



Enriching Lives

———— **3rd October, 2023** ————

Kirloskar Brothers Ltd

Kirloskar Brothers Limited (KBL) boasts over 130 years of history in fluid management solutions. This global player offers 250+ products, serving industries across 120+ countries. With 100,000+ SKUs and an annual production of 1.1 million pumps, KBL meets worldwide fluid handling needs. Headquartered in Pune, India, KBL's journey began in the late 19th century, pioneering products like the Iron Plough and Centrifugal Pumps, shaping India's industrial landscape. As India's first and largest pump manufacturer and a leader in critical pumps for nuclear power plants, KBL is a cornerstone in India's core sectors. KBL's expertise in fluid management extends to 28 valve types, sizes up to 5,000 mm, and a commitment to the "Make in India" initiative since 1901. Their hydraulic research center, one of Asia's largest, tests pumps under demanding conditions. With 16,250 global channel partners and 650+ authorized service centers, KBL provides exceptional customer support. They lead in sodium pumps for Fast Breeder Reactors, advancing nuclear energy. KBL's manufacturing adheres to high-quality standards, ensuring reliable, efficient products. Their service network underscores dedication to customer satisfaction. Millions rely on KBL's products daily, powering industries and infrastructure. As an AtmaNirbhar organization, KBL sets industry standards, contributing significantly to India's industrial growth. Kirloskar Brothers Limited remains a pioneer in fluid management, upholding a legacy of innovation and global impact.

Investment Rationale

- **Kirloskar Brothers in the Global Context:** Kirloskar Brothers excels in the global pump market through adaptability and cost-efficiency. Their localized approach fosters success while engaging with local communities, making a meaningful impact. Cost synergies, duty-free access, and compliance with local regulations position them for sustainable success.
- **Leveraging Innovation Through Research and Development:** Kirloskar Brothers Limited (KBL) places innovation at its core, evident in its R&D efforts in FY 2022-23. KBL introduced new product series, such as DBxe and GKw, showcasing adaptability to market demands. It also expanded its offerings in firefighting, global markets, agriculture, and domestic segments. With significant investments in R&D, KBL's commitment to delivering efficient and reliable products positions it for long-term growth in India's pump industry.
- **KBL's Strategic Shift to Green Energy and Profitability:** Kirloskar Brothers Limited (KBL) strategically positions its domestic business for robust growth by shifting focus to its green energy portfolio. This transition from project-based to product-based operations, with a diverse range of energy-efficient pumps, has resulted in improved profitability and financial stability. KBL's international subsidiary, SPP Pumps, also contributes to its global competitiveness and success.

Outlook: Maintaining a neutral stance, we acknowledge Kirloskar Brother's positive growth prospects but remain watchful of challenges in the form of supply chain disruptions and competitive pressures. The company's strategic initiatives and operational efficiency are encouraging, yet the evolving market dynamics warrant careful observation.

Stock Data	
CMP	824.5
52 Week High/Low	992.70/286.10
Face Value	2
Market Cap (In Crs)	6,523
NSE	KIRLOSBROS
BSE	500241
Bloomberg	KKB:IN
Sector	Capital Goods

Shareholding Pattern (in %)		
	JUN 23	MAR 23
Promoter	65.95	65.95
FII	1.78	1.59
DII	8.98	9.27
Public	23.29	23.18
Others	-	-

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	0.96%	14.33%	16.12%
Kirloskar Brothers	-6.00%	115.02%	142.43%

Key Ratios	
P/E	23.1
P/B	4.66
Debt To Equity	0.20
ROE	18.30%
ROCE	21.7%
Dividend Yield	0.55%

Company Background

Kirloskar Brothers Limited (KBL), a venerable name in the realm of fluid management solutions, boasts a rich legacy spanning over 130 years. With a relentless pursuit of engineering excellence, KBL has firmly established itself as a global player, offering a staggering portfolio of more than 250 products that cater to diverse industries in over 120 countries across six continents. Their expansive product line encompasses over 100,000 SKUs, including an impressive yearly production of 1.1 million pumps, underlining their commitment to meeting the world's fluid handling needs.

This Indian industrial conglomerate, headquartered in Pune, Maharashtra, has always been at the forefront of innovation. KBL's journey began in the late 19th century when they manufactured pioneering products like the Iron Plough and Centrifugal Pumps, which played a crucial role in shaping India's agricultural and industrial landscape. Over the years, KBL has consistently demonstrated their pioneering spirit by being India's first and largest pump manufacturing company and the leading manufacturer of critical pumps for nuclear power plants. These accomplishments have solidified their position as a cornerstone in India's core sectors.

KBL's capabilities extend far beyond their extensive product range. They are renowned for their expertise in engineering and manufacturing systems for fluid management. Their commitment to the "Make in India" initiative, which dates back to 1901, reflects their dedication to fostering domestic manufacturing capabilities. Moreover, KBL's engineering prowess is underscored by their impressive range of 28 valve types, with sizes reaching up to 5,000 mm, highlighting their versatility in addressing diverse industry requirements.

The company's unwavering commitment to innovation is evident through their vast network of 16,250 channel partners worldwide and more than 650 authorized service centers, ensuring that customers receive exceptional support for their products. At the heart of KBL's technological advancement lies one of Asia's largest hydraulic research centers, a facility designed for rigorous testing of pumps at duty conditions up to 5,000 kW and with discharge capacities of up to 50,000 m³/hr.

KBL's dedication to pushing technological boundaries is further exemplified by their status as one of the few pump manufacturing companies in the world equipped with a dedicated 3D printing machine. They are also recognized as India's leading manufacturer of primary and secondary sodium pumps for Fast Breeder Reactors, playing a pivotal role in advancing the nuclear energy sector.

With a manufacturing infrastructure that adheres to the highest quality standards, KBL ensures that their products are reliable, efficient, and performance-driven. Their integrated network of services stands as a testament to their unwavering commitment to customer satisfaction. Every day, millions of farmers, households, and industrial facilities rely on KBL's products to ensure the seamless operation of essential functions. Their contributions extend to supplying pumps for iconic structures and providing the lifeblood that powers the wheels of numerous industries, firmly establishing them as a cornerstone of India's industrial and infrastructural development. Kirloskar Brothers Limited, with its rich history, expansive product range, global reach, and unwavering commitment to innovation and quality, remains a true pioneer in the field of fluid management. As one of India's AtmaNirbhar organizations, they continue to set industry standards and contribute significantly to India's industrial growth and infrastructure development.

