

## Kirloskar Brothers Limited

December 13, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	25.00	CARE AA; Stable (Double A; Outlook: Stable )	Reaffirmed
<b>Total Bank Facilities</b>	<b>25.00</b> <b>(₹ Twenty-Five Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the bank facilities of Kirloskar Brothers Limited considers the established position of the company as a leading manufacturer of pumps in the domestic market supported by large scale of geographically diversified business operations (through its perceptible subsidiary network), wide-ranging products & service offerings in the global pumps & valve manufacturing business. The financial risk profile of the company remains strong marked by a robust capital structure (for a capital-intensive business), healthy debt coverage and liquidity parameters. The rating further factors, the gradual shift of KBL from project business (low margin business) to product business (relatively higher margins), thereby improving its profitability margins on a standalone basis. The company has been reinvesting internal accruals for improving the product quality and to reduce dependency on external vendors by building in-house capabilities. Additionally, the company has been taking steps to reduce the foreign currency fluctuation risk by borrowing in local currency (especially for Thailand and SA subsidiaries).

The above rating strengths are however tempered by inherent cyclicity associated with the end user industries, exposure to fluctuation in raw material prices and the company's ability to achieve growth as well as improve upon its profitability margins through further diversification of its product profile amid intense competition from the unorganized sector remains to be seen. Additionally, operational turnaround plans in the domestic and foreign subsidiaries remains the key monitorable.

### Rating Sensitivities

#### Positive Factors- Factors could lead to positive rating action/upgrade

- Improvement in Total Operating Income (TOI) and PBILDT margin above 9%.
- Sustenance of financial risk profile with overall gearing at less than 0.50x with prudent utilisation of working capital borrowings and no major debt funded capex
- Recovering retention receivables leading to lower utilisation of working capital bank lines

#### Negative Factors- Factors could lead to negative rating action/downgrade

- Significant decline in TOI and PBILDT margin below 6% on a sustained basis.
- Overall gearing deteriorating to beyond 0.75x, going forward with debt funded capex or increased working capital utilisation.
- Slow moving retention receivables from project business necessitating higher utilisation of working capital borrowings to fund operations
- Net debt/PBILDT of more than 1x on a sustained basis

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Market leader in pumps manufacturing with diversified end user industries

KBL incorporated in 1920, is one of the largest centrifugal pump manufacturers in India, with a leading share in the domestic market. The company product offerings include 75+ types of pumps, 28+ types of valves, low tension induction motors, pumps upto 22 MW and project business catering to a diversified clientele base from multiple sectors, including agriculture, oil and gas, defence, industrial, and building and construction, including the smallest to some of the largest and complex pumping solutions in the world. KBL along with its subsidiaries here in referred to as KBL Group has presence in 80+ countries with 6 manufacturing units in India and 5 abroad. About 25-30% of its revenue comes from international subsidiaries.

KBL, the flagship company of Pune based Sanjay Kirloskar Group is a 133-year-old company founded by Mr. Laxmanrao Kirloskar. Mr Sanjay Kirloskar is the chairman and managing director the company. The Board of Directors comprises of professionals from diversified background and experience. As on Sep 30, 2022, the Board of Directors consists of 12 members with 8 non-executive-non independent directors.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Strategic shift from low-margin projects business to relatively higher margin product business

KBL on standalone basis has reduced its exposure towards project business over the period, due to low margins and stretch in the working capital cycle. The company continues to focus on product business and value-added products improving profitability margins.

#### Product mix

	FY10	FY21	FY22
Made to stock	20%	50%	51%
Made to order	12%	26%	24%
Engineered to order (part of project business)	15%	16%	18%
Projects (part of project business)	54%	8%	7%
	100	100	100

Only KBL (Standalone) has presence in project business, no international subsidiaries are present in projects business. On a consolidated level, KBL has Rs.2,848 crore of outstanding orders as on Sep 30, 2022 with major orders from irrigation and water resource management, followed by power and others.

#### Comfortable financial risk profile

Overall gearing has inched up slightly to 0.34x as on March 31, 2022 compared to 0.30x as on March 31, 2021. While, Interest coverage ratio improved to 6.16 times in FY22. The additional term loan taken in FY22 of Rs. 55 crore has been utilized for capex. Over the period, money held as retention has reduced from Rs.361 crore in FY17 to Rs.161 crore in FY22. Going forward, with repayment of term debt, no major debt funded capex or acquisition and moderate utilisation of working capital limits, overall financial risk profile is expected to improve.

#### Key Rating Weaknesses

##### Exposed to volatility in raw material prices

The primary raw materials used for the manufacturing of pumps include pig iron, gun metal and scrap steel. The prices of these materials are inherently volatile and are driven largely by global as well as local demand-and-supply conditions. KBL procures pig iron castings from the market; motors for the pump are developed by Karad Projects and Motors Limited, a subsidiary of KBL.

