



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
17-Dec-2021	A+	A1	Stable	Maintain	Yes
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 . 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 substantial market share in the pump industry. The Company's revenues are mainly driven through public sector and private sector projects, although public sector proportion has decreased in recent years. 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. The Company takes the advantage of private and foreign funded projects which ease the pressure on receivables of the Company. KSB Pumps margins have taken a hit at the gross level due to increase in raw material prices as less than ~30% of raw material is imported keeping the company susceptible to currency risk. Higher exports will mitigate this to a large extent. KSB Pumps has an adequate financial profile characterized by moderately leveraged capital structure. The working capital of the Company is stretched due to long overdue receivables, mainly from the government. Receipt of cash inflows from one of the company's projects primarily in first quarter of 2022 will provide 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 improve its core margins and profitability through execution of better margin projects. The company is pursuing a legal case, of which the outcome is not yet decided - hence the watch. Prudent working capital management, maintaining strong coverages with improved capacity utilization will increase cost optimization, hence imperative for the ratings going forward.

**Disclosure**

<b>Name of Rated Entity</b>	KSB Pumps Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Machinery(Dec-21)
<b>Rating Analysts</b>	Uswa Sikandar   uswa.sikandar@pacra.com   +92-42-35869504

## Profile

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

**Background** 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. Its registered office and Head office is located at Lahore and manufacturing facility is situated at Hassanabdal which is also MbK (Made by KSB) certified.

**Operations** KSB pumps is a leading international supplier of pumps, valves and services. It has a nameplate capacity of 6,000 pumps. To enable easy access to its customers, KSB Pakistan has a nationwide operating network of Franchise & Dealers. In addition, the Company has full-fledged Service Department and state of the art service facility.

## Ownership

**Ownership Structure** KSB Germany holds ~58.89% of the company's shares. Rest of the shareholding is divided among, insurance companies, Financial Institutions and General public.

**Stability** KSB Germany is one of the largest and leading manufacturers of pumps and valves of the world. Long term association of the Company with KSB Germany brings stability to its ownership. The parent company keeps a pool of € ~250 million in an Umbrella facility for other group Companies to use in the time of need.

**Business Acumen** KSB Germany has production facilities on every continent and is recognized as world's leading manufacturer of centrifugal pumps and valves. It provides technical assistance and support to KSB Pumps which improves the Company and helps the Company in maintaining its leading position.

**Financial Strength** Total equity for the KSB Germany amounts to € 703.8 million. The group's consolidated sales revenue is € ~2.2 billion (2019: € ~2.4 billion) and equity ratio is 32.9 % (2019: 38.2 %). KSB Germany has the ability and willingness to support the Company, if needed .

## Governance

**Board Structure** KSB Pumps has an eight-member Board chaired by Dr. Sven Baumgarten. Two directors have been recently appointed. One of whom is Mr. Imran Ghani who is also the CEO & MD of KSB pumps. Mr. Asif Malik, currently the CEO of US Apparel & Textile, is another newly appointed non-executive Director. There are three independent directors , 3 executive directors and two non-executive directors.

**Members' Profile** Board members have diverse profile all bringing decades of experience with them. Dr. Sven Baumgarten 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. Mr. Imran Ghani, a Mechanical Engineer by profession has a wide, diversified and extensive professional experience spread over a period of above 29 years .

**Board Effectiveness** During current period, attendance of BOD members in meetings remained satisfactory. KSB Pumps has two committees to assist the board, Audit committee and Human resource and remuneration committee. Chairmen of both these committees are non-executive directors.

**Financial Transparency** A.F Ferguson & Company are the company's external auditors who gave an unqualified opinion on the Company's financial statements FTY ended Dec 31st 2020 and HY ended June 30, 2021. The Company has an in-house internal audit department.

## Management

**Organizational Structure** The Company's overall operations are segregated into ten broad divisions, namely: (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) Company's Secretary. The Company's management is totally aligned with KSB Germany.

