July 09, 2024(Revised)

KSB Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Cash credit	120.00	120.00	[ICRA]AA+ (Stable); reaffirmed
Short term – Fund based – Working capital demand loan	190.01	190.01	[ICRA]A1+; reaffirmed
Long term/Short term - Non-fund-based – Others	1,115.22	1112.06	[ICRA]AA+(Stable)/[ICRA] A1+; reaffirmed
Long term/Short term – Unallocated	1,074.77	1077.93	[ICRA]AA+(Stable)/[ICRA] A1+; reaffirmed
Total	**2,500.00**	**2,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in KSB Limited's established market position in the pumps industry, supported by a wide range of products catering to diversified end-user industries. ICRA takes note of the company's healthy order backlog of ~Rs. 2,155.0 crore as on December 31, 2023, providing revenue visibility over the near to medium term. The ratings consider 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 address varied applications across industries, evident from the orders received from the nuclear power sector that has high entry barriers and the development of new product types across sectors such as marine, navy and railways sectors etc. KSB's technical strengths are also evident from the orders received from Siemens to supply pumps to be used in locomotives for the Indian Railways, which were earlier being manufactured by its parent company.

ICRA derives comfort from the company's robust financial risk profile, supported by its comfortable credit metrics and strong liquidity in the form of free cash and bank balances and unutilised bank lines.

The ratings also take into account the company's continued strong order inflow of ~Rs. 2,447.0 crore in CY2023, riding on the revival in the capital expansion plans of select end-user industries and the ongoing investment by these industries. Moreover, the company has considerable outstanding orders from the Nuclear Power Corporation of India Limited (NPCIL) for the supply of pumps and motors. ICRA derives comfort from KSB's leadership position in the energy, oil and gas, and nuclear (pumps) sectors in the domestic market.

The ratings underpin the company's plans to diversify into new products in pumping, which coupled with its existing product range and business, are likely to increase the scale of operations. Additionally, KSB's increased focus on after-market services with a better margin profile and a favourable cost structure arising from its backward integration into the casting segment and mechanical seals are also likely to support its healthy margin profile in the near to medium term.

The company's operating income is expected to improve over the near term, led by a healthy current order backlog along with its diversified geographical presence, faster turnaround to customers and constant focus on introducing new products and services with evolving customer requirements. The adoption of various cost optimisation measures, despite the intense competition in the industry, and the increased share of aftersales services in the revenue mix are likely to result in a healthy profitability for the company, thereby ensuring steady accruals.

The absence of external borrowings on the company's books, besides healthy cash accretion and access to advances from customers over the past fiscals, has resulted in a robust capital structure for the company and comfortable credit metrics. Further, the liquidity position of the company is expected to remain healthy, in line with the previous years.

However, the ratings are constrained by the exposure of KSB's revenue to the capex cycle of the end-user industries. The profit margin profile is susceptible to the volatility in raw material prices, with the raw material procurement not being entirely order-backed. Nevertheless, the company's ability to pass on the increase in raw material prices to its customers provides comfort to some extent. However, this pass-through comes with a lag. Despite various measures taken by the company to manage raw material and execution costs through back-to-back contracts with vendors and adequate project scheduling, KSB's operations remain vulnerable to such risks. Further, the company's pricing power is impacted by intense competition from domestic unorganised players in the standard business segment with a higher regional presence and from large, organised players in the engineering segment.

ICRA also notes the company's moderately high working capital intensity on account of the elevated inventory level, given the long lead time involved in manufacturing pumps, particularly engineered pumps, though the advances from customers provide comfort to some extent. Nevertheless, the company's diversified product range, varied end-users, its in-house engineering capabilities with a high level of product efficiency and reliability, technological advancement and ability to expand the product portfolio and a faster turnaround time to customers have allowed it to build a strong pipeline of orders and compete with large players with global presence.

The Stable outlook reflects ICRA's expectation of a continuing healthy operational performance of the company while maintaining a comfortable credit risk profile, benefitting from the current healthy demand trends across segments, its established market position, a diversified product portfolio and client base and technological support from the parent entity.

Key rating drivers and their description

Credit strengths

Established presence in pumps industry - KSB is one of the leading players in the domestic pumps and valves industry with an established track record of over six decades in the industry. The company has an approximate market share of 12-13% and a large network of over 1,100 authorised dealers of pumps and valves with more than 350 authorised service centres, present across the country. Further, exports contribute around13-14% of the company's revenue, thereby ensuring its presence across various overseas geographies too.

