

## Robust performance; long term positive...

KSB reported a robust performance on an overall basis in Q2CY19. Standalone revenue, EBITDA and PAT recorded growth of 19.0%, 12.2% and 29.9% YoY, respectively, YoY. Topline growth was likely driven by healthy order execution from the oil & gas and exports segment. On a segmental basis, pumps contributed ₹ 248 crore (up 13.8% YoY) while valves contributed ₹ 56 crore (up 52.9% YoY). EBITDA margins declined ~70 bps YoY to 10.6% due to higher input costs. EBIT margin for the pumps was at 8.9%, down 80 bps YoY. However, operating leverage helped boost valves segment margins at 6.1%, up ~200 bps YoY. KSB reported an exceptional item through sale of office property at ₹ 12.7 crore. This drove PAT higher to ₹ 27.8 crore, up 29.9% YoY.

## Strong demand, capacity addition to drive growth ahead

Engineered (industrials), standard (agriculture, building solutions) and exports segments contributed around 45%, 27% and 14% to topline in CY18. In the industrials space, under oil & gas, KSB is likely to benefit from upgradation of capital investments by refineries to comply with fuel emission control norms. In addition, exports and after-market segment are expected to aid growth in CY19E. Order backlog was at ~₹ 700 crore (excluding NPCIL order win of ₹ 420 crore) during Q1 providing near term revenue visibility. Over the medium to long term, the government plans to double its existing installed nuclear power capacity to 13,480 MW by FY25. This is expected to translate into a sizeable opportunity for niche suppliers like KSB that provide coolant pumps for these plants. On the agriculture & domestic front, quality product profile and strong brand recall place KSB favourably to benefit from an increase in farm income and the government's thrust on increased irrigation penetration. Overall, KSB plants operate at ~90% utilisation, with an uptick in demand. The company continues to add incremental capacity in a phased manner of Shirwal plant in Pune.

## Impact to margins due to competition, cost pressure remain key

Competitive intensity for players like KSB has been on the rise. In addition, elevated cost pressures and customer's reluctance to share the burden could result in a cap on wide margin expansion despite operating leverage benefits. Thus, this becomes a key variable to track for the company. On the whole, we expect the margin accretive product profile mix and controlled operating expenses to sustain margins at 12.8% in CY20E.

## Valuation & Outlook

KSB possess a net debt free balance sheet with surplus cash of ~₹ 207 crore as on H1CY19. Over CY18-20E, we expect sales, EBITDA & PAT CAGR of 14.2%, 19.4% & 25.4%, respectively. Core RoICs are also expected to improve to 16.9% by CY20E vs. 13.6% in CY18. We value KSB at ₹ 810 i.e. 25x P/E on CY20E EPS of ₹ 32.4. We maintain our **BUY** rating on the stock.

### Key Financial Summary

	CY16	CY17	CY18	CY19E	CY20E	CAGR (CY18-20E)
Revenue	827.9	944.3	1,093.1	1,275.7	1,424.5	14.2%
EBITDA	99.1	107.5	128.4	151.9	183.0	19.4%
EBITDA margin (%)	12.0	11.4	11.7	11.9	12.8	
Net Profit	65.3	70.9	71.6	93.0	112.7	25.4%
EPS (₹)	18.8	20.4	20.6	26.7	32.4	
P/E (x)	34.9	32.1	31.8	24.5	20.2	
EV/EBITDA (x)	21.0	20.5	17.0	14.4	12.0	
RoCE (%)	10.4	10.6	11.1	12.8	14.9	
RoE (%)	9.9	10.0	9.4	11.3	12.3	

Source: ICICI Direct Research, Company



Particulars	Amount
Market Capitalization	₹ 2210 crore
Total Debt (H1CY19)	₹ 48.1 crore
Cash & Inv. (H1CY19)	₹ 207 crore
EV	₹ 2051.5 crore
52 week H/L (₹)	885 / 601
Equity capital	₹ 34.8 crore
Face value	₹ 10

### Key Highlights

- Expect CY19E revenue growth at 16.7% YoY
- Capacity utilisation across plants at ~90%
- Higher input cost pressure impacts margins
- Maintain BUY rating on stock with target price of ₹ 810

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**Exhibit 1: Variance Analysis**