Key Clientele



Business Verticals

Kirloskar Brothers Limited (KBL) operates across a diverse spectrum of business verticals, showcasing its robust presence in various industries. One of its primary strengths lies in its ability to offer innovative solutions and exceptional products in the following key segments:

- **Pumps and Pumping Solutions:** KBL is a leading name in the pump industry, providing a wide range of pumps, from centrifugal and submersible pumps to industrial and agricultural pumps. These solutions cater to a myriad of applications, including water supply, irrigation, industrial processes, and more.
- **Valves:** KBL manufactures industrial valves, including butterfly, gate, check, and control valves. These valves play a pivotal role in fluid control across industries, ensuring efficiency and reliability.



- **Hydel Turbines:** With expertise in hydropower technology, KBL designs and manufactures hydel turbines, including Kaplan, Pelton, and Francis turbines, contributing to sustainable energy generation.

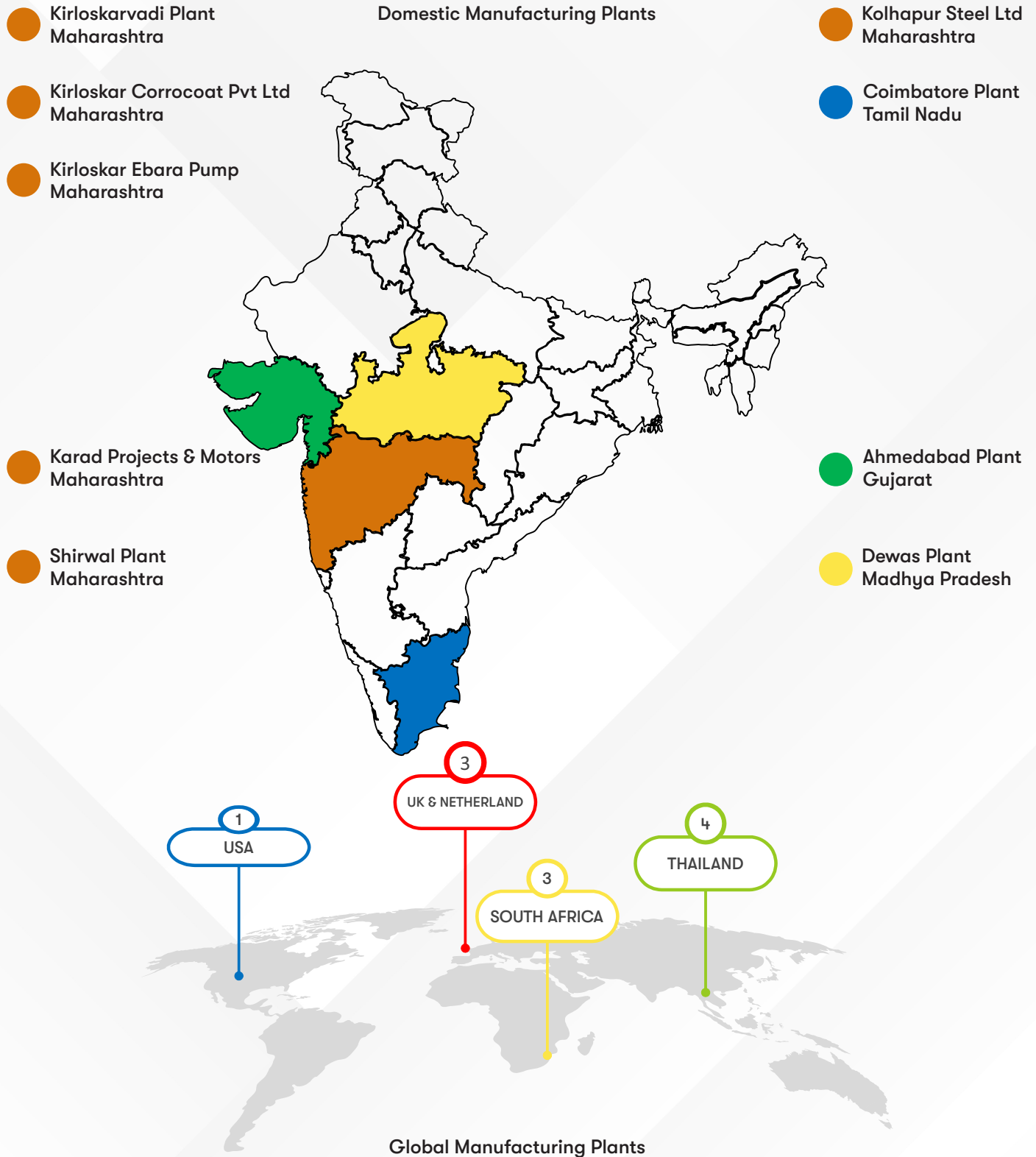
Kirloskar Brothers Limited (KBL) boasts a diverse and comprehensive product line that caters to a wide range of industrial needs. With over 75 types of pumps capable of handling flows of up to 120,000 m³/hr (529,000 US GPM) and pumps that can deliver up to 30 MW (30,000 HP) with a maximum head of 3,200 m (4,539 psi), KBL offers cutting-edge pumping solutions. Additionally, they offer over 28 types of valves with diameters ranging from 50 mm to 5 m, providing precise fluid control. KBL's expertise extends to Low Tension (LT) induction motors up to 315 frames, as well as Pico and Mini Hydel Turbines ranging from 3KW to 10MW. Their engineering, procurement, and construction (EPC) capabilities further enhance their offerings, ensuring seamless project execution. Notably, KBL is renowned for its commitment to providing pumps with the Lowest Life Cycle Cost (LLC™) worldwide, making them a trusted choice in the industry.

Kirloskar Brothers Limited (KBL) has strategically leveraged its diverse product offerings alongside a formidable brand portfolio, carefully nurtured over the years. This brand strength stands as a pivotal asset, particularly when venturing into uncharted territories and diversifying product categories. KBL's unwavering dedication to excellence, innovation, and exceeding customer expectations has cemented its standing as a respected and dependable provider of pumping and fluid management solutions. Consequently, this reputation precedes them and positions KBL as the preferred choice across the industries they serve. This strong brand presence not only instills confidence in existing customers but also acts as a compelling magnet, attracting new clientele in foreign markets, ultimately facilitating their global business expansion endeavors.

