

Riding a strong capex cycle...

About the stock: KSB Ltd (KSB) is a leading international manufacturer of pumps and valves. KSB specializes in centrifugal end suction pumps, high pressure multistage pumps, industrial gate, globe, check valves, submersible motor pumps, monobloc & mini monobloc pumps, hydro pneumatic systems and control valves

- Company has six manufacturing units in India, five in Maharashtra and one in Tamil Nadu. Pumps segment derives ~84% of revenues
- Consolidated revenue grew ~12% CAGR during CY19-22 while EBITDA and PAT have grown by ~18% and ~22% CAGR respectively over the same period. In CY22, revenue and PAT stood at ₹ 1822 crore and ₹ 182.7 crore

Key Investment Thesis:

- **Rise in industrial capex provides robust outlook for pumps & valves industry:** Increasing capex in infra segments (like housing, irrigation, sanitation, drinking water supply, hospitality, real estate etc) and industrials (like refineries, petrochemicals, pharmaceuticals, chemicals, water treatment, power, steel, cement etc) is set to benefit the Indian pumps & valves industry significantly in the coming period. KSB, one of the leading suppliers in organised pumps and valves market in India, is set to benefit from the robust capex outlook
- **Expanding product portfolio with focus on after-market segment:** The company, which already caters to different segments like petrochemicals, chemicals, agriculture, solar, nuclear, buildings, waste water management, continues to focus on increasing its market presence in newer segments (like firefighting, railways etc) through expanding product offerings and distribution network. The company has been able to meet the market demand by continuous investments in its plants, products and infrastructure. Moreover, with the technology acquisition of BP & CL, company's emphasis is on increasing its aftermarket business with continued focus on availability of spares and service

Rating and Target Price

- KSB is well positioned to benefit significantly from increasing capex in infra and industrials. With focus on expanding market share with new products and increasing after-market business, we believe KSB's operational and financial performance in the coming period would be considerably better. We estimate revenue and PAT to grow at ~16% and ~21% CAGR over CY22-24E. Balance sheet remains strong with healthy return ratios
- We maintain our **BUY** rating on the stock
- We value KSB at ₹ 2700 per share (based on 35x FY25 EPS)

Key Financial Summary

(Year-end December)	CY19	CY20	CY21	CY22	3 Year CAGR (CY19-22)	CY23E	CY24E	2 Year CAGR (CY22-CY24E)
Revenue	1,293.9	1,208.1	1,497.3	1,822.0	12.1	2,128.3	2,440.6	15.7
EBITDA	151.7	167.8	209.4	246.7	17.6	304.6	356.2	20.2
EBITDA margin (%)	11.7	13.9	14.0	13.5		14.3	14.6	
Net Profit	100.7	93.8	149.4	182.7	22.0	228.2	268.5	21.2
EPS (₹)	28.9	26.9	42.9	52.5		65.6	77.1	
P/E (x)	75.4	81.0	50.9	41.6		33.3	28.3	
EV/EBITDA (x)	48.6	43.2	34.6	29.7		23.9	20.2	
RoCE (%)	11.9	13.3	16.4	17.6		19.6	20.1	
RoE (%)	12.2	10.5	14.8	16.0		17.5	17.9	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 7599 crore
Total Debt (CY22)	₹ 0 crore
Cash & Inv. (CY22)	₹ 260.2 crore
EV	₹ 7338.8 crore
52 week H/L (₹)	2357 / 1414
Equity capital	₹ 34.8 crore
Face value	₹ 10

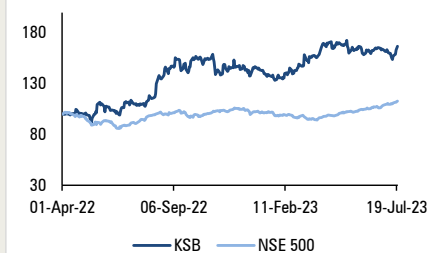
Shareholding Pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	66.7	66.7	66.7	66.7
FII	2.9	3.2	3.2	3.5
DII	10.9	10.8	10.9	10.4
Others	19.5	19.4	19.2	19.4

Risks to our call

- 1) Slowdown in domestic and global capex
- 2) Increase in competition in domestic & export markets
- 3) Increase in commodity prices

Price Performance



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Company Background

KSB Limited (KSB), founded in 1960, is a leading international manufacturer of pumps, valves, systems and control valves. KSB specializes in centrifugal end suction pumps, high pressure multistage pumps, industrial gate, globe, check valves, submersible motor pumps, monobloc & mini monobloc pumps, hydro pneumatic systems and control valves

