Kirloskar Brothers Limited (Revised)

April 15, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total Bank Facilities	**25.00 (Rs. Twenty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kirloskar Brothers Limited consider the established position of the company as a leading manufacturer of pumps in the domestic market, supported by the large scale of geographically diversified business operations (through its perceptible subsidiary network) and wide-ranging products and service offerings in the global pumps and valve manufacturing business. The financial risk profile of the company remains strong, marked by a robust capital structure, healthy debt coverage, and liquidity parameters. The ratings further factor the gradual shift undertaken by KBL, from the project business to the product business, thereby improving its profitability margins on a standalone basis. However, past losses in subsidiaries have dragged the overall profitability margins lower, although the performance of the subsidiaries has now been showing an improving trend since FY20, with a change in product mix and cost-rationalisation measures undertaken by the company.

The above ratings strengths are, however, tempered by the inherent cyclicality associated with the end-user industries, the 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 the intense competition from the unorganised sector.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade

- Improvement in the total operating income (TOI) and PBILDT margins above 9%.
- Sustenance of the 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 that could lead to negative rating action/downgrade

- Significant decline in the TOI and PBILDT margins 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 the 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's product offerings include more than 75 types of pumps, more than 28 types of valves, low tension induction motors, pumps up to 22 MW, and project capabilities, 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, herein referred to as the KBL group, has a presence in over 80 countries, with six manufacturing units in India and five abroad. About 25-30% of its revenue comes from international subsidiaries.

KBL, the flagship company of the 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 professionals from diversified backgrounds and experiences. As on December 31, 2021, the Board of Directors consists of eleven members with seven non-executive-independent directors.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Improved overseas subsidiary performance – Losses in overseas subsidiaries have improved in FY20 and FY21, improving the profit at a consolidated level
KBL, on a standalone basis, has reduced its exposure towards its project business over the period. The share of project revenue to total revenue has come down to 24% in FY21, as compared with 30% in FY17 and more than 50% in FY10. The company continues to focus on the product business and value-added products, improving profitability margins. The international subsidiaries performances improved in FY20 and FY21, with cost control measures and focus on value-added products.

Product mix

	FY10	FY15	FY17	FY21
Made-to-stock	20%	43%	47%	50%
Made-to-order	12%	28%	24%	26%
Engineered to order (part of project)	15%	14%	17%	16%
Projects (part of project)	54%	15%	13%	8%
	100	100	100	100

Only KBL (standalone) has a presence in the project business, no international subsidiaries are present in projects. On a consolidated level, KBL has Rs.2,346 crore of outstanding orders, as on December 31, 2021, with major orders from irrigation and water resource management, followed by power and others.

Comfortable financial risk profile
The financial risk profile of the company has improved, with overall gearing at 0.30x as on March 31, 2021, as compared with 0.68x as on March 31, 2020. The interest coverage ratio improved to 6.21x in FY21. The debt service coverage is moderate due to the appropriation of cash accruals towards capex and the large repayment of overseas subsidiary (KBIBV) in FY23. Over the period, the money held as retention has reduced from Rs.361 crore in FY17 to Rs.187 crore in FY21. Going forward, with repayment of the term debt, no major debt-funded capex or acquisition, and moderate utilisation of working capital limits, the overall gearing 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 steel, copper, and motors. 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. KBL is now planning to manufacture castings used in small pumps in one of their group concerns, this is expected to reduce outside dependency and result in cost savings. However, the profitability margins continue to remain susceptible to raw material price volatility.

Intense competition within the pump manufacturing industry
The domestic demand for pump manufacturing continues to remain strong, owing to the increasing demand from the agricultural and building services sectors. According to the Indian Pumps Manufacturers Association (IPMA), the 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 a mixed presence of organised as well as unorganised players, catering to the different needs of the end-user industry. While immense competition is seen in the agriculture and allied sectors from the small and medium unorganised players having a larger regional presence, the competition narrows down moving 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 to by a few large players in the organised markets. Moving up in the niche/critical pumps requirements, the competition from the unorganised 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 pump manufacturers is catering to the exports markets.
Companies with engineering expertise, a long track record of manufacturing, and those offering after-sale services are preferred. However, the margins are under pressure for organised players like KBL due to the stiff competition and low-cost products offered by the unorganised players.

Outlook for pumps market
The Indian pumps market is expected to grow at a CAGR of 7% during the period 2021-2026. The demand for pumps is expected to grow with the increased application in several end-user sectors. Agriculture and infrastructure projects account for the major application. Industrial pumps are witnessing a high demand from cement, oil and gas, water and waste-water sectors.

Liquidity analysis: Strong
Cash and cash equivalent stood at Rs.284 crore, as on September 30, 2021 (Rs.307 as on March 31, 2021), including bank deposits and mutual fund investments. Gross cash accruals (GCA) of Rs.168 crore in FY22 is sufficient to meet the loan repayments of Rs.51 crore and capex of Rs.45 crore. The capex for FY22 is Rs.100 crore, funded through a term loan of Rs.55 crore and the balance Rs.45 crore from accruals. KBL has a loan repayment of Rs.78 crore and a capex of Rs.100 crore, to be met from cash accruals of Rs.228 crore in FY23. The company maintains sufficient liquid funds as cash and mutual fund investments to meet any contingencies. The utilisation of the fund-based limit is low, at 25% for the 12-month period ended February 28, 2022, providing sufficient cushion to meet shortfalls, 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. The company has a Joint venture company Kirloskar Ebara Pumps Limited (KEPL, 45% stake held by KBL as on December 31, 2021), being a JV, share of profit/loss in KEPL is taken in consolidated financials of KBL, to the extent of shareholding i.e., 45%, Debt and interest of KEPL has been factored for analytical purpose.

Applicable Criteria
[Policy on default recognition]
[Consolidation]
[Factoring Linkages Parent Sub JV Group]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[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 manufacturers and exporters of pumps, while also having interests in engineering and manufacturing 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 and gas, marine and defence. The company has its registered office located in Maharashtra, and six manufacturing units in India and five units globally.
The Kirloskar group is an Indian conglomerate, headquartered in the city of Pune. 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 and 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)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	3151.04	2747.34	2103.20
PBILDT	222.79	274.34	104.60
PAT	71.89	160.75	39.70
Overall gearing (times)	0.68	0.30	-
Interest coverage (times)	4.28	6.21	4.12

A: Audited; UA: Un-Audited
Note: The financials are adjusted as per CARE Standards.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Oct-2025	25.00	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & 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 covenants of the rated instrument/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 instrument: CARE Ratings Ltd. 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 for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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