

*Weak results, revenue and margin suffered due to postponement of EPC orders owing to election; long term positive view intact; attractive valuation compels us to upgrade to Buy*

<b>Current</b>	<b>Previous</b>
<b>CMP: Rs 291</b>	<b>Rating :</b>
<b>Rating: Buy</b>	<b>Accumulate</b>
<b>Target: Rs 379</b>	<b>Target: Rs 465</b>

(NR-Not Rated)

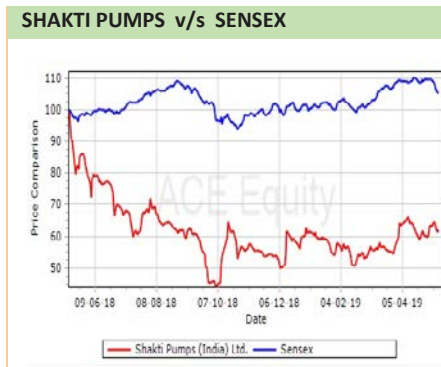
Stock Info	
INDEX	
BSE	531431
NSE	SHAKTIPUMP
Bloomberg	SKPI IN
Reuters	SHPU.BO
Sector	Industrial Machinery
Face Value (Rs)	10
Equity Capital (Rs Mn)	184
Market Cap (Rs Mn)	5355
52w H/L (Rs)	480 / 251
Avg Weekly Vol (BSE+NSE)	194,880

Shareholding Pattern	%
<b>(As on June, 2019)</b>	
Promoters	48.3
Public & Others	51.7

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
SHAKTI PUMPS	-27.4	-17.3	-34.4
SENSEX	-0.1	4.3	-0.8

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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**Shakti Pumps came out with muted set of results in Q1FY20. Consolidated revenue for the quarter grew 10.3% YoY to Rs 1058 mn. Despite modest revenue growth, EBITDA suffered a decline of 19% YoY to Rs 107 mn, due to double digit increase in raw material cost (+16% YoY), employee cost (+11.9% YoY) and higher other expenses (+13.3%). EBITDA margin fell 365bps YoY to 10.1% against 13.7% in corresponding quarter last year. PAT for the quarter stood at Rs 25 mn, a decline of 62.8% YoY. The huge fall in PAT was due to lower EBITDA as well as higher interest cost (+42.9% YoY). Despite near term sluggishness in numbers, we remain positive on Shakti Pumps from longer term perspective, recent correction in stock price made the valuation attractive, which compels us to upgrade our rating to Buy.**

**Q1FY20 Highlights**

- In Q1FY20 Shakti Pumps reported 10.3% YoY revenue growth to Rs 1058 mn against Rs 959 mn in Q1FY19. While on sequential basis revenue witnessed 33.7% YoY de-growth against Rs 1596 mn in Q4FY19. Revenue de-growth was primarily driven by slower execution of EPC orders during the quarter due to elections. As a result of which some orders got postponed to next quarter, resulting in muted revenue growth.
- EBITDA saw a decline of 19% YoY and 61.8% QoQ to Rs 107 mn against Rs 132 mn in Q1FY19 and Rs 279 mn in Q4FY19. Owing to slower execution of EPC orders in Q1FY20, Shakti Pump faced an increase in finished goods inventory which resulted in contraction of EBITDA margin. EBITDA margin contracted 365 bps YoY and 741 bps QoQ to 10.1%. Demand from high margin segments of OEM and exports was also muted during Q1FY20, which also contributed to the fall in margin.
- PAT for the quarter declined by 62.8% YoY/85.1% QoQ to Rs 25 mn reflecting overall slowdown in revenue and EBITDA. Also higher interest cost (+42.9% YoY) dented the PAT numbers.

**Valuations**

At CMP of Rs 291, Shakti Pump is trading at FY20E and FY21E, P/E multiples of 10.8x and 9.2x respectively, which is attractive. After factoring in muted Q1FY20 results we have revised our FY20E/FY21E estimates downward, however we have kept our target P/E intact at 12x FY21E as we believe all the negatives are in the price. At 12x FY21E earnings Shakti Pumps' fair value comes at Rs 379 per share. Despite cutting estimates we remain bullish on the stock from longer term perspective and **due to attractive valuation upgrade our rating from Accumulate to Buy, with revised TP of Rs 379.**

**Financial Performance**

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	4,366	774	341	18.6	17.7	13.4	15.7
FY19	5,464	892	451	24.5	16.3	15.5	11.9
FY20E	6,298	976	495	26.9	15.5	15.3	10.8
FY21E	7,248	1160	581	31.6	16.0	16.5	9.2

