

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



## Rating Rationale

October 29, 2021 | Mumbai

### Kirloskar Brothers Limited

*Rating outlook revised to 'Positive'; Ratings reaffirmed*

#### Rating Action

|   |   |
|---|---|
| <b>Total Bank Loan Facilities Rated</b> | <b>Rs.1731.38 Crore (Reduced from Rs.2064.13 Crore)</b>                       |
| <b>Long Term Rating</b>                 | <b>CRISIL AA-/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)</b> |
| <b>Short Term Rating</b>                | <b>CRISIL A1+ (Reaffirmed)</b>  |

|                                      |                                |
|--------------------------------------|--------------------------------|
| <b>Rs.100 Crore Commercial Paper</b> | <b>CRISIL A1+ (Reaffirmed)</b> |
|--------------------------------------|--------------------------------|

*1 crore = 10 million*

*Refer to annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has revised its rating outlook on the long-term bank facilities of Kirloskar Brothers Limited (KBL) to **'Positive'** from 'Stable' while reaffirming the **'CRISIL AA-'** rating and has reaffirmed the **'CRISIL A1+'** rating on the short-term bank facilities and commercial paper programme. CRISIL Ratings has withdrawn its ratings on bank facilities of Rs 332.75 crore at the request by the company. This is in line with the withdrawal policy.

The outlook revision reflects the expectation of continued improvement in the operating performance of the KBL group, (KBL consolidated including joint venture, Kirloskar Ebara Pumps Ltd, KEPL, rated 'CRISIL A-/Positive/CRISIL A2+'), while sustaining its adequate financial risk profile, over the medium term. This is supported by the group's established market position in the pumps business, sizeable order book (around Rs 2,200 crore as on June 30, 2021) which provides good revenue visibility, and wide geographic reach through a strong distribution network. With improvement in the operating performance, debt metrics are expected to improve and annual cash accrual is expected over Rs 200 crore against moderate annual capital expenditure (capex) of Rs 160 crore over the medium term.

While revenue of KBL group declined 12% on-year to Rs 2,905 crore in fiscal 2021 largely due to a weak first quarter because of the Covid-19 pandemic, earnings before interest, tax, depreciation and amortisation (Ebitda) margin improved to 9.8% from 6.8% with continued improvement in its standalone as well as subsidiaries' performance. Improvement in the operating profitability of the international business was driven by structural changes with increased focus on high-margin orders, industry diversification beyond oil and gas, and cost control and process improvement measures. The standalone operating performance of KBL has also improved steadily, with improving profitability in the products business and reducing losses in the project business. Sustained improvement in operating profitability remains a key monitorable.

The operating performance was impacted in the first quarter of this fiscal by the second wave of the pandemic, albeit not as much as in the previous fiscal, with KBL Consolidated revenue declining to Rs 627 crore and Ebitda of Rs 26 crore compared to a loss last fiscal. CRISIL Ratings estimates improvement in the operating performance in the subsequent quarters this fiscal, with sizeable order book and healthy demand recovery resulting in revenue growth reaching the pre-pandemic level. The Ebitda margin is expected to sustain at 8-9% over the medium term, driven by steady improvement in the performance of international subsidiaries and cost-rationalisation initiatives.

Healthy performance in the product segment led by small pumps in the domestic market, and gradually improving performance in the international business have led to a better business risk profile. The financial risk profile improved in fiscal 2021, with the group becoming net debt free (net debt of Rs 200 crore as on March 31, 2020). Healthy cash accrual and moderate capex resulted in total debt declining to Rs 300 crore as on March 31, 2021, from Rs 595 crore a year earlier, while cash and equivalent slipped to Rs 359 crore from Rs 395 crore.

The ratings continue to reflect the leadership position of KBL in the domestic pump market, its diversified revenue and improving financial risk profile. These strengths are partially offset by continuing, though declining, losses in the project segment, large working capital requirement and exposure to intense competition.

