

April 29, 2022 ^(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	60.00	90.00	[ICRA] AA+ (Stable); reaffirmed
Short-term - Fund-based	300.00	270.00	[ICRA] A1+; reaffirmed
Long-term/Short-term- Non-fund based	1110.0	1110.0	[ICRA] AA+ (Stable)/[ICRA] A1+; reaffirmed
Long-term/Short-term- Unallocated	1030.00	1030.00	[ICRA] AA+ (Stable)/[ICRA] A1+; reaffirmed
Total	2500.00	2500.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation considers the strong order inflow of Rs. 1,558 crore in CY2021 (Rs. 1,328 crore in CY2020) for KSB Limited (KSB), riding on the revival in demand of select end-user industries such as agriculture, chemical, power, oil and gas, paper, mining and sugar, among others. Further, the order inflow in CY2022 is likely to remain healthy, driven by orders from the end-user industries. ICRA also takes note of the company's established market position, leading to long-term revenue visibility, a conservative capital structure, ample liquidity in the form of free cash and bank balances and unutilised bank lines. The rating considers 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 foray into the domestic manufacturing of pumps for supercritical power plants and flue gas desulfurisation (FGD) units for power plants, besides various other applications. ICRA also takes note of the company's plans to diversify into new product in pumping for application in life science, defense, marine, food/beverages, desalination, locomotives & fire-fighting and hence, the company's ability to scale up in the same remains a monitorable.

ICRA derives comfort from KSB's leadership position in the energy, oil and gas, and nuclear (pumps) sectors in the domestic market and its growing presence in the export market. The standard pumps segment formed ~48% of the company's domestic CY2021 revenues, while the project business contributed ~19% to the company's domestic CY2021 revenues. The ratings are also supported by the company's favourable cost structure arising from its backward integration into the castings segment. The company's operating income is expected to improve over the medium term owing to a healthy current order book along with its diversified geographical presence, faster turnaround to customers and constant focus on introducing new products and services with evolving customer requirements. These factors have resulted in healthy profitability and steady accruals, despite an increase in raw material prices and intense competition. The increased access to advances from customers, besides healthy cash accretion over the years, has resulted in a largely debt-free capital structure and strong coverage indicators. Also, the company's liquidity profile is expected to be strong with moderate capex plans for automation and capacity enhancement, which are expected to be funded from internal accruals.

However, the ratings are constrained by the vulnerability of KSB's revenue to the economic environment and capex cycle in the underlying consuming sectors. Further, the margins are susceptible to raw material price fluctuations as cast iron, stainless steel, MS, wires, hydraulic & pneumatic elements etc. form a majority of the mechanical parts used in the production with the fixed price nature of the contracts. Despite various measures taken by the company to manage raw materials and execution costs through back-to-back contracts with vendors and adequate project scheduling, KSB's operations remain vulnerable to

such risks. Additionally, the pricing power of KSB is impacted by the intensely competitive nature of the industry in both the domestic and the overseas markets. The company faces high competition from domestic players in the standard business segment and from foreign players in the engineered business segment.

The working capital intensity also remains moderately high with elevated inventory levels because of the large lead time involved in the manufacturing of engineered pumps. The inventory position is expected to remain high, going forward, given the introduction of new products by the company in its portfolio. Nevertheless, the company's diversified customer base, geographically diverse presence, varied end users, in-house engineering capabilities with high level of product efficiency and reliability, technological advancement and ability to expand product portfolio and 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 opinion that KSB will continue to benefit from the current healthy demand trends across segments, its long track record of operations, reputed client profile, growing focus on export markets, technological support from parent entity and its conservative financial policy.

Key rating drivers and their description

Credit strengths

Established presence in industry with product diversification – KSB is a leading player in the domestic pumps and valves industry with an approximate market share of ~10.0% and a large network of over ~1,000 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 power), oil and gas, and fertiliser industries, while its standard pump business caters to general engineering (sugar, chemicals, textiles, pharmaceuticals and food processing industries), water and wastewater treatment, building construction and the domestic household sectors. The company also supplies submersible pumps to the agricultural sector. KSB is focused on exports and 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 sector, with an operating income of over €2.2 billion in CY2020. The parent is focused on research and development (R&D) and has been successful in developing technologically advanced designs for both standard and engineered pumps. KSB benefits from this technology transfer, which has aided its foray into the domestic manufacturing of pumps for supercritical power plants and FGD units for power plants. It also enables it to command a slight price premium, in return for royalty to the parent.

Healthy order book provides revenue visibility – KSB has healthy revenue visibility in the near term, led by its established presence in the pumps and valves industry, overall expected industrial demand recovery and a healthy closing order book of Rs. 1,469.5 crore as on December 31, 2021. The recovery in capex plans for end-user industries amid the Covid-19 pandemic ensures that the order book expansion remains strong. Moreover, the management continues to address strong enquiries, underpinning the healthy revenue prospects over the medium term.