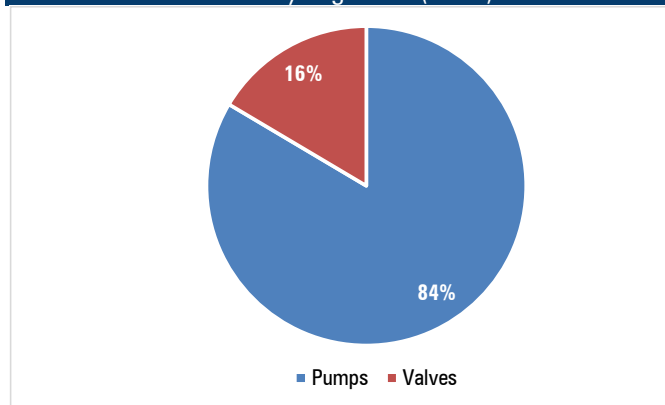
The Company has six manufacturing units (five in Maharashtra and one in Tamil Nadu) and all facilities are fully equipped designing, testing, fabricating and quality-assurance on all aspects of fluid mechanics in India. In Maharashtra, plants are located at Pimpri (Pune), Chinchwad (Pune), Vambori (Ahmednagar), Kesurdi (Satara) and Sinnar (Nashik) while in Tamil Nadu, plant is located at NSN Palayam (Coimbatore).

With these manufacturing locations across India, the company has presence across the country with its own sales & marketing companies and service operations. Company has wide distribution network comprising of 4 zonal offices, 14 branch offices, 800+ authorized dealers, 6 service stations, 200+ authorized service centers and 20 godowns. Company's client portfolio includes BHEL, Indian Oil Corp, Thermax, NTPC, ISGEC, Megha Engineering, Larsen & Toubro, ThyssenKrupp

Pumps segment contributes ~84% to the revenue (~48% from standard pumps, ~20% from engineered pumps and ~15% from SupremeServ) while balance ~16% is from Valves segment. In terms of geographical mix, ~84% is from domestic markets while ~16% is from exports

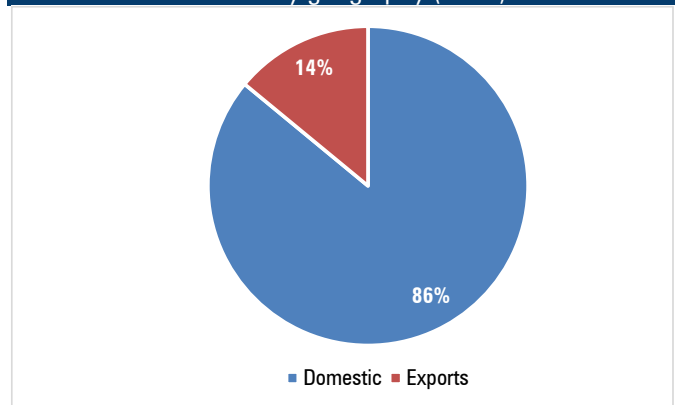
Consolidated revenue of the company has grown by ~12% CAGR in the last 3 years during the period CY19-22 while EBITDA and PAT have grown by ~18% and ~22% CAGR respectively over the same period. During CY22, company reported revenues of ₹ 1822 crore which increased by 21.7% YoY. EBITDA grew by 17.8% YoY to ₹ 246.7 crore while PAT increased by 22.3% YoY to ₹ 182.7 crore in CY22

Exhibit 1: Revenue mix by segments (CY22)



Source: Company, ICICI Direct Research

Exhibit 2: Revenue mix by geography (CY22)



Source: Company, ICICI Direct Research

Investment Rationale

Robust capex outlook (infra + industrials) to drive demand for pumps & valves

Increase in infrastructure capex (in segments like rural & urban housing, irrigation, sanitation, drinking water supply, hospitality, real estate etc) and increase in industrial capex across industries (like refineries, petrochemicals, pharmaceuticals, chemicals, water treatment, power, steel, cement etc) is set to benefit the Indian pumps & valves industry in the coming period

KSB, a renowned manufacturer and one of the leading suppliers in organised pumps and valves market in India is set to benefit from the increase in domestic capex led by its strong technical expertise and market presence across the country

KSB already has approvals for its products from many prestigious companies which gives strong visibility in terms of eligibility of KSB in order inflows from those companies. During CY22, company received customer approvals from Thermax, Siemens, Triveni Turbines, Mitsubishi Japan, NPCIL (Nuclear Power corporation of India), Bechtel (United States) for its products.