**Management Team** KSB pumps has a management team of experienced professionals who have been associated with the company for a long time . Management team is led by CEO, Mr. Imran Ghani while Finance function is headed by Chief Financial Officer, Ms. Faryal Zafar who is a Cost & Management Accountant by profession with 19 years' of professional experience.

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

**MIS** KSB Pump 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 frequently by senior management. The company also has several certifications for quality, environment, health and safety.

## Business Risk

**Industry Dynamics** Pump industry remains a small but specialized industry with special emphasis on after sales services. The estimated market size of pumps and valves industry was PKR~9.0bln during CY20. Major raw material of Pump and Valve is iron which is both imported and locally purchased. Since a significant portion of pumps and valves demand is based on govt. orders , it creates issues with regards to working capital as often receipt of payments from government organizations are delayed. The increase in budgeted federal PSDP from PK R~650bln in FY21 to PKR~900bln in FY22 should result in growth for sectors catering to the machinery demand from government departments and projects.

**Relative Position** KSB Pumps is the leading player in pumps and valves industry catering to the need of both public and private clients. It is the only corporate player with the pump manufacturing facility among its competitors which are small SME's holding the remaining market share. With superior after sales services, it is maintaining its leading position since decades.

**Revenues** KSB Pumps derives revenue from three segments i) Pumps & valves ii) Services and (iii) Project sales. Pumps & Valves are major contributor with 71% contribution in sales. The Company has also started export sales to bring stability in the topline which is still predominantly local oriented, (3QCY21 - 86%, CY20 - 82%) . Company's focus towards private clients has also increased due to poor recoveries from govt. dept. ( 3QCY21 - Govt : 23% , Non-govt. : 77%) . The company has reported 12.4% growth in sales in current period and the revenue has increased to PKR 3.04 billion in 3QCY21 compared to PKR 2.49 billion in 3QCY20.

**Margins** During 3QCY21 gross margin was recoded at 13.3% (3QCY20: ~19.3%, CY20: ~16.5%). Major reason for decrease in GP margins is change in sales mix of the company as portion of 3rd party services and sale of auto parts and traded parts has increased compared to sale of KSB's own produced pumps which yield higher profit margins. Increase in raw material prices and disrupted supply chains are other major contributing factors towards the decrease. The operating profit margins showed similar trends and declined to 3QCY21~ 0.9% compared to 3QCY20: ~2.7%.

**Sustainability** KSB Pumps is increasing its exports and prioritizing private sector projects due to receivables being stuck in government projects. Company will be focusing on increasing numbers of its own produced products to increase capacity utilization and cost optimization.

## Financial Risk

**Working Capital** During 3QCY21, utilization of STB lines has increased indicating major reliance on them to fulfill working capital needs. Consequent to decrease in receivable days 3QCY2021~ 123 days (3QCY20: ~145 days), and no significant change in payable days 3QCY2021~ 75 days (3QCY20: ~73 days), the Company's net cash cycle in 3QCY21 has clocked in at ~127 days (3QCY20: ~160 days). The Company's trade leveraging position has declined significantly during the period to 18.8% (3QCY20: ~31.8%). due to excessive short-term borrowings over and above the net working capital needs, depleting its borrowing capacity.

**Coverages** Debt-servicing coverage ratio has declined to 0.5x in 3QCY21 (3QCY20: 0.9x) due to weak cash flows and increase in STB and CMLTB which recoded at PKR 1,414 million in current period as opposed to PKR 965 million in 3QCY20. FCFO have decreased from PKR 275 million in 3QCY2020 to PKR 194 million in the current period.

**Capitalization** KSB Pumps has a moderately leveraged capital structure as leveraging in 3QCY21 clocked in at ~43% (3QCY20: ~40.2%). The Company's total debt amounts to ~PKR 1.47bln in 3QCY21, comprising ~78% of short-term borrowing while the remaining portion constitutes long-term debt.



