

*Good results, strong visibility for next few years, only concern is stretched working capital cycle to fuel growth, Recommend Accumulate with a revised TP of Rs 465*

<b>Current</b>	<b>Previous</b>
<b>CMP: Rs 405</b>	
<b>Rating: Accumulate</b>	<b>Rating: Buy</b>
<b>Target: Rs 465</b>	<b>Target: Rs 497</b>

(NR-Not Rated)

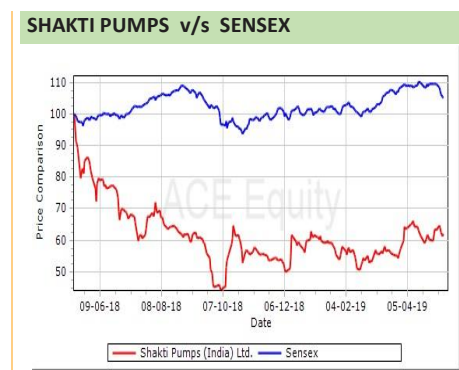
Stock Info	
INDEX	
BSE	531431
NSE	SHAKTIPUMP
Bloomberg	SKPI IN
Reuters	SHPU.BO
Sector	Industrial Machinery
Face Value (Rs)	10
Equity Capital (Rs Mn)	184
Market Cap (Rs Mn)	7444
52w H/L (Rs)	719 / 293
Avg Weekly Vol (BSE+NSE)	265,090

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
SHAKTI PUMPS	10.5	9.6	-37.8
SENSEX	2.5	6.6	6.3

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

*Shakti Pumps came out with good set of results in Q4FY19, ahead of our estimates. Consolidated revenue for the quarter grew 22.1% YoY and 4.9% QoQ to Rs 1596 mn against our estimate of Rs 1580 mn. EBITDA for Q4FY19 came at Rs 279 mn (estimate Rs 340 mn) a growth of 17.1% YoY and 2.7% QoQ. However EBITDA margin fell 74bps YoY to 17.5% for the quarter against 18.2% in corresponding quarter last year. The fall in margin was due to higher raw material (+29% YoY) and staff costs (+28.4% YoY). PAT for the quarter stood at Rs 165 mn which was ahead of our estimate of Rs 120 mn, a growth of 64.9% YoY and 31.1% QoQ. The stupendous growth of PAT on YoY basis (+64.9% YoY) was partially due to lower effective tax rate for the quarter (19.4% in Q4FY19 v/s 43.3% in Q4FY18). We remain positive on Shakti Pumps from longer term perspective, and have an Accumulate rating with a revised target price of Rs 465.*

#### Q4FY19 & FY19 Highlights

- In Q4FY19 Shakti Pumps reported 22.1% YoY revenue growth to Rs 1596 mn against Rs 1308 mn in Q4FY18. While for FY19 revenue witnessed 25.2% YoY growth to Rs 5464 mn against Rs 4366 mn in FY18.
- EBITDA for Q4FY19 saw a growth of 17.1% YoY to Rs 279 mn against Rs 238 mn in Q4FY18. While for FY19 EBITDA grew 13.6% YoY to Rs 892 mn against Rs 785 mn in FY18. However due to high raw material costs as well as higher employee costs, EBITDA margin contracted 74 bps YoY to 17.5% in Q4FY19 against 18.2% in Q4FY18. While for FY19 margin contracted by 166 bps YoY to 16.3% against 18% in FY18.
- PAT for the quarter grew 64.9% YoY to Rs 165 mn against Rs 100 mn in Q4FY18 helped by lower effective tax rate (19.4% v/s 43.3%). For FY19 PAT grew 29.3% YoY to Rs 451 mn against Rs 348 mn in FY18.

#### Valuations

At CMP of Rs 405, Shakti Pumps is trading at FY20E and FY21E, P/E multiples of 13.3x and 10.5x respectively. After factoring in Q4FY19 results we have revised our estimates upward, however we have reduced our target P/E to 12x from 15x earlier to factor in the overall macro slowdown and uncertainty on new government which will be slow in decision making in its initial months. At 12x FY21E earnings Shakti Pumps' fair value comes at Rs 465 per share. We have an Accumulate rating on the stock, with revised target price of Rs 465, giving an upside of 14.8%.