##### Intense competition within the pump manufacturing industry

Domestic demand for pump manufacturing continues to remain strong, owing to the increasing demand from the agricultural and the building services sector. According to the Indian Pumps Manufacturers Association (IPMA), agricultural sector accounts for a share of around 27% of the total pumps demand in the domestic market, followed by the building services (19%), and the water/wastewater management sector (17%). The pump manufacturing sector has mix presence of organised as well as unorganized players, catering to the different needs of the end-user industry. While we see immense competition in the agriculture and allied sector from the small and medium unorganized players having a larger regional presence, the competition narrows down as we move towards the industrial and other sectors. Other sectors with different fluid management requirements like the power and oil and gas sectors, certain other industrial pumps etc. are catered by a few large players in the organized markets. As we move up in the niche/critical pumps requirements, the competition from the unorganized sector is negated, where only a few domestic/international players have their presence. According to the IPMA, there are around 800 pumps manufacturers in the domestic market. Around 10-15% of the total capacity of Indian pumps manufacturers is towards catering to the exports markets.

Companies with engineering expertise, long track record of manufacturing and offering after sale services are preferred. However, margins are under pressure for organised players like KBL due to stiff competition and low-cost products offered by unorganised players.

##### Liquidity analysis – Strong

Cash and cash equivalent stood at Rs.145 crore as on September 30, 2022 (vs Rs.164 cr as on March 31, 2022). Additionally, Rs. 135.1 crore has been parked in mutual funds as of Sep-22, bringing the total liquid investments close to Rs. 280 crores. On the other hand, estimated GCA of Rs.192 crore in FY23 is sufficient to meet term loan repayment of ~Rs. 38 crore and capex of around Rs. 65 crores (being planned for setting up high pressure moulding line at Dewas). As per management, about 60-70% of this capex will be done via internal accruals. The company maintains sufficient liquid funds as cash and mutual fund investments to meet any contingencies. Utilisation of the fund-based limit has been low providing sufficient cushion to meet shortfall if any.

### Analytical approach:

CARE has taken a view on consolidated financials of KBL. KBL and its subsidiaries are under a common management and have significant operational and financial linkages.

### Subsidiaries & Associates of KBL:

Name of the company	Acronym	Country	% Shareholding of KBL (As on Mar 31, 2022)
Karad Projects and Motors Limited	KPML	India	100
The Kolhapur Steel Limited	TKSL	India	99.78
Kirloskar Corrocoat Private Limited	KCPL	India	65
Kirloskar Brothers International B V#	KBIBV	The Netherlands	100
Kirloskar Ebara Pump Limited	KEPL	India	45
Kirloskar Synerge LLP*	-	India	50

\*KBL Synerge LLP is a limited liability partnership formed in 2017 for a short-term project, currently the firm is not operative.

### #Companies held by Kirloskar Brothers International BV

Name of the company	Country	% Shareholding of KBL (As on Mar 31, 2022)
SPP Pumps Limited	UK	100
Kirloskar Brothers (Thailand) Limited	Thailand	100
SPP Pumps (MENA) L.L.C.	Egypt	100
Kirloskar Pompen B.V	The Netherland	100
Micawber 784 Proprietary Limited	South Africa	100
SPP Pumps International Pty Limited	South Africa	100
SPP France S A S	France	100
SPP Pumps Inc	USA	100
SPP Pumps South Africa Proprietary Limited	South Africa	100
Braybar Pumps Limited	South Africa	100
Rodelta Pumps International BV	The Netherland	100
Rotaserve B.V.	The Netherland	100
SPP Pumps Real Estate LLC	USA	100
SyncroFlo Inc	USA	100
SPP Pumps (Asia) Ltd	Thailand	100
SPP Pumps (Singapore) Ltd	Singapore	100
Rotaserve Limited	UK	100
Rotaserve Mozambique	South Africa	100

### Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

### About the Company

Kirloskar Brothers Ltd. (KBL) is a part of the Pune based Sanjay Kirloskar Group, which is one of India's largest manufacturer and exporter of pumps while also having interest in engineering and manufacture of systems for fluid management. The company incorporated in 1920, provides management solutions for large infrastructure projects in areas such as water supply, irrigation, oil & gas, marine & defence. The company has its registered office located in Maharashtra and 6 manufacturing units in India and 5 units globally.

Kirloskar Group is an Indian conglomerate, headquartered in the city of Pune, India. The Kirloskar group of companies was one of the earliest industrial groups in the engineering industry in India. The group produces centrifugal pumps, engines,

compressors, screws & centrifugal chillers, lathes and electrical equipment like electric motors, transformers and generators. The company exports to over 80 countries over most of Africa, Southeast Asia and Europe. The flagship and holding company, Kirloskar Brothers Ltd established in 1888, is India's largest maker of pumps and valves.

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	2732.49	3057.63	1,658.2
PBILDT	259.47	206.11	114.7
PAT	160.75	94.38	46.2
Overall gearing (times)	0.30	0.34	0.25
Interest coverage (times)	5.88	6.16	7.49

A: Audited; UA: UnAudited

Note: Financials prepared as per CARE Standards

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

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Jan-26	25.00	CARE AA; Stable

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	25.00	CARE AA; Stable	1)CARE AA; Stable (15-Apr-22)	-	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-** Not applicable

#### Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

#### Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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#### About us:

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