The Pakistan Credit Rating Agency Limited

Rating Report

KSB Pumps Company Limited

Report Contents
1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Feb-2021	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect leading position of KSB Pumps Company Limited ("KSB Pumps" or "the Company") as a premier manufacturer of pumps, valves and related services in Pakistan. Ratings incorporate KSB Pumps' association with KSB SE & Co. KGaA, Germany (KSB Germany), which is one of the top 5 pump manufactures of the world. The Company has a state of the art manufacturing facility certified by KSB Germany as MBK – Made by KSB – and a foundry with backward integration capability which was enhanced and upgraded in 2017. This is supplemented by robust systems and controls with access to KSB Germany for licensing and technical knowledge. Resultantly, the Company enjoys competitive advantage in domestic market as well as for exporting to other companies across the world including group companies. The Company has leading market share in the pump industry, a testament of its superior manufacturing quality and after-sale services. The Company's revenues are mainly driven through public sector and private sector projects, although public sector proportion has decreased in recent years. However, the Company takes the advantage of foreign funded projects which ease the pressure on receivables of the Company. Private sector industrial pumps and exports made up a significant part of revenues as the Company increased the exports to its group companies by leveraging its MBK certification and strong expertise. Covid-19 has impacted the Company's operations and demand to an extent but in 3QCY20 company's revenues took a boost and it sustained its Pre-COVID market position. KSB Pumps enjoys strong margins at the gross level but remain susceptible to currency risk as ~25% of raw material is composed of imported material. Higher exports will mitigate this to a large extent. KSB Pumps has an adequate financial profile characterized by moderately leveraged capital structure and coverages. The working capital of the Company is stretched due to long overdue receivables, mainly from the government against which significant collection has been made during 2nd and 3rd quarters. SBP initiative to defer principal repayments for one year has provided relief to cashflows and, in turn, coverages. Company's association with KSB Group is considered positive. Ratings also take comfort from strong group support, technically and financially, and from its eligibility, under KSB group guidelines, to obtain intercompany loans and utilize umbrella credit facilities created by the parent company. However, during its entire history, the company never resorted to borrowing from Germany.

The ratings are dependent on the Company's ability to sustain its core margins and profitability. Meanwhile, increasing exports and diversifying the business profile will have a positive impact. Prudent working capital management and maintaining strong coverages is important.

Disclosure	
Name of Rated Entity	KSB Pumps Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Machinery(Dec-20)
Rating Analysts	Bazah Tul Qamar | bazahtul.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure KSB Pumps Company Limited (KSB Pumps) is a public limited company, incorporated in July 1959 and got listed in 1971 on Pakistan Stock Exchange.

Background KSB Pumps Company Limited, established in July 1959 in Lahore, Pakistan. It is a subsidiary of KSB SE & Co. KGaA (KSB Germany) which has a presence all over the globe with its own sales and marketing companies, manufacturing facilities and service operations. The Company got MbK certified in 2005 and upgraded and enhanced its foundry in 2017 as part of backward integration.

Operations KSB Pumps is a leading international supplier of pumps, valves and services. KSB Pumps' manufacturing facilities, plant at Hassanabdal is MbK (Made by KSB) certified. KSB Pumps has a nameplate capacity of 6,000 pumps.

Ownership

Ownership Structure KSB Pumps is a subsidiary of KSB Germany as KSB Germany holds ~58.89% of the Company's shareholding. NIT is the single largest second shareholder 8.57%. Rest of the shareholding is divided among, corporates, financial institutions and the general public.

Stability KSB Pumps is one of the largest and leading manufacturer of pumps and valves. The Company's long association with KSB Germany brings stability to the Company. No change in ownership has been seen recently.

Business Acumen KSB Germany was founded in 1871 by Johannes Klein. KSB Germany has now more than 15,000 employees and production facilities on every continent. KSB Germany is one of the top 5 pump manufacturers of the world. KSB Germany provides technical assistance to KSB Pumps which helps the Company to maintain its leading position in Pakistan.

Financial Strength The financial strength of the KSB Germany remains solid and Total equity for the KSB Germany amounts to € 727 million as on June20, while the group's consolidated sales revenue amounted to € ~1.06bln for 1HCY20. Parent Company may provide unconditional financial support to the Company if needed.

Governance

Board Structure KSB Pumps has eight-member Board chaired by Dr. Sven Baumgarten. There is one executive directors, while three are independent directors (including one NIT Nominee) and four non-executive directors.

Members' Profile Board members have diverse profile all bringing decades of experience with them. KSB Pump's board comprises of highly qualified professionals. Dr. Sven Baumgarten is the current chairman of KSB and replaced Mr. Tonjes Cerovsky in 2019. He has over 2 decades of experience and since 2019 he is also MD of KSB Middle East FZE in UAE and also in charge of the entire KSB Region Middle East, Africa & Russia as Regional Executive Officer.