Standalone Numbers	Q2CY19	Q2CY19E	Q2CY18	YoY (%)	Q1CY19	QoQ (%)	Comments
Sales	301.8	280.0	253.6	19.0	289.3	4.3	Topline beat our estimates likely led by increased execution in valves division
Other Operating Income	0.0	0.0	0.0		0.0		
Total Operating Income	301.8	280.0	253.6	19.0	289.3	4.3	
Raw Material Expenses	160.8	142.8	128.7	24.9	155.2	3.6	Increase in input costs weighed on gross margins
Employee Cost	45.5	42.0	38.8	17.3	41.7	9.1	
Other operating expense	63.4	63.6	57.5	10.3	60.6	4.6	
Total Expenditure	269.7	248.4	225.0	19.9	257.5	4.7	
EBITDA	32.1	31.6	28.6	12.2	31.8	0.9	
EBITDA Margin (%)	10.6	11.3	11.3	-64 bps	11.0	-36 bps	Margins slightly lower than expectation at 10.6%
Depreciation	10.3	10.3	9.8	5.1	10.2	1.0	
Interest	1.0	0.8	0.5	100.0	0.9	11.1	
Non Operating Expenses	12.7						
Other Income	8.2	6.8	9.8	-16.3	3.6	127.8	
PBT	41.7	27.4	28.1	48.4	24.3	71.6	
Taxes	13.9	9.3	6.7	107.5	8.6	61.6	
PAT	27.8	18.1	21.4	29.9	15.7	77.1	Bottomline grew 29.9% YoY aided by exceptional income of ₹ 12.7 crore

**Key Metrics**

Pumps Sales (₹ crore)	248	240	218	13.8	243	1.8	Pump sales slightly ahead of our estimates
Valves Sales (₹ crore)	56	40	36	52.9	46	19.9	Valves segment outperformed our expectations

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

Consolidated (₹ Crore)	CY19E			CY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenues	1,261.4	1,275.7	1.1	1,408.8	1,424.5	1.1	Topline growth over CY18-20E expected at 14.2% YoY
EBITDA	158.7	151.9	-4.3	184.7	183.0	-0.9	
EBITDA Margin (%)	12.6	11.9	-69 bps	13.1	12.8	-26 bps	Expect margin improvement of ~110 bps over CY18-20E
PAT	98.1	93.0	-5.2	115.2	112.7	-2.2	
EPS (₹)	28.2	26.7	-5.2	33.1	32.4	-2.2	

Source: Company, ICICI Direct Research

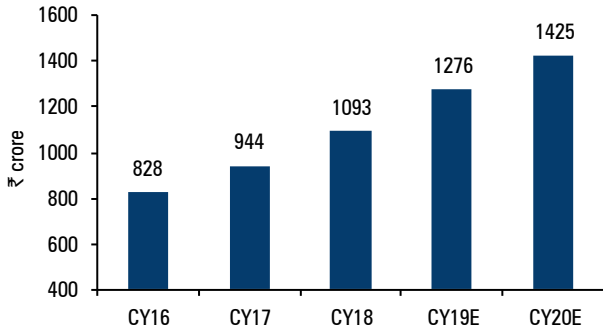
**Exhibit 3: Assumptions**

	Current					Earlier				Comments
	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E	CY19E	CY20E	
Pump Sales	664.1	673.7	684.1	788.0	915.4	1,061.9	1,189.3	1,061.9	1,189.3	We expect pump sales to grow at a CAGR of 14.0% in CY18-20E
Valve Sales	128.4	138.2	132.7	157.8	178.2	213.8	235.2	199.6	219.5	We upgrade our estimates for valve division and expect the division to grow at a CAGR of 14.9% in CY18-20E
PAT, MIL Control Valves	6.6	4.6	4.9	5.2	4.3	4.5	4.8	4.5	4.8	

