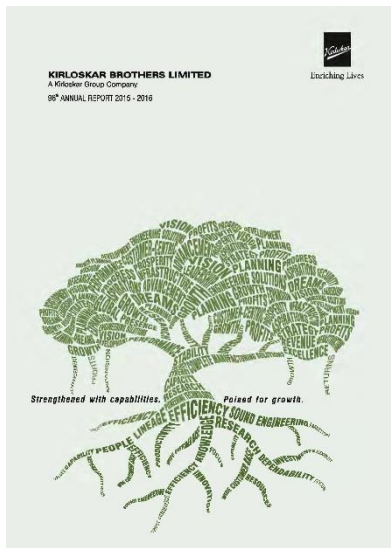
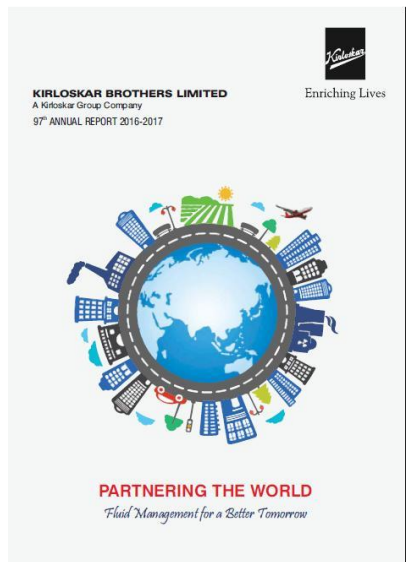


# Business Finance Group 3



# Financial Statement Analysis – Kirloskar Brothers Limited(Pumps)

Enriching Lives



# Table of Contents

- Company Profile
- Company Performance at a Glance
- Fund Flow Analysis
- Ratio Analysis
- ICE Analysis
- SWOT Analysis
- Conclusion

# Company Profile

- Kirloskar Brothers Limited (KBL) - *A world class pump manufacturing company with expertise in engineering and manufacture of systems for fluid management.*
- Established in 1888 and incorporated in 1920, KBL is the flagship company of the \$ 2.1 billion Kirloskar Group.
- Provides fluid management solutions for large infrastructure projects in the areas of *Water supply, Power plants, Irrigation, Oil & Gas, Marine & Defence.*
- Engineer and manufacture *Industrial, Agriculture and Domestic pumps, Valves and Hydro turbines.*
- KBL has *14 manufacturing facilities with 7 outside India* with an expertise to manufacture over *75 types of pumps* with a flow capacity up to *120,000 m<sup>3</sup>/hr, head up to 1200 m* and EPC capabilities, making it the *product leader* in world's widest range of *energy efficient pumps*, including the smallest and the largest pumps in the world.
- KBL applies TQM tools using *European Foundation for Quality Management(EFQM) model* with all plants certified by for latest ISO and OHSAS standards.
- 9<sup>th</sup> pump manufacturing company to get *N and NPT certification* from American Society of Mechanical Engineers(ASME) considering to improve revenue from Export Business.

# Company Performance at a Glance

- ***Net Sales grew by 6% (1823 Cr Vs 1721.2 Cr).*** Sales growing on YOY basis after the drop in Sales in 2 consecutive years 2013- 2014 and 2014- 2015. Company Sales have reached 2012-2013 levels showing a tremendous growth potential.
- ***Net Profit has shown a considerable increase of 205% (33Cr Vs 10.7Cr).*** The Profit has been considerably growing after the drop in 2014-2015 due to the one time restructuring and clearing of provisions.
- ***Tax Expenses have increased (20.3Cr Vs -3.33Cr)*** due to the variations in taxes during the year and KBL has cleared of a tax provision 9Cr from the previous years.
- ***Net worth has grown up by 4% (838Cr Vs 806Cr).*** There has been a consistent growth in the past 5 years.
- ***No Interim dividend*** have been provided to the shareholders in 2016-2017- Reinvesting in business.
- ***Book Value per share has increased by 4% (Rs105.5 Vs Rs101.5).*** It has shown a consistent increase in past 3 years.
- ***Product sector sale have increased by 9 % but project sector sale have dropped by 16%.*** Company focus has shifted from Project to Product to improve margins considering market sluggishness and liquidity (due to High retention) in Projects. After 2014 KBL was selective in taking project order with reasonable Payment and warranty terms.

# Fund Flow Analysis

## Individual Item wise Fund Flow

Particulars	2016-2017	2015-2016	2014-2015	2013-2014
Net Long Term Liabilities	965.32	979.23	940.01	919.62
Net Long Term Assets	850.19	888.37	821.67	773.76
Net Short Term Liabilities	987.56	975.97	1005.79	1010.07
Net Short Term Assets	1102.69	1066.81	1124.14	1155.93
Total Long Term Sources	850.19	888.37	821.67	773.76
Total Long Term Uses	965.32	979.23	940.01	919.62
Total Short Term Sources	1102.69	1066.81	1124.14	1155.93
Total Short Term Uses	987.56	975.97	1005.79	1010.07
Total Uses	1952.88	1955.20	1945.81	1929.69
Long Term Assets - Liabilities	-115.13	-90.86	-118.35	-145.86
Short Term Assets - Liabilities	115.13	90.84	118.34	145.86
Long Term Sources - Uses	-115.13	-90.86	-118.35	-145.86
Short Term Sources - Uses	115.13	90.84	118.34	145.86
Criticality	6%	5%	6%	8%

## Sub total wise Fund Flow

Particulars	2016-2017	2015-2016	2014-2015	2013-2014
<b>Short Term</b>				
Current Liabilities	987.56	975.97	1005.79	1010.07
Current Asset	1102.69	1066.81	1124.14	1155.93
<b>Long Term Liabilities</b>				
Shareholder's fund	838.01	806.16	802.87	800.06
Non current Liabilities	127.30	173.07	137.14	119.55
<b>Long Term Assets</b>				
Gross Block	325.95	334.98	348.78	313.65
Investment	238.80	238.80	228.80	214.94
Others	285.44	314.60	244.09	245.17
ST Sources	1102.69	1066.81	1124.14	1155.93
ST Uses	987.56	975.97	1005.79	1010.07
LT Sources	850.19	888.37	821.67	773.76
LT Uses	965.32	979.23	940.01	919.62
<b>ST Sources - Uses</b>	115.13	90.84	118.34	145.86
<b>LT Sources - Uses</b>	-115.13	-90.86	-118.35	-145.86
Total Uses	1952.88	1955.20	1945.81	1929.69
<b>Criticality</b>	6%	5%	6%	8%

- There is a continuous flow of funds from Long term to Short term.
- Company focus shifted from heavy investment project business where they have been losing money in long tenure payment terms and retention in the government sector for warranty obligations.
- Criticality of the flow is also minimal as they are able to collect the money from the projects executed earlier.
- Reduction in WIP and improvement in margins as they are more focussed on Product based rather than Project based.

# Ratio Analysis

The following slides illustrate the various ratios and interpretations.