#### 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	21.8
FY19	5,464	892	451	24.5	16.3	15.5	16.5
FY20E	6,610	1,177	561	30.5	17.8	17.0	13.3
FY21E	7,884	1,419	712	38.7	18.0	18.5	10.5

Source: Company, Arihant Research

## Q4FY19 and FY19 Financial Performance

Rs Mn (Consolidated)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
<b>Net Revenue</b>	<b>1,596</b>	<b>1,521</b>	<b>1,308</b>	<b>4.9%</b>	<b>22.1%</b>	<b>5,464</b>	<b>4,366</b>	<b>25.2%</b>
Material Cost	955	898	740	6.4%	29.0%	3,241	2,381	36.1%
Employee cost	146	132	113	10.6%	28.4%	529	446	18.8%
Other Expenses	216	220	216	-1.5%	0.4%	803	755	6.3%
<b>EBITDA</b>	<b>279</b>	<b>272</b>	<b>238</b>	<b>2.7%</b>	<b>17.1%</b>	<b>892</b>	<b>785</b>	<b>13.6%</b>
<b>EBITDA margin %</b>	<b>17.5%</b>	<b>17.9%</b>	<b>18.2%</b>	<b>-39</b>	<b>-74</b>	<b>16.3%</b>	<b>18.0%</b>	<b>-166</b>
Other Income	13	1	17	1866.4%	-22.8%	38	35	8.8%
Depreciation	40	38	35	3.7%	13.3%	150	139	7.8%
<b>EBIT</b>	<b>253</b>	<b>235</b>	<b>220</b>	<b>7.7%</b>	<b>14.7%</b>	<b>779</b>	<b>680</b>	<b>14.6%</b>
Finance cost	47	52	43	-8.6%	9.9%	178	140	27.1%
Exceptional Item	-	-	-			-	-	-
<b>PBT</b>	<b>205</b>	<b>183</b>	<b>177</b>	<b>12.3%</b>	<b>15.9%</b>	<b>601</b>	<b>540</b>	<b>11.3%</b>
Tax Expense	40	57	77	-29.7%	-48.1%	150	192	-21.5%
Effective tax rate %	19.4%	31.0%	43.3%			25.0%	35.5%	
Reported Net Profit	165	126	100	31.1%	64.9%	451	348	29.3%
<b>Adj Net Profit</b>	<b>165</b>	<b>126</b>	<b>100</b>	<b>31.1%</b>	<b>64.9%</b>	<b>451</b>	<b>348</b>	<b>29.3%</b>
Adj Net margin %	10.3%	8.3%	7.6%	199	270	8.2%	7.9%	27
Reported EPS (Rs)	9.0	6.9	5.5	31.1%	64.9%	24.5	19.0	29.3%
<b>Adj EPS (Rs)</b>	<b>9.0</b>	<b>6.9</b>	<b>5.5</b>	<b>31.1%</b>	<b>64.9%</b>	<b>24.5</b>	<b>19.0</b>	<b>29.3%</b>

Source: Company, Arianth Research

### Post Result Conference Call Highlights

- The company has around Rs 1.5 bn of order book at the end of Q4FY19.
- The quarter saw margin contraction of 74 bps YoY due to higher prices of raw materials like copper, silicon, steel etc, which impacted margin by 200 bps.
- The company has given revenue growth guidance of 25% for FY20E with stable margin.
- The increase in debt in the balance sheet is entirely to finance the working capital. Aiming to reduce working capital days, but do acknowledge that for 25%+ growth in revenue, need higher working capital requirement.
- Planning to come into motors for E-rickshaws in future and at present doing pilot projects for 1/2/3Watt motors for E-rickshaws.
- No major capex plan for next two years i.e. FY20E and FY21E except maintenance capex to the tune of Rs 100-150 mn per year.
- For FY20E, tenders are already out for 2 lakhs pump-sets amounting to Rs 45 bn. Once new government comes in the centre expect Kusum Project to gain momentum as management of Shakti Pumps expect new government to take decision on Kusum rollout within few months of coming to the centre.