Company’s order inflow stood at ₹ 2046 crore in CY22 which included orders for standard pumps, engineered pumps, valves and stores & repairs/after-market. In terms of industries mix, the orders were from different segments like petrochemicals, chemicals, agriculture, solar, nuclear, buildings, waste water management etc. The company received the large order of ₹ 501 crore from NPCIL for 8 Reactor Coolant Pumps for Kaiga 5 & 6 reactors for the 700 MW nuclear power plant. Going forward, company expects annual order inflow of ~₹ 2500 crore by CY24, led by further pick-up in infra & industrial capex cycle and company’s diversification in new growth areas

Expanding product portfolio with focus on after-market

The company continues to focus on increasing its market share and presence in existing and newer segments through expanding product offerings and wide distribution network. The company has launched several new products for segments like firefighting, railways, building, water waste management etc

The company has been able to meet the market demand by continuous investments in its plants, products and infrastructure. For e.g., the company has expanded its Sinnar plant capacity which produces standard pumps. It has also completed the investment in its steel foundry unit to upscale the capacities. Moreover, the company has set up new sales offices at Patna & Guwahati to increase its focus on the eastern/north-eastern parts of India and opened an office at Dhaka to expand its footprints in Bangladesh market. The company has also added mechanical seals (required for the new NPCIL order) manufacturing and testing facility at Shirwal (Satarra). Moreover, to support the new business vertical for mechanical seals, the company inaugurated the first mechanical seal repair centre at Chinchwad (Pune)

Company’s emphasis on increasing its aftermarket business is continued with focus on availability of spares and service on demand. Company is also continuously evaluating various inorganic growth opportunities in order to further increase its market offerings and reach. As part of this strategy, the company acquired the technology of Bharat Pumps and Compressors (BP & CL), which will enable KSB to serve the industry with spares supplies apart from generating business from selling pumps for various critical applications. Also, capacity of Central Warehouse (Chinchwad) has been expanded to cater the increasing demand for spare parts

Exhibit 3: User Industries, Products and Applications

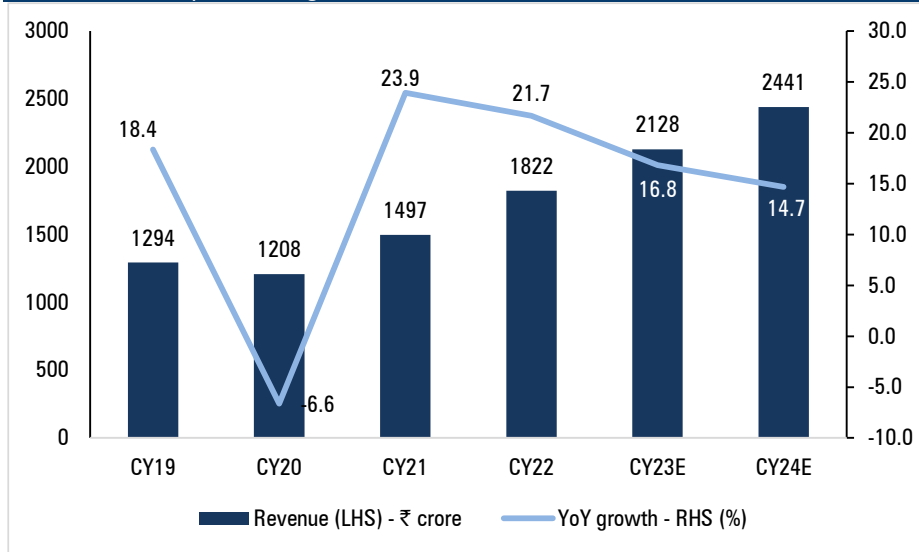
Industry	Products	Applications
Energy	High pressure multistage pumps, Vertical in line pumps, GGC & Ball Valves	For boiler feed applications, condensate extraction, etc.
Industrial	End suction pumps, process pumps, non clog pumps, high pressure multistage pumps, confirming API 610 latest edition, GGC & Ball Valves	For boiler feed applications, oil & gas, sugar, paper and pulp, handling of Thermic fluids, petrochemicals, etc.
Water	Submersible pumpsets, openwell monobloc pumps, mini-monobloc pumps, dewatering pumps, Solar products, GGC & ball valves,	Irrigation, farm houses, fire fighting, drinking water supply, etc
Waste Water	Submersible Motor non clog pumps, horizontal Non clog end suction pumps, GGC & Ball Valves	Various types of Municipal & Industrial waste water, sewage, effluent transport & treatment. storm water drainage & dewatering, etc.
Construction	Submersible pumpsets, openwell monobloc pumps, mini-monobloc pumps, dewatering pumps, booster systems, GGC & Ball Valves	Drinking water supply, fire fighting, HVAC, etc
SupreServ	Spare parts Repairs Field Service Modernization Replacement pumps (Footprint pumps)	