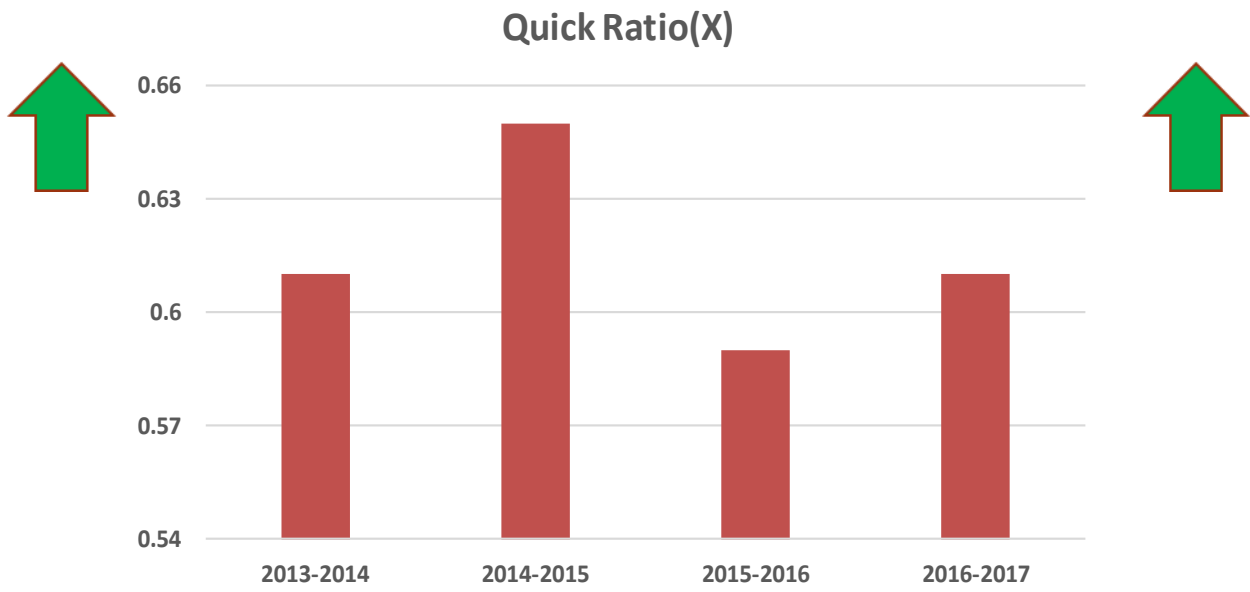
	2016-2017	2015-2016	2014-2015	2013-2014
<b>Liquidity Ratios</b>				
Current Ratio	1.12	1.09	1.12	1.14
Quick Ratio	0.61	0.59	0.65	0.61
Cash Ratio	0.03	0.02	0.02	0.02
Cash Conversion Cycle	32.88	27.96	34.67	20.29
Days of Inventory Outstanding	51.44	43.21	41.84	27.31
Days of Sales Outstanding	69.69	75.21	89.97	70.60
Days of Payable Outstanding	88.25	90.46	97.14	77.62
Dividend Payout Ratio (NP) %	0.00	36.84	46.78	41.60
Dividend Payout Ratio (CP) %	0.00	7.69	6.83	24.11
Earnings Retention Ratio	100%	63%	53%	58%
Cash Earnings Retention Ratio	100%	92%	93%	76%
<b>Profitability Ratios</b>				
PBID Margin (%)	5.05%	2.77%	3.37%	5.91%
PBT Margin (%)	2.89%	0.43%	0.34%	3.95%
PAT Margin (%)	1.79%	0.62%	0.52%	2.70%
Return on Assets (%)	1.69	0.55	0.44	2.47
Return on Capital Employed (%)	3.42	1.10	0.90	5.19
Return on Networth (Equity) (%)	3.94	1.34	1.06	5.96

	2016-2017	2015-2016	2014-2015	2013-2014
<b>Leverage Ratios</b>				
Debt Equity Ratio	0.23	0.31	0.29	0.28
Debt to Capital Employed	0.20	0.26	0.25	0.24
<b>Activity Ratios</b>				
<b>Short term Activity Ratios</b>				
Inventory Turnover Ratio (no of times)	7.02	8.35	8.66	13.32
Inventory Holding period (in days)	52.98	43.39	41.98	28.43
Receivables Turnover Ratio (no of times)	5.19	4.80	4.03	5.15
Average Collection Period (in days)	70.39	76.12	90.60	70.82
Payables Turnover Ratio (no of times)	4.09	3.99	3.73	4.69
Average Payment Period (in days)	89.14	91.55	97.82	77.86
<b>Long term Activity Ratios</b>				
Fixed Assets Turnover Ratio	6.46	5.98	5.30	5.71
Total Assets Turnover Ratio	0.94	0.89	0.84	0.91
Capital Employed Turnover Ratio	1.91	1.78	1.74	1.92
<b>Per Share Ratios</b>				
Earnings Per Share	4.16	1.36	1.07	6.01
Book Value Per Share	105.53	101.52	101.13	100.82
Dividend Per Share	0.08	1.08	2.50	2.09
Revenue from Operations/Share (Rs.)	229.58	216.75	204.78	221.76
PBDIT Per Share	11.71	6.08	6.95	13.15
PBT Per Share	6.71	0.94	0.70	8.79
Net Profit Per Share	4.16	1.36	1.07	6.01

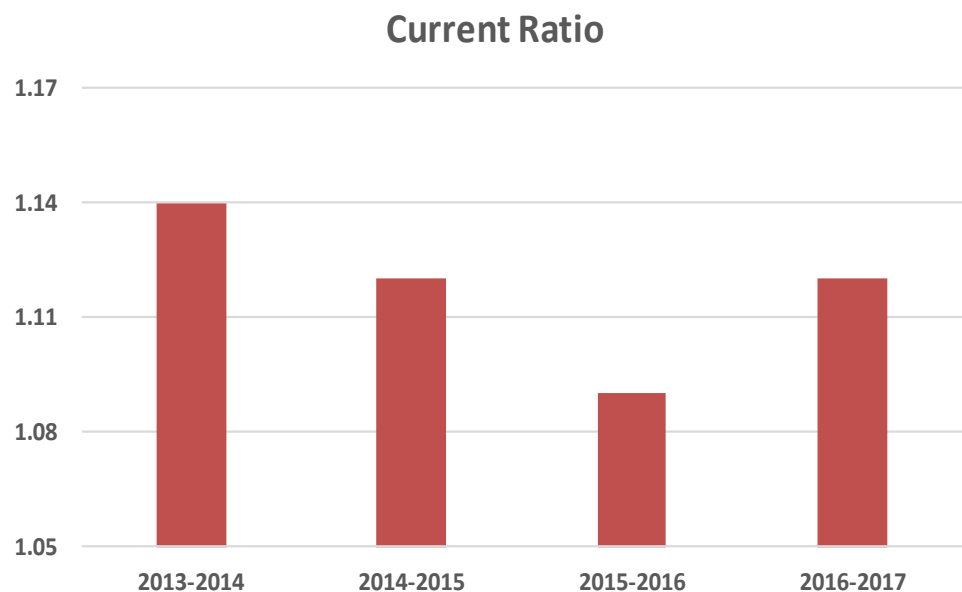
# Ratio Analysis

- KBL has performed *marginally well* in the FY2016 compared to previous three years as the profitability ratios indicate. There is *an improvement shown in the PAT, ROCE and return on net worth*.
- *Decrease in inventory turnover ratio and increase in inventory holding period* which indicates that the company has shifted focus to product business.
- The *fixed assets turnover ratio* which measures how successfully a company is utilizing its fixed assets has *increased marginally* which has led to an increase in revenue from operations.
- KBL has seen an *increase in earnings retention ratio* over the years which indicates that the company has retained cash for future investment activities and the company is confident of future profitability. Therefore it may generate growth in future periods resulting in higher share price.
- The *Cash conversion cycle has increased* over the years which indicates that the company is not able to recover cash from sales quickly.
- The *average collection and payment period have declined over the years* indicating better management of receivables and negotiation of credit terms with the customers.
- *Earnings per share has shown a decline* from 6.01 to 1.36 and *Book value per share have increased marginally by 4%*.

