

December 26, 2017

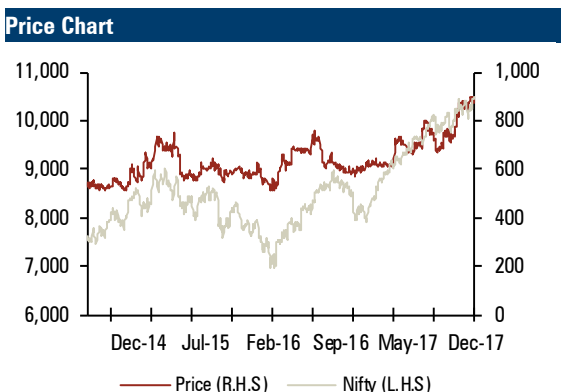
Rating matrix		
Rating	:	Buy
Target	:	₹ 1080
Target Period	:	12-18 months
Potential Upside	:	20%

What's changed?	
Target	Changed from ₹ 1000 to ₹ 1080
EPS CY17E	Unchanged
EPS CY18E	Changed from ₹ 24.6 to ₹ 25.6
EPS CY19E	Changed from ₹ 28.5 to ₹ 30.7
Rating	Unchanged

Key financials				
₹ Crore	CY16	CY17E	CY18E	CY19E
Net Sales	817.6	885.7	1,010.6	1,119.8
EBITDA	99.1	106.8	135.2	157.3
Net Profit	65.3	69.2	89.3	106.8
EPS (₹)	18.8	19.9	25.6	30.7

Valuation summary				
	CY16	CY17E	CY18E	CY19E
P/E	48.0	45.3	35.1	29.3
Target P/E	57.6	54.3	42.1	35.2
EV / EBITDA	29.6	27.2	21.5	18.0
P/BV	4.9	4.5	4.2	3.8
RoNW (%)	10.1	10.0	11.9	12.9
RoCE (%)	10.6	10.8	13.1	14.2

Stock data	
Particular	Amount
Market Capitalization	₹ 3133 crore
Total Debt (CY16)	₹ 5.2 crore
Cash and Investments (CY16)	₹ 202.1 crore
EV	₹ 2936 crore
52 week H/L	931 / 575
Equity capital	₹ 34.8 crore
Face value	₹ 10
MF Holding (%)	15.4
FII Holding (%)	3.7



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KSB Pumps (KSBPUM)

₹ 900

Twin play; agri + capex revival...

- KSB Pumps (KSB) is a leading pumps & valves manufacturer domestically. It realises ~80% of sales from the pump segment and remaining ~20% of sales from the valves segment
- Within the pumps segment, it realises 35% of sales from the standard product meant primarily for irrigation (agriculture) purposes. It realises remaining 65% of sales from the engineered pump segment (industrial). Hence, it is one of the unique propositions that offers a twin play of agri and industry and would be a key beneficiary of an increase in farm income amid government spends on rural India. KSB has a good product profile (centrifugal pumps, solar water pumps) with a strong brand recall
- KSB would also be a key beneficiary of a revival of domestic capex cycle particularly the aggressive capex spend envisaged in the oil & gas space (upgradation of refineries)
- KSB has recently commissioned a new plant (December 1, 2017) which is intended to be used for manufacturing super critical power pumps for power and industrial segments and, thus, provides requisite capacities to grow, going forward
- KSB has previously supplied pump to NPCIL. Hence, it would be a key contender to supply pumps for new nuclear power plants in India

Poised to gain amid government's aim to double farm income by 2022

The central government has time and again reiterated its aim to double farm income by 2022. The same is envisaged to be attained through better productivity and enhanced farm realisations. Given the limitations of available land, better productivity is quite essential for augmenting farm income. Increasing the irrigation penetration (currently at ~45%) is a most sought after technique in augmenting farm productivity, which is more significant in the present times of uneven distribution of rainfall and increasing volatility over occurrence of monsoon. KSB is one of the leading pump manufacturers with quality product profile of energy efficient pumps and strong brand recall. Hence, it will be a key beneficiary of increasing irrigation penetration domestically.

Strong promoter group (KSB AG); levers to grow; retain BUY!

KSB is a technology driven organisation with support from parent group i.e. KSB AG. It also realises healthy core RoICs of ~15%+. KSB has a lean balance sheet with surplus cash on books and possesses best in class working capital cycle among its listed peers. Its net working capital cycle constitutes ~50 days, which results in robust cash (CFO) and FCF generation. Over CY17-20E average CFO generation is ~₹ 120 crore, offering an impressive CFO yield of ~4%. With increasing tendering activity being seen in the lift irrigation space and KSB enjoying good brand recall in the domestic and international markets we expect KSB to witness robust sales and profitability growth, going forward. KSB's last quarter performance was encouraging with higher double digit growth in top line in the pumps segment and resurging profitability in the valves segment, the sustainability of which is likely to result in a further re-rating of the stock. We upgrade our estimates and now expect KSB to record sales, PAT CAGR of 12.4%, 24.2%, respectively, in CY17-19E. We model 200 bps improvement in EBITDA margins largely factoring in operating leverage benefits coupled with margin recovery in the valve segment. We value KSB at 35x P/E on CY19E EPS of ₹ 30.7 and assign a target price of ₹ 1080 with a BUY rating on the stock.