Strong financial profile characterised by robust capital structure, healthy coverage indicators and strong liquidity position – The company's capital structure remained robust with nil external debt in its books as on December 31, 2021. The TD/OPBDITA, interest coverage and NCA/TD remained stable at 0.01 times, 41.75 times and 5102%, respectively, in CY2021. The company's liquidity position is supported by sizeable free cash and bank balances of Rs. 240.10 crore as on December 31, 2021. KSB is expected to generate stable cash flows in the coming years with a scale-up in its overall business. Further, with a moderate level of capex, the expected revenue growth along with a healthy profitability is likely to keep the company's reliance on debt low and its capitalisation and coverage metrics are likely to remain comfortable.

Credit challenges

Margins vulnerable to movement in raw material prices and high competitive intensity – The company faces high competition from domestic players in the standard business segment and from MNC players in the engineered business segment. The standard pump business is characterised by its fragmented nature, and KSB faces high competition from domestic and unorganised players. Steel plates, aluminium and brass are the major raw materials for the company, the prices of which are volatile. The company’s margins remain vulnerable to any adverse fluctuations in commodity prices as the raw material procurement is not entirely order-backed. Nevertheless, KSB has been able to pass on some portion of its price movement to its customers but with a lag. Further, engineered products are covered under a price-variation clause, which provides some comfort. It is also exposed to the capex cycle of its end-user industries which remain vulnerable to economic activity.

Moderately high working capital intensity of operations – The company’s working capital intensity remains moderately high at 18.1% in CY2021, though it improved from 26.7% in CY2018. The reduction in working capital is because of moderation in the receivables period with a dedicated task force to manage receivables. However, the inventory levels continue to be elevated because of the large lead time involved in the manufacturing of engineered pumps, apart from the normal inventory requirements. However, ICRA expects the inventory levels to remain high at absolute levels considering introduction of new products by the company in its portfolio.

Liquidity position: Strong

The company’s liquidity profile remains strong with healthy operating cash flows supported by healthy order intake and steady accruals. The company has a limited capex plan of ~Rs. 70.0-80.0 crore in CY2022 to be financed by internal accruals. The liquidity is supported by significant free cash and cash equivalents of Rs. 240.1 crore in as on December 31, 2021 with unutilised fund-based limits of Rs. 360.0 crore as on March 31, 2022. Further, the company remained largely debt-free. Additionally, there are no immediate plans to deploy the available cash surplus with the capex plans remaining modest.

Rating sensitivities

Positive factors – ICRA could upgrade KSB’s rating 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 – Negative 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 its working capital intensity increases significantly over the current levels. Moderation in the liquidity profile and coverage indicators in the event of inorganic growth plans can also result in 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, 2021, the company had one subsidiary and one associate company, which are listed in Annexure-2.

About the company

KSB, a 40.5% subsidiary of the €2.4-billion 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, 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 of KSB Limited) specialising in the manufacturing of control valves.

In CY2021, at a consolidated level, the company reported a net profit of Rs. 143.0 crore on an OI of Rs. 1,497.3 crore against a net profit of Rs. 88.5 crore on an OI of Rs. 1,208.1 crore in the previous year.

Key financial indicators

	CY2020 Audited	CY2021 Audited
Operating Income (Rs. crore)	1208.1	1497.3
PAT (Rs. crore)	88.5	143.0
OPBDIT/OI (%)	14.0%	14.1%
PAT/OI (%)	7.3%	9.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6
Total Debt/OPBDIT (times)	0.4	0.0
Interest Coverage (times)	49.7	41.7

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: KSB Limited, ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 29, 2022	-	Jan 15, 2021	Nov 21, 2019
1	Long-term – Fund-based	Long term	90.0	-	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Short-term – Fund-based	Short term	270.0	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Long-term/Short-term- Non-fund based	Long term/Short term	1110.0	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	-

4	Long-term/Short-term-Unallocated	Long term/Short term	1030.0	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	[ICRA]AA+ (Stable)/ [ICRA] A1+
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Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based- Cash Credit	Simple
Fund based- Working Capital Demand Loan	Simple
Long-term/Short-term- Non-fund based	Simple
Long-term/Short-term- Unallocated	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: 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	NA	NA	NA	90.00	[ICRA] AA+ (Stable)
NA	Short term- Fund based	NA	NA	NA	270.00	[ICRA] A1+
NA	Long-term/Short-term - Non-fund based	NA	NA	NA	1110.0	[ICRA] AA+ (Stable)/[ICRA] A1+
NA	Long-term/Short-term- Unallocated	NA	NA	NA	1030.00	[ICRA] AA+ (Stable)/[ICRA] A1+

Source: KSB Limited, ICRA research

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Pofran Sales and Agency Limited	100.00%	Full Consolidation
KSB MIL Controls Limited	49.0%	Equity Method

Corrigendum

The second point of the rating challenge is removed i.e. *'The inventory position is expected to increase, going forward, given the long lead time for the NPCIL order that will be dispatched only in CY2023-CY2024.'* and the following statement is added, *'However, ICRA expects the inventory levels to remain high at absolute levels considering introduction of new products by the company in its portfolio.'*

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