Source: Company, ICICI Direct Research

Revenue growth expected at ~16% CAGR over CY22-24E

KSB's consolidated revenue grew at 12.1% CAGR over the last 3 years (CY19-22). However, over the next two years, revenue growth is expected to be better at 15.7% CAGR over CY22-24E led by better demand scenario of pumps & valves coupled with focus on expanding product portfolio, distribution network and increase in after-sales business

Exhibit 4: Healthy revenue growth ahead



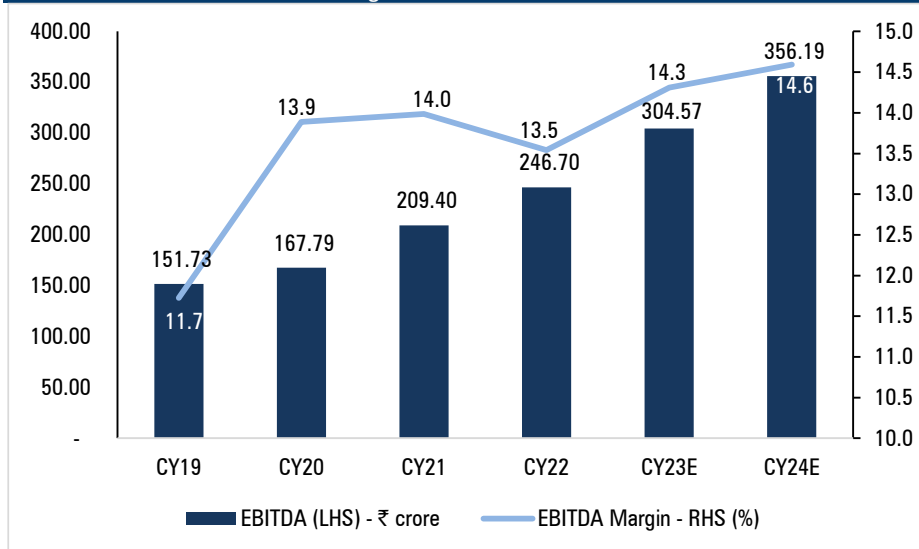
Source: Company, ICICI Direct Research

EBITDA margins expected to improve to ~14.5% in CY23-24E

EBITDA margin improved to 13.5% in CY22 from 11.7% in CY19, which led to EBITDA CAGR at 17.6% during CY19-22 to ₹ 246.7 crore in CY22. Going ahead, we expect EBITDA margin at ~14.5% over CY23-24E, mainly led by positive operating leverage and company's focus on increasing its after-sales business – SupremeServ (from ~15% at present to ~20% in the coming periods).

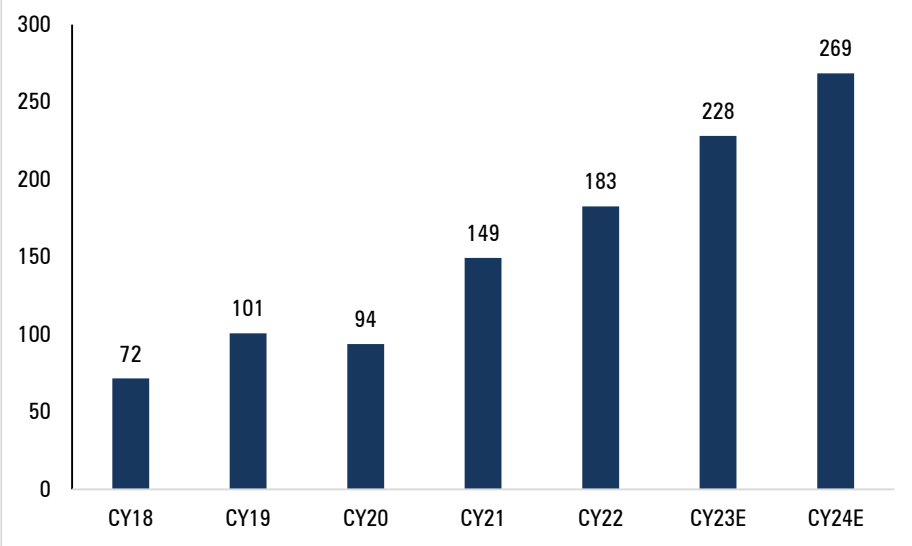
Thus, on account of increase in revenues and margins, EBITDA is expected to grow at 20.2% CAGR over CY22-24E

