Kirloskar Brothers Limited

February 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/short-term bank facilities	25.00	CARE AA; Stable/CARE A1+	Assigned
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.
Note: Withdrawal of term loan has been done basis no due certificate.

Rationale and key rating drivers

Ratings assigned to bank facilities of Kirloskar Brothers Limited (KBL) consider the company's strong market position in the domestic pump manufacturing industry and its geographically well-diversified business operations through subsidiaries. With wide-ranging products and global presence (owing to multi-decade experience), the company has built a strong brand reputation in both, domestic and global markets. The external dependency on vendors is relatively low and operational integration is strong, given the manufacturing of steel castings, motors, and anti-corrosive materials, used in manufacturing pumps, are mainly done in-house via subsidiaries or joint ventures (JVs).

Total operating income (TOI) increased strongly by 22.0% y-o-y in FY23 (FY refers to April 01 to March 31), after growing by 11.6% in FY22. While the profit before interest, depreciation, lease, and tax (PBILDT) margin has remained in the range of about 6-7% in the last five fiscals, it improved to a healthy 10.7% in FY23. Profitability has improved due to positive profits in international business, softening of raw materials prices, and increasing focus on product business. In the past few fiscals, KBL has reduced exposure to the projects business, which has historically yielded relatively lower margins. Overseas subsidiary, Kirloskar Brothers International B.V. (KBIBV), which contributed about one-third of the FY23 revenue, reported losses in FY22 and historically in FY19 and FY20. Working on cost-control measures in KBIBV, the profit-before-tax (PBT) reached ₹66.8 crore in FY23, continuing a positive momentum at ₹81.8 crore in 9MFY24 as well. On a consolidated basis, overall margins have continued in the double-digit band in 9MFY24 too.

Ratings also derive comfort from the medium-term revenue visibility from new orders received of ₹3,338 crore in 9MFY24 and outstanding orders of ₹3,111 crore as on December 31, 2023, on consolidated basis. In the domestic business, most orders (about 40-50%) are from irrigation and water resource management sectors, while about 20-25% are from the power sector for KBL.

The company's financial risk profile is excellent, marked by a robust capital structure (for a capital-intensive business), healthy debt coverage indicators, and strong liquidity position. Overall gearing was at 0.14x as on September 30, 2023, and 0.21x as on March 31, 2023, while total debt (TD)/PBILDT was at 0.71x and interest coverage ratio (ICR) at 11.3x for FY23. Coverage ratios have particularly improved with improving profitability and repaying of standalone term loans. In H1FY24, the company has fully repaid standalone term loan outstandings of ₹82.47 crore as on March 31, 2023. The company remains net debt-free and has cash and liquid investments of about ₹361 crore as on September 30, 2023. It has been reinvesting internal accruals for improving the product portfolio and adapting with changing technologies and consumer demands.

Historically, the working capital cycle was adversely affected due to delays in projects, and resultantly, most retention receivables from old legacy projects have been slow-moving, with outstanding in certain projects beyond four years. Hence, CARE Ratings Limited (CARE Ratings) has considered such retention as doubtful in its analysis and adjusted the net worth accordingly. KBL has

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

recently not undertaken many new projects and is focusing primarily on supplying pumps to engineering, procurement, and construction (EPC) and infrastructure players, rather than directly bidding for projects, thereby limiting retention receivables to existing levels only. This has significantly helped in improving the company's working capital cycle.

However, the above strengths are tempered by inherent cyclicality associated with end-user industries, exposure to fluctuating raw material prices, and the company's ability to achieve growth and profitability margins by further diversifying its product profile amid intense competition from the unorganized sector. Additionally, operational turnaround plans in domestic and foreign subsidiaries remain a key monitorable, particularly loss-making subsidiaries like The Kolhapur Steel Limited (TKSL) and Rodelta Pumps International BV (having operations in Russia), part of KBIBV.

Rating sensitivities

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

- PBILDT margin sustaining above 12% while improving revenue.
- Financial risk profile sustaining, with TD/gross cash accruals (GCA) less than 1.0x.
- Retention receivables substantially recovering, leading to lower utilisation of working capital bank lines.