STRONG BRAND PORTFOLIO

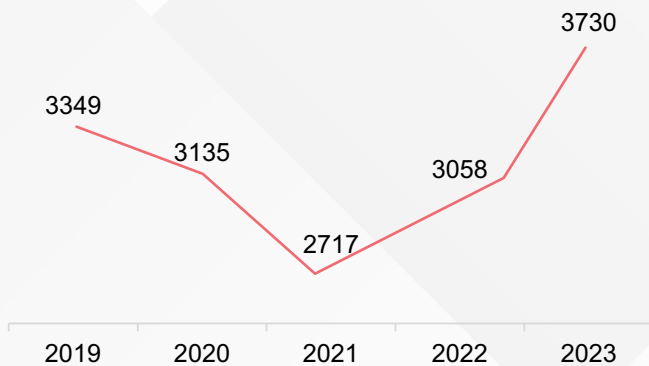


Global Presence

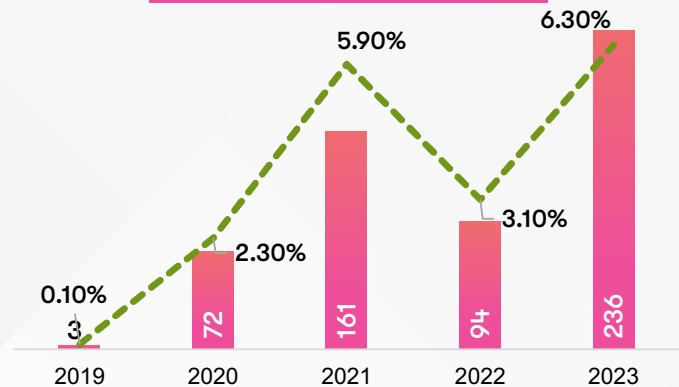


Company Performance

Revenue – 5yrs (Cr₹)



PAT (Cr₹) & PAT Margins (%)



21.97%
Revenue Y-O-Y

78.24%
EBITDA Y-O-Y

151%
PAT Y-O-Y

32.36%
Export Growth
Y-O-Y

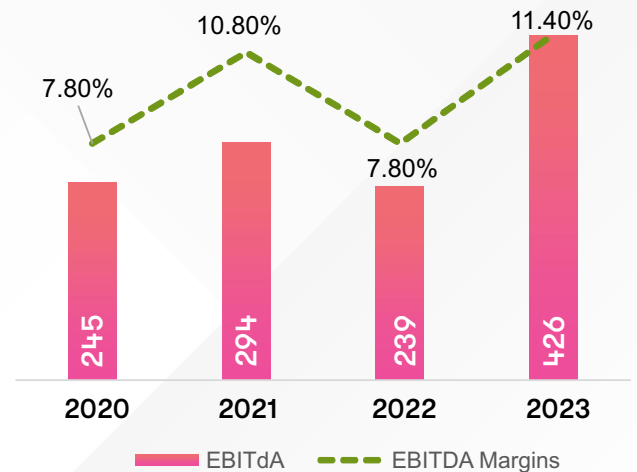
Rs 3020 Cr₹
Order Book

16.8%
Return on Equity

21.6%
Return on Capital
Employed

7.79%
Return on Asset

EBITDA (Cr₹) & EBITDA Margins (%)



Industry Analysis

The Global Pump Market: Dynamics, Challenges, and Projections

In the year 2022, the global pump industry experienced a remarkable surge, with pump consumption surging by an impressive 13%, reaching a substantial total value of USD 64.4 billion. This surge, while indeed substantial, is an interesting phenomenon, driven primarily by various factors, with price dynamics at the forefront. It's crucial to delve deeper into this growth and understand the intricacies of the global pump market.

- **Factors Driving Growth:** The growth in the global pump market during 2022 was propelled by robust demand emanating from key regions, notably Europe, Saudi Arabia, India, and North America. However, it's essential to underscore that this growth primarily resulted from price dynamics rather than serving as an unequivocal indicator of a profound resurgence in overall economic activity.

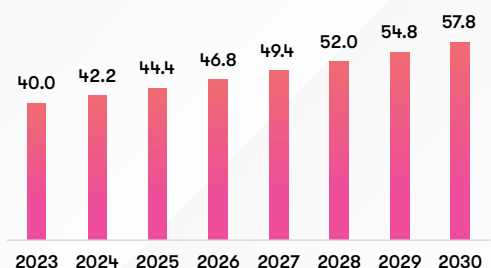
Several factors played pivotal roles in shaping the trajectory of this industry's growth. A notable factor was the presence of product shortages and the relentless escalation of input costs, with energy prices, in particular, soaring to unprecedented levels. These challenges posed substantial impediments to the expansion of the pump market. Supply chain disruptions significantly affected the manufacturing and automobile sectors, leading to diminished demand across a spectrum of pump end-use markets, including chemicals, rubber, and metals. Concurrently, labor shortages and the persistent specter of inflation exerted constraints, casting shadows on the construction sector.

- **Environmental Sustainability and the "Net Zero" Target:** In parallel, a global shift towards environmental sustainability emerged as a defining factor. Embodied by the ambitious "net zero" target, this transition influenced investment patterns within the oil and gas sector. European demand for pumps, for instance, was poised to expand substantially by 17.7% in 2022. However, it's noteworthy that this growth was primarily an outcome of price dynamics rather than reflecting robust manufacturing activity, which had been significantly impeded by the disruptive forces within global supply chains. Additionally, ongoing conflicts and sanctions in regions such as Russia and Ukraine inflicted considerable reductions in demand.

- **Resilience in Key Markets:** In contrast, the pump market in Asia showcased remarkable resilience, projecting an estimated expansion of 6.1%, predominantly driven by China's impressive growth rate of 4.4%. Meanwhile, North America exhibited promising signs, with a projected 13.5% growth, powered by an 11.9% expansion in the U.S. market. Looking ahead, the aggregate output of industries dependent on pumps is set to rise by 1.1% in 2023 and further accelerate to 2.9% in 2024. Nevertheless, the growth of annual pump demand in 2023 is anticipated to be modest at 0.5%, primarily influenced by a correction in producer prices and a slowdown in volume activity. Despite this, a medium-term acceleration in consumption is on the horizon.

- **Centrifugal Pumps Dominate:** Centrifugal pumps continue to wield dominance in the global market, accounting for a substantial 65% of the total market share. Positive displacement pumps, while representing a smaller share at 35%, play a vital role in specific applications. Although global risks are diminishing, the trajectory of industrial outcomes is expected to strengthen at a somewhat slower pace. Factors such as a mild European winter, robust labor markets in Europe and the U.S., the reopening of China, and a decline in commodity prices have collectively contributed positively to the regional economy. By the year 2030, the global centrifugal pump market is projected to attain a size of \$57.80 billion, with a compound annual growth rate (CAGR) of 5.4%.