## Consolidated Financials

## Income Statement (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	4,290	4,366	5,464	6,610	7,884
<i>Change (%)</i>	62.4%	1.8%	25.2%	21.0%	19.3%
Raw materials	2,253	2,365	3,241	3,603	4,297
Stock Adjustments	89	16	0	0	0
Employee costs	413	446	529	793	946
Other expenses	930	766	803	1,038	1,222
<b>Total Expenses</b>	<b>3,686</b>	<b>3,592</b>	<b>4,573</b>	<b>5,434</b>	<b>6,465</b>
<b>EBITDA</b>	<b>605</b>	<b>774</b>	<b>892</b>	<b>1,177</b>	<b>1,419</b>
Other Income	21	35	38	66	79
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>864</b>	<b>1,096</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>332</b>	<b>530</b>	<b>601</b>	<b>864</b>	<b>1,096</b>
Tax	116	189	150	302	383
<i>Rate (%)</i>	34.9%	35.6%	25.0%	35.0%	35.0%
<b>PAT</b>	<b>216</b>	<b>341</b>	<b>451</b>	<b>561</b>	<b>712</b>
<i>Change (%)</i>	1929.7%	57.6%	32.1%	24.5%	26.9%

Source: Company, Aриhant 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	3,118	3,666
<b>Net Worth</b>	<b>2,234</b>	<b>2,536</b>	<b>2,904</b>	<b>3,302</b>	<b>3,850</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>5,267</b>	<b>5,965</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	2,083	2,484
Inventories	1,035	1,161	1,356	1,283	1,530
Cash & bank balance	132	256	190	107	291
Loans & advances & other CA	345	435	765	1,670	1,845
<b>Total current assets</b>	<b>2,896</b>	<b>3,287</b>	<b>4,116</b>	<b>5,143</b>	<b>6,150</b>
Current liabilities	1,002	839	1,067	1,539	1,836
Provisions	40	40	47	47	47
<b>Net current assets</b>	<b>1,855</b>	<b>2,407</b>	<b>3,001</b>	<b>3,556</b>	<b>4,267</b>
<b>Total Assets</b>	<b>3,148</b>	<b>3,695</b>	<b>4,719</b>	<b>5,267</b>	<b>5,965</b>

Source: Company, Aриhant 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>864</b>	<b>1,096</b>
Depreciation	128	139	150	157	162
Interest & others	144	105	140	156	161
Cash flow before WC changes	605	774	892	1,177	1,419
<b>(Inc)/dec in working capital</b>	<b>-466</b>	<b>-686</b>	<b>-1,001</b>	<b>-1,087</b>	<b>-1,096</b>
Operating CF after WC changes	139	88	-110	89	323
Less: Taxes	-116	-189	-150	-302	-383
<b>Operating cash flow</b>	<b>23</b>	<b>-100</b>	<b>-260</b>	<b>-213</b>	<b>-61</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>-363</b>	<b>-211</b>
Loan raised/(repaid)	-60	230	639	150	150
Equity raised	-134	0	0	0	0
Interest & others	200	185	225	242	387
Dividend	-37	-68	-92	-112	-142
<b>Cash flow from financing activities</b>	<b>-30</b>	<b>347</b>	<b>771</b>	<b>280</b>	<b>395</b>
<b>Net inc /(dec) in cash</b>	<b>56</b>	<b>124</b>	<b>-65</b>	<b>-83</b>	<b>184</b>
Opening balance of cash	76	132	256	190	107
Closing balance of cash	132	256	191	107	291

Source: Company, Aриhant Research

**Key Ratios**

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Per Share (Rs)</b>					
EPS	11.8	18.6	24.5	30.5	38.7
CEPS	18.7	26.1	32.7	39.1	47.6
BVPS	121.6	138.0	158.0	179.6	209.5
DPS	2.0	3.7	5.0	6.1	7.7
Payout (%)	17.0%	19.9%	20.4%	20.0%	20.0%
<b>Valuation (x)</b>					
P/E	34.4	21.8	16.5	13.3	10.5
P/CEPS	21.6	15.5	12.4	10.4	8.5
P/BV	3.3	2.9	2.6	2.3	1.9
EV/EBITDA	13.5	10.6	10.0	7.8	6.4
Dividend Yield (%)	0.5%	0.9%	1.2%	1.5%	1.9%
<b>Return Ratio (%)</b>					
EBIDTA Margin	14.1%	17.7%	16.3%	17.8%	18.0%
PAT Margin	5.0%	7.8%	8.2%	8.5%	9.0%
ROE	9.7%	13.4%	15.5%	17.0%	18.5%
ROCE	15.1%	17.2%	15.7%	19.3%	21.1%
<b>Leverage Ratio (%)</b>					
Total D/E	0.4	0.4	0.6	0.6	0.5
Net D/E	0.3	0.3	0.5	0.5	0.4
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.4	1.2	1.2	1.3	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, Aриhant Research

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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