# Ratio Analysis-Liquidity Ratios



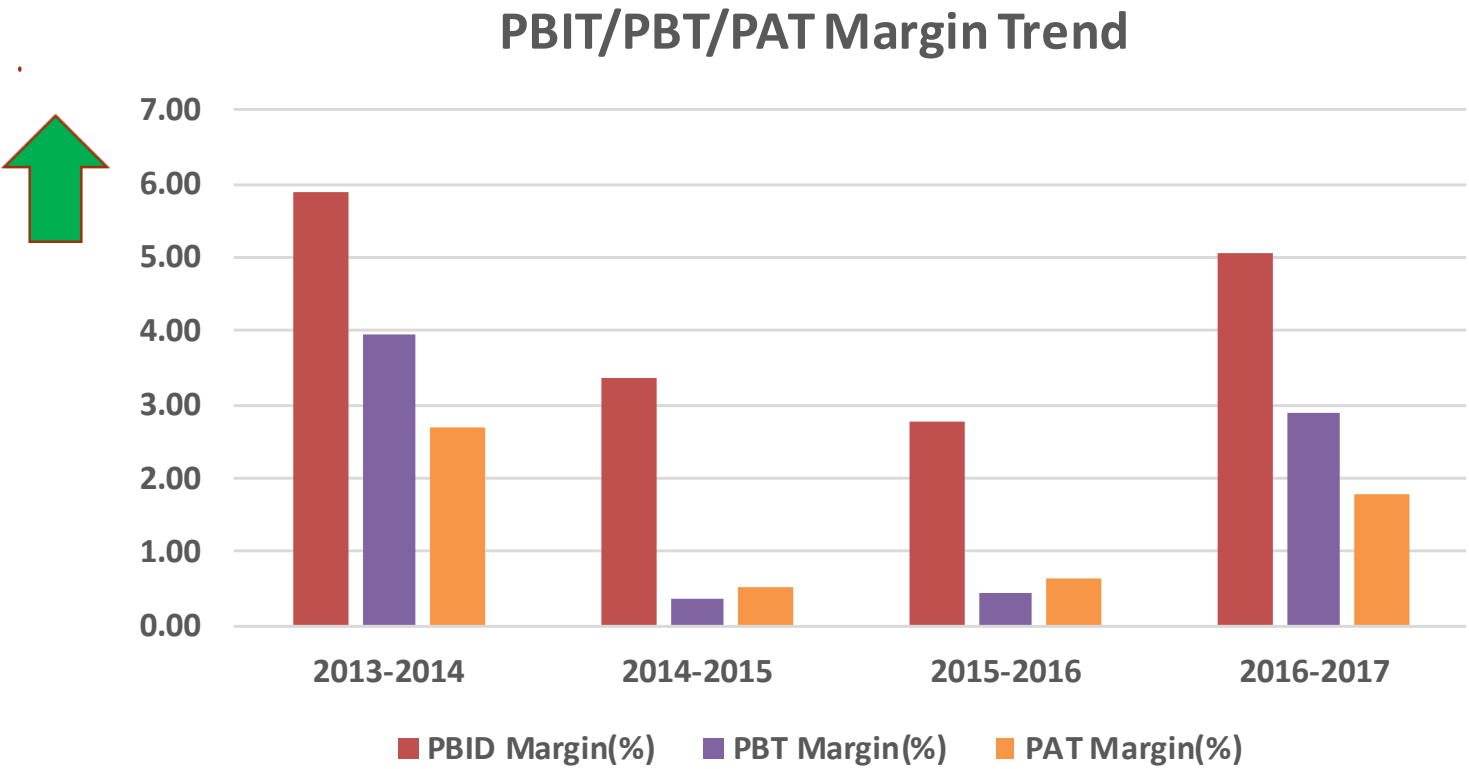
The trend above shows that KBL was in a position to pay off its liabilities more quickly in 2015 compared to 2017.



KBL's current ratio has increased in the FY16-17 compared to previous FY.



# Ratio Analysis-Profitability Ratios

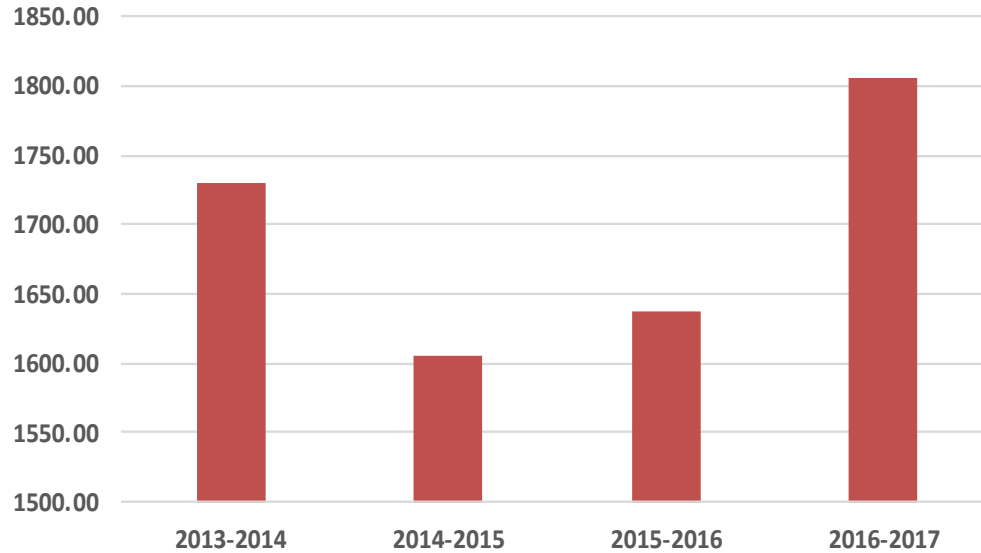


Profitability ratios indicate the company is growing more profitable after the restructuring and increase in intake of Product orders. Increase in exports and drastic reduction in imports signifies KBL has reduced the import components in the manufacturing and exporting more for international markets.

# Ratio Analysis– ROI Ratios



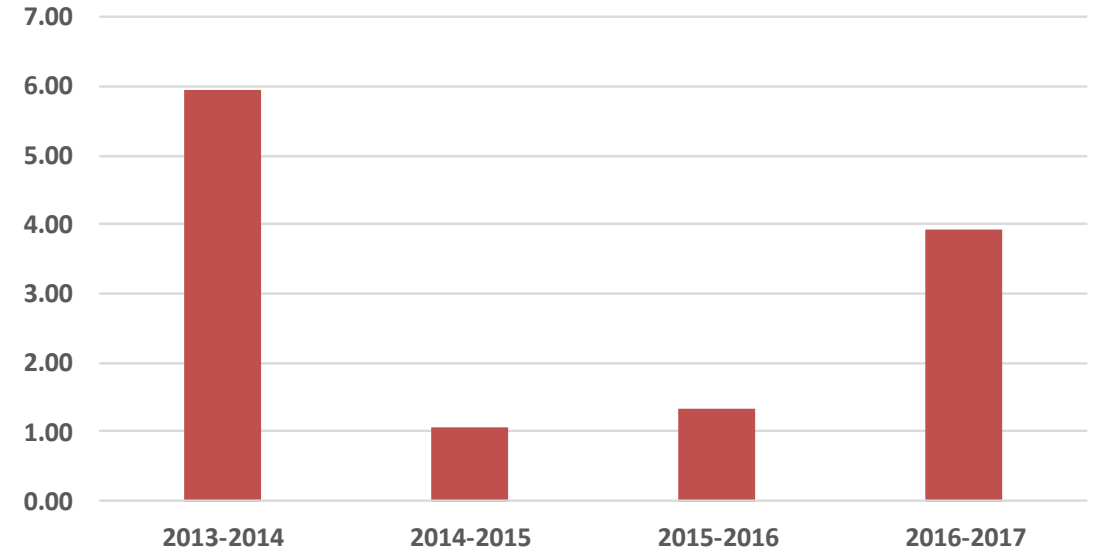
Revenue from Operations(net)



KBL has shown a tremendous growth in revenues in 2017 after a decline from 2014 to 2016.

