



**CMP: Rs. 463**

Recommendation: BUY

Time Horizon: 12 Months

52 Week High: Rs. 498.40

52 Week Low: Rs. 341.10

**Market stats**

NSE	KSBPUMPS
BSE	500249
Face Value (Rs)	10
Equity Shares (Lacs)	1740
Market Cap (Rs Lacs)	79127

**Average Volume**

1M	14834
3M	9994
6M	9633
12M	8551

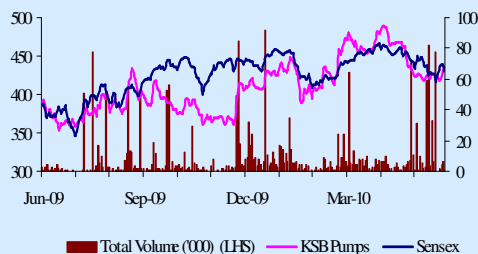
**Return Analysis**

In (%)	KSB	Sensex	Relative to Sensex
1M	8.82	2.46	6.4
3M	-3.61	1.44	-5.1
6M	8.07	3.17	4.9
12M	18.98	17.06	1.9

**Shareholding Pattern (March '10)**

Promoters	66.80%
FII's & DII's	12.34%
Bodies Corporate	5.03%
Public	15.83%

**Stock Performance**



**Investment Rationale**

**Catering to Diversified Set of Industries**

The company is the only player that manufactures pumps and valves to support functions of agricultural sector and water and sewage management systems apart from industrial applications such as power, petrochemicals, etc. The growth of the pump and valves sector is driven by the growth and increased investments in power and energy sectors apart from the agricultural sector. Pumps and valves form part of large projects across the aforesaid industries. KSB manufactures various pumps and valves of various specifications to enable fluid transportation.

The company also takes up project execution on turnkey basis and caters to niche industrial as well as highly competitive low margin agricultural and domestic (residential/commercial buildings) segments. On industrial front the company caters to diverse industries such as chemicals, petrochemicals/refiners, breweries/distilleries etc and power generation (both thermal and nuclear for feeding water to boilers).

**Competitive Edge**

Within the KSB Group globally, KSB India has relatively the highest range of pumps and valves to offer. Even among its competitors in India, KSB India has a large range of pumps to offer under one roof. Both these give the company the required competitive edge over its peers.

**Strategically Located Plants**

The company has 5 plants in India, two in Pune that cater to the requirements of irrigation and power projects, one in Nashik that manufactures multistage pumps, water and submersible motor pumps, a valve manufacturing plant in Coimbatore and a foundry in Ahmednagar to support captive consumption of castings.

**Growing Order Book, but with Low Margins**

The company doesn't sharing its current order book, however hinted that the order book is up on YOY basis. The company is expected to further bag some more projects in coming months. At the time of revival in economy in 2009, the competition increased as everybody wanted to grab whatever orders came even at lower margins. So, the company also bags certain orders at low margin as compared to its normal run rate impacting the overall profitability in CY09. This pressure on margins is also expected to continue in CY10 also.

**Diversified Revenue Stream**

KSB earns 30% of its revenues by way of sales of standard products, 65% through project based (made to order) revenues and the remaining by way of after sales services.

**Key Financials**

Particulars (in millions)	CY'08	CY'09	Q1 CY09	Q1 CY10
<b>Net Revenue</b>	6022.1	5689.7	1348	1384.9
<i>Sales Growth</i>	N/A	-5.5%	N/A	2.7%
<b>EBIDTA</b>	1095	1166	231.4	215.5
<i>EBIDTA Margins</i>	18.2%	20.5%	17.20%	15.60%
<b>Depreciation</b>	130	203	39.9	48.5
<b>Other Income</b>	55	47.7	17.4	13.7
<b>EBIT</b>	965.7	962.7	191.5	167
<i>EBIT Margins</i>	16%	16.9%	14.20%	12.10%
<b>Interest</b>	22.5	18.3	6.6	1.8
<b>PAT</b>	715.6	708.8	135.2	117.6
<i>PAT Margins</i>	11.9%	12.5%	10%	8.5%
<b>Shares Outstanding (mn)</b>	17.4	17.4	17.4	17.4
<b>EPS (Rs)</b>	41.13	40.74	7.8	6.8

