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India | Equity Research | Company Update

KSB Ltd

Capital Goods

Delivering on its promises

We hosted an institutional investors meet for KSB Limited (KSB) on 5th March, 2024. Takeaways: Order inflow continues to grow at a healthy rate (+13% YoY in CY23) to INR 20bn (ex-nuclear orders) led by strong demand for standard products (+18% YoY), valves (+31% YoY) and aftermarket services (+21% YoY). KSB's order book, as of Dec'23, stands at INR 20bn (+13% YoY). Management believes that the order inflow outlook remains strong for CY24 with a positive outlook for standard products. Owing to technology transfer from BP&CL, it has received its first order for reciprocating pumps; while domestically, the market for it remains limited, globally demand remains strong. KSB is also in talks with Siemens India for a long-term supply agreement of 10 years to supply over 2,000-3,000 pumps for rail locomotives.

Order inflows remain strong; order book up 13% to INR 11.8bn

Order inflow for CY23 is up 13% YoY to INR 20bn (vs. INR 17.7bn YoY) led by 31% YoY growth in valves to INR 3.6bn, 21% YoY growth in supramerise (aftersales) to INR 3bn, 18% YoY growth in standard products to INR 9bn. Major order wins in Q4CY23 are flue gas desulfurisation (FGD), firefighting pump-sets, solar pumps, etc. Management believes OI outlook for standard pumps to remain healthy over the next 1-2 years. Order book, as on Dec'23, stand at INR 11.8bn (up 13% YoY) and incl. nuclear is estimated at INR 21bn.

First-ever reciprocating pumps order

KSB has received its first-ever reciprocating pumps order in Q4CY23 from the oil and gas (O&G) segment. Reciprocating pumps are largely required in O&G and nuclear segments. Although the market for these pumps is small domestically, globally the market remains large. It received these order owing to the technology transfer from Bharat Pumps and Compressors Ltd (acquired in 2023). It is also in the process of developing a reciprocating pump portfolio for nuclear applications.

Long-term contract for supply with Siemens on cards

KSB is in talks with Siemens India for a long-term supply of pumps for its 1,200 locomotives order. It expects to supply over 2,000-3,000 pumps for the same over the next 10 years. The contract is still under negotiations and management expects it to conclude in CY24.

Financial Summary

Y/E December (INR mn)	CY20A	CY21A	CY22A	CY23A
Net Revenue	12,081	14,973	18,220	22,472
EBITDA	1,678	2,095	2,467	2,936
EBITDA Margin (%)	13.9	14.0	13.5	13.1
Net Profit	939	1,494	1,827	2,087
EPS (Rs)	27.0	42.9	52.5	60.0
EPS % Chg YoY	8.5	61.4	22.3	14.0
P/E (x)	141.2	88.8	72.6	63.6
EV/EBITDA (x)	77.0	61.6	52.7	44.2
RoCE (%)	8.0	12.4	13.8	14.7
RoE (%)	10.9	15.7	17.0	17.1

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Market Data

Market Cap (INR)	133bn
Market Cap (USD)	1599mn
Bloomberg Code	KSB IN
Reuters Code	KSBL.BO
52-week Range (INR)	4211 /1923
Free Float (%)	30.0
ADTV-3M (mn) (USD)	3.0

Price Performance (%)	3m	6m	12m
Absolute	11.1	35.1	96.9
Sensex	7.0	11.8	22.3

Previous Reports

21-11-2023: [Company Update](#)

07-08-2023: [Company update](#)