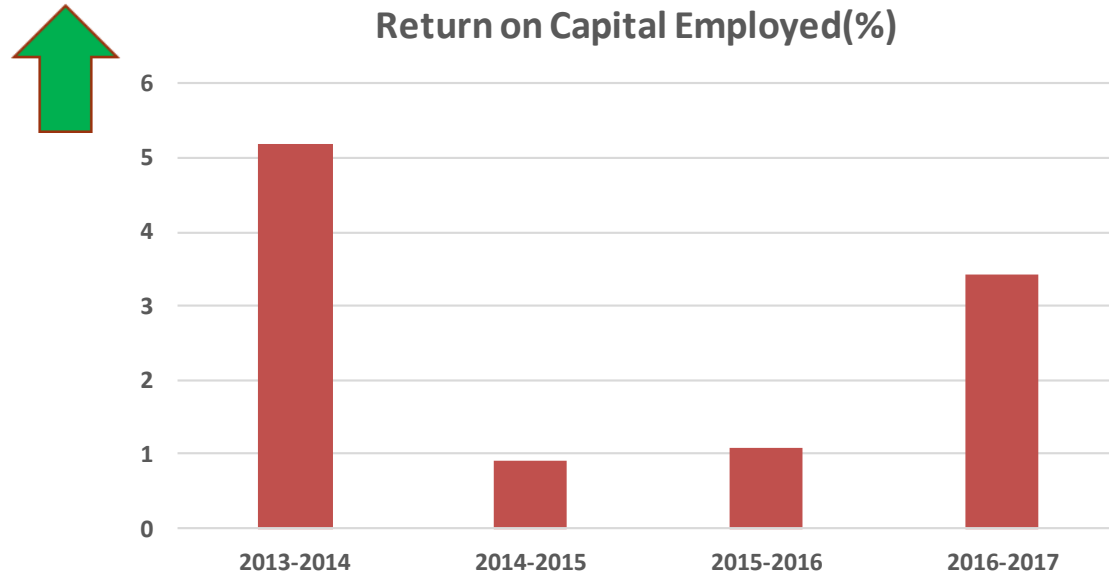


Return on Networth(Equity)

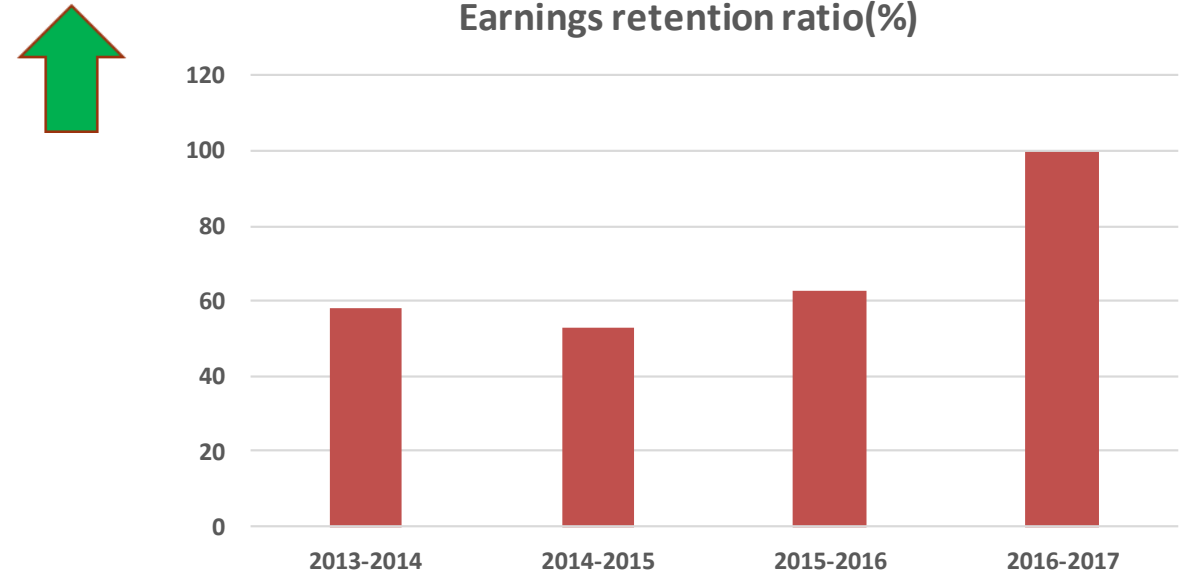


RONW has also increased significantly compared to the previous years. KBL has been efficient in generating more income from their assets.

# Ratio Analysis– ROI Ratios



ROCE shows how efficient KBL has been able to generate profits from the capital invested. The graph indicates that the ROCE value is improving considerably.

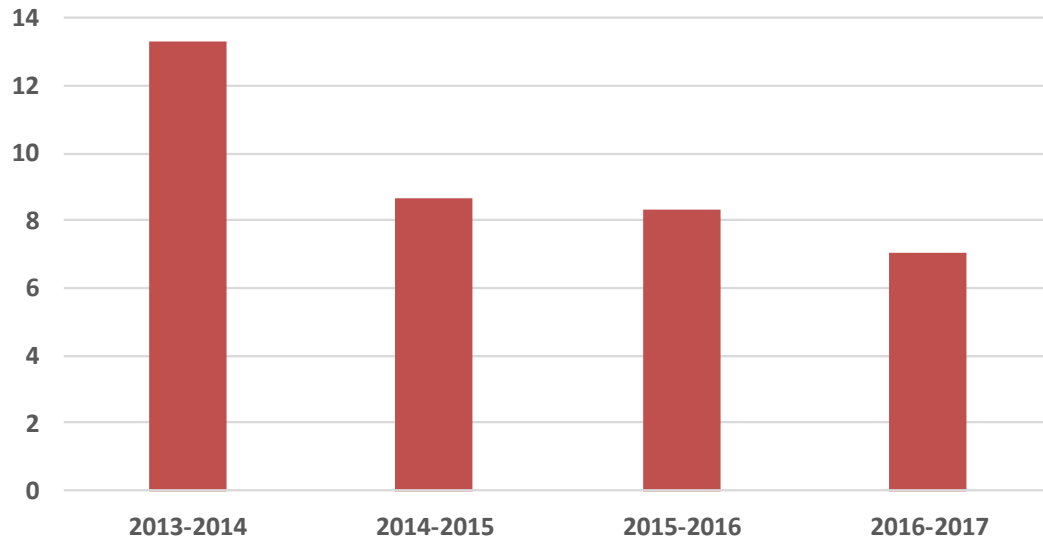


Earnings retention ratios indicate that the company has retained higher amounts over the years after paying dividends. This suggests that it may generate higher growth in future periods resulting in higher share price and potential capital gain.

# Ratio Analysis– Activity Ratios



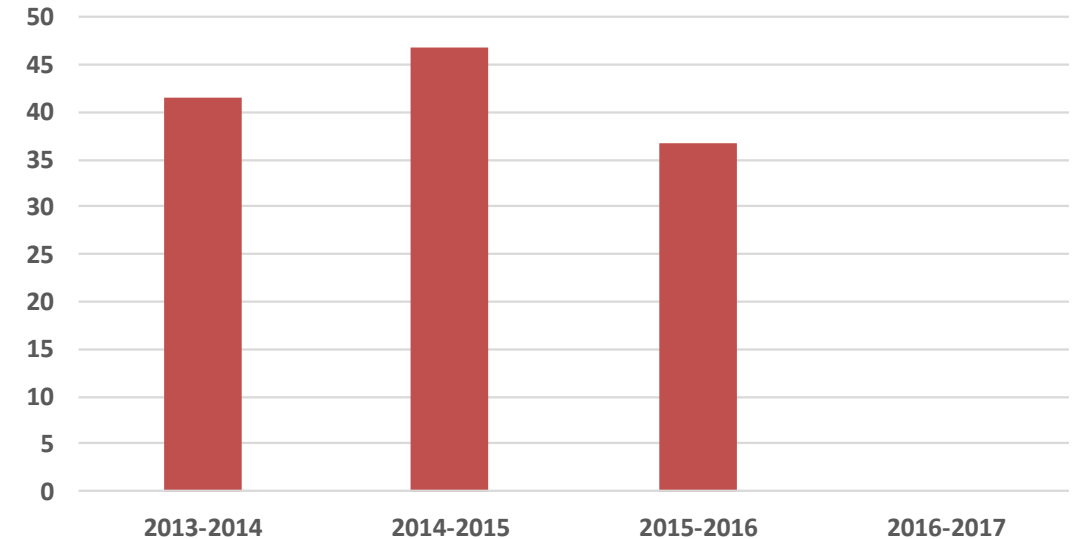
Inventory Turnover ratio(X)



KBL inventory turnover has declined over the years however the sales have been increasing. It indicates that most of the product are made to order and they maintain less inventories.