**Segmental Revenue (Rs. Million)**

Segment	Q1 CY09	Q1 CY10
Pumps	1157.8	1082.6
Valves	216.0	258.0
Others	80.6	74.1

**Segmental EBIT (Rs. Million)**

Segment	Q1 CY09	Q1 CY10
Pumps	183.3	156.4
Valves	(4.7)	46.0
Others	(1.1)	-

**Segmental EBIT Margins (%)**

Segment	Q1 CY09	Q1 CY10
Pumps	15.8%	14.4%
Valves	-	17.8%
Others	-	-

**Financial Performance Q1 CY '10**

- Net sale increased by 3% to Rs 138.49 crore on the back of pump sales growth of 7% to Rs 115.78 crore. Pump segment witnessed a spurt in demand on the back of revival in user industries. However the sales of valves were lower by 16% to Rs 21.60 crore moderating the overall revenue growth. The revenue of others was higher by 9% to Rs 8.06 crore.
- EBITDA margins witnessed a decline of 160 bps to 15.6%, largely on account of higher material and staff cost which as a proportion to sales net of stocks was higher by 200 bps (to 50.5%) and 20 bps (to 14.5%) respectively. However, other expenses were lower by 70 bps to 20.1%. Consequently, EBITDA stood at Rs 21.55 crore, lower by 7%.
- Other income was lower by 21% to Rs 1.37 crore. The interest cost was lower by 73% to Rs 0.18 crore and the depreciation was higher by 22% to Rs 4.85 crore. Thus the PBT was lower by 12% to Rs 17.89 crore.
- Taxation was lower by 9% to Rs 6.13 crore but the tax incidence was at 34.3% compared to 33.2% in the corresponding previous period. Thus strained further the net profit was finally lower by 13% to Rs 11.76 crore.
- In terms of segment, the segment margin of pumps was higher by 140 bps to 15.8% and that of valves turned negative. The intense competition in the valves segment has resulted in lower realization and margin. With one of the largest player in the valves in the country which used to export major parts of its production has turned to domestic market given the sluggish global conditions and this has resulted in glut and lower realization affecting the valves business of the company. Since the international demand for valves has come down drastically, the JV has dumped all the production in Indian market which resulted in crash in margin and sales. The company expects this scenario to continue for some more time.
- The segment profit of pumps was higher by 17% (to Rs 18.33 crore or 103% of PBIT) facilitated by expansion in margin over and above increase in revenue. However the valves netted a segment loss of Rs 47 lakh as against a profit of Rs 4.60 crore in the corresponding previous period. Similarly the other segment registered a segment loss of Rs 11 lakh as against nil in the corresponding previous period.

**Peers Comparison**

Peer (Rs Million)	Equity	Net Sales	PAT	LTP (Rs)	P/E (x)	P/BV (x)
KSB Pumps	174	5658	708.8	463	11.4	2.26
Kirl. Brothers	158.6	20178	1175	260	18.2	2.62
WPIL	79.7	2107	133.7	187.8	11.0	4.04
Shakti Pumps	64	1150	103.90	180	11.3	2.85

In terms of PE multiple, on an average the company trading at par with most of its industry peers. However, it is trading at a discount of 37% to Kirloskar Brothers.

**Valuations**

At the current market price of Rs. 463, stock is available at a PE multiple of 68x to its annualized (Q4 FY10) EPS of Rs 6.8. However, at the same price, the stock is trading at a PE multiple of 11.36x to annual EPS of Rs.40.

### Recommendations

Owing to diversified business model, the company is well set to explore opportunities in various industries. However, the current order book is not so encouraging. At the current valuations, the stock looks worth buying for a handsome appreciation in medium to long term horizon.

### Company's Background

The company was incorporated in 1960 by KSB AG, Germany, one of the largest pump and valve manufacturers in the world. While the foreign promoter controlled around 40.54% stake in the company, the Indian promoters owned 25.95%, taking the total promoter holding to 66.49%. The company has grown geographically and owns plants at Pune, Sinnar and Nashik in Maharashtra and Coimbatore in Tamilnadu. The company has its own foundry plant is at Ahmednagar in Maharashtra, which caters to most of its in-house needs. KSB Pumps also manufactures castings, mainly for captive consumption.

Apart from the power and energy sectors, the areas of application of KSB Pumps' products range from building services to industrial processes, water engineering, mining and energy technology. The company also provides solutions for heating and air-conditioning problems. KSB Pumps products are used in chemical, petrochemical and other industries to transport aggressive, corrosive, explosive, solids-laden and viscous liquids. They are also used to carry industrial and municipal waste water.

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