Centrifugal Pump Market Growth - in \$bn



- **Projections and Future Trajectory:** The remarkable journey of the global pump market is aptly reflected in its valuation, which surged to USD 64.4 billion in 2022. Forecasts and projections indicate that this market is poised for continued growth, with an estimated value reaching USD 119.39 billion by 2028. This trajectory is characterized by a compelling compound annual growth rate (CAGR) of 6.3%.

Industry Analysis

Indian Pump Market

The Indian pump market occupies a significant position on the global stage, ranking sixth in the world and second in the Asia-Pacific (APAC) region. The year 2021 witnessed remarkable growth in this sector, with the pumps market (excluding parts) surging by 16.6% to reach a total of USD 2.1 billion by 2022. This impressive growth trajectory can be attributed to several key factors, including rapid urbanization, a surge in industrial activities, and unwavering government support for the agriculture and infrastructure sectors.

Agriculture, a vital segment that accounts for nearly 50% of pump end-use demand, is poised for robust growth, further driving the demand for pumps in the market. Similarly, the construction sector, the second-largest pump end-use market, is expected to witness an 18.5% increase in demand. However, the shadow of inflation looms as a significant challenge to the pump sector's growth. In the short term, the risk of monetary tightening could potentially curtail business spending on infrastructure projects and subsequently reduce the demand for pumps.

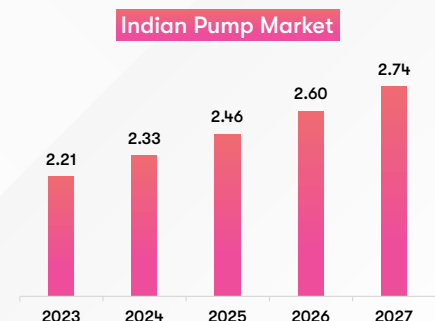
As we look ahead to 2023, the growth of the pumps market (excluding parts) is expected to moderate to 4.8%. This moderation is primarily attributed to inflationary pressures eroding domestic purchasing power, coupled with higher interest rates that may discourage fixed investment spending. Consequently, the industrial production growth is anticipated to slow to a mere 1.8%, in contrast to the 4.5% growth observed in the previous year. The collective growth of sectors heavily reliant on pumps is expected to fall to 2.1% in 2023. This adverse economic scenario is likely to be transient, and we anticipate a return to pump demand growth of approximately 4.1% by 2024. This resurgence is expected as the adverse impacts of interest rate increases gradually fade and global demand rebounds.

In the longer-term perspective spanning from 2023 to 2027, pump demand is predicted to grow at an annual rate of 5.5%. This growth will be driven by an acceleration in investment spending and increased demand in various end-use sectors.

The pumps and valves industries are poised to benefit significantly from the government's focus on infrastructure development and capital expenditure, which is expected to attract private investment and bolster the capital goods industry. Notably, the Indian pump industry stands as one of the fastest-growing markets globally. The government's emphasis on critical areas such as irrigation projects, drinking water supply, sanitation initiatives, and urban housing is set to propel the demand for pumps in the water segment.

Furthermore, a series of capacity expansion projects and greenfield ventures in sectors like petrochemicals, steel, cement, and allied industries are expected to bolster the pump and valve markets. As manufacturing, process industries, hospitality, and real estate continue to grow, the Indian pump market is poised for sustained expansion over the medium term. Technological innovations within this sector are also contributing to a shift towards greener and more sustainable manufacturing practices.

The Indian pump market is experiencing notable growth, driven by diverse factors such as urbanization, industrial activities, and government support. While short-term challenges related to inflation and monetary policies may impact growth in the near future, the long-term outlook remains positive, with increasing demand anticipated across various sectors and the adoption of sustainable practices shaping the industry's trajectory. This trajectory underscores the Indian pump market's pivotal role not only in the regional economy but also on the global stage as a vibrant and dynamic industry.



Industry Applications

The industry's extensive product range covers large and medium pumping solutions for complex fluid management systems, industrial and large-scale valves, hydel turbines, and smaller pumps designed for everyday household and farm applications. This diverse portfolio reflects the industry's dedication to meeting a broad array of customer requirements across different sectors. These pumps find applications in various sectors, as detailed below.

- The Agricultural Water Pump market is expected to grow at a 6.2% CAGR from 2023 to 2030, driven by technological advancements and cross-sector demand, fueled by innovation.
- Oil & Gas: Gear pumps are crucial in the oil and gas sector, with a 4.53% CAGR, reaching USD 1,465.749 million by 2028. They play essential roles in exploration, production, refining, and product transportation.
- Marine & Defence: KBL pumps excel in maritime operations and defense applications, ensuring safety and performance in harsh conditions.
- Building & Construction: Kirloskar Brothers pumps are key to efficiency in construction, from dewatering to HVAC systems.
- Small Pumps: KBL's compact pumps address water-related challenges in residential, commercial, and agricultural settings.
- Water Resources: KBL provides pumping solutions for water resource management, optimizing access, irrigation, and wastewater treatment.
- Irrigation: KBL pumps optimize water distribution, enhancing crop growth and productivity.
- Industries: KBL pumps support diverse industries, from agriculture and healthcare to manufacturing and municipal services.
- Nuclear Industry: KBL pumps ensure safe nuclear reactor cooling in the nuclear industry.

End-User Market Share

Industries	Market Share
Agriculture	27%
Building Services	19%
Water & Wastewater Management	17%
Power Generations	12%
Oil & Gas	8%
Metal & Mining	4%
Others	13%