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of KBL and its subsidiaries, as all the companies, collectively referred to as the KBL group, are under a common management, and have high operational and financial linkages.

For joint venture (JV), Kirloskar Ebara Pumps Ltd (KEPL, 'CRISIL A-/Positive/CRISIL A2+'), CRISIL Ratings follows a full consolidation wherein it combines business and financial risk profile of KEPL, given the common management and high operational and financial linkages.

CRISIL Ratings has adjusted retention receivables outstanding for more than a year in the project segment, against network and trade receivables, because they are slow moving and a substantial amount has been outstanding for over two years.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

### **Key Rating Drivers & Detailed Description**

#### **Strengths:**

- **Leadership position in the domestic pump market and diversified revenue:** The KBL group is one of the largest centrifugal pump manufacturers in India, with a leading market share. Revenue is diversified, as the group caters to multiple sectors, including agriculture, oil and gas, defence, industrial, and building and construction, including the smallest to some of the largest and complex pumping solutions in the world. The diversified end-user base mitigates the adverse impact of slowdown in any particular segment. The group has 11 plants, of which 5 are abroad helping it cater to a global customer base in 100+ countries. About 20% of its revenue comes from international subsidiaries.
- **Adequate and improving financial risk profile:** The KBL group's financial risk profile has improved over time, supported by better operating performance and healthy cash accrual. The gearing improved to 0.32 time as on March 31, 2021, from 0.80 time a year earlier, while the interest coverage ratio rose to 6.92 times in fiscal 2021 from 4.86 times in the previous fiscal. With continued improvement in the operating performance in fiscal 2022, the debt metrics should improve further for instance, interest coverage ratio is expected above 8 times. Cash accrual of over Rs 200 crore should be adequate to meet moderate capex plan of Rs 163 crore and debt obligation of Rs 31 crore in fiscal 2022.

#### **Weaknesses:**

- **Continuing, though declining, losses in the project segment and international business:** The project segment continues to incur losses, though the declining share of its revenue (to 21% of KBL's standalone revenue in fiscal 2021 from 30% in fiscal 2015) and cost control measures provide some respite. The focus on realisation of retention receivables has resulted in aggregate retention receivables declining by about 5% on-year to Rs 262 crore as on March 31, 2021. The international subsidiaries improved their operating profitability as indicated by Ebitda of Rs 64 crore in fiscal 2021 compared with Rs 23.7 crore in fiscal 2020, due to implementation of cost control and process improvement measures. The performance of the international business and the project segment will remain key monitorables.
- **Large working capital requirement:** The working capital cycle remains stretched because of large receivables (Rs 775 crore as on March 31, 2021, including Rs 240 crore retention receivables pending for more than a year), particularly in the projects business, and moderate inventory-holding period. Gross current assets were 219 days as on March 31, 2021, and are expected at a similar level over the medium term. Progress in execution of projects and collection of retention money stuck in these projects will continue to be monitored.
- **Susceptibility to intense competition:** The domestic pumps industry is highly fragmented and has several unorganised players. Organised players, including KBL, face tremendous pressure in maintaining market share and profitability, as cost-sensitive consumers attach more importance to affordability than brand equity.

#### **Liquidity: Strong**

Cash and equivalent stood at Rs 359 crore as on March 31, 2021, including bank deposits and mutual fund investments. Cash accrual is expected to be sufficient to meet moderate capex of about Rs 160 crore and long-term debt obligation of Rs 31-35 crore each in fiscals 2022 and 2023. Utilisation of the fund-based limit averaged 22% in the seven months through August 2021 and is expected to moderate in the medium term.

#### **Outlook: Positive**

Continued improvement in operating performance resulting in better cash accrual and prudent capital spend should improve the credit metrics of the KBL group. The business risk profile will benefit from the group's established market position in the domestic pumps business and sustained improvement in the performance of international subsidiaries.