Q4CY24 result highlights

- KSB reported 15% growth in revenue for Q4CY24 to INR 6bn.
 - Pumps revenue grew 16% YoY to INR 5.1bn
 - Valves revenue grew 11% YoY to INR 951mn
- Gross margins for the quarter stood at 40.9% (vs. 47.1% YoY)
 - Gross margins were impacted by higher share of project executions.
 - O&G, FGD businesses have higher competitive intensity; thus, the margins are less. However, future after sales for these segments are very lucrative.
 - Similarly, firefighting pumps have lower margins as the pumps constitute only 25% of the total order value and the rest are majorly bought out items.
 - KSB is also developing new products with higher entry barriers; thus, margins have to be sacrificed for future growth.
- As a result, EBITDA margins dropped to 13.4% in Q4 (vs. 14.6% YoY); thus, EBITDA grew only 5% YoY to INR 809mn.
- Depreciation cost grew 15% YoY to INR 137mn.
- PBT was flat YoY at INR 720mn; thus, PAT too was flat at INR 550mn YoY.
- For CY23, revenues grew 23% YoY to INR 22.5bn, EBITDA grew 19% YoY to INR 2.9bn and PAT grew by 14% YoY to INR 2.1bn.

Exports remain strong

KSB exports mainly to Asia, South and Middle East Africa. For CY23, exports grew 24% YoY to INR 3.8bn. Share of exports continues to grow in its order backlog, as KSB continues to receive new orders from the O&G space. The Middle East saw several large projects awarded by ADNOC and Aramco. KSB has consistently been enhancing its product portfolio, especially in exports – recently its product range in API segment (petrochemical/refinery markets). Also, management notes that activities in locating vendors, castings and vendor chain, especially from China to India, will help KSB.

Vande Bharat trainsets and locomotives – a promising opportunity

KSB Germany has been a regular supplier of pumps for locomotives to key players like Siemens AG, Alstom, Bombardier, ABB and others. With access to KSB Group's technology – Etaseco pumps, KSB India has been qualified by Siemens Mobility for supplying cooling pumps for its *Vande Bharat* (9 train sets) and locomotive order (1,200 locomotives in 9,000HP). The company has already delivered the prototype.

KSB expects to enter into a long-term supply contract with Siemens for 1,200 locomotives. KSB sees the contract duration spanning 10 years and expects to supply over 2,000-3,000 pumps during this time.

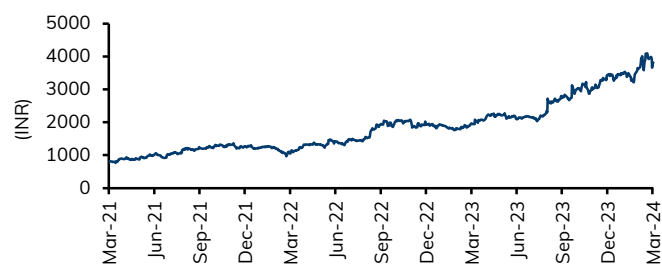
KSB Global – a brief on country-wise functioning of exports

Outside Europe, KSB Global has its main factories in China, Brazil and India. For export business, each factory has to follow a defined territory rule - a global supply matrix, which acts as a guideline to decide the products and the region to be catered. There are exceptions based in customer preferences, approved vendors and size of the factory. In exports, most standard products are sold via KSB's companies, for project engineering business, KSB directly works with clients, and loops in local companies.

Exhibit 1: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	66.7	66.7	66.7
Institutional investors	13.7	14.4	14.9
MFs and others	7.5	8.3	7.9
FIs/Banks	0.0	0.1	0.0
Insurance	2.5	2.4	2.5
FIIIs	3.7	3.6	4.5
Others	19.6	18.9	18.4

Source: Bloomberg

Exhibit 2: Price chart

Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending December)

	CY20A	CY21A	CY22A	CY23A
Net Sales	12,081	14,973	18,220	22,472
Operating Expenses	4,198	4,954	5,873	6,761
EBITDA	1,678	2,095	2,467	2,936
EBITDA Margin (%)	13.9	14.0	13.5	13.1
Depreciation & Amortization	418	435	453	497
EBIT	1,260	1,659	2,014	2,439
Interest expenditure	34	50	61	53
Other Non-operating Income	-	-	-	-
Recurring PBT	1,517	1,946	2,375	2,709
Profit / (Loss) from Associates	53	64	78	94
Less: Taxes	631	516	626	716
PAT	886	1,430	1,749	1,993
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	939	1,494	1,827	2,087
Net Income (Adjusted)	939	1,494	1,827	2,087