Exhibit 5: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: PAT expected to grow at 21.2% CAGR over CY22-24E

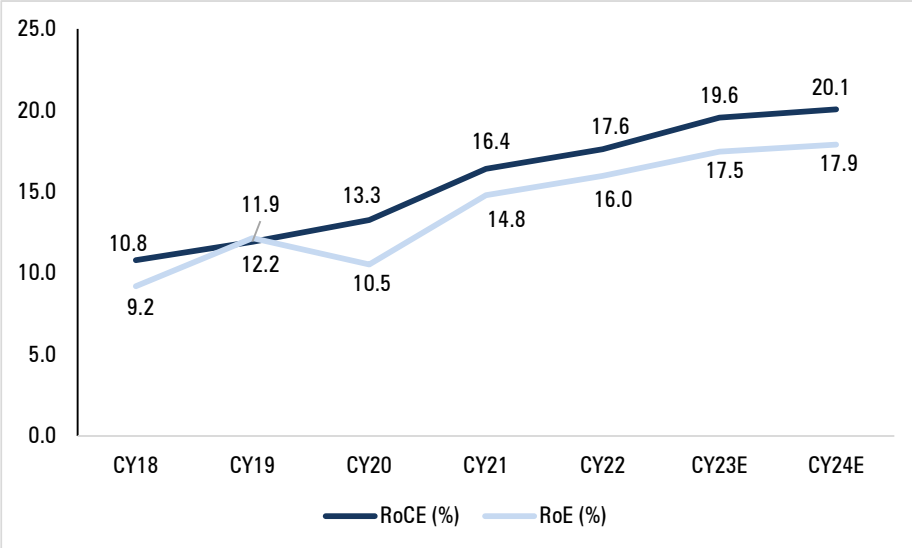


Source: Company, ICICI Direct Research

Healthy return ratios

Return ratios have improved gradually in the last 4 years led by prudence in capital allocation and increase in profitability. RoCE (Return on Capital Employed) stood at 17.6% in CY22 as against 10.8% in CY18 while RoE (Return on Equity) improved to 16% in CY22 vs 9.2% in CY18. Going ahead by CY24E, we expect return ratios to improve further with RoCE at ~20% and RoE at ~18% in CY24E led by increase in profitability on better sales growth and margins

Exhibit 7: Return ratios



Source: Company, ICICI Direct Research

Key risk and concerns

Slow-down in capex cycle

KSB's revenue and profitability growth is primarily dependent on the demand of pumps and valves in domestic market, which is dependent on public and industrial capex. Any slow-down in the capex cycle in the Industry and infrastructure may hurt the demand for pumps and valves.

Increase in competition in domestic market

KSB derives ~86% of its revenues from domestic markets. Any increase in competition in domestic market from local and MNCs put pressure on sales & pricing of products which may impact sales, margins, profitability and cash flows

Prolonged global slowdown

Company's ~14% of revenue comes from exports. Any prolonged slowdown in exports may impact export sales and thus profitability and cash flows

Increase in raw material prices

Steel and copper are the primary raw materials for the company in manufacturing pumps and valves. Any increase in prices of these commodities may impact margins and profitability