#### **Rating Sensitivity factors**

##### **Upward factors:**

- Sustained revenue growth and operating margin above 9%
- Maintenance of healthy financial risk profile with continued improvement in debt protection metrics supported by prudent capital spending
- Substantial recovery of retention receivables leading to a significant increase in cash flow and an improved working capital cycle

##### **Downward factors:**

- Weaker-than-anticipated operating performance with operating margin below 4% on a sustained basis
- Material debt-funded capex or acquisitions weakening the debt protection metrics, with gearing above 1 time and interest coverage below 3.25 times on a sustained basis
- Increasing retention receivables from the projects business impacting cash flow and stretching the working capital cycle

#### **About the Group**

The KBL group, including KEPL, is India's largest manufacturer and exporter of pumps. It caters to the oil and gas, defence and marine, water resource management, irrigation, power distribution, and construction sectors. As on March 31, 2020, KBL had a standalone order book of Rs 1,682 crore, excluding projects worth Rs 270 crore on which work is yet to commence.

#### **Key Financial Indicators (including KEPL)**

| Particulars                      | Unit     | 2021 | 2020 |
|----------------------------------|----------|------|------|
| Revenue                          | Rs crore | 2905 | 3301 |
| Profit after tax (PAT)           | Rs crore | 172  | 76   |
| PAT margin                       | %        | 5.9  | 2.3  |
| Adjusted debt/adjusted networkth | Times    | 0.32 | 0.80 |
| Interest coverage                | Times    | 6.92 | 4.86 |

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

| ISIN | Name of instrument                    | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity level | Rating assigned with outlook |
|------|---------------------------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| NA   | Cash Credit                           | NA                | NA              | NA            | 200                   | NA               | CRISIL AA-/Positive          |
| NA   | Letter of credit & Bank Guarantee     | NA                | NA              | NA            | 1150                  | NA               | CRISIL A1+                   |
| NA   | Commercial paper programme            | NA                | NA              | 7-365 days    | 100                   | Simple           | CRISIL A1+                   |
| NA   | Term Loan                             | NA                | NA              | Jun-22        | 5.88                  | NA               | CRISIL AA-/Positive          |
| NA   | Term Loan                             | NA                | NA              | Sep-24        | 40.5                  | NA               | CRISIL AA-/Positive          |
| NA   | Term Loan                             | NA                | NA              | Apr-26        | 55                    | NA               | CRISIL AA-/Positive          |
| NA   | Term Loan                             | NA                | NA              | Jan-26        | 30                    | NA               | CRISIL AA-/Positive          |
| NA   | Working Capital Demand Loan           | NA                | NA              | NA            | 150                   | NA               | CRISIL AA-/Positive          |
| NA   | Cash Credit                           | NA                | NA              | NA            | 238.25                | NA               | Withdrawn                    |
| NA   | Letter of credit & Bank Guarantee     | NA                | NA              | NA            | 94.5                  | NA               | Withdrawn                    |
| NA   | Proposed Long Term Bank Loan Facility | NA                | NA              | NA            | 100                   | NA               | CRISIL AA-/Positive          |

**Annexure – List of entities consolidated**

|   | Names of entities consolidated       | Extent of consolidation | Rationale for consolidation |
|---|--------------------------------------|-------------------------|-----------------------------|
| 1 | Kirloskar Brothers International B V | Full                    | Subsidiary                  |
| 2 | The Kolhapur Steel Ltd               | Full                    | Subsidiary                  |
| 3 | Karad Projects and Motors Ltd        | Full                    | Subsidiary                  |
| 4 | Kirloskar Corrocoat Pvt Ltd          | Full                    | Subsidiary                  |
| 5 | Kirloskar Ebara Pumps Ltd            | Full                    | 45% JV in similar business  |