Source: Company, Arihant Research

## Q1FY20 Financial Performance

Rs Mn (Consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>1,058</b>	<b>1,596</b>	<b>959</b>	<b>-33.7%</b>	<b>10.3%</b>
Material Cost	653	955	563	-31.6%	16.0%
Employee cost	135	146	121	-7.2%	11.9%
Other Expenses	163	216	144	-24.7%	13.3%
<b>EBITDA</b>	<b>107</b>	<b>279</b>	<b>132</b>	<b>-61.8%</b>	<b>-19.0%</b>
<b>EBITDA margin %</b>	<b>10.1%</b>	<b>17.5%</b>	<b>13.7%</b>	<b>-741</b>	<b>-365</b>
Other Income	11	13	21	-11.2%	-45.4%
Depreciation	41	40	35	3.6%	15.4%
<b>EBIT</b>	<b>77</b>	<b>253</b>	<b>117</b>	<b>-69.5%</b>	<b>-34.1%</b>
Finance cost	46	47	32	-3.1%	42.9%
Exceptional Item	-	-	-		
<b>PBT</b>	<b>31</b>	<b>205</b>	<b>85</b>	<b>-84.8%</b>	<b>-63.2%</b>
Tax Expense	7	40	19	-83.6%	-64.9%
Effective tax rate %	20.8%	19.4%	21.8%		
Reported Net Profit	25	165	66	-85.1%	-62.8%
<b>Adj Net Profit</b>	<b>25</b>	<b>165</b>	<b>66</b>	<b>-85.1%</b>	<b>-62.8%</b>
<i>Adj Net margin %</i>	<i>2.3%</i>	<i>10.3%</i>	<i>6.8%</i>	<i>-797</i>	<i>-446</i>
<i>Reported EPS (Rs)</i>	<i>1.3</i>	<i>9.0</i>	<i>3.6</i>	<i>-85.1%</i>	<i>-62.8%</i>
<b>Adj EPS (Rs)</b>	<b>1.3</b>	<b>9.0</b>	<b>3.6</b>	<b>-85.1%</b>	<b>-62.8%</b>

Source: Company, Arianth Research

### Post Result Conference Call Highlights

- The company has current order book of solar projects to the tune of Rs 850 mn
- The quarter saw postponement of EPC orders owing to elections, which has impacted the topline. Also due to high raw material cost margin suffered (3% impact due to high RM costs).
- Expect above orders to materialise in subsequent quarters, which will give impetus to revenue growth.
- Company is targeting 20-25% topline growth and expect the performance to improve in subsequent quarters.
- Due to reduction in anti dumping duty on the solar panel, raw material costs had gone up, which has dented the margin. Notwithstanding higher input costs, company is focussing on efficiency and trying to stabilise its solar business. The management is expecting some big projects in coming quarters to materialise and working on those lines.
- Due to fierce competition and undercutting of bid prices, some big state tenders got cancelled this quarter, like in Chhattisgarh 25000 pump tender got cancelled, Maharashtra also 50,000 pump tenders got cancelled. As a result revenue visibility in near term is little muted, but company is hopeful of securing sizable chunk from the above tenders when they will again come for bidding in subsequent quarters.
- Near term focus is on a big Africa project and government's Kusum Project.
- The company is trying to bring its interest costs down and has already switched its loan providers from PSU banks which were charging higher interest to private players like CITI, ICICI and HDFC Bank.

## Consolidated Financials

## Income Statement (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	4,290	4,366	5,464	6,298	7,248
<i>Change (%)</i>	62.4%	1.8%	25.2%	15.3%	15.1%
Raw materials	2,253	2,365	3,241	3,464	3,950
Stock Adjustments	89	16	0	0	0
Employee costs	413	446	529	756	870
Other expenses	930	766	803	1,102	1,268
<b>Total Expenses</b>	<b>3,686</b>	<b>3,592</b>	<b>4,573</b>	<b>5,322</b>	<b>6,088</b>
<b>EBITDA</b>	<b>605</b>	<b>774</b>	<b>892</b>	<b>976</b>	<b>1,160</b>
Other Income	21	35	38	63	72
Depreciation	128	139	150	157	162
Interest	165	140	178	222	240
<b>PBT</b>	<b>332</b>	<b>530</b>	<b>601</b>	<b>660</b>	<b>830</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>332</b>	<b>530</b>	<b>601</b>	<b>660</b>	<b>830</b>
Tax	116	189	150	165	249
<i>Rate (%)</i>	34.9%	35.6%	25.0%	25.0%	30.0%
<b>PAT</b>	<b>216</b>	<b>341</b>	<b>451</b>	<b>495</b>	<b>581</b>
<i>Change (%)</i>	1929.7%	57.6%	32.1%	9.8%	17.4%

