

February 02, 2024

## KSB MIL Controls Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Non-fund based	122.00	122.00	[ICRA]AA(Stable); reaffirmed
Short term – Non-fund based	5.00	5.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>127.00</b>	<b>127.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in KSB MIL Controls Limited's (KSB MIL) strong and established market position in the domestic control valve industry, aided by technical support from the promotor, KSB SE & Co KGaA. The company has strong relationships with reputed clients, including Thermax Limited, Larsen and Toubro Limited (L&T) and ISGEC Heavy Engineering Limited (IHCL) that have resulted in repeat orders from these customers. Besides, the company is an approved supplier for Government entities such as the Nuclear Power Corporation of India Limited (NPCIL) and the National Thermal Power Corporation (NTPC) - each having a strong market position in the domestic nuclear and thermal power generation segment, respectively.

KSB MIL's order book was at around Rs. 139.6 crore as on September 30, 2023 (order book to OI ratio of 0.68 times), providing medium-term revenue visibility, given that the average order execution tenure is six to nine months. Besides, the company has worked on developing its product basket in the last couple of years to include various rotary valves, such as ball valve, butterfly valve, ARV, among others, which is expected to support the company's revenue growth. The ratings also favourably factor in the company's robust financial risk profile, characterised by a conservative capital structure with nil fund-based debt, strong debt coverage indicators and adequate cash balance supporting the liquidity.

The ratings are, however, constrained by the limited addressable market constraining its size and a range-bound operating margin. The company faces intense competition from both domestic and global suppliers in the domestic control valve industry even as it continues to expand its product basket. Most of KSB MIL's orders, as on September 30, 2023, continues to be from the energy segment (54%), followed by chemical and petrochemical (25%) and the balance from diverse sectors. ICRA also notes the vulnerability of its margin to commodity prices and the capex cycle of the end-user industries.

The Stable outlook reflects ICRA's opinion that KSB MIL will benefit from its established market position in control valves, technological know-how support from promoters, product launches, brand recognition of the KSB Group and a healthy financial profile with debt-free operations.

### Key rating drivers and their description

#### Credit strengths

**Managerial and technical support from KSB Group** – KSB MIL receives technological support from the KSB Group (KSB SE & Co KGaA and KSB Limited), besides benefitting from an experienced management team. Being a part of the KSB Group, it benefits from the latest developments and advancements that are shared by the Group on a regular basis. The company has access to superior designing and manufacturing know-how of varied valves by the Group companies, along with increased export opportunities through the global KSB network. The level of integration with the parent has increased with the Indian

unit being identified as a business unit for control valves for global research as well as for supplies to various international markets.

**Sizeable market share with established position and knowledge in control valves, actuators and positioners (CVAP)** – KSB MIL has over three decades of experience in CVAP supplies. It caters to thermal and nuclear power plants, oil and gas, chemical and fertiliser sectors. The company derives strength from its technological precision, designing and manufacturing capabilities of large valves up to 36 inches. The control valves are used in critical and super-critical power plants of 600-800 megawatt (MW) and can withstand high levels of pressure up to ~4,500 pounds per square inch (PSI).

KSB MIL enjoys 10% market share in the domestic control valves market (excluding accessories) and is among the top few players. The company is one of the few approved nuclear control valve suppliers to NPCIL (primary and secondary valves) in India due to its technical expertise and an approved vendor to other public-sector entities, such as NTPC and Bharat Heavy Electricals Limited (BHEL). The strong market presence is reflected in its reputed clientele, including L&T, NTPC Limited, Thermax among other leading players.

**Revenue visibility supported by outstanding order book and addition of new product lines** – KSB MIL's order book stood at around Rs. 139.6 crore as on September 30, 2023 (order book to OI ratio of 0.68 times). In the current fiscal, in 9M CY2023, the company's order intake increased by 26% compared to the corresponding period of the previous fiscal. The current order book position comfortably provides medium-term revenue visibility, given that an order's average execution tenure is six to nine months. Besides, the company has been working on developing its product basket in the last couple of years to include various rotary valves such as ball valve, butterfly valve, ARV, among others, which is expected to support its revenue growth. Further, demand prospect from the domestic oil and gas sector, exports, nuclear power and other general industries remains stable. At present, KSB MIL is a limited supplier in the overseas market, with a long-term strategy to expand in the international markets by leveraging on the KSB Group's global network and sales force.

**Robust financial risk profile** – KSB MIL's robust financial profile is reflected in its debt-free position, along with the healthy cash accruals. Additionally, its adequate liquidity is marked by unencumbered cash and cash equivalents of ~Rs. 32 crore as on September 30, 2023. With limited capex plans and the working capital requirements partly supported by customer advances, the financial profile is expected to remain strong in the medium term.

### Credit challenges

**Intense competition in domestic and export control valve segment impacts operating margins** – Apart from domestic players, many global suppliers compete in the Indian control valve market like Emerson Process Management, Nihon Koso, Samson, Severn Glocon, Flowserve, CCI, etc. These companies have set up manufacturing facilities due to the demand for such products, along with low-cost arbitrage, availability of design, engineering capabilities and abundance of casting and forging facilities. KSB MIL's operating margin (OPM) remained range-bound within 10-13% in the last five years. In CY2022 and 9M CY2023, the OPM stood at 12.1% and 11.9%, respectively (11.5% in CY2021). The relatively stiff competition in the industry constrains its pricing power, which may impact its profitability. However, the management endeavours to support KSB MIL's profitability through the scaling of after-market services. The company intends to expand its export book and product profile through the addition of rotary valves. The benefits of the expanded product mix and ramp-up in exports would be evident only in the medium term.