Board Effectiveness During CY19, attendance of BOD members in meetings remained strong while minutes of the meeting are well documented. KSB Pumps has two committees to assist the board, Audit committee and Human resource and remuneration committee.

Financial Transparency A.F Ferguson & Company are external auditors for the KSB Pumps. The auditor gave an unqualified opinion on the Company's financial statements for the year ended December 31st 2019 and half year ended June 30, 2020. The Company has an in-house internal audit department.

Management

Organizational Structure The Company's operations are segregated into ten broad divisions ; (i) Technical Sales Support & Product Management (ii) QHSE, (iii) Sales & Marketing (iv) Material & Purchasing (v) Finance and Controlling (vi) Operations (vii) Internal Audit (viii) Human Resources (ix) Service (x) Regulatory affairs.

Management Team KSB Pump has a management team of experienced professional who are attached with KSB Pumps for a long time. The management team is led by the CEO, Mr. Mohammad Masud Akhtar. He is an Electrical Engineer by profession and has a Master's degree in Manufacturing Systems Engineering from Pennsylvania USA. Finance & accounts function is headed by Ms. Faryal Zafar who has over 19 years of experience.

Effectiveness The Company has formal management committees in place and they report to the CEO. Management committees consist of QHSE committee, EHS committee, procurement committee and product committee.

MIS KSB Pumps deploys SAP as an ERP solution that provides comprehensive MIS reporting. SAP is deployed by KSB Germany with real-time reporting to the parent company. The Company also prepares and shares monthly MIS reports with the Parent company.

Control Environment The Company's monthly MIS comprises comprehensive performance reports which are reviewed by senior management. The Company also has several certifications for quality, environment, health and safety. The Company's MbK certification ensures quality of KSB Pumps to be as quality of KSB Germany.

Business Risk

Industry Dynamics Pump and valve industry in Pakistan is majorly driven by investments from public and private sector in water & waste water, chemical & petrochemical, energy, building services segments. Variety of pumps are sold in the market with the most common being standard pumps used in pumping water in homes, tube wells/disposal stations for metropolitan cities and API engineered pumps for process industries, big buildings such as malls, canals and thermal power plants. Currency devaluation, higher interest rate with rising energy costs have resulted in an overall downturn in the economy hence subsequent lower government and private sector spending which led to a decrease in demand since 2018. The industry is also affected during COVID-19 situation.

Relative Position KSB Pumps is the leading player within the Industrial pumps and valves industry with a right mix of clientele from public and private sectors. KSB Pumps is the only multinational Company with the pump manufacturing facility among its competitors. With superior after-sale service, KSB is maintaining its leading position for decades.

Revenues The Company's revenues comprise public and private sector projects, industrial pumps and services. ~76% of revenue comes from Pumps & Valves while remaining comes from project sales and services. The Company's revenue is predominantly from local sales (CY19: 83%, CY18: 92%). During 9MCY20, KSB's revenue declined (9MCY20: 2,490mln, CY19: PKR 3,756mln, CY18: PKR 4,953mln) due to temporary production shutdown during COVID/lockdown.

Margins During 9MCY20 gross margins showed YoY growth (9MCY20: ~19.3%, CY: ~19.5%, CY18: ~13.5%). Net margins declined during CY19 due to high increase in finance cost and stood at 2.3% in CY19 (CY18: 4%) and further deteriorated in 9MCY20 to -0.8%. The reported net loss pertains to 1HCY20 where company reported a negative bottom line of ~PKR -55mln. While the profit in 3QCY20 amounting to ~PKR 36mln has absorbed the previously incurred loss to some extent, reducing it to ~PKR -19mln during 9MCY20.

Sustainability KSB Pumps is increasing its exports and prioritizing foreign funded projects due to receivable being stuck in government projects for a longer period of time. The Company is continuously diversifying its business profile and has shown improvement in revenues. Due to COVID-19 outbreak and subsequent lockdown, the operations of the Company remained shut for a few days but restarted after approval from the Government. The management is hopeful that the net loss will be fully absorbed in last quarter CY20 and will be able to achieve a breakeven by CY20.

Financial Risk

Working Capital KSB's working capital needs are met through internal cashflow and short- term borrowing. During 9MCY20, utilization of short-term borrowing lines increased to finance the procurement of a significant amount of inventory as the Company took anticipation of rise in price of goods. Resultantly, inventory days increased to ~89 days (CY19: ~85 days, CY18 ~70 days) with the payables remained stretched leading net cash cycle to clock-in at ~166 days in 9MCY20 (CY19: ~145 days, CY18 ~122 days).

