

## Shakti Pumps (India) Limited

April 05, 2022

### Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE A-; Stable (Single A Minus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A2+ (A Two Plus) and Withdrawn
<b>Total Bank Facilities</b>	<b>0.00 (Rs. Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has reaffirmed and withdrawn the outstanding ratings of 'CARE A-; Stable/CARE A2+' [Single A Minus; Outlook: Stable/ A Two Plus] assigned to the bank facilities of Shakti Pumps (India) Limited (SPIL) with immediate effect. The above action has been taken at the request of SPIL and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE Ratings Ltd.

The ratings, prior to withdrawal, continued to derive strength from SPIL's established operations in the pumps and motors business including submersible, solar and pressure booster pumps, its experienced promoters, an established distribution network with a geographically diversified presence, robust growth in its scale of operations and recovery in profitability during FY21 (refers to the period from April 1 to March 31) on the back of improved order inflows and execution, comfortable leverage and debt coverage indicators, adequate liquidity and favourable growth prospects for solar pumps industry with the government's focus towards increased usage of renewable energy.

The ratings, however, continued to remain constrained by volatility witnessed in SPIL's business operations over the last few years, risk of delay in receipt of subsidies with significant revenue being contributed by the government subsidized schemes, its inherent sizeable working capital requirement although the same improved during FY21, susceptibility of its profitability to volatile raw material prices & forex rates and intense competition in the pumps manufacturing industry.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters, established operations and strong distribution network:** SPIL's management is headed by Mr. Dinesh Patidar, Chairman and Managing Director, who has an experience of more than three decades in the field of submersible pumps and motors. SPIL caters to the domestic market through a wide-spread distribution network consisting of over 550 dealers, 15,000 retailers and multiple marketing branches with presence in 20 states. The company also has an established presence in over 118 countries spread across Middle East, United States of America (USA), Africa, Asia, and Europe. Further, SPIL has established subsidiaries in United Arab Emirates (UAE), USA, Australia, and Bangladesh to enhance its presence in these markets and has a subsidiary in China for enabling imports from the country. This apart, it also has a subsidiary in India which supplies stainless steel solar structures to SPIL. Apart from its subsidiaries, SPIL also derives synergies with various other group entities promoted by the same management, for inputs required for its final products.

**Robust growth in scale of operations and recovery in profitability with improved order inflows in FY21:** During FY21, SPIL registered 142% y-o-y growth in its total operating income (TOI) to Rs.931 crore (on a consolidated basis, wherein SPIL has a majority share), as against a TOI of Rs.384 crore registered in FY20. This improvement was due to an uptick in order inflows and execution both in domestic and export markets, with major impetus received from orders under a central government sponsored scheme. During FY21, government started issuing work orders under its Kisan Urja Suraksha evam Utthaan Mahaabhiyan (KUSUM) scheme which aims at installation of 30 lakh solar pumps in the agriculture sector over the next couple of years. Income from this scheme provided a major boost to SPIL's revenue and constituted ~46% of SPIL's TOI in FY21, as against 'nil' income from the same in FY20. This apart, company also witnessed improvement in demand from OEMs and agriculture sectors in domestic market and in exports.

With this, SPIL's operating profit margin, which had dipped significantly during FY20 owing to a delay in commencement of orders from govt. subsidized schemes along with subdued demand from other segments, was restored to around 15.36% in FY21. This resulted in healthy cash accrual generation exceeding Rs.100 crore for the company during the year.

During 9MFY22, SPIL reported TOI of Rs.798 crore with some impact on the same due to restricted order inflow / execution in KUSUM-I tranche on account of procedural delays due to transition to KUSUM-II, whose order inflow commenced from Jan 2022 as well as impact of covid-19 pandemic, both in domestic and export market. Also, PBILDT margin moderated to 9.83% due to increase in raw material prices which could not be passed on due to fixed price nature of government orders.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Favourable growth prospects with government's impetus on renewable energy; albeit competitive industry:** India is one of the largest regional markets for solar pumps after Middle East Asia (MEA) and China and is expected to be one of the fastest growing markets over the next few years. The government is also emphasizing use of solar pumps by providing capital subsidy for installation of solar pumps as well as solarization of existing pumps to reduce the consumption of grid power (which is heavily subsidized by the state government or is provided entirely free of cost). For this, government has launched various schemes including KUSUM which aims at installation of around 30 lakh solar pumps in the country in near to medium term, with a total outlay of over Rs.1 lakh crore including subsidies from both state and central governments. Issuance of work orders under second tranche of KUSUM scheme commenced in FY22 after some delay due to the pandemic. This has resulted in healthy order inflows for industry players such as SPIL. However, the industry is characterized by high competition, both from organized and unorganized players, which restricts the margins of the industry players to certain extent.