**Majority of revenue from energy segment; exposure to capex cycle in key end-user segments** – Over the years, the company has made efforts to diversify its revenue stream from the energy segment to oil and gas and fertilisers. Nonetheless, the revenue contribution from the domestic energy sector (thermal and nuclear power) was 52% in CY2022 and 49.5% in 9M CY2023. Besides, majority of the orders in the company's outstanding order book as on September 30, 2023 were from the energy segment (around 54%), followed by chemical and petrochemical (25%), while the balance orders were from diverse sectors. As majority of its revenues are from the energy segment, which are largely dependent on global/macro-economic growth, KSB MIL's prospects remain linked to the capex cycle of the end-user industry. Nonetheless, the company is focusing on expanding to other industries like nuclear power valves segment (within the energy sector), wherein it is one of the few

approved vendors due to its technical expertise. Moreover, a diversified presence across the oil and gas, fertiliser, export and chemical segments is expected to benefit the company in terms of demand accretion from these segments.

**Vulnerability to commodity prices** – The company’s margins are vulnerable to adverse movements in commodity prices for ferrous and non-ferrous metals, which constitute ~40-45% of its total raw material cost owing to the fixed-price contracts with its customers. However, KSB MIL is insulated, to some extent, by its yearly fixed-price contracts with forging and casting manufacturers at pre-determined prices, depending on the order book situation. Actuators and pneumatic positioners are manufactured internally, while digital positioners are sourced from third parties.

### Liquidity position: Adequate

The company’s liquidity profile is likely to be adequate, with cash and cash equivalents of Rs. 32.2 crore as on September 30, 2023. It has limited capex plans in the near to medium term and the capex is expected to be funded from internal accruals. Further, it has nil term debt as on September 30, 2023. Also, the average utilisation of non-fund-based limits for the 12 months ended September 2023 stood at 42% of the sanctioned limits, providing ample scope for undertaking fresh contracts.

### Rating sensitivities

**Positive factors** – The ratings could be positively impacted if the company demonstrates a significant growth in its revenues while maintaining the profitability, and a strong credit profile and liquidity position. The ratings could also be positively impacted if the credit profile of the KSB Group improves.

**Negative factors** – The ratings could be affected if there is pressure on profitability, or if the order intake is significantly impacted, or if the working capital intensity increases more than the current levels. The ratings could be negatively impacted if the credit profile of the KSB Group deteriorates.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Parent/Group Company: KSB SE&Co. KGaA and KSB Limited ICRA expects the parent, KSB SE&Co. KGaA, Germany (51.0% stakeholder), and KSB Limited (rated [ICRA]AA+(Stable)/[ICRA]A1+; 49% stakeholder) to be willing to extend financial support to KSB MIL, should there be a need, given the strategic importance it holds for the Group; the company shares a common name with the parent, which in ICRA’s opinion would persuade the latter to provide financial support, in order to protect its reputation
Consolidation/Standalone	Standalone

### About the company

KSB MIL Controls Limited has over three decades of experience in supplying critical valves to the process industries in India and abroad, with emphasis on thermal and nuclear power, oil and gas, fertiliser and chemical sectors. The company, originally known as Masoneilan (India) Limited, was set up in a technical collaboration with Masoneilan International Inc in 1983. It is owned by KSB SE & Co. KGaA (51%, Germany) and KSB Limited (49%). In CY2016, the company changed its name from MIL Controls Limited to KSB MIL Controls Limited to gain better visibility as a KSB Group company in the international market. The manufacturing facility in Kerala includes assembly and testing equipment, such as high-precision CNC machines, automated test benches with provision for test report generation, high pressure test benches, vertical machining centre, vertical turret lathe machining centre (turning/drilling with facing head), and a sophisticated quality control centre. KSB MIL is focused on

research at its own facility and has been certified by the Department of Scientific and Industrial Research (DSIR), Government of India.

### Key financial indicators

KSB MIL (Standalone)	CY2021	CY2022	9M CY2023*
Operating income	173.8	203.8	179.6
PAT	13.1	16.0	13.4
OPBDIT/OI	11.5%	12.1%	11.9%
PAT/OI	7.5%	7.8%	7.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.5
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	20.9	38.6	NA

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 02, 2024	Nov 22, 2022	Sept 29, 2021	Jun 24, 2020
1 Non-fund based facility	Long Term	122.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Non-fund based facility	Short Term	5.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Fund-based facility	Long Term	0.0	-	-	-	-	[ICRA]AA (Stable)
4 Fund-based facility	Short Term	0.0	-	-	-	-	[ICRA]A1+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Non-fund based	Very Simple
Short-term – Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank guarantee	NA	NA	NA	35.0	[ICRA]AA(Stable)
NA	Letter of credit	NA	NA	NA	5.0	[ICRA]A1+
NA	Bank guarantee	NA	NA	NA	60.0	[ICRA]AA(Stable)
NA	Bank guarantee	NA	NA	NA	25.0	[ICRA]AA(Stable)
NA	Hedging exposure limit	NA	NA	NA	2.0	[ICRA]AA(Stable)

Source: Company

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**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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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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