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending December)

	CY20A	CY21A	CY22A	CY23A
Total Current Assets	11,060	11,321	12,837	14,633
of which cash & cash eqv.	4,034	3,545	2,611	2,745
Total Current Liabilities & Provisions	5,433	5,448	6,322	7,165
Net Current Assets	5,627	5,872	6,515	7,468
Investments	662	697	742	795
Net Fixed Assets	2,908	2,820	3,286	3,313
ROU Assets	263	273	269	269
Capital Work-in-Progress	251	392	261	310
Total Intangible Assets	14	13	17	224
Other assets	217	499	781	687
Deferred Tax assets	9	51	-	-
Total Assets	9,969	10,645	11,897	13,494
Liabilities				
Borrowings	600	-	-	-
Deferred Tax Liability	-	-	13	15
provisions	454	517	433	437
other Liabilities	9	20	20	21
Equity Share Capital	348	348	348	348
Reserves & Surplus	8,558	9,760	11,083	12,671
Total Net Worth	8,906	10,108	11,431	13,019
Minority Interest	-	-	-	-
Total Liabilities	9,969	10,645	11,897	13,492

Source Company data, I-Sec research

Exhibit 5: Cashflow statement

(INR mn, year ending December)

	CY20A	CY21A	CY22A	CY23A
Operating Cashflow	1,705	625	382	1,467
Working Capital Changes	43	(734)	(1,468)	(1,307)
Capital Commitments	(495)	(376)	(1,053)	(1,178)
Free Cashflow	2,200	1,000	1,435	2,645
Other investing cashflow	(510)	404	926	364
Cashflow from Investing Activities	(1,006)	28	(127)	(814)
Issue of Share Capital	-	-	-	-
Interest Cost	(32)	(48)	(58)	(53)
Inc (Dec) in Borrowings	-	(600)	-	-
Dividend paid	(278)	(296)	(435)	(609)
Others	-	-	-	-
Cash flow from Financing Activities	(318)	(954)	(505)	(662)
Chg. in Cash & Bank balance	381	(301)	(250)	(10)
Closing cash & balance	861	566	320	297

Source Company data, I-Sec research

Exhibit 6: Key ratios

(Year ending December)

	CY20A	CY21A	CY22A	CY23A
Per Share Data (INR)				
Reported EPS	25.5	41.1	50.2	57.3
Adjusted EPS (Diluted)	27.0	42.9	52.5	60.0
Cash EPS	39.0	55.4	65.5	74.2
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	255.9	290.4	328.4	374.0
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	(6.6)	23.9	21.7	23.3
EBITDA	10.5	24.8	17.8	19.0
EPS (INR)	8.5	61.4	22.3	14.0
Valuation Ratios (x)				
P/E	-	-	-	-
P/CEPS	-	-	-	-
P/BV	-	-	-	-
EV / EBITDA	77.0	61.6	52.7	44.2
P / Sales	11.0	8.9	7.3	5.9
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	48.6	47.1	45.8	43.2
EBITDA Margins (%)	13.9	14.0	13.5	13.1
Effective Tax Rate (%)	41.6	26.5	26.4	26.4
Net Profit Margins (%)	7.3	9.5	9.6	8.9
NWC / Total Assets (%)	16.0	21.9	32.8	36.1
Net Debt / Equity (x)	(0.5)	(0.4)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(2.4)	(2.0)	(1.4)	(1.2)
Profitability Ratios				
RoCE (%)	8.0	12.4	13.8	14.7
RoE (%)	10.9	15.7	17.0	17.1
RoC (%)	8.0	12.4	13.8	14.7
Fixed Asset Turnover (x)	4.1	5.2	6.0	6.8
Inventory Turnover Days	105	114	123	115
Receivables Days	83	79	91	88
Payables Days	77	75	69	62

Source Company data, I-Sec research

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