Diversified product portfolio and presence in multiple end-user industries - KSB is engaged in the manufacturing of a wide array of products in both standard and engineered segments, valves {including gate global and check valves and ball valves} and spares and accessories to cater to the aftermarket for both pumps as well as valves. The company's engineered pumps cater to a diversified clientele base from multiple sectors, including power (conventional as well as nuclear power), oil and gas and fertiliser among others. In CY2022, the company localised the manufacturing of pumps for locomotives and railways, which were earlier being manufactured by its parent. The company received orders from this segment in CY2023 and good growth is expected in this segment from CY2024-25. KSB has also penetrated the solar power segment as a full system integrator along with a new product range being developed by the company to cater to industries such as life science, defence and marine, thus diversifying its end-user base in engineered pumps.
The customer base for standard pumps is also diversified as this segment caters to the general engineering (sugar, chemicals, textiles, pharmaceuticals and food processing industries), water and wastewater treatment, building construction, agriculture and the domestic household sectors. The company is also focusing on increasing its revenue share from aftermarket services from 9% in CY2023 to 20-25% in the near to medium term with multiple initiatives being taken for the same. The diversified end-user base mitigates the adverse impact of moderation in capex plans in any particular end-user segment.

Technological support from parent, KSB SE & Co. KGaA, Germany - KSB SE & Co. KGaA, Germany, is a leading global company in the pump manufacturing sector. KSB Limited benefits from the transfer of technology developed by its parent, including advanced designs for both standard and engineered pumps, which has aided the company's foray into domestic manufacturing of critical pumps for nuclear power plants and flue gas desulfurisation (FGD) units for power plants, wastewater application, among others. The use of advanced technology by the company also enables it to command a price premium, in return for payment of royalty to the parent.

Healthy order book position provides revenue visibility over the near to medium term - KSB secured orders of nearly Rs 2,447.0 crore in CY2023, translating into a healthy order book of ~Rs. 2,155.0 crore as on December 31, 2023. The robust order backlog provides healthy revenue visibility to the company in the near to medium term, supported by its established presence in the pumps and valves industry, a wide range of product offering and a diversified revenue base. Further, the overall expansion in the capex plans of the end-user industries coupled with Government outlays on capex and emphasis on local sourcing in sectors such as solar, railways, marine, defence among others are likely to support the company's order book expansion. The growing utilisation of different types of pumps across different sectors such as oil and gas, power, wastewater management and general industries, including food and beverages, mining, pulp and paper, etc, is expected to support the company's growth. Additionally, KSB's increased focus on aftermarket services and the diversification of its product offerings will support its future growth over the near to medium term.

Strong financial risk profile characterised by robust capital structure and strong liquidity position - KSB has a robust capital structure with a tangible net worth of Rs. 1,302 crore as on December 31,2023 and nil external debt in its books as on that date. The company's debt metrics remained comfortable with interest coverage ratio of 55.5 times, NCA/TD of 6056% and TOL/TNW of 0.6 times for CY2023. KSB's financial risk profile has remained stable over the past fiscals, supported by a healthy operating performance of the company. Further, the company has a strong liquidity position, supported by healthy cash accrual generation and cash and bank balances of ~Rs. 275 crore (free cash and bank balances of Rs. 175 crore) as on December 31, 2023, coupled with sufficient cushion available in the working capital limits. The coverage and leverage indicators are likely to remain comfortable over the medium term in the absence of any debt-led capex plan and healthy operating profitability expected.

Credit challenges

Moderately high working capital intensity of operations - The working capital intensity of the company remains moderately high at 23.3% in CY2023, though improved from the previous level of 26-27% in CY2018. The moderately high working capital intensity is largely on account of the high inventory levels that are required to be maintained, particularly for the engineered pumps segment, given the long lead time involved in project execution. The receivable period is also high as some part of the payment is held by the customers as retention money, though the company has a dedicated task force to manage the receivables. ICRA expects the inventory to remain high at the absolute level, considering the introduction of new products in the company's portfolio, though the advances from customers and a comfortable credit period from suppliers provides comfort to some extent.

Profitability susceptible to volatility in raw material prices - The primary raw materials used in the manufacturing of pumps include steel plates, aluminum, cast iron and brass. Raw materials form the major cost component for KSB, constituting around 50% of the total manufacturing cost over the past few fiscals. The company's margins remain vulnerable to any adverse fluctuations in commodity prices as the prices of these raw materials are volatile in nature and the raw material procurement is not entirely order-backed. Nevertheless, the company's ability to pass on some portion of the increase in raw material prices to its customers provides comfort, though the actual realisation of the price escalation happens with a lag.

Intense competition in pumps industry and cyclicality of end-user industries - The pump manufacturing sector is highly fragmented and characterised by the presence of organised as well as unorganised players. Notwithstanding the healthy demand for pumps in the various end-user industries, the company faces immense competition from domestic unorganised players in the standard business segment with a higher regional presence. In engineered pumps, the company faces competition from MNC players and other large players in the organised markets. KSB is also exposed to the capex cycle of its underlying consuming sectors which remain vulnerable to the economic environment, though the company takes various in-built mitigation measures to protect itself from such adverse movements.