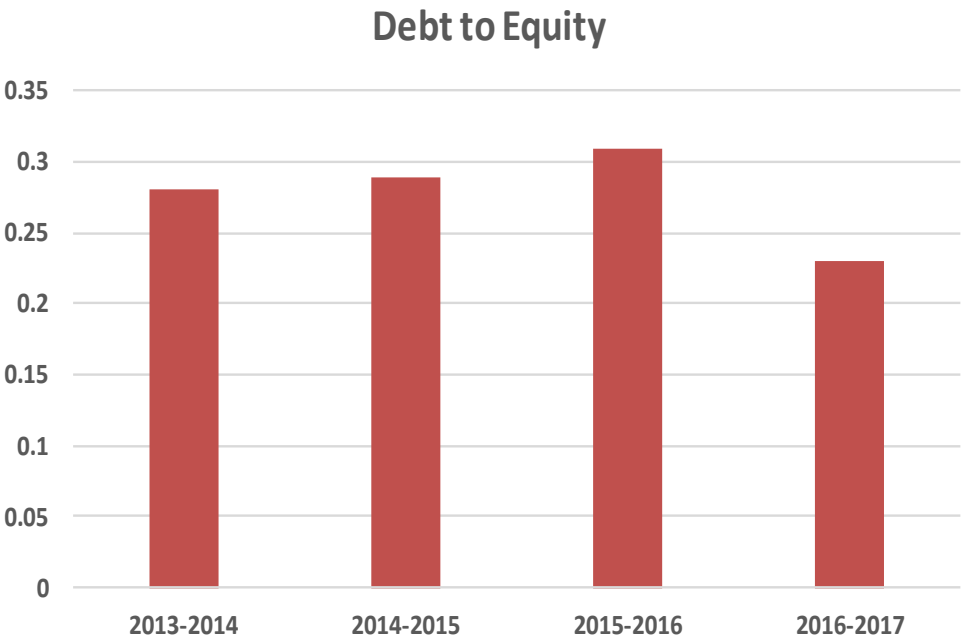


Divident Payout Ratio(NP) %



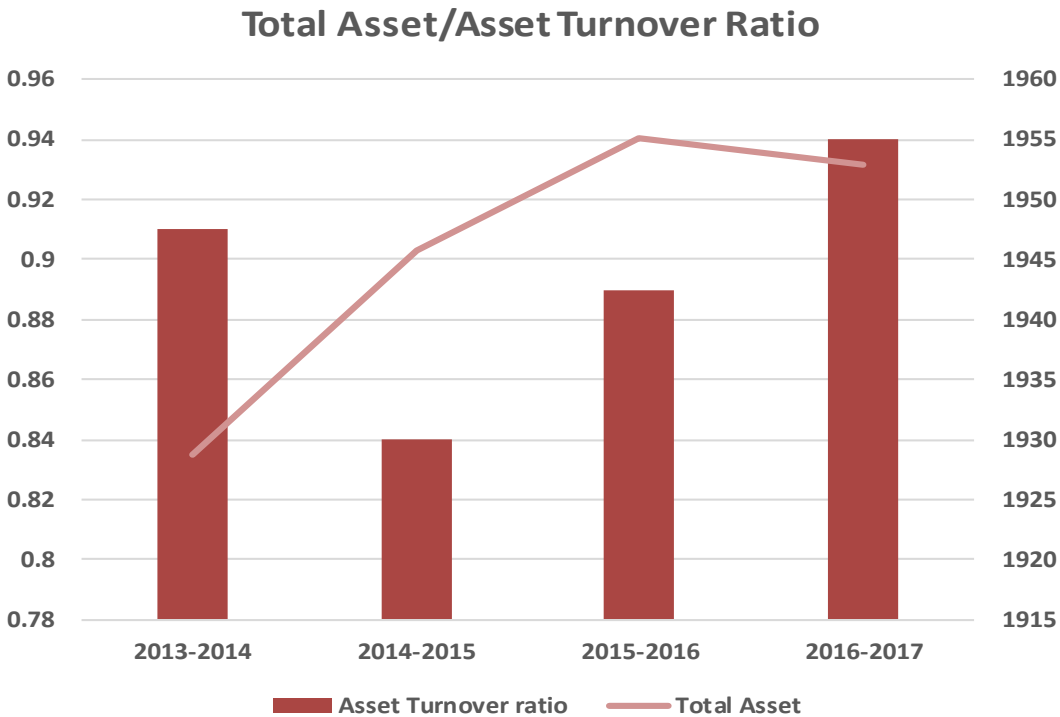
KBL has been maintaining a steady dividend payout ratio above 20% which is a positive indication to the shareholders. However in last FY KBL has not provided interim dividends. They are reinvesting money to business to grow bigger.

# Ratio Analysis– Activity Ratios



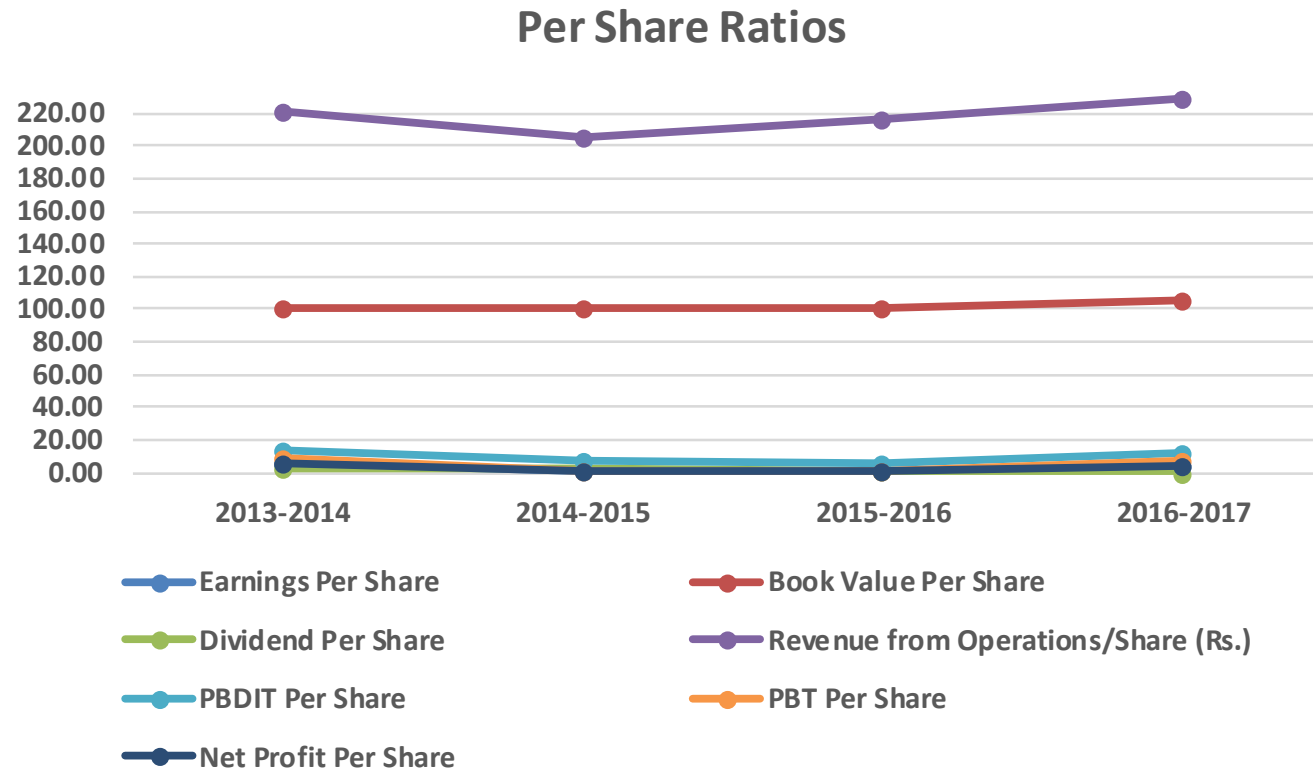
The graph above shows KBL has a healthy debt-to-equity ratio and there is no need of concern in this regard.

Declining debt-to-equity ratio indicates that the company is using less leverage and stronger equity position.



While the total assets has been increasing, the asset turnover ratio has been increasing which is indicative of better utilization of assets.

