November 21, 2019

KSB Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	75.00	50.00	[ICRA] AA+ (stable); reaffirmed
Short-term – Fund-based	240.00	360.00	[ICRA] A1+; reaffirmed
Short-term – Non-fund based	885.00	1265.00	[CRA] A1+; reaffirmed
Long-term/Short-term- Unallocated	-	825.00	ICRA]AA+(stable)/ [CRA]A1+; reaffirmed
Total	**1200.00**	**2500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the healthy revenue growth of KSB Limited (KSB) in CY2018 and 9M CY2019 backed by order inflows, established market position leading to long-term revenue visibility, conservative capital structure and ample liquidity in the form of unencumbered bank balances and unused bank lines. The rating considers the technological support from KSB's 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 supercritical power plants and fuel gas dispersion (FGD) units for power plants. The rating is also supported by the company's favourable cost structure arising from its backward integration into the castings segment. 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 company recorded a healthy growth of 68.3% in the closing order book in CY2018 to Rs. 875.2 crore as on December 31, 2018 and Rs. 1,334.2 crore as on June 30, 2019. The closing order book only accounts for engineered pumps and excludes the cash-and-carry orders for submersible and other pumps. The growth in the closing order book is partly attributable to Nuclear Power Corporation of India Limited's (NPCIL's) order of Rs. 486.9 crore (including Goods and Services Tax or GST) for eight nuclear pumps and 10 motors with auxiliaries from NPCIL that was booked in CY2018 and H1 CY2019. Excluding the NPCIL order, which will be executed from CY2021 onwards, the new order intake remains stagnant and we expect the same to be reflected in CY2020, with moderate growth. The flat order intake during H2 CY2019 is a result of cyclicity and slowdown in the end user industries (domestic and exports), though ICRA expects the order book to improve from H2 CY2020. KSB's healthy financial profile is characterised by healthy yearly accruals, zero long-term debt and a strong cash and cash equivalents position. The capital structure remained robust with a gearing of 0.1 time in December 31, 2018 and June 30, 2019. TD/OPBDITA remained stable at 0.3 time and 0.4 time in CY2018 and H1 CY2019, respectively. The liquidity position of the company is supported by sizable cash and bank balances of Rs. 138.7 crore and Rs. 207.2 crore as on December 2018 and June 2019, respectively. Going forward, the company has moderate capex plans for automation and capacity enhancement, which will be funded from internal accruals.

The rating is constrained by the company's vulnerability to ferrous and non-ferrous commodity cycles, increasing competition from established local and multinational corporations (MNCs), 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.

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 5.0–5.5% 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), oil and gas, and fertiliser industries, while its standard pump business caters to the general engineering segment (sugar, chemicals, textiles, and food processing industries), water and waste water treatment, building construction and domestic household segment. The company also supplies submersible pumps to the agricultural sector. KSB is focussed on 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 segment, with an operating income of over €2.25 billion in CY2018. 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 which has aided it's to foray into the domestic manufacturing of pumps for supercritical power plants and fuel gas dispersion (FGD) units for power plants. It also 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 and, therefore, forayed into the foundry business for backward integration, as castings form ~40% of the total inputs in pumps and valves.

Healthy order book supports revenue base in CY2018 and H1 CY2019 - KSB recorded a healthy growth in order intake (opening orders and new orders) of 33.9% and 42.8% in CY2018 and H1 CY2019, respectively. The closing order book grew by 68.3% to Rs. 875.2 crore as on December 31, 2018 and further increased to Rs. 1334.2 crore as on June 30, 2019. The closing order book only accounts for engineered pumps and excludes the cash-and-carry orders for submersible and other pumps. The growth in the closing order book is partly attributable to the NPCIL order of Rs. 486.9 crore (including GST) for eight nuclear pumps and 10 motors with auxiliaries from NPCIL that was booked in CY2018 and H1 CY2019. It also received exports orders from Vietnam and from KSB Middle East (sister entity) for energy as well as oil and gas projects.

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 gearing of 0.1 time in December 31, 2018 and June 30, 2019. The coverage indicators continued to remain healthy, given the low debt levels and marginal interest outgo. The TD/OPBDITA remained low at 0.3 time and 0.4 time in CY2018 and H1 CY2019, respectively. Indicators like interest coverage improved to 34.8 times and 33.6 times in CY2018 and H1 CY2019, respectively, from 30.4 times in CY2017. The liquidity position of the company is supported by sizable cash and bank balances of Rs. 138.7 crore and Rs. 207.2 crore as on December 2018 and June 2019, respectively.

Credit challenges

Margins vulnerable to movement in raw material prices - The operating margins improved to 11.9% in CY2018 from 11.4% in CY2017 due to stable realisations and steady prices from vendors. In 9M CY2019, the margins remained flattish at 10.7% (10.8% in 9M CY2018) due to price competition from other industry players and higher raw material prices. 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.

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 remained elevated at 25.6% in CY2018 on account of year-end debtors. The debtors were subsequently realised with a moderation in receivable levels in H1 CY2019. The inventory position is expected to increase, going forward, given the long lead time for the NPCIL order that will be dispatched only in CY2021-2023.

Liquidity position: Strong

The company generated healthy funds flow from operations (FFOs) of Rs. 90.0 crore in CY2018 supported by healthy order intake and steady accruals. It has no long-term debt. The company has a moderate capex plan of ~Rs. 60.0 crore in CY2020 to be financed by internal accruals. Further, the liquidity is supported by significant cash and cash equivalents of Rs. 138.7 crore in CY2018 (Rs. 207.2 crore in H1 CY2019) and unutilised fund-based limits. KSB's average utilisation of fund-based limits for 12 months ended August 2019 is 12.8% of sanctioned limits. Its average utilisation of non-fund based limits for the 12 months ended August 2019 is 45.2% of sanctioned limits, providing ample scope for undertaking fresh contracts.

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 largely impacted or its working capital intensity increases significantly more than the current levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated Financials

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. 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)

	CY2017	CY2018
Operating Income (Rs. crore)	944.3	1093.1
PAT (Rs. crore)	65.7	67.3
OPBDIT/OI (%)	11.4%	11.9%
RoCE (%)	16.2%	14.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.6
Total Debt/OPBDIT (times)	0.1	0.3
Interest Coverage (times)	30.4	34.8
DSCR	27.2	29.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					21-Nov-2019	02- Nov-2018	19-Oct-2018	16-Nov-2017	19-Oct-2016
3	Long-term – Fund-based	Long term	50.00	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Short-term – Fund-based	Short term	360.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Short-term – Non-fund based	Short term	1265.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Long-term/Short-term-Unallocated	Long-term/ Short Term	825.00	-	[ICRA] AA+ (Stable)/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 www.icra.in

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	50.00	[ICRA] AA+ (stable)
NA	Short term- Fund based	NA	NA	NA	360.00	[ICRA] A1+
NA	Short term-Non-fund based	NA	NA	NA	1265.00	[ICRA] A1+
NA	Long-term/Short-term-Unallocated	NA	NA	NA	825.00	[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

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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.

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