

December 18, 2024

Growth expected to pick-up...

About the stock: KSB Ltd (KSB) is a leading 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
- Revenue Mix (9MCY24): Pumps 83%, Valves 17%. Domestic/Exports – 88%/12%. In pumps segment, standard pumps contribute 50-60% of total while balance is from engineered pumps and after-market segment

Investment Rationale:

- Growth visibility remains strong on healthy demand outlook: We believe that KSB, one of the leading suppliers of pumps and valves in India, is well positioned to benefit from buoyant capex outlay planned across segments like energy & industrials (including refineries, petrochemicals, pharmaceuticals, chemicals, power, nuclear, steel, cement etc), irrigation, waste water and construction. Overall domestic demand for pumps & valves is expected to remain strong over the medium to long term and would help in driving company's revenue growth. Management has also maintained its guidance of 15%+ revenue growth for CY24E (vs ~10% in 9MCY24), which implies ~25% growth in Q4CY24E. Also, with the execution pick-up in nuclear segment (which contributes ~50% of ~Rs 2400 crore order backlog) and recovery in exports, revenue growth visibility remains strong for CY25E & CY26E
- Focus remains on expanding market reach with upgrading product range: Though company faced muted exports growth in YTDCY24 (due to geopolitical tensions), company remains focused on improving its export business through new projects across regions like North America, Europe, Middle-East etc. Moreover, company has been focused on strengthening its comprehensive product range to meet the demand for standard pumps, engineered pumps (including after-market) & valves. Overall margins are expected to improve in the coming periods considering the steady execution in standard pumps segment (50-60% of revenue), which has relatively higher margins. Moreover, execution pick-up in nuclear & engineered segment (~80% of order backlog) would also help in terms of increase in contribution of better-margin after-market segment

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 to improve significantly over CY23-26E. Balance sheet remains strong with healthy return ratios
- Maintain BUY with a target price of ₹ 965 per share (based on 45x P/E to CY26E EPS)



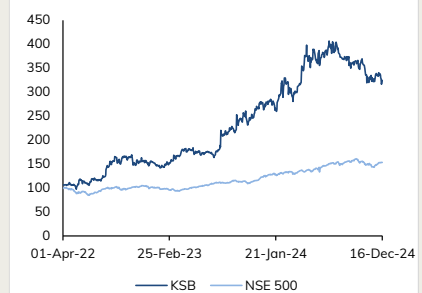
Particulars

Particular	Amount
Market Capitalization	13,749
Total Debt (CY23)	0.0
Cash & Inv. (CY23)	304.7
EV	13,444.4
52 week H/L	1060 / 634
Equity capital	34.8
Face value	2.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	66.7	66.7	69.8	69.8
FII	4.5	5.2	5.4	5.4
DII	10.1	10.0	10.1	10.2
Others	18.7	18.1	14.8	14.6

Price Chart



Key risks

- slowdown in capex
- increase in competition
- volatility in raw material prices

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Key Financial Summary

(Year-end December) Rs Crore	CY20	CY21	CY22	CY23	3 Year CAGR (CY20-CY23)	CY24E	CY25E	CY26E	3 Year CAGR (CY23-CY26E)
Revenue	1,208.1	1,497.3	1,822.1	2,247.2	23.0	2,556.7	3,007.4	3,534.0	16.3
EBITDA	167.8	209.4	246.8	293.6	20.5	346.1	422.1	509.7	20.2
EBITDA margin (%)	13.9	14.0	13.5	13.1		13.5	14.0	14.4	
Net Profit	93.8	149.4	182.8	208.7	30.6	249.8	307.5	372.8	21.3
EPS (Rs)	26.9	42.9	52.5	60.0		14.4	17.7	21.4	
P/E (x)	29.3	18.4	15.0	13.2		55.1	44.7	36.9	
EV/EBITDA (x)	79.9	64.0	54.7	45.8		38.6	31.4	25.8	
RoCE (%)	13.3	16.4	17.6	18.7		19.9	21.6	22.8	
RoE (%)	10.5	14.8	16.0	16.0		17.0	18.2	19.1	