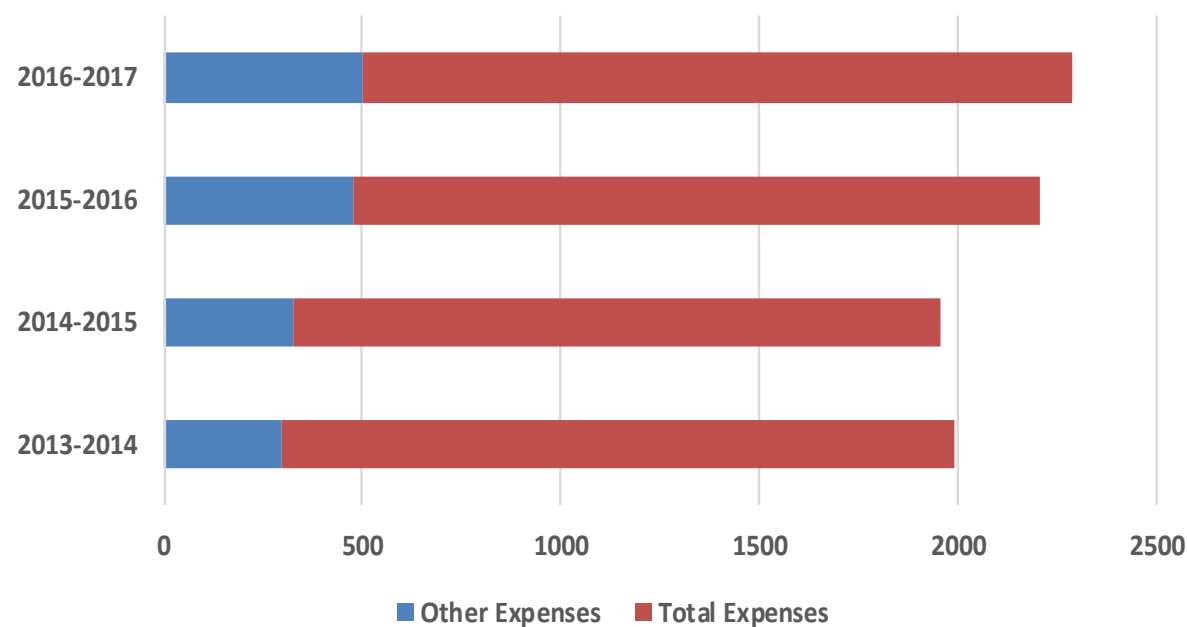
# Ratio Analysis– VALUATION Ratios



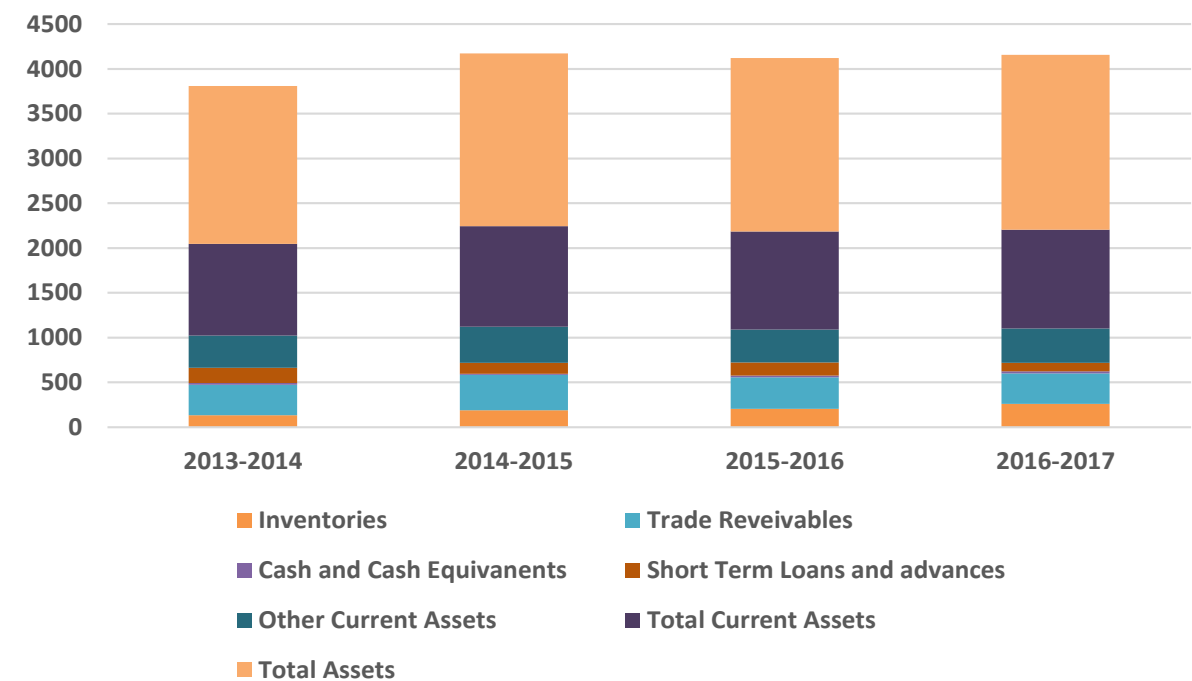
- KBL has been reviving after the losses it has faced from the indigenous project orders in the past and one off restructuring expenses.
- Profitability of KBL has been increasing over the past 3 years.
- A few corrections have been made to have a healthy balance sheet by writing off debt, considering provisions in taxes etc to ensure that the company always grow with positive trajectory and valued better in the market.

# TREND ANALYSIS

Other Expenses, Total Expenses



Common Size Analysis-Proportion of Assets



The Other Expenses seem to be rising for KBL and could be a cause of concern and need examination of the line items to conclude whether they are likely to recur. Currently this has increased because of provisions for bad debts and Liquidated damages of the past orders taken. Now since the company is more focused to product oriented business this expenses will come down in future years and improve the margin for KBL.

# Industry analysis – Qualitative

- *Consumer demand for the pumps is expected to increase* with increased agricultural spending by the Indian government.
- *Growing competition* in the market forcing the company to *bring down the price of pumps* thereby lowering the margins. More focus shall be on energy efficiency.
- *Slower GDP growth globally, Tightening financial conditions in emerging markets and developing economies, BREXIT may hinder the overseas operations and economic growth in Europe*, which may affect the company.
- Factors like *demonetization, GST* has stalled the growth for small term.
- Sustained focus on *operational efficiency, continuous improvement* has lead to an increase in productivity at the plants leading to an increase in revenue. The company needs to hold this momentum for long term benefits.
- KBL has proven capacity to build *critical pumps for nuclear reactors* and it has N,NPT certifications which makes it a prominent player to cater future requirements of nuclear power. With India setting a ambitious target of *increasing the nuclear power generation by 63,000MW by 2032*,KBL is likely to benefit from this.



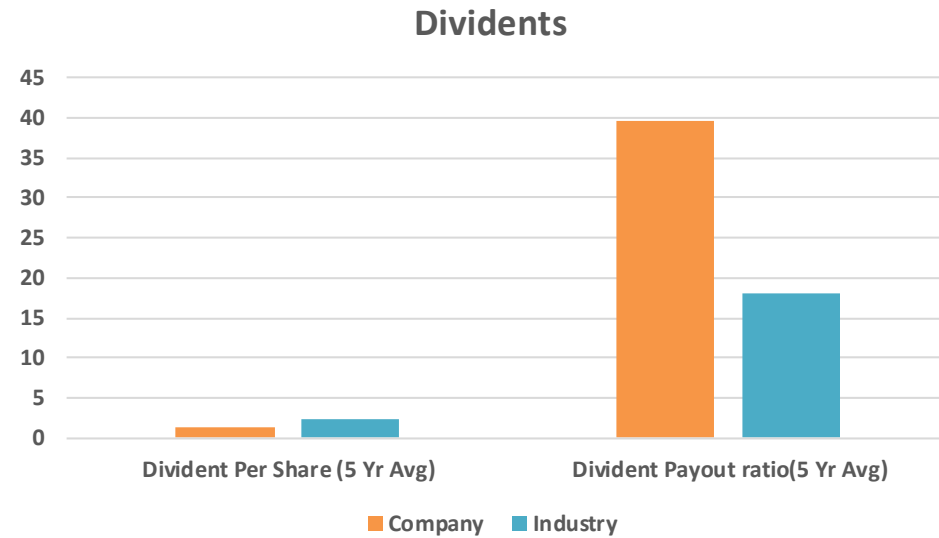
# Industry analysis – Quantitative(1/4)