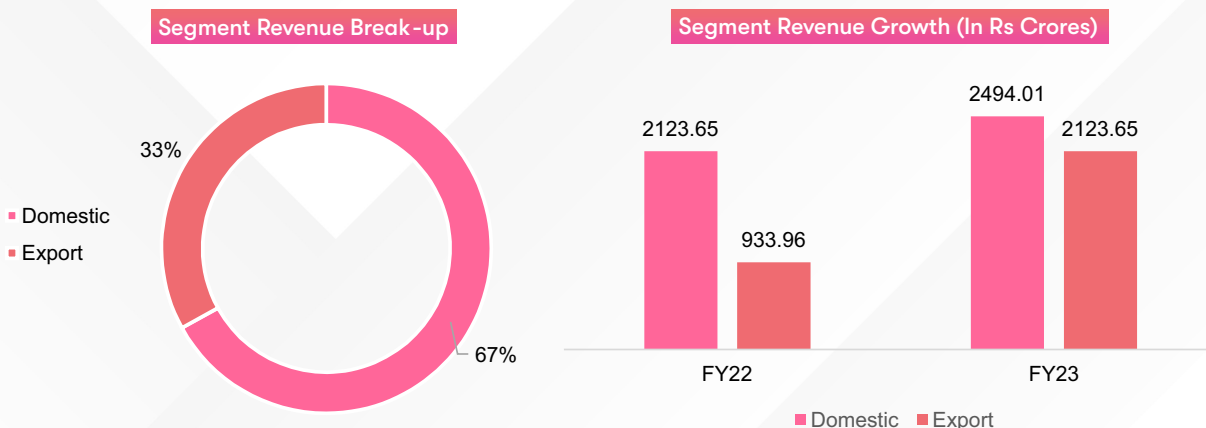
Comprehensive Investment Rationale

Kirloskar Brothers in the Global Context

Within the ever-evolving landscape of the dynamic global pump market, Kirloskar Brothers has firmly established itself as a prominent and influential player. With a strategic vision deeply rooted in expertise and innovative solutions, the company has adeptly navigated the tumultuous waters of supply chain disruptions and the fluidity of demand patterns. Kirloskar Brothers' ability to seamlessly adapt to the shifting dynamics of the market and consistently deliver reliable pumping solutions positions it as a frontrunner for sustained success in an industry marked by rapid transformation. This thriving success story is intricately tied to the company's shrewd utilization of its localized global presence, which has become a pivotal asset in enhancing efficiency and competitiveness on a global scale.

- **Cost Synergies:** One of the remarkable outcomes of Kirloskar Brothers' strategic approach is the realization of significant cost synergies. Through a relentless pursuit of operational efficiency, the company has successfully reduced turnaround times and optimized logistics, leading to substantial reductions in freight costs. Additionally, the company's international subsidiaries play a vital role in adding local value through components, repair services, maintenance solutions, and other support services, thereby contributing significantly to overall cost-efficiency and heightened customer satisfaction.
- **Duty-free Access and Support for Local Manufacturers:** KBL's global footprint extends its influence to regions of high growth, most notably within the ASEAN region, where its subsidiaries facilitate duty-free access. Through value-added activities conducted in countries like Thailand, the company secures duty-free benefits ranging from 20% to 30%, depending on the specific product category. Beyond this, KBL is deeply committed to supporting local manufacturers, especially in countries such as Thailand and South Africa. Notably, in the United States, KBL's subsidiary, SPP Inc., aligns seamlessly with the 'Buy American' program, meeting rigorous criteria set forth to champion local manufacturing.
- **Local Sourcing Norms and Regulations:** Another cornerstone of Kirloskar Brothers Limited's global strategy is a firm commitment to compliance with local sourcing norms and regulations. In South Africa, the company has gone a step further by establishing a local subsidiary that aligns closely with the Broad-Based Black Economic Empowerment Program, demonstrating a genuine dedication to socio-economic development in the region. In regions such as the United States, United Kingdom, and the Netherlands, KBL's subsidiaries diligently adhere to local sourcing norms, ensuring not only regulatory compliance but also fostering meaningful engagement with local communities.

Kirloskar Brothers Limited's localized global approach transcends mere competitiveness. It embodies a commitment to responsible business practices and genuine engagement with local economies. By expertly harnessing cost synergies, securing duty-free access, and meticulously adhering to local norms, KBL stands poised for continued and sustainable success in the global pump market, while simultaneously making a positive and lasting impact on the regions it serves.



Comprehensive Investment Rationale

Leveraging Innovation Through Research and Development

Research and Development (R&D) is a critical pillar of success for any company operating in a competitive industry, and Kirloskar Brothers Limited (KBL) recognizes this fact with its robust commitment to innovation. In FY 2022-23, KBL's R&D division demonstrated its prowess by introducing several new product series, cementing the company's position as a technology leader in the fluid management business.

- **Product Innovation:** One of the standout achievements of KBL's R&D efforts was the introduction of the DBxe and GKw series, which replaced the outdated DB and CE product lines. These new series not only brought in superior efficiency but also showcased the company's adaptability to evolving market demands. Additionally, KBL launched the KW-LC series for HVAC applications, enhancing its product portfolio's diversity.

In response to the growing needs of the firefighting market, KBL extended its FM/UL series range. The development of a specialized 315 kW submersible pump for the Russian market underlines KBL's global ambitions and its ability to tailor solutions to specific markets. Furthermore, KBL continued to design and supply engineered products for various segments, including Irrigation, Nuclear, and Hydel, reinforcing its commitment to fulfilling diverse industry requirements.

In the domestic market, KBL stayed ahead of the competition by introducing a new series of 32 mm submersible pumps (KS3) and a super-premium series of monoblock pumps with IE4 motors. These innovations demonstrate KBL's intent to cater to a wide range of customers and industries, ensuring a strong foothold in the Indian market. To address agricultural needs, KBL developed an 80 mm borewell submersible and above pump series with 59 variants. This move aligns with India's agricultural demands and positions KBL as a reliable partner in the nation's food security efforts. Moreover, KBL's development of an indigenous submersible pump-type CW model highlights its commitment to import substitution, contributing to the country's self-reliance goals.

- **Market Potential:** India's position as one of the top global consumers of pumps presents a significant growth opportunity for KBL. Factors such as rapid industrial growth, government infrastructure initiatives, and increasing demands for water supply and irrigation drive the pump industry's growth. However, this market is highly fragmented, with intense competition from smaller and unorganized players. KBL's R&D investments empower it to stand out in this crowded field.

Competition from top global market players, especially in the industrial pumps segment, is a reality. Yet, KBL's focus on delivering reliable and energy-efficient products positions it favorably, as customers increasingly value performance and efficiency. Moreover, KBL's established distribution channel network provides a substantial competitive advantage. New entrants face challenges in penetrating the widespread domestic pump market, whereas KBL, with its decades-long presence and customer trust, maintains a strong position.

- **Investment in R&D:** KBL's commitment to R&D is evident from its substantial investments in innovation. The company demonstrates its intellectual property strength with 17 patents for innovative technology, including 2 US patents. Utilizing tools like CFD analysis, structural analysis, and numerical simulation software, KBL ensures its products meet the highest quality and efficiency standards.

