016	Date & Rating in FY2016 Oct 2015
Fund based facility	Long Term	9.15	9.15	[ICRA] AA (stable); reaffirmed	[ICRA] AA (stable); reaffirmed	[ICRA] AA (stable); reaffirmed	[ICRA] AA (stable); reaffirmed
Fund based facility	Short term	56.60	56.60	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed	[ICRA] A1+; reaffirmed
Non-fund based facility	Short term	151.00	151.00	[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

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	9.15	[ICRA] AA (stable)
NA	Short term- Fund based facility	NA	NA	NA	56.60	[ICRA] A1+
NA	Short term-Non-fund based	NA	NA	NA	151.00	[ICRA] A1+

Source: Company

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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

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