## Comparison with Peer Average for FY2016

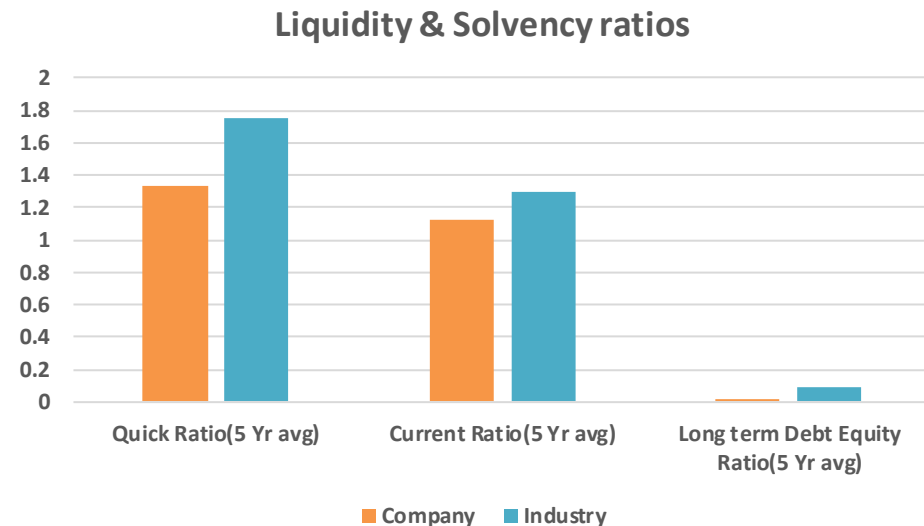
Efficiency	KBL	Peer Average	Range	Performance:
Return on Equity(%)	0.42	5.36	0.42-9.28	Under Performer
Return on Assets (%)	0.15	2.55	0.15-4.89	Under Performer
Return on Capital Employed (%)	4.52	11.39	4.52-22.40	Under Performer
Fixed Asset Turnover	2.06	1.5	1.18-2.06	Better Performer
Profitability and Growth				
Gross Profit Margin (%)	1.34	7.86	1.34-15.34	Under Performer
Operating Profit Margin(%)	3.78	11.84	3.78-18.60	Under Performer
Net Profit Margin (%)	0.14	2.72	0.14-4.87	Under Performer
Financial Strength				
Quick Ratio	1.22	1.45	1.22-1.65	Under Performer
Current Ratio	1.6	2.09	1.6-2.52	Under Performer
Cash Ratio	0.06	0.11	0.06-.19	Under Performer
Solvency				
Debt Equity Ratio	0.06	0.13	0.03-0.38	Better Performer
Coverage Ratio				
Cash flows to long term debt	5.18	5.01	1.45-11.03	Average Performer

- KBL's financials have been under stress for the FY2016 when compared to industry average for that year as seen from the table.
- The fixed asset turnover and debt equity ratio have been better
- Other ratios have been an below average performance.

# Industry analysis – Quantitative(2/4)



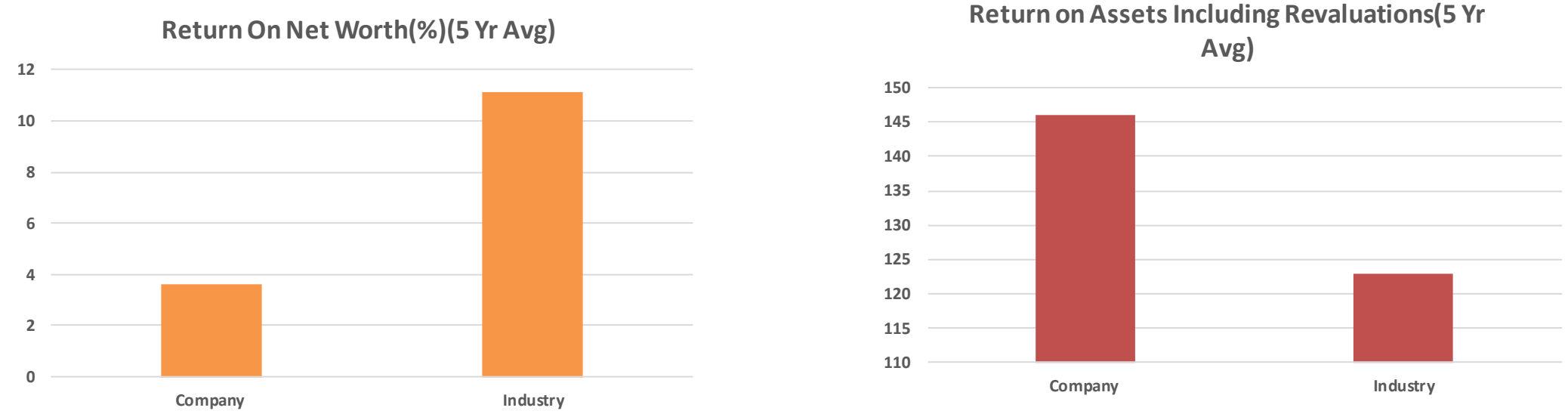
KBL dividend per share is lower than industry average but the payout ratio is higher.



While the company is low at liquidity front, the low debt to equity ratio indicates the company has good financial strength and stability due to low debt.

# Industry analysis – Quantitative(3/4)

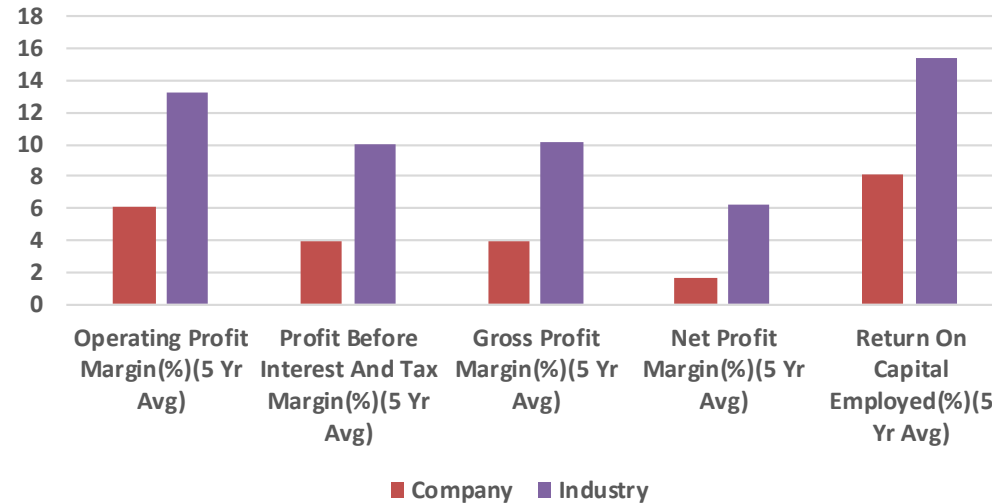
## Management Effectiveness Ratio



The return on net worth ratio has been lower than the industry average indicating that over the years the company is not able to generate income on the investments made while the return on assets is higher. This may suggest that the company has done business on credit and customers have not paid their dues on time. This has come from project order which are under execution and more money is blocked in retention and LD/warranty provision