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end Dec)	CY21	CY22	CY23E	CY24E
Total Operating Income	1497.3	1822.0	2128.3	2440.6
Growth (%)	23.9	21.7	16.8	14.7
Raw Material Expenses	792.4	988.0	1,142.9	1,313.0
Employee Expenses	215.4	243.9	275.6	311.4
Other Operating Expense	280.1	343.4	405.2	459.9
Total Operating Expenditure	1,287.9	1,575.3	1,823.7	2,084.4
EBITDA	209.4	246.7	304.6	356.2
Growth (%)	24.8	17.8	23.5	16.9
Depreciation	43.5	45.3	49.0	55.0
Interest	5.0	6.1	6.0	6.0
Other Income	33.7	42.2	50.0	60.0
PBT	194.6	237.5	299.6	355.2
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	51.6	62.6	79.4	94.7
PAT	143.0	174.9	220.2	260.5
Profit from Associates	6.4	7.8	8.0	8.0
Reported Net Profit	149.4	182.7	228.2	268.5
Growth (%)	61.6	22.3	25.9	18.3
EPS (₹)	42.9	52.5	65.6	77.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end Dec)	CY21	CY22	CY23E	CY24E
Profit after Tax	149.4	182.7	228.2	268.5
Add: Depreciation	43.5	45.3	49.0	55.0
(Inc)/dec in Current Assets	-77.8	-247.1	-203.1	-151.7
Inc/(dec) in CL and Provisions	9.0	82.4	127.7	92.9
Others	5.0	6.1	6.0	6.0
CF from Operations	129.1	69.4	207.8	270.7
(Inc)/dec in Investments	-3.5	-4.5	0.0	0.0
(Inc)/dec in Fixed Assets	-49.8	-70.7	-85.0	-85.0
Others	-30.4	-32.0	-50.0	-90.0
CF from Investing	-83.7	-107.2	-135.0	-175.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-60.0	0.0	0.0	0.0
Dividend paid & dividend tax	-29.6	-52.2	-62.7	-74.8
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-4.6	-4.3	-7.8	-6.0
CF from Financing	-94.2	-56.5	-70.5	-80.8
Net Cash flow	-48.8	-94.3	2.4	14.9
Opening Cash	403.4	354.5	260.2	262.6
Closing Cash	354.5	260.2	262.6	277.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end Dec)	CY21	CY22	CY23E	CY24E
Liabilities				
Equity Capital	34.8	34.8	34.8	34.8
Reserve and Surplus	976.0	1,108.3	1,272.0	1,465.7
Total Shareholders funds	1,010.8	1,143.1	1,306.9	1,500.5
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	1,010.8	1,143.1	1,306.9	1,500.5
Assets				
Gross Block	728.6	813.4	898.5	983.5
Less: Acc Depreciation	418.0	463.3	512.3	567.3
Net Block	310.6	350.1	386.2	416.2
Capital WIP	39.2	25.1	25.0	25.0
Total Fixed Assets	349.8	375.2	411.2	441.2
Liquid Investments	0.0	0.0	50.0	140.0
Other Investments	69.7	74.2	74.2	74.2
Inventory	423.1	561.1	653.1	735.5
Debtors	278.0	403.7	478.1	534.9
Loans and Advances	12.8	12.9	18.2	20.9
Other Current Assets	51.8	35.1	66.5	76.2
Cash	354.5	260.2	262.6	277.5
Total Current Assets	1,120.2	1,273.0	1,478.5	1,645.0
Creditors	279.2	314.3	379.0	434.6
Provisions	105.7	93.6	131.0	148.1
Other Current Liabilities	213.6	273.0	298.6	318.8
Total Current Liabilities	598.5	680.9	808.6	901.5
Net Current Assets	521.7	592.1	669.9	743.5
Others Assets	69.6	101.6	101.6	101.6
Application of Funds	1010.8	1143.1	1306.9	1500.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end Dec)	CY21	CY22	CY23E	CY24E
Per share data (₹)				
EPS	42.9	52.5	65.6	77.1
Cash EPS	55.4	65.5	79.6	92.9
BV	290.4	328.4	375.4	431.1
DPS	8.5	15.0	18.0	21.5
Cash Per Share (Incl Invest)	101.9	74.8	89.8	119.9
Operating Ratios (%)				
EBITDA Margin	14.0	13.5	14.3	14.6
PBT / Total Op. income	13.0	13.0	14.1	14.6
PAT Margin	10.0	10.0	10.7	11.0
Inventory days	103	112	112	110
Debtor days	68	81	82	80
Creditor days	68	63	65	65
Return Ratios (%)				
RoE	14.8	16.0	17.5	17.9
RoCE	16.4	17.6	19.6	20.1
RoIC	26.2	24.3	27.2	29.2
Valuation Ratios (x)				
P/E	50.9	41.6	33.3	28.3
EV / EBITDA	34.6	29.7	23.9	20.2
EV / Net Sales	4.8	4.0	3.4	2.9
Market Cap / Sales	5.1	4.2	3.6	3.1
Price to Book Value	7.5	6.6	5.8	5.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.7	1.7	1.7
Quick Ratio	0.7	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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