The incorporation of 3D printing technology for casting complex designs and effective casting simulation tools further enhances KBL's manufacturing capabilities. The company's possession of one of Asia's largest hydraulic research centers underscores its technical prowess. A robust product data management tool streamlines operations and ensures product quality.

Kirloskar Brothers Limited's relentless pursuit of innovation through R&D makes it a compelling investment opportunity. The company's ability to adapt to market changes, cater to diverse industry needs, and stay ahead of the competition positions it for long-term growth and success in India's thriving pump industry. KBL's dedication to delivering energy-efficient and reliable products aligns with sustainability trends, further strengthening its investment appeal.

Comprehensive Investment Rationale

KBL's Strategic Shift to Green Energy and Profitability

KBL has strategically positioned its domestic business for robust growth by focusing on its green energy portfolio. Over the past decade, the company underwent a significant transformation to address past challenges and ensure a promising future.

- **Strategic Shift from EPC to Pumps:** In the past, KBL had substantial exposure to Engineering, Procurement & Construction (EPC) projects. While these ventures were revenue generators, they often yielded lower margins and required intensive working capital, resulting in poor cash flows and unstable revenue growth. Recognizing these challenges, KBL embarked on an organizational shift by significantly reducing its acceptance of EPC orders. This strategic move has paved the way for a more stable and profitable business model.

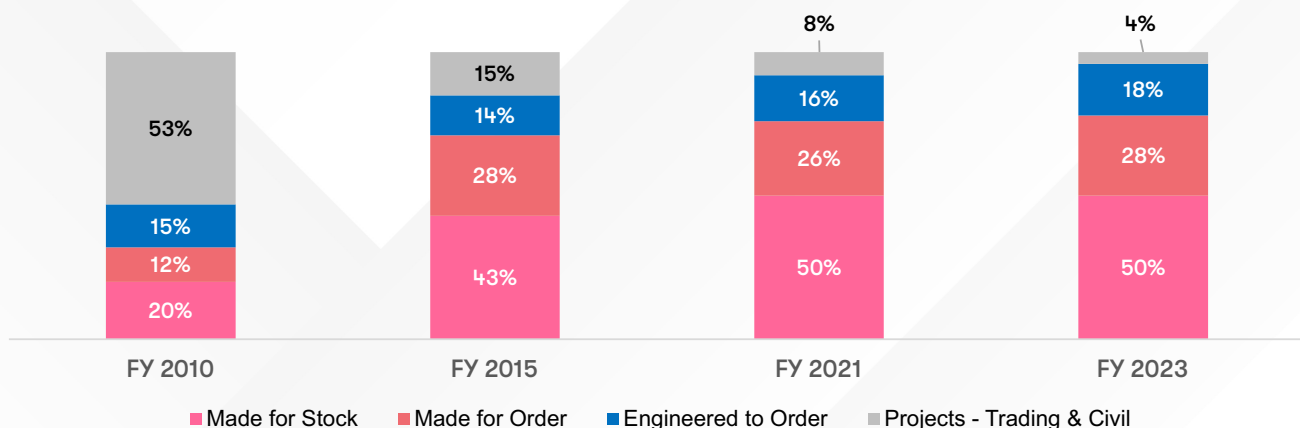
- **Diverse Pumps Portfolio:** KBL's strength lies in its diverse range of pump offerings, including made-to-stock, made-to-order, engineered-to-order, and services products. Notably, the company has increased its share of made-to-order products in its portfolio, rising from 43% in FY15 to 50% in FY23. Made-to-order products provide consistent revenue streams and faster cash generation, contributing to enhanced financial stability.

What sets KBL apart in the retail segment (made-to-order) is its focus on energy efficiency. The company offers pumps equipped with IE4 and IE5 motors, which save nearly 40% of energy compared to the IE2 motors offered by most competitors. These energy-efficient pumps are priced at a premium, giving KBL a unique position in the growing green energy market. This early-mover advantage positions the company for significant growth as the world increasingly embraces sustainability.

- **Transition to a Product-Based Company:** In a significant strategic move, KBL has transitioned from a project-based company to a product-based company. In FY23, a remarkable 97% of its revenue was generated from KBL products, while the project business contributed only 3% of overall sales. This shift has significantly improved the company's profitability and financial stability. KBL's focus on improving services and offering value-added products has allowed it to meet evolving customer needs effectively. The company has successfully expanded its presence in both B2B and B2C markets, further strengthening its position in the domestic market.

- **International Success:** KBL's international subsidiary, SPP Pumps, is the largest pump manufacturing company in the UK. This subsidiary's favorable order mix and strong brand positioning have translated into profitability for the international business. KBL's ability to establish a strong presence and thrive in international markets demonstrates its global competitiveness.

KBL Revenue Contribution Business Wise (in %)



Comprehensive Investment Rationale

Strong Order Book and Growth Potential

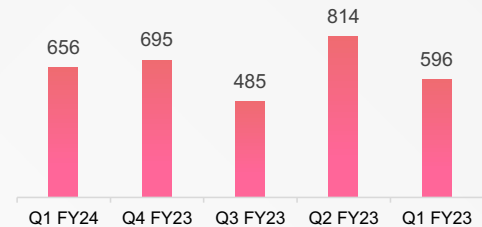
Kirloskar Brothers Limited (KBL) is showcasing its robust standing with a consolidated order book, inclusive of exports, currently valued at Rs. 3020 crore in Q1FY24, marking an impressive 15.6% year-on-year growth. It's important to note that this order book primarily consists of made-to-order and engineered-to-order products, as the made-to-stock orders, typically for small pumps, have a shorter execution timeframe of less than a month.

KBL has seen a notable resurgence in demand across all product categories, rebounding from the challenges posed by the Covid-19 pandemic. Currently, the company's order book is largely driven by the irrigation, water resource management, and power sectors, jointly contributing to a significant 72% of the total order book in Q1FY24.

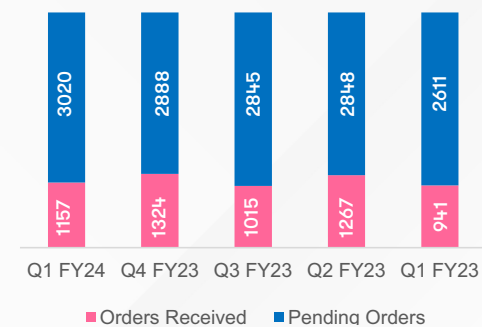
Looking forward, we anticipate a surge in capital expenditure (capex) in key sectors such as agriculture, water management, and oil & gas, which is poised to fuel the demand for pumps. Additionally, private capex in emerging industries such as data centers, healthcare, energy, and industrials will also contribute to the growth of the pumps industry. As a rough estimate, pumps generally constitute around 1% to 1.5% of the total budget in large-scale water, irrigation, or construction projects. This presents a substantial growth opportunity for KBL, given its prominent position as one of the largest players in the pumps industry.

