

KSB Pumps

STOCK INFO.

BSE Sensex: 12,612

S&P CNX: 3754

BLOOMBERG

KSB IN

REUTERS CODE

KSBP.BO

Equity Shares (m)	17.4
52-Week H/L (Rs)	630/285
1,6,12 Rel. Perf. (%)	13/14/7
M.Cap. (Rs b)	10.4
Avg. Daily Vol. ('000)	14.9

10 May 2006

Buy

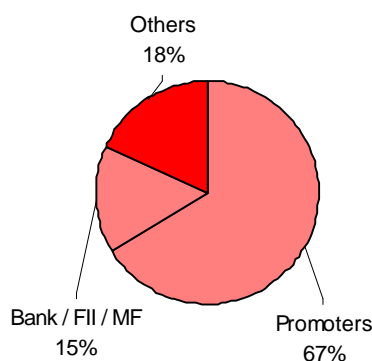
Rs 600

YEAR END	NET SALES (Rs M)	PAT (Rs M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES (X)	EV/ EBITDA (X)
12/05A	3,585	385	22.1	28.4	27.1	6.4	23.7	34.6	2.8	16.1
12/06E	4,100	485	27.9	25.9	21.5	5.2	24.1	33.9	2.4	12.6
12/07E	4,850	619	35.5	27.4	16.9	4.2	24.6	35.3	2.0	9.6

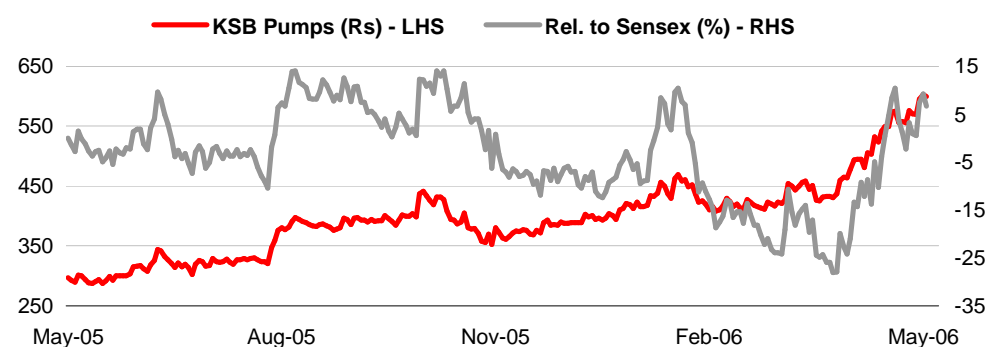
KSB Pumps, a 40% subsidiary of KSB AG, Germany, is a leading player in the pumps and industrial valves business. The company offers high growth visibility, driven by increasing investments in power generation and capital expansion in the refinery/petrochemical sector. Exports too are likely to grow at double-digit rates. We expect expansion in KSB's margins due to its focus on higher-end products. Valuations are reasonable relative to the engineering sector. We recommend **Buy**.

- **High growth visibility:** KSB offers high growth visibility. Greater emphasis on new power generation capacities by the government augurs well for KSB. Further, new refinery capacities being added in the private and public sector suits the corporate plan chalked out by KSB, which intends to shift from the highly competitive low margin agricultural and domestic segments to high technology pumps.
- **Expanding margins:** Greater demand for industrial valves and focus on higher value-added products has helped KSB to expand its margins. With increasing demand for new products involving high-end technology, and the company's product mix changing in favor of higher value-added products, we believe that KSB's margins would continue to expand, going forward.
- **Valuations attractive; Buy:** We expect KSB Pumps to report revenues of Rs4.1b in CY06 and Rs4.9b in CY07, and PAT of Rs480m in CY06 and Rs600m in CY07. At the CMP of Rs600, the stock trades at 16.9x CY07E earnings. We recommend **Buy** with price target of Rs750 (21x CY07E EPS of Rs35.5).

SHAREHOLDING PATTERN



STOCK PERFORMANCE (1 YEAR)



Investment Argument

High growth visibility...

A leader in the pumps sector, KSB provides high-end pumps to diverse industries such as power generation, refining, petrochemicals, chemicals and breweries/distilleries. It also has low-end products to service the low margin agricultural and construction segments.

KSB intends to improve its product mix in favour of high-technology pumps. Greater emphasis on new power generation capacities by the government, with higher focus on nuclear power generation, augurs well for KSB. Further, new refinery capacities being added in the private and public sector also suits KSB's corporate plan.

...driven by investments in power generation...