Source: Company, ICICI Direct Research

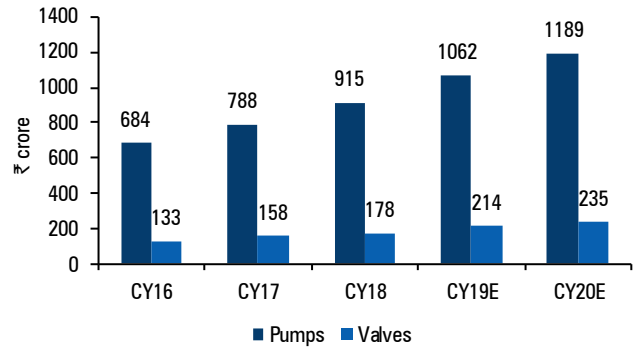
## Financial Story in Charts

Exhibit 4: Revenue trend



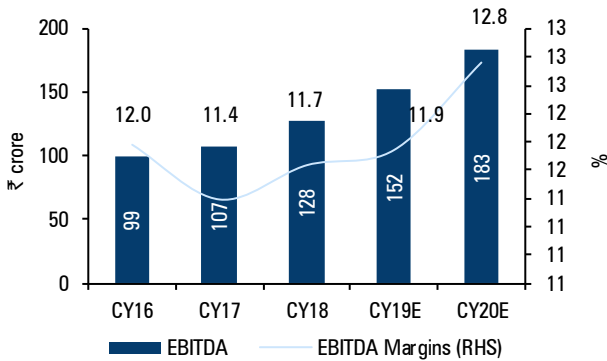
Source: Company, ICICI Direct Research

Exhibit 5: Revenue break-up (pumps vs. valves)



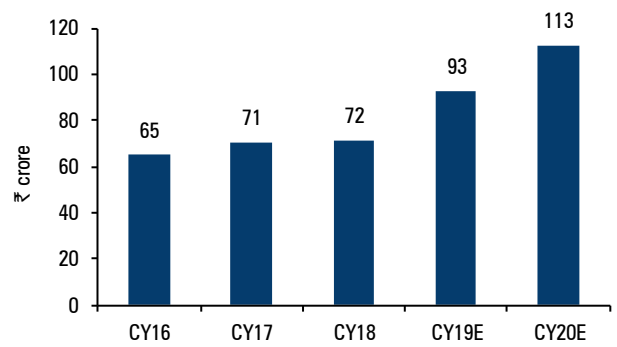
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



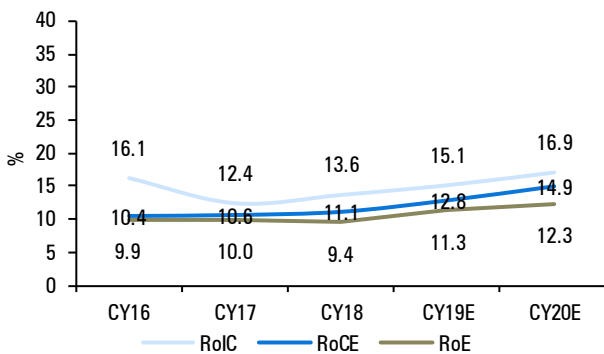
Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



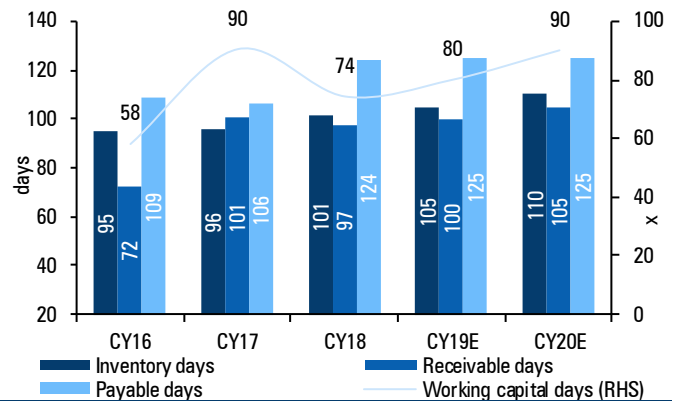
Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



