Kirloskar Brothers Limited

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short Term Bank Facilities	25.00	CARE AA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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, the company has built a strong brand reputation in domestic and global markets. 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 through subsidiaries or joint ventures (JVs). The company's total operating income (TOI) has increased at compounded annual growth rate (CAGR) of ~15% in FY22-FY24 period (FY refers to April 01 to March 31), while profit before interest, lease, depreciation, and tax (PBILDT) has witnessed a CAGR growth of 60%. Margins in the last two fiscals improved from~11% in FY23 and ~13% in FY24 compared to hovering ~6-7% in the last five fiscals. Significant improvement in profitability is considering the international business recording profitability compared to losses in the past, softening of raw materials prices, and increasing focus on product business. Overseas subsidiary, Kirloskar Brothers International B.V. (KBIBV), which contributed about one-third of the FY24's revenue, had been recording losses in the past few fiscals, however with cost control measures, the profit-before-tax (PBT) reached ₹66.8 crore in FY23 and further improved to ₹104.8 crore in FY24. KBL has reduced its exposure to projects business, which has historically yielded relatively lower margins. On a consolidated basis, overall margins have continued in the double-digit band in H1FY25.

Ratings further derive comfort from medium-term revenue visibility, considering new orders received of ₹2,387 crore in H1FY25 and outstanding orders of ₹3,057 crore as on September 30, 2024.Majority orders (~46%) are from irrigation and water resource management sector, while ~27% orders are from power sector for KBL.

KBL's financial risk remains healthy having low leverage and strong debt coverage ratios. Overall gearing stood 0.11x as on March 31, 2024, while total debt/PBILDT was ~0.37x, and interest coverage ratio of 20.34x. Cash and liquid investments stood at ₹346.7 crore as on September 30, 2024, and ₹298.66 crore as on March 31, 2024. On the other hand, at a standalone level, the company has no term loan outstanding. It has been reinvesting internal accruals to improve its product portfolio and adapting to changing technologies and consumer demands.

Owing to significant level of retention receivables, the company is majorly focusing on the product business and has taken very few new projects recently, excluding where the company has high surety on receivables front. Earlier the company had issues related to project execution which has resulted in retention. Majority of this retention has been aged for more than 4 years; hence we have considered it doubtful and adjusted the net worth accordingly.

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 unorganised 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 Netherlands), part of KBIBV.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- PBILDT margin sustaining above 12% while improving revenue.
- Sustenance of financial risk profile with adjusted overall gearing at less than 0.30x and total outside liability to total net worth (TOL/TNW) below 1.00x.
- Retention receivables substantially recovering, leading to lower utilisation of working capital bank lines.

Negative factors

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

- Significant decline in TOI and PBILDT margin below 9% on a sustained basis
- Unforeseen debt funded capex/acquisition or increasing working capital requirements impacting the capital structure with overall gearing above 0.50x and net debt/PBILDT of more than 1.00x on a sustained basis.
- Slow-moving retention receivables from project business necessitating higher utilisation of working capital borrowings for funding operations.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken a consolidated view on KBL's financials. KBL and its subsidiaries are under a common management and have significant operational and financial linkages. 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 ₹1,877 crore as on September 30, 2024. The company's financial profile is strong as term debt repayments can be comfortably met through internal accruals.

Detailed description of 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 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	FY24
Made-to-stock	20%	51%	50%	50%
Made-to-order	12%	24%	28%	27%
Engineered-to-order (part of project business)	15%	18%	18%	20%
Projects (part of project business)	54%	7%	4%	3%
Total	**100**	**100**	**100**	**100**

KBL (standalone) alone has presence in the project business, with no international subsidiaries in this business. KBL has a standalone ₹1,877 crore of outstanding orders as on September 30, 2024, 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 0.08x as on September 30, 2024, and 0.11x as on March 31, 2024, while TD/PBILDT stood at 0.37x and ICR at 20.34x in FY24. In H1FY25, the company on standalone level has no term loan outstanding. However, the foreign currency debt taken in KBIBV is still pending, resulting in overall gearing of 0.08x as on September 30, 2024.

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 step-down 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 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 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. ~10-15% of the total capacity of Indian pump manufacturers are towards catering 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 ₹346.7 crore as on September 30, 2024, and ₹298.66 crore as on March 31, 2024. The estimated gross cash accrual (GCA) of over ₹400 crore in FY25 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). Utilisation of the fund-based limit has been low, providing sufficient cushion to meet shortfall

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 26,729 metric tonne (MT) in FY24. Hazardous waste of 98.60 MT has been generated. **Energy conservation: Adequate** Energy Conservation (ENCON) Assessment for energy saving competition within KBL group of companies. Through this initiative, the company has saved ~1000 GWh till date. **Wastage reduction** 46% water consumed is recycled. 10% recycled metal is used at KBL while 45% 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** Sustain zero reportable accident year on year.
Governance	**Board independence: Majority** As on March 31, 2024, 70% board members comprise independent directors.

Applicable criteria

Definition of Default
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 over 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)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	3730.22	4006.66	2066.7
PBILDT	400.36	525.26	283.40
PAT	235.77	349.68	162.33
Overall gearing (times)	0.21	0.11	0.08
Adj. Overall gearing (times)*	0.27	0.16	-
Interest coverage (times)	11.31	20.34	24.86

A: Audited UA: Unaudited; Note: these are latest available financial results

*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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (20-Feb-24)	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+	-	1)CARE AA; Stable / CARE A1+ (20-Feb-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Karad Projects and Motors Limited	Full	Subsidiary
2	The Kolhapur Steel Limited^	Full	Subsidiary till August 01, 2024. Step Down Subsidiary (As on December 31, 2024)
3	Kirloskar Corrocoat Private Limited	Full	Subsidiary
4	Kirloskar Brothers International B V (Consol.)	Full	Subsidiary
5.	Kirloskar Ebara Pumps Ltd	Partial	Joint Venture

^On August 02, 2024, KBL has announced the sale of its entire stake in The Kolhapur Steel Limited (TKSL), a non-material wholly owned subsidiary, to Karad Projects and Motors Limited (KPML), a material wholly owned subsidiary, for a consideration of ₹10.76 crore.

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: ranjan.sharma@careedge.in Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Hitesh Avachat Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3510 E-mail: hitesh.avachat@careedge.in

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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