As per the XIth 5-year plan (2007-12), the government intends to add about 60,000 MW of power generation capacity. Of this, we expect 46,000 MW to be added in the thermal power segment and 4,000 MW to be added in the nuclear power segment. This is against 21,000 MW and 2,500 MW, respectively in the Xth plan.

We estimate pump cost at 1.5% in case of thermal power plants and 4% in case of nuclear power plants. KSB is a market leader in supplying pumps to the power sector and a near monopoly for critical nuclear sector pumps. As a thumb rule, cost of one MW of thermal power is Rs40m while that of nuclear power is Rs60m. This in turn translates into an addressable market size of about Rs37.2b for KSB's pumps over the next five years.

Earlier, KSB AG was awarded orders for 12 large boiler feed pump sets with one booster pump each and nine condensate pumps for use in India's most modern coal-fired power station. We expect more such orders from newly-constructed power stations. We believe that as the order size increases, technology would flow in from the parent and pumps would be manufactured in-house.

...and capex in petrochem sector

KSB is the leader for process pumps for the refinery and petrochemical sector. Expansion plans by Reliance

and MRPL augur well for KSB. Further, other refiners like HPCL and Essar are also expanding their capacities. Total capex in the sector is expected to be at Rs294.5b over the next 3-5 years. We expect pumps to constitute 1.5% of the total capex, which translates into an addressable market of Rs4.35b for KSB's pumps.

Irrigation & sewage - a huge opportunity

There exists huge opportunity in water irrigation and sewerage projects for pump manufacturers. KSB is a leader in water irrigation and sewerage pumps, wherein it undertakes only the supply and erection of pumps and not the EPC contracts.

Background

KSB Pumps, the Indian subsidiary of KSB AG, Germany, a leading player in power driven pumps and industrial valves in India. It was established in 1960 and caters to niche industrial as well as highly competitive low margin agricultural and domestic (residential/commercial buildings) segments. On the industrial front, the company caters to diverse industries such as chemicals, petrochemicals/refiners, breweries/distilleries, and power generation (both thermal and nuclear for feeding water to boilers).

Its technical collaborator, Canadian Kay Pump Ltd holds 40.54% in the company. Indian promoters hold 25.95%, taking the total promoters' holding to 66.49%. KSB's own foundry plant is located at Ahmednagar in Maharashtra. At present, the company's capacity for producing power driven pumps and industrial valves stands at 96,000 and 125,000 respectively. For CY05, pumps contributed 73.7% to its turnover and industrial valves contributing to the balance.

MIL Control Limited, producer of ANSI and control valves is an associate company of KSB Pumps Limited. It is a pioneer in manufacturing control valves, level instruments and accessories. It serves the core sector which includes thermal, oil and gas, petrochemicals, fertilizers, pharmaceuticals, nuclear power, metallurgy. It has achieved a PBT of Rs42.2mn for CY05 as against Rs31.1mn for CY04.

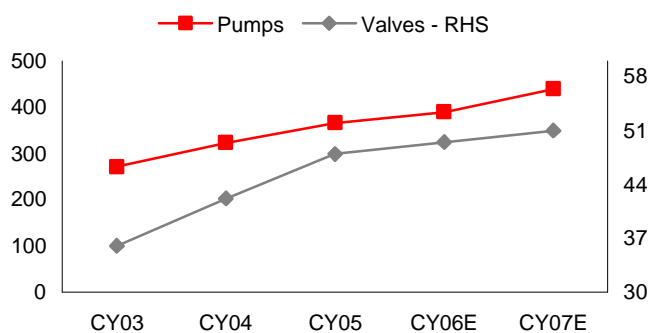
Exports to be on a steady growth trend

Exports accounted for 12.33% of KSB's net sales (Rs442m) in CY05 as against 10.52% (Rs318m) in CY04. It earned agency commission of Rs9m in CY05. Given the growth in the international economy, we expect the company's exports to continue trending up.

Higher realizations; expanding margins

Greater demand for valves and focus on higher margin products has helped KSB Pumps to achieve higher realizations and expand margins.

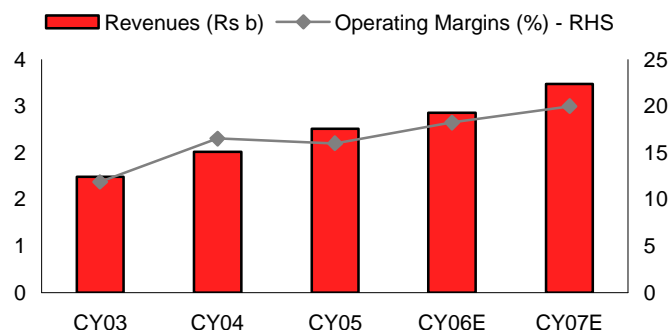
IMPROVING REALIZATIONS (RS '000/UNIT)



Source: Motilal Oswal Securities / Company

In the pump segment, the company has introduced new products involving high-end technology needed in nuclear and thermal power stations, which would aid margin expansion. Competitors in this segment are Kirloskar Brothers, Mather and Platt and Sulzer Pumps.