Negative factors – Factors could lead to negative rating action/downgrade

- TOI and PBILDT margin significantly declining below 9%.
- Overall gearing declining to beyond 0.75x due to large-debt funded capex or increasing working capital utilisation.
- Slow-moving retention receivables from project business necessitating higher utilisation of working capital borrowings for funding operations.
- Net debt/PBILDT of more than 1x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has considered a consolidated view on KBL's financials. KBL and its subsidiaries are under a common management and have significant operational and financial linkages. The company has a JV company, Kirloskar Ebara Pumps Limited (KEPL; 45% stake held by KBL as on September 30, 2023), share of profit and loss of which is considered in the consolidated financials of KBL. The list of entities consolidated is given in Annexure-6.

Outlook: Stable

CARE Ratings expects KBL's outlook to be stable, given diversified revenue streams and medium-term revenue visibility in the domestic business from the strong standalone order book of ₹1,943 crore as on December 31, 2023. The company's financial profile is strong as term debt repayments can be comfortably met through internal accruals.

Detailed description of the key rating drivers

Key strengths

Established market position in pump manufacturing with diversified end-user industries

Incorporated in 1920, KBL is one of the largest centrifugal pump manufacturers in India with a leading share in the domestic market. Product offerings include more than 75 types of pumps, more than 28 types of valves, low tension induction motors, pumps up to 22 MW. The project business caters to a diversified clientele base from multiple sectors, including agriculture, oil and gas, defence, industrial, and building and construction. Solutions include the smallest to some of the largest and complex pumping solutions in the world. KBL, with its subsidiaries (referred to as KBL group), has presence in more than 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 Laxmanrao Kirloskar. Sanjay Kirloskar is the Chairman and Managing Director. The Board of Directors comprises professionals from diversified background and experience. As on September 30, 2023, the Board consists of 80% majority non-executive and non-independent directors, indicating board independence.

Strategic shift from low-margin project business to relatively higher-margin product business

Over time, on standalone basis, KBL has reduced its exposure towards project business due to low margins and stretch in the working capital cycle. The company is continuously focusing on the product business and value-added products, improving its profitability margins.

Product mix:

	FY10	FY22	FY23
Made-to-stock	20%	51%	50%
Made-to-order	12%	24%	28%
Engineered-to-order (part of project business)	15%	18%	18%
Projects (part of project business)	54%	7%	4%
Total	**100**	**100**	**100**

KBL (standalone) alone has presence in the project business, with no international subsidiaries in this business. KBL has a standalone ₹1,943 crore of outstanding orders as on December 30, 2023, with most orders from irrigation and water resource management, followed by power and others.

Comfortable financial risk profile

KBL's financial risk is excellent, having low leverage and strong debt coverage ratios. Overall gearing stood at 0.14x as on September 30, 2023, and 0.21x as on March 31, 2023, while TD/PBILDT stood at 0.71x and ICR at 11.3x in FY23. In H1FY24, the company has repaid standalone term loan outstandings of ₹82.47 crore as on March 31, 2023. However, the foreign currency debt taken in KBIBV is still pending, resulting in overall gearing of 0.14x as on September 30, 2023.

Key weaknesses

Exposure to volatile raw material prices

The primary raw materials used for manufacturing pumps include pig-iron, gun metal, and steel scrap. The prices of these materials are inherently volatile and are driven largely by global and domestic demand-supply conditions. KBL procures pig-iron castings primarily from the open market, although a few are manufactured in its subsidiary, TKSL. Motors for pumps are developed by Karad Projects and Motors Limited, a subsidiary of KBL.

Intense competition within the pump manufacturing industry

Domestic demand for pump manufacturing remains 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 about 27% share of the total pumps demand in the domestic market, followed by building services (19%), and water/wastewater management (17%). The pump manufacturing sector comprises a mix of organised and unorganised players catering to different needs of the end-user industry. While CARE Ratings views immense competition in the agriculture and allied sectors from small and medium unorganised players having a larger regional presence, the competition narrows down as we move towards industrial and other sectors. Sectors with different fluid management requirements such as power and oil and gas sectors and certain other industrial pumps, among others, are catered to by a few large players in organised markets. As we move up in niche or critical pump requirements, competition from the unorganised sector is negated, where only a few domestic and international players have presence. About 10-15% of the total capacity of Indian pump manufacturers are towards catering to export 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 such as KBL due to stiff competition and low-cost products offered by unorganised players.