Furthermore, plans to expand the dealer and distributor network in the made-to-stock category will enhance KBL's market reach. With its diverse range of offerings in the pumps industry, we believe KBL is well-positioned to benefit from the rising demand for pumps, both in domestic and international markets.

KBL Standalone Orders Received (In Rs Crores)



KBL Consolidate Orders Received (In Rs Crores)



Sector (In Rs. crores)	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23
Irrigation + Water Resource Mgmt.	879	851	885	893	664
Power	503	504	473	486	491
Oil & Gas	84	71	86	91	91
Marine & Defence	59	42	53	61	83
Industry	112	102	125	146	137
Building & Construction	106	90	111	118	136
Customer Support & ESD	105	91	103	108	107
Valves	66	69	86	97	68
Total	1914	1820	1922	2000	1777

Comprehensive Investment Rationale

Q1FY24 Concall Highlights

In terms of financial performance, Q1 FY '24 witnessed substantial growth, with consolidated revenues surging by 14.7% to reach INR 900 crores. EBITDA saw an impressive increase of 140%, totaling INR 115 crores. The domestic business segment grew by 3.8%, while the international segment experienced remarkable growth of 27.7%. The consolidated order book also expanded significantly, showing a YoY increase of 15.7% to INR 3,020 crores.

The international subsidiaries exhibited healthy growth in both top-line revenue and operating profit margins, driven by the introduction of value-added services and specialized products. Notably, the US division's performance improved due to higher automation and successful product launches in the fire segment, while the UK branch showed positive growth, focusing on services and framework contracts.

Within the domestic operations, there was a strong upward trajectory fueled by a well-balanced product mix and a robust order inflow. Demand within the domestic market mirrored overall industry growth, particularly within the industrial segment. The company's strategic vision includes sustaining current margin levels while actively pursuing opportunities to enhance overall profitability.

Expansion and innovation remain key priorities for the organization, with a focus on strengthening its product portfolio, expanding market share, and establishing new benchmarks in product innovation, efficiency, reliability, and sustainability. International subsidiaries are also keen on expanding their investment services and framework contract businesses, exploring cross-selling opportunities, and increasing the services portion of their international operations.

Capacity utilization for the company falls within the range of 60% to 70%. Demand for solar pumps remains consistent, catering to system integrators, and the company boasts a proven track record in supplying pumps to data centers, both domestically and internationally.

Outlook

Our recommendation is supported by several key factors. Notably, there is a substantial improvement in the company's order book, indicating strong demand for its products and services. Additionally, the Services segment has been contributing increasingly to revenue, suggesting diversification and potential for enhanced profitability. Moreover, the restructuring of business activities has resulted in noteworthy improvements in Return on Equity (ROE) and Return on Capital Employed (ROCE), which have risen to 19.6% and 25.1%, respectively. Operating margins are also expected to rise to 11.7% by FY25, reflecting a 100 basis points increase.

Taking into account the current market price (CMP) and a 15x 1-year Forward consensus Price-to-Earnings (PE) ratio, the stock may be considered reasonably valued. Given these growth drivers, a valuation of the company at an 18x multiple on FY25 earnings suggests a potential upside, which should be taken into consideration. However, it's essential to exercise caution and carefully assess all market variables before making investment decisions.

Key Risks

- Geopolitical tensions (e.g., Russian-NATO, US-China) could disrupt global trade, affecting demand and profitability, with 1/3 of KBL's revenue coming from exports.
- Fluctuations in steel and cast iron prices may impact profit margins.
- Intense competition in India's pump manufacturing industry, with over 800 companies, could affect pricing and market share for KBL.

Strengths

- **Strong Free Cash Flow:** Kirloskar Brothers maintains a robust free cash flow, enabling investments in new projects and expansion.
- **Good ROI:** The company demonstrates a successful track record in new projects, yielding high returns on capital expenditures.
- **Strong Brand Portfolio:** Kirloskar Brothers has cultivated a strong brand portfolio, offering a competitive advantage for venturing into new product categories.
- **Outstanding Performance in New Markets:** The company has excelled in entering and succeeding in new markets, diversifying its revenue streams.

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Weaknesses

- **Need for Technology Investment:** There is a requirement for increased investment in technology, as the current technology investments are not fully aligned with the company's vision.
- **Financial Planning Inefficiency:** Financial planning and cash utilization could be improved for better efficiency.
- **Integration Challenges in Diverse Work Cultures:** Integrating firms with differing work cultures has presented challenges for Kirloskar Brothers.
- **Unclear Product Positioning:** While the product is successful in terms of sales, its positioning and unique selling proposition need refinement to defend against competitors.

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Opportunities

- **New Environmental Policy:** Upcoming environmental policies present opportunities for adopting new technologies and gaining market share in eco-friendly product categories.
- **Taxation Policy Changes:** New tax policies can influence business operations and profitability, offering opportunities for optimization.
- **Government Agreements for Market Expansion:** Government agreements and trade deals open doors to entering new markets.
- **Online Sales Channel Growth:** Investments in the online platform create opportunities for better customer understanding and big data analytics-driven growth.

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Threats

- **Fierce Competition:** Increased competition in the industry may lead to lower overall revenue and profitability.
- **Liability Laws Variability:** Differing liability laws across countries may result in liability claims for Kirloskar Brothers.
- **Commodity Price Increases:** Quantitative increases in commodity prices could affect the company's profitability.
- **Global Operations Currency Risk:** Operating in multiple countries exposes the company to currency fluctuations, especially in politically unstable markets, potentially leading to losses.