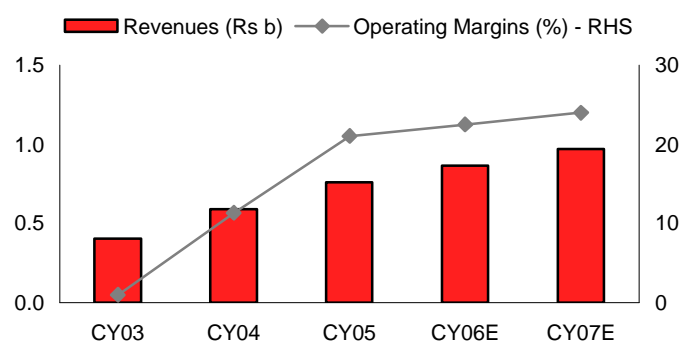
PUMPS DIVISION PERFORMANCE



Source: Motilal Oswal Securities / Company

In the industrial valves segment, capex initiated by the petrochemicals, refinery and other end-user industries has led to higher capacity utilisation and greater use of higher grade high tension valves. This has translated into substantial improvement in margins. We believe that the ongoing buoyancy in the industrial segment would lead to further increase in capacity utilization, in turn resulting in further margin expansion. KSB's competitors in this segment are L&T and Audco Valves.

VALVES DIVISION PERFORMANCE

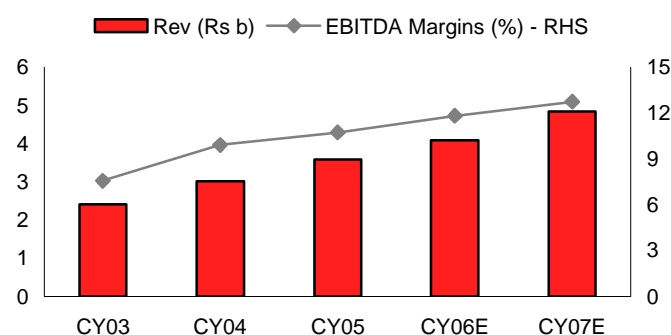


Source: Motilal Oswal Securities / Company

Financials

For CY05, KSB Pumps reported revenues of Rs3.6b (against Rs3b for CY04), EBITDA of Rs622m (against Rs456m for CY04) and PAT of Rs385m (against Rs300m for CY04). Margins expanded by 226bp at the operating level and by 82bp at the net level, mainly on the back of a change in product mix and the shift towards higher-end products.

ON THE GROWTH PATH



Source: Motilal Oswal Securities / Company

Valuation and Recommendation

We expect KSB Pumps to report revenues of Rs4.1b in CY06 and Rs4.9b in CY07, and PAT of Rs480m in CY06 and Rs600m in CY07.

CY05 through CY07 the EPS CAGR works out to 27%. At the CMP of Rs600, the stock is trading at 27x CY05. Thus the PEG is reasonable at 1x.

At 16.9x CY07E earnings, KSB is trading at the lower end of valuation for the large cap engineering sector as a whole (see adjacent table).

Our 1-year price target for KSB is Rs750 (21x CY07E EPS of Rs35.5), which gives an upside of 25% from the current levels. We recommend **Buy**.

COMPARATIVE VALUATIONS

Engineering	EPS Yr.1	EPS Yr.2	CMP	PE Yr.1	PE Yr.2
Cummins India	12.0	15.0	232	19.4	15.5
KSB Pumps	27.9	35.5	600	21.5	16.9
Crompton Greaves	50.5	59.7	1181	23.4	19.8
Thermax	13.5	17.3	345	25.6	19.9
BHEL	90.9	118.5	2392	26.3	20.2
Larsen & Toubro	106.9	132.4	2814	26.3	21.3
Alstom Projects	11.0	15.5	346	31.5	22.3
Siemens	167.4	219.0	5899	35.2	26.9
ABB	68.9	92.0	3236	47.0	35.2
Sector Aggregate				27.8	21.7