Liquidity: Strong

Cash and liquid investments stood at ₹361 crore as on September 30, 2023, and ₹454 crore as on March 31, 2023. On the other hand, standalone term loan outstanding of ₹82.47 crore as on March 31, 2023, has been fully repaid in H1FY24. The estimated GCA of more than ₹300 crore in FY24 is sufficient to meet term loan repayments for foreign subsidiary debt, capex requirements, and funding support for loss-making subsidiaries (such as TKSL and Rodelta). This apart, utilisation of the fund-based limit has been low, providing sufficient cushion to meet shortfall, if any.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

	Risk Factors
Environmental	**Greenhouse gas (GHG) emissions: High** Scope 1 and Scope 2 GHG at 25,390 metric tonne (MT) in FY23. Hazardous waste of 73.67 MT has been generated. **Energy conservation: Adequate** Energy intensity (total energy per Rupee of turnover) has reduced from 8.0 xx (GJ) per sale in million to 6.6 GJ per sale in million. Addition of 100 kW rooftop solar panels at KPML plant may aid in transitioning towards renewable energy. **Wastage reduction** 46% of the water consumed is recycled. 10% of the recycled metal is used at KBL while 45% of the recycled metal is used at one of the subsidiaries, TKSL.
Social	**Gender diversity: Strong** The company has an all-women plant in Coimbatore (Kaniyur). **Safety and training: Adequate** No work-related fatalities. Accident frequency rate has been 0.308 for FY23 with two reported accidents. Average 3.32 manhours of trainings conducted.
Governance	**Board independence: Majority** As on March 31, 2023, 70% of the board members comprise independent directors.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Compressors, pumps and diesel engines

KBL is part of the Pune-based Sanjay Kirloskar Group, one of India's largest manufacturers and exporters of pumps. It also has interests in engineering and manufacturing systems for fluid management. Incorporated in 1920, the company provides management solutions for large infrastructure projects in areas such as water supply, irrigation, oil and gas, marine and defence. Its registered office is in Maharashtra, with six manufacturing units in India and five units globally.

The Kirloskar group is an Indian conglomerate, headquartered in Pune. The Kirloskar group of companies was among 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 such as electric motors, transformers, and generators. The company exports to more than 80 countries over most of Africa, Southeast Asia, and Europe. The flagship and holding company, KBL, established in 1888, is India's largest manufacturer of pumps and valves.

Brief Consolidated Financials (₹ crore)	FY2022 (A)	FY2023 (A)	9M FY2024 (UA)
Total operating income	3057.63	3730.22	2777.4
PBILDT	206.11	400.36	335
PAT	94.38	235.77	196.8
Overall gearing (times)	0.34	0.21	-
Adjusted overall gearing (times)	0.46	0.27	-
Interest coverage (times)	6.16	11.31	18.4

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.
*CARE Ratings has removed retention receivables older than one year from the net worth to arrive at the adjusted net worth, as the retention receivable is slow-moving. Additionally, 20% of customer advances have been assumed to be backed by financial guarantee and have been loaded on the debt for analysis purpose.

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.00	CARE AA; Stable/CARE A1+

Note: Term loan has been prepaid and withdrawn basis no due certificate.

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 2023-2024	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
1	Fund-based - LT-Term loan	LT	-	-	-	1)CARE AA; Stable (13-Dec-22) 2)CARE AA; Stable (15-Apr-22)	-	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	25.00	CARE AA; Stable / CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Below entities are fully consolidated.

Subsidiaries and associates of KBL

Name of Company	Abbreviated	Country	Percentage Shareholding of KBL
Karad Projects and Motors Limited	KPML	India	100
The Kolhapur Steel Limited	TKSL	India	99.74
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 (associate of KBL) 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 Company	Country	Percentage Shareholding of KBL
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

Note on the 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 for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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