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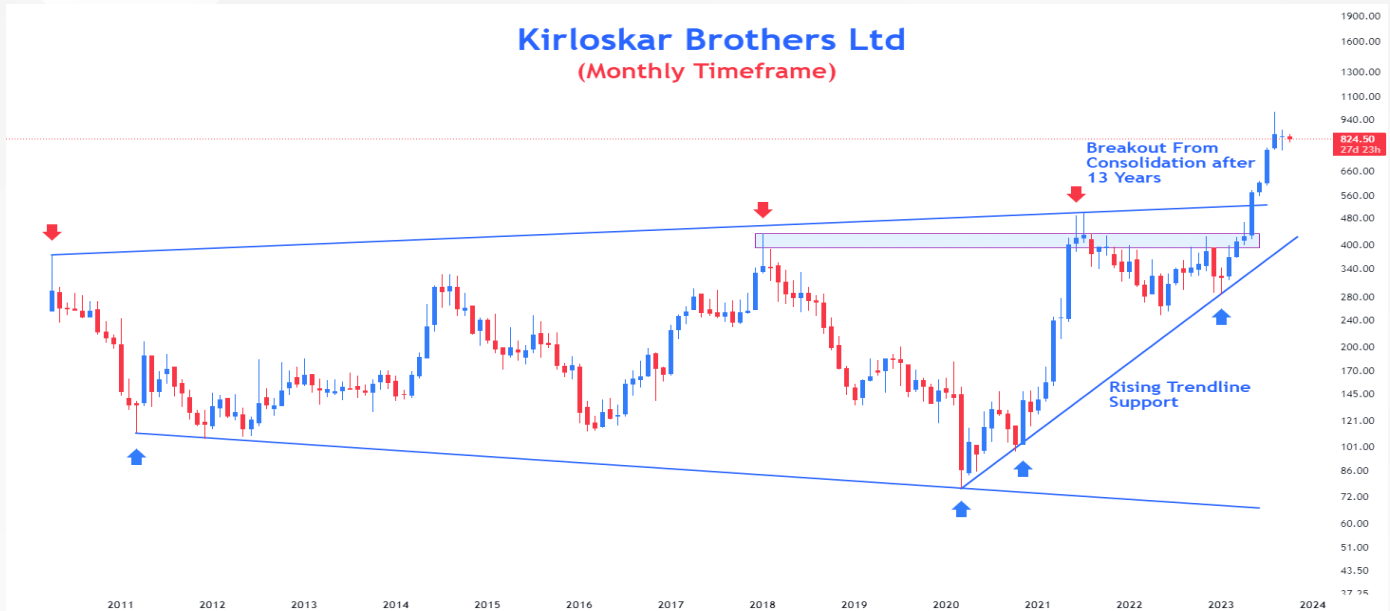
Peer Comparison

	Kirloskar Brothers	KSB	Shakti Pump
CMP (Rs) (03-10 -2023)	824.5	3043.1	874.25
Revenue (Rs in cr)	3672.15	1864.14	970.94
EBIDTA (Rs in cr)	426.27	288.84	69.81
PAT (Rs in cr)	225.06	174.92	24.13
EBIDTA Margin %	11.60%	15.49%	7.18%
PAT Margin %	6.03%	9.60%	2.49%
ROCE %	21.80%	20.47%	11.81%
ROE %	16.73%	15.98%	5.77%
Debt To Equity (x)	0.18	0.00	0.18
EPS (Rs)	29.59	52.50	13.13
Diluted EPS (Rs)	29.59	52.50	13.13
P/E(x)	23.1	57.9	66.58
P/B (x)	4.66	8.87	3.85
P/S (x)	0.22	1.67	0.9
Enterprise value (Rs in cr)	3244.05	6480.95	799.01
EV/EBIDTA (x)	7.61x	22.44x	11.44x
Market cap (Rs in cr)	6,523	10,583	1,606
Current ratio (x)	1.55x	2.01x	1.94x
Book Value (Rs)	177.22	328.41	227.45
Dividend Yield %	0.55%	0.56%	0.24%
Interest Coverage (%)	12.05	47.15	3.64
Asset T/O (%)	0.97%	1.08%	1.27%
RoA %	7.79%	10.01%	3.32%

Financial Snapshot

Particulars (Consolidated)	FY 23	FY 22	FY 21	FY 20	FY 19
Financial Position (In Cr)					
Equity Share Capital	15.88	15.88	15.88	15.88	15.88
Reserve & Surplus	1388.0	1161.54	1088.81	927.18	893.43
Fixed Assets	599.45	545.10	539.40	537.97	467.33
Current Assets	2126.78	2028.31	1866.0	2028.07	1935.55
Cash and Cash Equivalents	252.86	259.08	175.39	320.82	73.53
Current Liabilities	1375.62	1442.94	1458.58	1702.92	1621.70
Non Current Liabilities	232.89	253.72	148.76	199.02	131.98
Enterprise Value	3244.05	2365.63	2003.65	937.98	1591.27
Operating Results (? In Cr)					
Total Income	3757.49	3090.06	2770.27	3172.97	3372.65
Total Expenditure	3435.17	2954.58	2588.20	3051.65	3332.06
Earnings Before Interest & Tax (EBIT)	353.46	168.95	226.23	173.38	87.58
Tax	93.01	53.95	28.17	53.05	45.84
Profit/(loss) after tax (PAT)	225.06	81.53	153.91	68.28	-5.25
Ratios					
EBDITA margin (%)	11.42%	7.79%	10.83%	7.80%	4.52%
Net profit margin (%)	6.03%	2.66%	5.66%	2.17%	-0.15%
Return on net worth (%)	16.73%	8.01%	14.58%	7.62%	0.38%
Return on capital employed (%)	21.80%	11.78%	18.01%	15.14%	8.38
Return on asset (%)	7.79%	3.27%	5.93%	2.52%	0.13%
Debt To Equity Ratio	0.18	0.32	0.25	0.58	0.40
EPS	29.59	11.88	20.29	9.05	0.44
Earning Yield	29.59	11.88	20.29	9.05	0.44
Cash Flows (in Cr)					
Operating Activities	329.24	141.17	316.58	305.23	61.96
Investing Activities	-75.71	-85.42	-143.87	258.57	-18.61
Financing Activities	-169.38	29.79	-315.40	125.03	-23.42
Net Cash Flows	87.02	84.0	-143.43	258.57	-18.61

Technical Outlook



Kirloskar Brothers has recently experienced a significant breakout following a 13-year consolidation period. This breakout is anticipated to sustain its bullish momentum in the foreseeable future.

The Weekly RSI is 65.39 indicating Bullishness in the stock. The 20DMA and 50DMA cross also indicates the uptrend to follow further.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	828.14	827.62
10	833.05	829.22
20	831.26	830.74
50	827.98	801.19
100	714.00	720.61
200	540.86	605.72

Pivot Levels : FIBONACCI			Relative Strength Index(RSI)	Daily	Weekly
R1 867.94	Pivot 842.15	S1 816.36		48.77	65.39
R2 883.86		S2 800.44			
R3 909.65		S3 774.65			

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