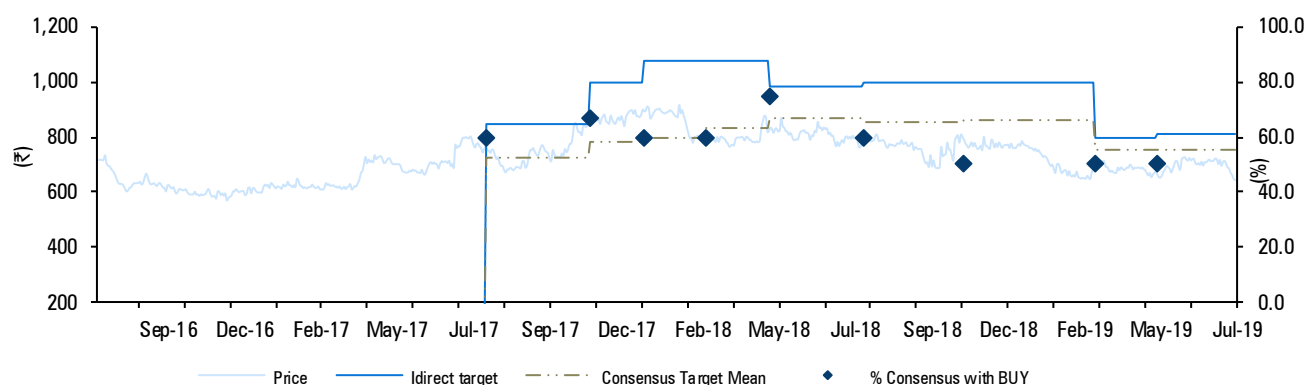
Source: Company, ICICI Direct Research

Exhibit 9: Working capital cycle



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation history vs. consensus



Source: Company, ICICI Direct Research

Exhibit 11: Top 10 shareholders

Rank	Name	Filing Date	% O/S	Position (m)	Change (m)
1	KSB AG, Group.	31-Mar-19	40.5%	14.1	0.0
2	Industrial and Prudential Investment Co Ltd	31-Mar-19	20.5%	7.1	0.0
3	Reliance Nippon Life Asset Management Limite	31-Mar-19	6.4%	2.2	-0.2
4	Paharpur Cooling Towers, Ltd.	31-Mar-19	4.2%	1.5	0.0
5	Bajaj Allianz Life Insurance Company Limited	31-Mar-19	3.3%	1.2	0.0
6	Thyssenkrupp AG	31-Mar-19	3.1%	1.1	0.0
7	Sundaram Asset Management Company Limiter	30-Jun-19	2.8%	1.0	0.0
8	PineBridge India Private Limited	31-Mar-19	2.8%	1.0	0.0
9	Old Bridge Capital Management Pvt Ltd	31-Mar-19	1.2%	0.4	0.0
10	Canara Robeco Asset Management Company L	30-Jun-19	0.3%	0.1	0.0

Source: Company, ICICI Direct Research

Exhibit 12: Recent activity

Buys			Sells		
Investor Name	US\$ Million	Shares (m)	Investor Name	US\$ Million	Shares (m)
Bajaj Allianz Life Insurance Company Limited	0.2	0.0	Reliance Nippon Life Asset Management	-1.6M	-0.2M
			Sundaram Asset Management Company	-0.1M	-0.0M

Source: Company, ICICI Direct Research

Exhibit 13: Shareholding pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	66.4	66.4	66.4	66.5	66.7
FII	3.5	3.5	3.5	3.5	3.5
DII	13.5	12.5	13.8	13.7	13.3
Others	16.6	17.6	16.3	16.4	16.5

Source: Company, ICICI Direct Research

## Financial Summary (Consolidated)

Exhibit 14: Profit and loss statement (₹ Crore)				
(Year-end March)	CY17	CY18	CY19E	CY20E
<b>Net Sales</b>	<b>944.3</b>	<b>1093.1</b>	<b>1275.7</b>	<b>1424.5</b>
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	944.3	1093.1	1275.7	1424.5
Growth (%)	14.1	15.8	16.7	11.7
Raw Material Expenses	467.2	565.1	679.8	748.2
Employee Expenses	144.6	154.0	173.7	183.6
Other Operating Expense	225.1	245.6	270.3	309.7
Total Operating Expenditure	836.9	964.7	1,123.8	1,241.5
<b>EBITDA</b>	<b>107.5</b>	<b>128.4</b>	<b>151.9</b>	<b>183.0</b>
Growth (%)	8.5	19.5	18.3	20.5
Depreciation	30.9	39.7	41.6	41.8
Interest	3.7	3.7	3.2	2.6
Other Income	29.8	20.0	27.6	24.8
PBT	102.7	105.0	134.8	163.4
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	37.1	37.7	46.3	55.6
PAT	65.7	67.3	88.5	107.9
Profit from Associates	5.2	4.3	4.5	4.8
<b>Reported Net Profit</b>	<b>70.9</b>	<b>71.6</b>	<b>93.0</b>	<b>112.7</b>
Growth (%)	8.8	2.5	31.5	21.9
EPS (₹)	20.4	20.6	26.7	32.4