Source: Company, ICICI Direct Research

Q3CY24 earnings call & presentation highlights

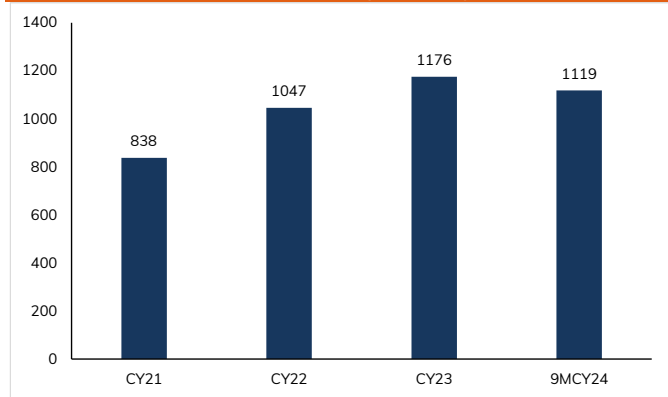
- Orders intake (excluding nuclear) stands at ~Rs 1119 crore as of Sept 2024 (vs ~Rs 1176 crore in CY23). Standard pumps business contributes ~48% of the total YTD order inflow while engineered pumps business contributes ~16%. Valves business contributes ~21% of total while Supremeserv (after market and service) contributes the balance ~15%
- Standard pumps contribution in total order inflows has increased YoY (48% from 43%) while engineered pumps contribution has declined (16% from 24%)
- Total orders on hand stands at ~Rs 2400 crore, of which ~Rs 1200 crore is from nuclear segment
- Out of total non-nuclear order backlog, 60-70% is from project business
- Standard pumps contributes 50-60% of total revenue while balance from engineered pumps and valves. EBITDA margins are relatively better in standard pumps business (as compared to engineered pumps business) due to lower overhead costs
- Exports contribution to total revenues has declined to 12% in YTD CY24 (vs 16% in CY23), as the exports revenue has been impacted due to geopolitical situation in some regions like Bangladesh
- Outlook for exports business remains promising considering the launch of new products and expanding market reach. Company expects new orders in project business from United States, Spain, Turkey, Middle East etc
- Outlook for standard pumps business remains optimistic, led by better demand (in some segments like wastewater, distillery, building services, firefighting, chemicals, solar etc), enhancing product range (like submersible pumps, vertical turbine pumps) and well established dealer distribution system
- In engineered pumps business, company sees an opportunity to participate in 800 MW supercritical steam turbine generators contract (won by L&T) next year
- In nuclear segment of engineered pumps business, company sees good long-term opportunity in 220 MW nuclear reactors as KSB has proven technology
- Company plans to enter into mining segment (domestic & exports) through increasing localisation of products which will help the company in cost competitiveness
- Aftermarket business is expected to increase meaningfully in the coming period, led by BP & CL acquisition, increasing localisation and new central warehouse at Chinchwad, Pune
- Revenue generation from FGD (Flue-Gas Desulfurization) business contribution is expected to be healthy from 2026 onwards
- EBITDA margin is expected to be stable as the focus remains on growing strongly in the coming period. However, considering the increased competition in engineered business market, margins in this segment may be impacted

Exhibit 1: 9MCY24 performance (₹ crore)

Rs crore	9MCY24	9MCY23	YoY	Comments
Revenue from Operations	1,806.7	1,644.6	9.9	Pumps business revenue growth was moderated while valves segment witnessed strong growth. Overall exports revenue also impacted during the period
Total Cost	1,567.6	1,431.9	9.5	
Raw Material cost	1,010.9	921.0	9.8	
Employees cost	230.8	200.9	14.9	
Others cost	325.9	310.0	5.1	
EBITDA	239.1	212.7	12.4	
EBITDA Margin (%)	13.2	12.9	2.3	Margins improved led by improving business mix
Other Income	26.6	25.9	2.7	
Depreciation	39.9	36.0	10.8	
Interest cost	2.3	3.7	-37.8	
Profit before tax	223.5	198.9	12.4	
Share of profit from associates	9.2	6.6	39.4	
Tax	58.3	51.7	12.8	
PAT	174.4	153.8	13.4	
Pumps Segment				
Revenue	1,505.9	1,388.5	8.5	domestic growth remains better than exports
EBIT	165.7	158.1	4.8	
EBIT Margin	11.0	11.4		
Valves Segment				
Revenue	303.6	258.5	17.4	Strong growth continues in valves segment
EBIT	42.5	31.7	34.1	
EBIT Margin	14.0	12.3		

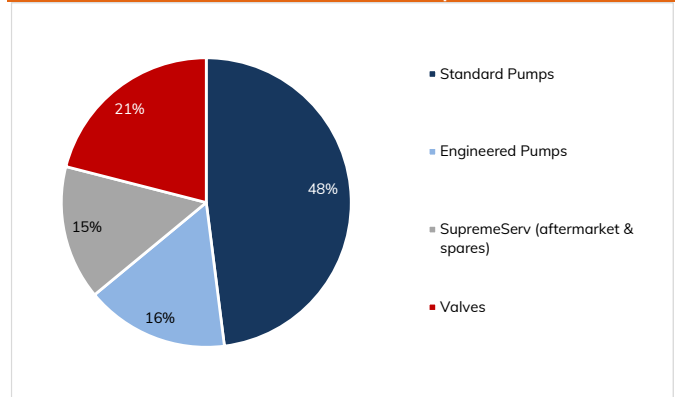
Source: Company, ICICI Direct Research

Exhibit 2: Order Inflows trend – (Rs crore)