**Annexure - Rating History for last 3 Years**

| Instrument                | Current |                    |                     | 2021 (History) |        | 2020     |                   | 2019     |                     | 2018     |                     | Start of 2018       |
|---------------------------|---------|--------------------|---------------------|----------------|--------|----------|-------------------|----------|---------------------|----------|---------------------|---------------------|
|                           | Type    | Outstanding Amount | Rating              | Date           | Rating | Date     | Rating            | Date     | Rating              | Date     | Rating              | Rating              |
| Fund Based Facilities     | LT      | 819.63             | CRISIL AA-/Positive |                | --     | 29-10-20 | CRISIL AA-/Stable | 08-08-19 | CRISIL AA-/Negative | 08-03-18 | CRISIL AA-/Negative | CRISIL AA-/Negative |
|                           |         |                    |                     |                | --     | 06-07-20 | CRISIL AA-/Stable | 25-01-19 | CRISIL AA-/Negative |          | --                  | --                  |
| Non-Fund Based Facilities | ST      | 1244.5             | CRISIL A1+          |                | --     | 29-10-20 | CRISIL A1+        | 08-08-19 | CRISIL A1+          | 08-03-18 | CRISIL A1+          | CRISIL A1+          |
|                           |         |                    |                     |                | --     | 06-07-20 | CRISIL A1+        | 25-01-19 | CRISIL A1+          |          | --                  | --                  |
| Commercial Paper          | ST      | 100.0              | CRISIL A1+          |                | --     | 29-10-20 | CRISIL A1+        | 08-08-19 | CRISIL A1+          | 08-03-18 | CRISIL A1+          | CRISIL A1+          |
|                           |         |                    |                     |                | --     | 06-07-20 | CRISIL A1+        | 25-01-19 | CRISIL A1+          |          | --                  | --                  |

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

| Facility    | Amount (Rs.Crore) | Name of Lender | Rating              |
|-------------|-------------------|----------------|---------------------|
| Cash Credit | 16                | Canara Bank    | CRISIL AA-/Positive |

|                                       |        |                    |                     |
|---------------------------------------|--------|--------------------|---------------------|
| Cash Credit                           | 90     | Bank of India      | CRISIL AA-/Positive |
| Cash Credit                           | 33     | HDFC Bank Limited  | CRISIL AA-/Positive |
| Cash Credit                           | 25     | Citibank N. A.     | CRISIL AA-/Positive |
| Cash Credit                           | 21     | ICICI Bank Limited | CRISIL AA-/Positive |
| Cash Credit                           | 15     | Axis Bank Limited  | CRISIL AA-/Positive |
| Cash Credit                           | 238.25 | Bank of India      | Withdrawn           |
| Letter of credit & Bank Guarantee     | 550    | Bank of India      | CRISIL A1+          |
| Letter of credit & Bank Guarantee     | 120    | HDFC Bank Limited  | CRISIL A1+          |
| Letter of credit & Bank Guarantee     | 130    | ICICI Bank Limited | CRISIL A1+          |
| Letter of credit & Bank Guarantee     | 100    | Exim Bank          | CRISIL A1+          |
| Letter of credit & Bank Guarantee     | 225    | Canara Bank        | CRISIL A1+          |
| Letter of credit & Bank Guarantee     | 25     | Axis Bank Limited  | CRISIL A1+          |
| Letter of credit & Bank Guarantee     | 94.5   | Canara Bank        | Withdrawn           |
| Proposed Long Term Bank Loan Facility | 100    | Not Applicable     | CRISIL AA-/Positive |
| Term Loan                             | 40.5   | HDFC Bank Limited  | CRISIL AA-/Positive |
| Term Loan                             | 5.88   | ICICI Bank Limited | CRISIL AA-/Positive |
| Term Loan                             | 55     | HDFC Bank Limited  | CRISIL AA-/Positive |
| Term Loan                             | 30     | Exim Bank          | CRISIL AA-/Positive |
| Working Capital Demand Loan           | 150    | Bank of India      | CRISIL AA-/Positive |

This Annexure has been updated on 29-Oct-2021 in line with the lender-wise facility details as on 11-Aug-2021 received from the rated entity.

## Criteria Details

### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)

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