Coverages Despite a YoY increase in operating cashflows in 9MCY20, interest coverage declined YoY (9MCY20: 2.7x, 9MCY19: 2.9x) due to higher finance cost. The Company continues to face cashflow problem due to low receivables from the government sector. SBP relief due to Covid-19 however provided much needed breather to the cashflows as the Company has opted to defer long term debt for one year.

Capitalization KSB Pumps has a moderately leveraged capital structure clocking in at ~40% in 3QCY20. The Company has availed new short term loan from SBP for salaries of its workers under COVID-19 scheme. Deferment of principal amount of the long term loan has also been approved.

PKR mln

KSB Pumps Company Limited	Sep-20	Dec-19	Dec-18	Dec-17
Machinery	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,151	1,266	1,344	1,258
2 Investments	-	-	0	0
3 Related Party Exposure	3	2	17	12
4 Current Assets	3,603	3,672	3,760	3,516
a Inventories	*817*	*794*	*955*	*953*
b Trade Receivables	*1,324*	*1,306*	*1,319*	*1,141*
5 Total Assets	4,756	4,941	5,122	4,786
6 Current Liabilities	1,399	1,498	1,820	2,232
a Trade Payables	*705*	*619*	*778*	*764*
7 Borrowings	1,289	1,336	1,217	573
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	149	149	184	109
10 Net Assets	1,918	1,958	1,902	1,871
11 Shareholders' Equity	1,918	1,958	1,902	1,871
B INCOME STATEMENT				
1 Sales	2,490	3,756	4,953	5,115
a Cost of Good Sold	*(2,010)*	*(3,022)*	*(4,285)*	*(3,970)*
2 Gross Profit	480	734	668	1,145
a Operating Expenses	(414)	(533)	(569)	(579)
3 Operating Profit	66	201	98	566
a Non Operating Income or (Expense)	*46*	*87*	*208*	*2*
4 Profit or (Loss) before Interest and Tax	112	287	306	567
a Total Finance Cost	*(107)*	*(171)*	*(54)*	*(28)*
b Taxation	*(26)*	*(29)*	*(55)*	*(143)*
6 Net Income Or (Loss)	(20)	88	196	396
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*203*	*303*	*179*	*577*
b Net Cash from Operating Activities before Working Capital Changes	*81*	*152*	*136*	*550*
c Changes in Working Capital	*(118)*	*(139)*	*(766)*	*215*
1 Net Cash provided by Operating Activities	(36)	13	(630)	765
2 Net Cash (Used in) or Available From Investing Activities	2	(83)	(149)	(833)
3 Net Cash (Used in) or Available From Financing Activities	(67)	81	486	423
4 Net Cash generated or (Used) during the period	(101)	11	(293)	355
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-11.6%	-24.2%	-3.2%	3.3%
b Gross Profit Margin	19.3%	19.5%	13.5%	22.4%
c Net Profit Margin	-0.8%	2.3%	4.0%	7.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sale	3.4%	4.4%	-11.9%	15.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets*	-1.4%	4.4%	10.7%	21.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	233	213	167	110
b Net Working Capital (Average Days)	160	145	110	65
c Current Ratio (Current Assets / Current Liabilities)	2.6	2.5	2.1	1.6
3 Coverages				
a EBITDA / Finance Cost	2.8	2.7	9.3	36.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	1.1	1.0	4.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cos	3.5	1.8	2.8	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.2%	40.6%	39.0%	23.4%
b Interest or Markup Payable (Days)	58.0	80.6	129.3	72.5
c Entity Average Borrowing Rate	9.7%	12.4%	5.3%	3.3%

Credit Rating

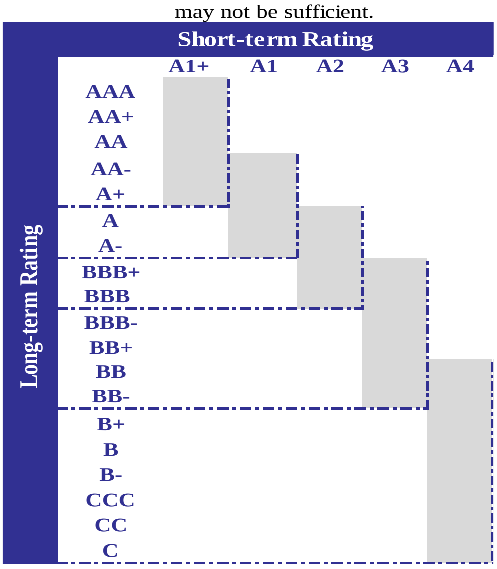
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information