Source: Company, ICICI Direct Research

Exhibit 3: 9MCY24 order inflow breakup



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end Dec)	CY23	CY24E	CY25E	CY26E
Net Sales	2247.2	2556.7	3007.4	3534.0
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2247.2	2556.7	3007.4	3534.0
Growth (%)	23.3	13.8	17.6	17.5
Raw Material Expenses	1,277.5	1,420.9	1,663.1	1,947.3
Employee Expenses	269.7	321.8	370.1	425.6
Other Operating Expense	406.4	467.9	552.1	651.5
Total Operating Expenditure	1,953.6	2,210.6	2,585.3	3,024.3
EBITDA	293.6	346.1	422.1	509.7
Growth (%)	19.0	17.9	22.0	20.7
Depreciation	49.7	53.7	58.5	63.2
Interest	5.3	3.0	2.5	2.5
Other Income	32.3	33.6	37.0	40.7
PBT	270.9	323.1	398.1	484.7
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	71.6	85.8	104.3	127.0
PAT	199.3	237.3	293.8	357.7
Profit from Associates	9.4	12.5	13.8	15.1
Reported Net Profit	208.7	249.8	307.5	372.8
Growth (%)	13.9	19.0	23.8	21.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end Dec)	CY23	CY24E	CY25E	CY26E
Profit after Tax	208.7	249.8	307.5	372.8
Add: Depreciation	49.7	53.7	58.5	63.2
(Inc)/dec in Current Assets	-178.8	-169.4	-239.9	-290.0
Inc/(dec) in CL and Provisions	78.6	140.5	145.3	159.7
Others	5.3	3.0	2.5	2.5
CF from Operations	163.6	277.5	273.9	308.2
(Inc)/dec in Investments	-5.3	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-105.7	-90.0	-90.0	-90.0
Others	47.2	0.0	0.0	0.0
CF from Investing	-63.9	-90.0	-90.0	-90.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-60.9	-73.1	-87.0	-104.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	5.6	-15.7	-2.5	-2.5
CF from Financing	-55.3	-88.7	-89.5	-106.9
Net Cash flow	44.4	98.8	94.4	111.3
Opening Cash	260.3	304.7	403.5	497.9
Closing Cash	304.7	403.5	497.9	609.1

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end Dec)	CY23	CY24E	CY25E	CY26E
Liabilities				
Equity Capital	34.8	34.8	34.8	34.8
Reserve and Surplus	1,267.1	1,431.0	1,651.5	1,919.9
Total Shareholders funds	1,301.9	1,465.8	1,686.4	1,954.7
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	1,301.9	1,465.8	1,686.4	1,954.7
Assets				
Gross Block	913.2	1,004.2	1,094.2	1,184.2
Less: Acc Depreciation	513.0	566.7	625.2	688.4
Net Block	400.2	437.5	469.0	495.8
Capital WIP	31.0	30.0	30.0	30.0
Total Fixed Assets	431.2	467.5	499.0	525.8
Liquid Investments	0.0	0.0	0.0	0.0
Other Investments	79.5	79.5	79.5	79.5
Inventory	642.6	735.5	865.1	1,026.3
Debtors	491.7	560.4	659.2	774.6
Loans and Advances	14.3	16.2	19.1	22.4
Other Current Assets	42.9	48.9	57.5	67.5
Cash	304.7	403.5	497.9	609.1
Total Current Assets	1,496.2	1,764.4	2,098.7	2,500.0
Creditors	343.3	420.3	494.4	580.9
Provisions	97.4	134.6	148.6	175.2
Other Current Liabilities	318.8	345.2	402.4	449.0
Total Current Liabilities	759.5	900.0	1,045.4	1,205.1
Net Current Assets	736.7	864.4	1,053.4	1,294.9
Others Assets	54.4	54.4	54.4	54.4
Application of Funds	1301.9	1465.8	1686.4	1954.7

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end Dec)	CY23	CY24E	CY25E	CY26E
Per share data (₹)				
Diluted EPS	12.0	14.4	17.7	21.4
Cash EPS	74.2	87.2	105.2	125.3
BV	74.8	84.2	96.9	112.3
DPS	17.5	4.2	5.0	6.0
Dividend Payout (%)	29%	29%	28%	28%
Operating Ratios (%)				
EBITDA Margin	13.1	13.5	14.0	14.4
PBT / Total Op. income	12.1	12.6	13.2	13.7
PAT Margin	9.3	9.8	10.2	10.5
Inventory days	104	105	105	106
Debtor days	80	80	80	80
Creditor days	56	60	60	60
Return Ratios (%)				
RoE	16.0	17.0	18.2	19.1
RoCE	18.7	19.9	21.6	22.8
RoIC	24.3	27.3	30.4	33.0
Valuation Ratios (x)				
P/E	65.9	55.1	44.7	36.9
EV / EBITDA	45.8	38.6	31.4	25.8
EV / Net Sales	6.0	5.2	4.4	3.7
Market Cap / Sales	6.1	5.4	4.6	3.9
Price to Book Value	10.6	9.4	8.2	0.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.7	1.7	1.7
Quick Ratio	0.8	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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