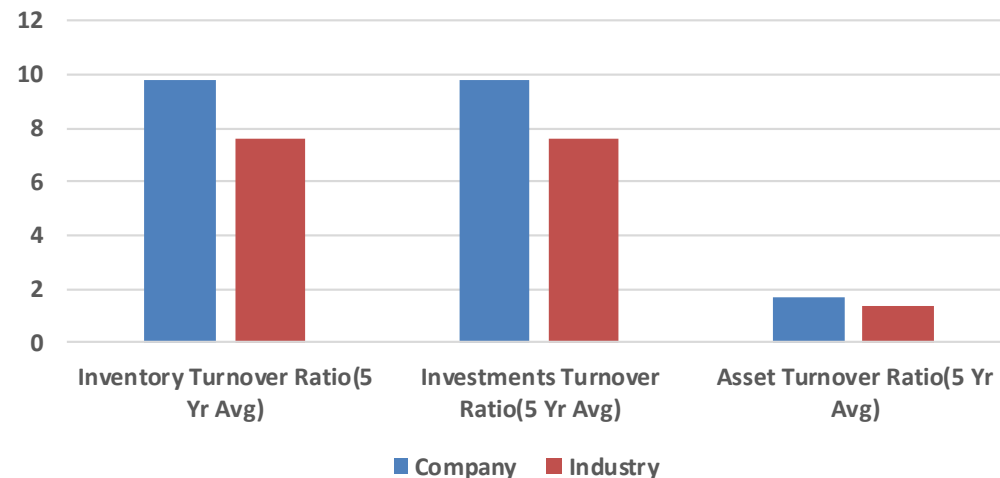
# Industry analysis – Quantitative(4/4)

## Profitability Ratios



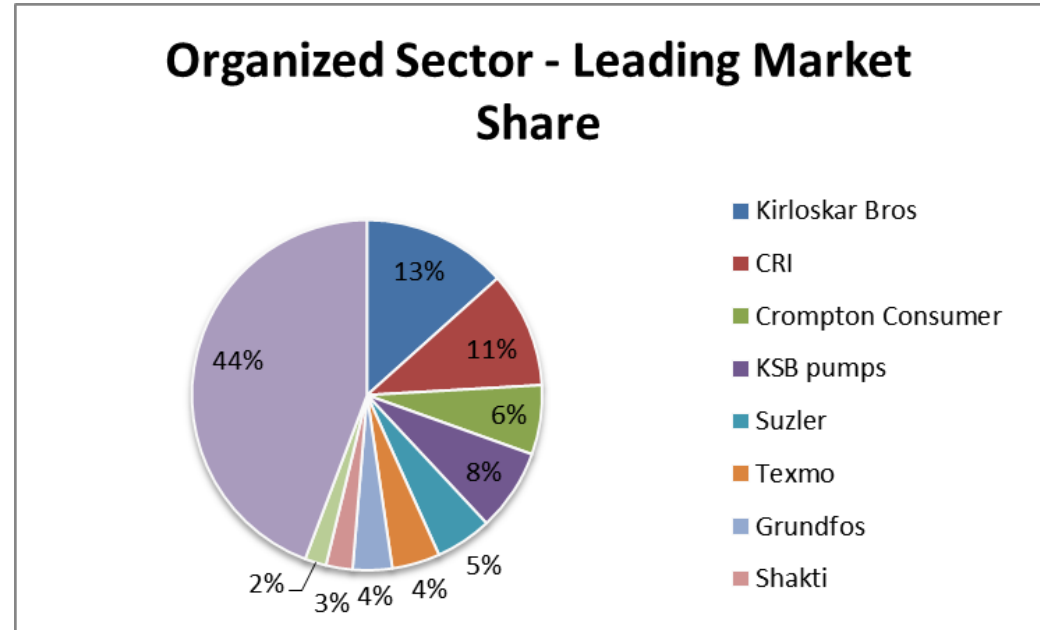
The company has shown declining profitability as compared to its peers, over the last 5 years.

## Efficiency Ratios



As compared to the peers, the company has shown higher inventory and investment turnover ratio. The asset turnover is also above the industry peers which is a positive sign of efficiency.

# Market Analysis - Competitors



- The sector wise market share pie chart indicate that KBL is leading the pack with 13 % of market share. Other players in the market include CRI, Crompton, KSB pumps.
- KBL is the largest pump manufacturer in India has expanded its product market share from 9% in FY2010 to 14 % in FY2016 in the domestic organized segment on the back of healthy growth in standard pumps.
- In the solar pump segment Shakti pumps is seen as a stiff competition to KBL with stainless steel pumps. The company has 50-60% share in solar pump category.

# Market Analysis - Competitors

- Shakti Pumps which was mainly concentrating on the export market in 2013-14 shifted its focus in Indian market after it started facing problems in its main export market-middle east and now company's 75 % of sales comes from domestic market. The dominant position of the company may prove to be a challenge for KBL in solar pump segment which has government subsidy of 85% and shift on energy efficient policy by the government.
- WPIL is another stiff competitor in the market which has seen robust financials. Its operating margins has been maintained above 14% over the past years though sales has been flat.
- In residential pump segment, Crompton is the market leader and enjoys strong overall presence. In FY2016,it posed double digit growth of 10% with strong focus to expand market reach. The company has been certified by Bureau of Energy Efficiency and governments push towards energy efficiency is also likely to benefit the company.
- Suzler is another global competitor for KBL. With oil and gas industry showing a decline in the year 2016,order intake has slowed down for Sulzer and EBITDA have taken a beating. But the company took steps to diversify the product portfolio of pumps by acquisitions of Geka,Ensival Moret.With this the company can now manufacture axial flow and slurry pumps that are used in industry markets like fertilizers, sugar,mining and chemicals.

# ECONOMIC OUTLOOK

- Kirloskar Pumps operates in an economy that has multiple challenges. There is a shift in the financial markets in this FY2016-17 compared to last FY which was dominated by BREXIT, geo-political tensions and China's slowdown.
- Global demand for fluid handling pumps is projected to increase by 5.5 % in 2018. In developing nations, increased infrastructure investments will catalyse demand for pumps.
- The governments smart city project will generate demand for solutions in the field of water supply and wastewater management.
- In India, the government has announced a target of 100GW of solar capacity by 2022 from a level of 12.30GW presently. This is set to trigger demand for solar pumps which would benefit the company.
- Governments proposal to increase the India's nuclear power generation capacity will be an advantage for KBL with the N and NPT certification of authorization from ASME and proven capability in thermal power generation space.
- Kirloskar brothers has been in the forefront in research and development and has been developing lowest life cycle cost pumps and special pumps for nuclear applications.

# SWOT Analysis:

**Strength:**

1. More than 3 decade of experience in pump industry.
2. Largest manufacturer and exporter of pumps.
3. Has proven record of executing major irrigation projects like Sardar sarovar Narmada Nigam, canned motor pumps for nuclear applications.
4. First Indian pump manufacturing company to acquire N and NPT certification.
5. Strong presence in export market.
6. Research and development

**Weakness:**

1. Inability to capture new industrial markets.
2. Delay in project execution and closure.
3. Cost competitiveness.
4. No new projects bagged in oil and gas due to geo-political crisis in gulf region.

**Opportunities:**

1. Growth in nuclear projects in India and Europe.
2. Increase market share in domestic and agriculture segment.
3. Demand for solar pumps.
4. Focus on energy efficient pumps to drive growth.
5. Growing need for water treatment and wastewater management.

**Threats:**

1. Competition from global and national players in the market.
2. Higher material cost.



# CONCLUSION

- KBL is largely set to benefit from irrigation projects and nuclear power plants since they hold a high potential in coming years.
- The company has seen a turnaround in the financials in the FY2016 due to shifting of focus from project business to product business. This will improve the cash flow in domestic market.
- While there is aggressive competition in the market, the products domestic order inflow has seen an increased over the years. The governments flagship products of building smart cities, AMRUT scheme and clean Ganga projects are likely to open up opportunities in the pump sector.
- The companies shift from project to high-margin product business has yielded benefits for the company with market share expanding from ~7-8% to ~14%.
- As the company made sustained efforts to increase the contribution of the products business, raw material cost has gradually reduced from 70.9% in FY10 (products business at 51% of sales) to 59.4% in FY16 (products business accounting for 76% of revenue). Taking into consideration the higher contribution of the products business, lower provisioning and zero one-time restructuring expenses, EBITDA margin is estimated improve in the near future.