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Financial Summary

PKR mln

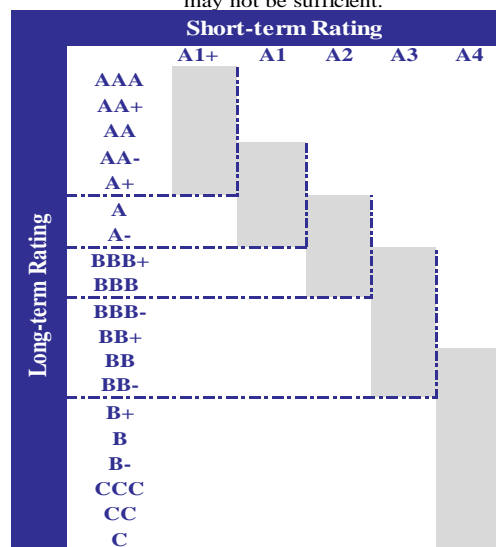
KSB Pumps Company Limited Machinery	Sep-21 9M	Dec-20 12M	Dec-19 12M	Dec-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,083	1,160	1,266	1,344
2 Investments	-	-	-	0
3 Related Party Exposure	7	6	2	17
4 Current Assets	4,286	3,528	3,672	3,760
a Inventories	1,086	677	794	955
b Trade Receivables	1,344	1,397	1,306	1,319
5 Total Assets	5,377	4,693	4,941	5,122
6 Current Liabilities	1,863	1,477	1,498	1,820
a Trade Payables	970	701	619	778
7 Borrowings	1,470	1,159	1,336	1,217
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	96	90	149	184
10 Net Assets	1,948	1,967	1,958	1,902
11 Shareholders' Equity	1,948	1,967	1,958	1,902
<b>B INCOME STATEMENT</b>				
1 Sales	3,040	3,607	3,756	4,953
a Cost of Good Sold	(2,636)	(3,012)	(3,022)	(4,285)
2 Gross Profit	404	595	734	668
a Operating Expenses	(378)	(509)	(533)	(569)
3 Operating Profit	26	86	201	98
a Non Operating Income or (Expense)	67	73	87	208
4 Profit or (Loss) before Interest and Tax	93	159	287	306
a Total Finance Cost	(70)	(135)	(171)	(54)
b Taxation	(36)	(7)	(29)	(55)
6 Net Income Or (Loss)	(13)	16	88	196
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	140	198	303	179
b Net Cash from Operating Activities before Working Capital Changes	74	51	152	136
c Changes in Working Capital	(179)	76	(139)	(766)
1 Net Cash provided by Operating Activities	(105)	127	13	(630)
2 Net Cash (Used in) or Available From Investing Activities	(42)	(45)	(83)	(149)
3 Net Cash (Used in) or Available From Financing Activities	305	(198)	81	486
4 Net Cash generated or (Used) during the period	158	(116)	11	(293)
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	12.4%	-4.0%	-24.2%	-3.2%
b Gross Profit Margin	13.3%	16.5%	19.5%	13.5%
c Net Profit Margin	-0.4%	0.5%	2.3%	4.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-1.3%	7.6%	4.4%	-11.9%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareho	-0.9%	0.8%	4.4%	10.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	203	211	213	167
b Net Working Capital (Average Days)	127	144	145	110
c Current Ratio (Current Assets / Current Liabilities)	2.3	2.4	2.5	2.1
3 Coverages				
a EBITDA / Finance Cost	3.0	2.5	2.7	9.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	0.5	1.1	1.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.3	6.8	1.8	2.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	43.0%	37.1%	40.6%	39.0%
b Interest or Markup Payable (Days)	105.3	52.6	80.6	129.3
c Entity Average Borrowing Rate	6.9%	9.5%	12.4%	5.3%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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- 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

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- (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.
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- (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)
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- (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
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- (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)

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