Source: Company, Arianth Research

## Balance Sheet (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>					
Share Capital	184	184	184	184	184
Reserves & Surplus	2,050	2,353	2,720	3,052	3,337
<b>Net Worth</b>	<b>2,234</b>	<b>2,536</b>	<b>2,904</b>	<b>3,236</b>	<b>3,521</b>
<b>Loan Funds</b>	<b>829</b>	<b>1,059</b>	<b>1,698</b>	<b>1,848</b>	<b>1,998</b>
Deferred Tax & other liabilities	84	100	118	118	118
<b>Capital Employed</b>	<b>3,148</b>	<b>3,695</b>	<b>4,719</b>	<b>5,201</b>	<b>5,637</b>
<b>Application of Funds</b>					
Gross Block	1,877	2,004	2,350	2,500	2,650
Less: Depreciation	668	799	950	1,107	1,270
Net Block	1,209	1,205	1,400	1,392	1,380
CWIP	3	8	122	122	122
Other non current assets	49	75	196	196	196
<b>Net fixed assets</b>	<b>1,261</b>	<b>1,288</b>	<b>1,718</b>	<b>1,710</b>	<b>1,698</b>
<b>Investments</b>	<b>32</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred tax assets	0	0	0	0	0
Debtors	1,384	1,433	1,805	1,984	2,284
Inventories	1,035	1,161	1,356	1,234	1,407
Cash & bank balance	132	256	190	159	227
Loans & advances & other CA	345	435	765	1,627	1,757
<b>Total current assets</b>	<b>2,896</b>	<b>3,287</b>	<b>4,116</b>	<b>5,005</b>	<b>5,675</b>
Current liabilities	1,002	839	1,067	1,467	1,688
Provisions	40	40	47	47	47
<b>Net current assets</b>	<b>1,855</b>	<b>2,407</b>	<b>3,001</b>	<b>3,491</b>	<b>3,940</b>
<b>Total Assets</b>	<b>3,148</b>	<b>3,695</b>	<b>4,719</b>	<b>5,201</b>	<b>5,637</b>

Source: Company, Arianth Research

## Cash Flow Statement (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>332</b>	<b>530</b>	<b>601</b>	<b>660</b>	<b>830</b>
Depreciation	128	139	150	157	162
Interest & others	144	105	140	159	167
Cash flow before WC changes	605	774	892	976	1,160
<b>(Inc)/dec in working capital</b>	<b>-466</b>	<b>-686</b>	<b>-1,001</b>	<b>-917</b>	<b>-846</b>
Operating CF after WC changes	139	88	-110	60	314
Less: Taxes	-116	-189	-150	-165	-249
<b>Operating cash flow</b>	<b>23</b>	<b>-100</b>	<b>-260</b>	<b>-105</b>	<b>65</b>
(Inc)/dec in F.A + CWIP	96	-155	-577	-150	-150
(Pur)/sale of investment	-32	32	0	0	0
<b>Cash flow from investing</b>	<b>64</b>	<b>-123</b>	<b>-577</b>	<b>-150</b>	<b>-150</b>
<b>Free cash flow (FCF)</b>	<b>-129</b>	<b>-229</b>	<b>-716</b>	<b>-255</b>	<b>-85</b>
Loan raised/(repaid)	-60	230	639	150	150
Equity raised	-134	0	0	0	0
Interest & others	200	185	225	174	119
Dividend	-37	-68	-92	-99	-116
<b>Cash flow from financing activities</b>	<b>-30</b>	<b>347</b>	<b>771</b>	<b>225</b>	<b>153</b>
<b>Net inc /(dec) in cash</b>	<b>56</b>	<b>124</b>	<b>-65</b>	<b>-31</b>	<b>67</b>
Opening balance of cash	76	132	256	190	159
Closing balance of cash	132	256	191	159	227

Source: Company, Arianth Research

## Key Ratios

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Per Share (Rs)</b>					
EPS	11.8	18.6	24.5	26.9	31.6
CEPS	18.7	26.1	32.7	35.5	40.4
BVPS	121.6	138.0	158.0	176.0	191.6
DPS	2.0	3.7	5.0	5.4	6.3
Payout (%)	17.0%	19.9%	20.4%	20.0%	20.0%
<b>Valuation (x)</b>					
P/E	24.7	15.7	11.9	10.8	9.2
P/CEPS	15.5	11.1	8.9	8.2	7.2
P/BV	2.4	2.1	1.8	1.7	1.5
EV/EBITDA	10.0	7.9	7.7	7.2	6.1
Dividend Yield (%)	0.7%	1.3%	1.7%	1.9%	2.2%
<b>Return Ratio (%)</b>					
EBIDTA Margin	14.1%	17.7%	16.3%	15.5%	16.0%
PAT Margin	5.0%	7.8%	8.2%	7.9%	8.0%
ROE	9.7%	13.4%	15.5%	15.3%	16.5%
ROCE	15.1%	17.2%	15.7%	15.7%	17.7%
<b>Leverage Ratio (%)</b>					
Total D/E	0.4	0.4	0.6	0.6	0.6
Net D/E	0.3	0.3	0.5	0.5	0.5
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.4	1.2	1.2	1.2	1.3
Inventory Days	161	178	153	130	130
Receivable Days	118	120	121	115	115
Payable days	89	74	74	85	85

Source: Company, Arianth Research

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**Stock Rating Scale****Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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