Note: Yr.1 - CY06/FY07; Yr.2 - CY07/FY08

Source: Motilal Oswal Securities

INCOME STATEMENT (Rs M)					
Y/E DECEMBER	2003	2004	2005	2006E	2007E
Net sales	2,403	3,023	3,585	4,100	4,850
Change (%)		25.8	18.6	14.4	18.3
EBITDA	262	456	622	779	994
Change (%)		74.2	36.4	25.2	27.6
Depreciation	96	94	100	105	115
EBIT	166	363	523	674	879
Interest	16	8	5	9	11
Other income	109	105	78	60	60
PBT & EO items	259	460	595	725	929
PBT	259	460	595	725	929
Tax	77	160	210	240	310
Rate (%)	29.6	34.7	35.2	33.1	33.4
REPORTED PAT	182	300	385	485	619
Adjusted PAT	182	300	385	485	619
Change (%)		64.9	28.4	25.9	27.4
EBITDA margin (%)	10.9	15.1	17.4	19.0	20.5
PAT margin (%)	7.6	9.9	10.8	11.8	12.8

RATIOS					
Y/E DECEMBER	2003	2004	2005	2006E	2007E
Basic (Rs)					
EPS	10.5	17.3	22.1	27.9	35.5
Growth (%)		64.9	28.4	25.9	27.4
Cash EPS	16.0	22.6	27.9	33.9	42.2
Book value	62.9	76.8	93.3	115.6	144.3
DPS	3.5	4.0	4.5	5.0	6.0
Payout (incl. Div. Tax.) (%)	33.4	23.2	23.0	20.3	19.1
Valuation (x)					
P/E	57.3	34.8	27.1	21.5	16.9
Cash P/E	37.5	26.5	21.5	17.7	14.2
Price/Book value	9.5	7.8	6.4	5.2	4.2
EV/Sales	4.3	3.4	2.8	2.4	2.0
EV/EBITDA	39.3	22.4	16.1	12.6	9.6
Dividend yield (%)	0.6	0.7	0.8	0.8	1.0
Profitability ratios (%)					
RoE	16.6	22.5	23.7	24.1	24.6
RoCE	15.9	21.6	34.6	33.9	35.3
Turnover ratios					
Debtors (days)	71	76	70	71	71
Asset turnover (x)	19	2.1	2.1	19	18
Leverage ratio					
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1

BALANCE SHEET					
Y/E DECEMBER	2003	2004	2005	2006E	2007E
Equity share capital	174	174	174	174	174
Reserves	920	1,162	1,450	1,837	2,337
Minority Interest	0	0	0	0	0
Networth	1,094	1,336	1,624	2,011	2,511
Loans	128	77	113	153	153
Net deferred tax liability	24	10	0	0	0
Capital employed	1,246	1,423	1,737	2,164	2,664
Gross fixed assets	1,380	1,440	1,531	1,601	1,701
Less: Depreciation	897	982	1,064	1,169	1,284
Net fixed assets	483	457	467	432	417
Capital WIP	8	44	15	0	0
Investments	180	78	78	78	78
Curr. assets	1,396	1,824	2,190	2,740	3,373
Debtors	465	627	686	800	950
Cash & bank balance	95	227	437	702	954
Loans & advances	156	181	195	250	300
Other Current Assets	0	0	0	0	0
Current liab. & prov.	820	980	1,013	1,087	1,204
Net current assets	576	844	1,176	1,653	2,169
Application of funds	1,246	1,423	1,737	2,164	2,664

E: Estimates

CASH FLOW STATEMENT					
Y/E DECEMBER	2003	2004	2005	2006E	2007E
PBT before EO items	259	460	595	725	929
Add : Depreciation	96	94	100	105	115
Interest	16	8	5	9	11
Less : Direct taxes paid	77	160	210	240	310
(Inc)/Dec in WC	-481	-136	-122	-212	-263
CF from operations	-187	265	368	387	481
EO, misc. & other items	0	0	0	0	0
CF from oper. incl. EO ite	-187	265	368	387	481
(Inc)/Dec in FA	-587	-104	-81	-55	-100
(Pur)/Sale of investments	-180	102	-1	0	0
CF from investments	-766	-2	-81	-55	-100
Inc/(Dec) in networth	997	-3	-19	0	0
Inc/(Dec) in debt	128	-51	36	40	0
Less : Interest paid	-16	-8	-5	-9	-11
Dividend paid	-61	-70	-89	-98	-118
CF from fin. activity	1,048	-131	-77	-67	-129
Inc/Dec in cash	95	132	210	265	252
Add: Beginning balance	0	95	227	437	702
Closing balance	95	227	437	702	954



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No
No
No

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