Environmental and social risks

Environmental considerations - The company is primarily involved in manufacturing pumps and valves with minimal emissions. The company has been taking various measures to minimise the operational impact on the environment and ensure efficient and optimum utilisation of resources with enhanced focus on renewable alternatives. The ESG initiatives by the company are being increased year-on-year and KSB has aggressively pursued its implementation. The company also drives sustainability through manufacturing products like FGD and nuclear pumps which help in generating clean energy and mitigating environmental impact. The company has been taking various steps towards energy conservation, including the installation of roof top solar units across plants. The company has power purchase agreements in place with solar energy producers who are expected to meet 80-90% of its energy needs. Similarly, efforts have been made to reduce the usage of water and coal-based electricity. Further, the company has taken various initiatives for waste and water management, including biogas facility, garden compost systems, rainwater harvesting and zero-liquid discharge, which aid in efficient waste management throughout the supply chain.

There were no pending show cause/legal notices from the Central Pollution Control Board/State Pollution Control Board at the end of CY2023. This indicates that KSB has been able to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance.

Social considerations - KSB's success depends on its competent workforce, which is its most important resource. The company undertakes multiple activities for the well-being, engagement and talent upgradation of the workmen and employees. The company is promoting diversity and inclusion by providing equal opportunities to female candidates. Additionally, the company has taken several initiatives towards gender diversity and has a zero-tolerance policy as far as governance is concerned. Also, KSB has a strong commitment towards community and social welfare. The company has undertaken numerous CSR projects in the areas of skill development and education, providing infrastructure support to schools and colleges, besides reaching out to underprivileged children, the women and the elderly.

Liquidity position: Strong

The company's liquidity profile remains strong with healthy operating cash flows, supported by an improved operating performance and steady cash accrual generation. The liquidity is further supported by cash and bank balances of ~Rs. 275 crore (free cash and bank balances of Rs. 175 crore) as on December 31, 2023 and sufficient cushion available in the working capital limits. Nil debt repayment obligations are expected to further support the company's healthy liquidity position. KSB has moderate capex plans over the medium term, to be funded from internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade KSB's ratings if the company significantly grows its scale and size, continues to diversify its product portfolio and increases its market share in the domestic and export markets. KSB's ability to maintain a robust capital structure, ample liquidity and strong RoCE on a sustained basis will also support an upgrade.

Negative factors – Pressure on KSB's rating could arise if the company's operating margins decline below 9.5% on a sustained basis, or if the order intake is significantly impacted, or its coverage indicators weaken significantly, or if its working capital intensity increases significantly over the current level. A moderation in the liquidity profile and coverage indicators in the event of inorganic growth plans can also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the consolidated financials of KSB Limited. As on December 31, 2023, the company had one subsidiary and one associate company, which are listed in Annexure-II

About the company

KSB, a 40.5% subsidiary of German company, KSB SE & Co. KGaA, is one of the top 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, pharmaceutical and food processing. KSB has seven plants at Pune, Vambori, Chinchwad, Shirwal and Sinnar in Maharashtra, Coimbatore in Tamil Nadu and Meladoor in Kerala. KSB MIL Controls Limited is an associate company (49% ownership of KSB Limited), specialising in the manufacturing of control valves.

Key financial indicators (audited)

KSB Limited (Consolidated)	CY2021 (A)	CY2022 (A)	CY2023 (A)
Operating income	1497.3	1822.0	2247.2
PAT	143.0	174.9	199.3
OPBDIT/OI	14.1%	13.6%	13.1%
PAT/OI	9.5%	9.6%	8.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.6	0.6
Total debt/OPBDIT (times)	0.01	0.01	0.01
Interest coverage (times)	41.7	40.3	55.5

Source: Company, ICRA Research; 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	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
				Jul 09, 2024	Jun 30, 2023	Sep 12, 2022	Jun 15, 2022	Apr 29, 2022	-
1	Fund-based – Cash credit	Long Term	120.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
2	Fund-based – Working capital demand loan	Short Term	190.01	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Non-fund-based – Others	Long Term/ Short Term	1112.06	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-
4	Unallocated limits	Long Term/ Short Term	1077.93	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Fund-based – Working capital demand loan	Simple
Non-fund based - Others	Simple
Unallocated limits	Not Applicable

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	Long term - Fund based- Cash credit	-	-	-	120.00	[ICRA]AA+ (Stable)
NA	Short term - Fund based- Working capital demand loan	-	-	-	190.01	[ICRA]A1+
NA	Long term/Short term- Non-fund-based- Others	-	-	-	1112.06	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Long term/Short term – Unallocated limits	-	-	-	1077.93	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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

Revision

Document dated July 09, 2024 has been revised as detailed below:

Cash and bank balances has been updated on page 3 and page 4.

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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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