Source: Company, ICICI Direct Research

Exhibit 15: Cash Flow Statement (₹ Crore)				
(Year-end March)	CY17	CY18	CY19E	CY20E
Profit after Tax	70.9	71.6	93.0	112.7
Add: Depreciation	30.9	39.7	41.6	41.8
(Inc)/dec in Current Assets	-125.4	-120.1	-129.9	-150.5
Inc/(dec) in CL and Provisions	32.2	102.6	86.3	63.2
Others	3.7	3.7	3.2	2.6
<b>CF from Operations</b>	<b>12.3</b>	<b>97.5</b>	<b>94.2</b>	<b>69.8</b>
(Inc)/dec in Investments	-3.7	-2.0	0.0	0.0
(Inc)/dec in Fixed Assets	-114.5	-46.1	-75.0	-55.0
Others	7.3	1.8	0.0	0.0
<b>CF from Investing</b>	<b>-110.8</b>	<b>-46.4</b>	<b>-75.0</b>	<b>-55.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	5.6	30.8	-5.0	-2.0
Dividend paid & dividend tax	-25.1	-25.1	-29.2	-29.2
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	22.9	-9.3	0.7	2.4
<b>CF from Financing</b>	<b>3.5</b>	<b>-3.6</b>	<b>-33.6</b>	<b>-28.8</b>
Net Cash flow	-95.1	47.5	-14.3	-14.0
Opening Cash	186.4	91.3	138.8	124.5
Closing Cash	91.3	138.8	124.5	110.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet				
(Year-end March)	CY17	CY18	CY19E	CY20E
<b>Liabilities</b>				
Equity Capital	34.8	34.8	34.8	34.8
Reserve and Surplus	675.6	723.0	790.6	879.1
Total Shareholders funds	710.4	757.8	825.4	913.9
Total Debt	12.6	43.4	38.4	36.4
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	723.0	801.2	863.8	950.3
<b>Assets</b>				
Gross Block	611.1	657.4	736.5	791.5
Less: Acc Depreciation	302.9	336.3	377.9	419.7
Net Block	308.2	321.1	358.6	371.8
Capital WIP	4.1	4.1	0.0	0.0
Total Fixed Assets	312.3	325.2	358.6	371.8
Liquid Investments	0.0	0.0	0.0	0.0
Other Investments	57.8	59.8	59.8	59.8
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	247.6	303.0	367.0	429.3
Debtors	260.9	290.7	349.5	409.8
Loans and Advances	77.1	77.1	63.8	71.2
Other Current Assets	20.5	55.4	75.8	96.2
Cash	91.3	138.8	124.5	110.5
Total Current Assets	697.4	865.0	980.6	1,117.0
Creditors	274.8	377.6	436.9	487.8
Provisions	78.1	77.8	104.9	117.1
Current Liabilities & Prov	352.8	455.4	541.7	604.9
Net Current Assets	344.5	409.6	438.8	512.1
Others Assets	8.4	6.6	6.6	6.6
Application of Funds	723.0	801.2	863.8	950.3

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	CY17	CY18	CY19E	CY20E
<b>Per share data (₹)</b>				
EPS	20.4	20.6	26.7	32.4
Cash EPS	29.2	32.0	38.7	44.4
BV	204.1	217.7	237.1	262.5
DPS	6.0	6.0	7.0	7.0
Cash Per Share (Incl Invst)	26.2	39.9	35.8	31.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.4	11.7	11.9	12.8
PBT / Total Op. income	10.9	9.6	10.6	11.5
PAT Margin	7.5	6.6	7.3	7.9
Inventory days	95.7	101.2	105.0	110.0
Debtor days	100.8	97.1	100.0	105.0
Creditor days	106.2	126.1	125.0	125.0
<b>Return Ratios (%)</b>				
RoE	10.0	9.4	11.3	12.3
RoCE	10.6	11.1	12.8	14.9
RoIC	12.4	13.6	15.1	16.9
<b>Valuation Ratios (x)</b>				
P/E	31.2	30.9	23.8	19.6
EV / EBITDA	19.8	16.5	14.0	11.7
EV / Net Sales	2.3	1.9	1.7	1.5
Market Cap / Sales	2.3	2.0	1.7	1.6
Price to Book Value	3.1	2.9	2.7	2.4
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.3	0.3	0.2
Debt / Equity	0.0	0.1	0.0	0.0
Current Ratio	1.7	1.6	1.6	1.7
Quick Ratio	1.0	0.9	0.9	1.0

Source: Company, ICICI Direct Research

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Sell : < -15%



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