Financial summary (Consolidated)

Profit and loss statement		₹ Crore			
(Year-end March)	CY16	CY17E	CY18E	CY19E	
Net Sales	817.6	885.7	1010.6	1119.8	
Other Operating Income	10.3	0.0	0.0	0.0	
Total Operating Income	827.9	885.7	1010.6	1119.8	
Growth (%)	0.9	7.0	14.1	10.8	
Raw Material Expenses	387.2	419.2	473.6	524.9	
Employee Expenses	144.9	148.1	165.1	182.9	
Other Operating Expense	196.8	211.7	236.8	254.6	
Total Operating Expenditure	728.8	778.9	875.4	962.5	
EBITDA	99.1	106.8	135.2	157.3	
Growth (%)	-6.5	7.8	26.6	16.4	
Depreciation	29.4	31.1	35.3	38.3	
Interest	1.7	3.5	0.8	0.8	
Other Income	24.0	23.7	24.7	28.1	
PBT	92.0	95.9	123.9	146.5	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	31.6	32.1	40.9	46.9	
PAT	60.4	63.8	83.0	99.6	
Profit from Associates	4.9	5.4	6.2	7.2	
Reported Net Profit	65.3	69.2	89.3	106.8	
Growth (%)	-5.8	5.7	30.1	20.0	
EPS (₹)	18.8	19.9	25.6	30.7	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	CY16	CY17E	CY18E	CY19E	
Profit after Tax	65.3	69.2	89.3	106.8	
Add: Depreciation	29.4	31.1	35.3	38.3	
(Inc)/dec in Current Assets	-56.1	5.8	-66.5	-61.2	
Inc/(dec) in CL and Provisions	15.8	17.5	45.9	45.2	
Others	1.7	3.5	0.8	0.8	
CF from operating activities	56.1	127.0	104.7	129.8	
(Inc)/dec in Investments	-2.7	-2.4	-3.2	3.0	
(Inc)/dec in Fixed Assets	-56.4	-70.0	-70.0	-30.0	
Others	-2.4	0.0	0.0	0.0	
CF from investing activities	-61.5	-72.4	-73.2	-27.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	3.9	0.0	0.0	0.0	
Dividend paid & dividend tax	-23.0	-25.1	-27.2	-29.2	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-1.7	-3.5	-0.8	-0.8	
CF from financing activities	-20.8	-28.5	-27.9	-30.0	
Net Cash flow	-26.2	26.0	3.5	72.8	
Opening Cash	228.4	202.1	228.2	231.7	
Closing Cash	202.1	228.2	231.7	304.5	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	CY16	CY17E	CY18E	CY19E	
Liabilities					
Equity Capital	34.8	34.8	34.8	34.8	
Reserve and Surplus	610.3	654.4	716.5	794.1	
Total Shareholders funds	645.1	689.3	751.4	828.9	
Total Debt	5.2	5.2	5.2	5.2	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Minority Interest / Others	7.5	7.5	7.5	7.5	
Total Liabilities	657.8	702.0	764.1	841.6	
Assets					
Gross Block	462.6	572.6	602.6	672.6	
Less: Acc Depreciation	281.5	312.5	347.8	386.0	
Net Block	181.1	260.1	254.8	286.6	
Capital WIP	54.0	14.0	54.0	14.0	
Total Fixed Assets	235.1	274.1	308.8	300.6	
Liquid Investments	0.0	0.0	0.0	0.0	
Other Investments	54.1	56.5	59.8	56.8	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	
Inventory	211.9	218.4	249.2	276.1	
Debtors	180.1	194.1	221.5	245.4	
Loans and Advances	109.1	83.3	91.0	100.8	
Other Current Assets	4.9	4.4	5.1	5.6	
Cash	202.1	228.2	231.7	304.5	
Total Current Assets	708.1	728.4	798.4	932.4	
Creditors	275.0	291.2	332.3	368.2	
Provisions	80.3	81.5	86.4	95.7	
Current Liabilities & Prov	355.3	372.7	418.7	463.9	
Net Current Assets	352.9	355.6	379.8	468.6	
Others Assets	15.7	15.7	15.7	15.7	
Application of Funds	657.8	702.0	764.1	841.6	

Source: Company, ICICIdirect.com Research

Key ratios		CY16			
(Year-end March)		CY16	CY17E	CY18E	CY19E
Per share data (₹)					
EPS		18.8	19.9	25.6	30.7
Cash EPS		27.2	28.8	35.8	41.7
BV		185.3	198.0	215.8	238.1
DPS		5.5	6.0	6.5	7.0
Cash Per Share (Incl Invst)		58.1	65.5	66.6	87.5
Operating Ratios (%)					
EBITDA Margin		12.0	12.1	13.4	14.1
PBT / Total Op. income		11.1	10.8	12.3	13.1
PAT Margin		7.9	7.8	8.8	9.5
Inventory days		94.6	90.0	90.0	90.0
Debtor days		80.4	80.0	80.0	80.0
Creditor days		122.7	120.0	120.0	120.0
Return Ratios (%)					
RoE		10.1	10.0	11.9	12.9
RoCE		10.6	10.8	13.1	14.2
RoIC		18.1	17.1	21.6	23.5
Valuation Ratios (x)					
P/E		48.0	45.3	35.1	29.3
EV / EBITDA		29.6	27.2	21.5	18.0
EV / Net Sales		3.6	3.3	2.9	2.5
Market Cap / Sales		3.8	3.5	3.1	2.8
Price to Book Value		4.9	4.5	4.2	3.8
Solvency Ratios					
Debt/EBITDA		0.1	0.0	0.0	0.0
Debt / Equity		0.0	0.0	0.0	0.0
Current Ratio		1.4	1.3	1.4	1.4
Quick Ratio		0.8	0.8	0.8	0.8

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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