**Improvement in leverage along with strengthening of debt coverage indicators in FY21:** SPIL's capital structure remained comfortable marked by an overall gearing of 0.46x as at FY21 end, which improved from 0.76x as at FY20 end due to reduced reliance on working capital borrowings on the back of healthy cash flow from operations of over Rs.100 crore during the year. Also, its TOL/TNW was below unity at 0.95x as on FY21 end. Further, with improvement in profitability and lower reliance on debt, SPIL's debt coverage indicators also strengthened in FY21 with interest coverage of 8.81x (P.Y.: 0.65x) and total debt/PBILDT of 1.08x (P.Y.: 14.74x). SPIL's overall gearing continued to remain comfortable at 0.69x as on 9MFY22 end.

### **Key Rating Weaknesses**

**Inherent sizeable working capital requirement; albeit improvement in the same during FY21:** SPIL's operations are inherently working capital intensive in nature, with sizeable investment required in receivables as well as inventories, resulting in a long gross operating cycle. SPIL's revenue model is both tender based as well as order based, with around 50-60% of its revenue contributed by sales under the tenders floated by government agencies. As the volume, value and time of such sales is difficult to predict, SPIL maintains enough inventory which is also utilized to meet its distribution channel requirements. Further, collection period also generally remains high with a significant time lag in receipt of payments from govt. entities for sales under their subsidized schemes. This apart, an inverted duty structure for solar pumps also contributes to the working capital intensity of SPIL's business (as it is required to obtain refund of excess GST input credit from the government).

Over the last two years ended FY20, company had a long gross operating cycle ranging from 200-300 days with a high inventory and collection period. The working capital intensity however moderated during FY21 with reduction in this gross operating cycle to around 145 days. This was on account of controlled inventory holding at FY21 end with good order execution during Q4FY21 and some uncertainty owing to a resurgence in covid cases, along with relatively faster realization of payments under the KUSUM scheme as compared with the prior subsidized schemes of the government. Company's collection period improved from 145 days in FY20 to 77 days in FY21, while its inventory holding period also improved from 149 days in FY20 to 68 days during this period. Nevertheless, with high dependence on govt. orders, company remains vulnerable to risks of delays in receipt of subsidies and continued controlled collection period under KUSUM going forward shall remain crucial for its credit risk profile.

**Operating profitability susceptible to volatile raw material prices and forex rates, with large part of its orders being fixed price in nature:** The primary raw materials used for the manufacturing of pumps include stainless steel, copper, and solar modules/panels. The prices of these materials are inherently volatile and are driven largely by global as well as local demand and supply conditions. Raw material accounts for a sizeable 60-70% of the total manufacturing cost of SPIL and hence any volatility in the prices of these materials may impact the profitability of the company with large part of its orders being fixed priced in nature, particularly govt. orders wherein there is a meaningful time lag between bidding and award of work order. Further, SPIL is a net exporter and enjoys natural hedge against the forex movement to certain extent. However, significant foreign currency volatility coupled with high level of un-hedged portion may adversely impact SPIL's profitability in case of any sharp unfavourable movement in currency rates.

### **Liquidity: Adequate**

SPIL's liquidity remained adequate marked by significant cushion available in debt servicing on the back of healthy cash accrual generation envisaged as against repayment of ~Rs.9-10 crore and moderate working capital limit utilization.

As informed by the lender, average utilization of working capital limits remained around 70-80% for past 12 months ended February 2022.

### **Analytical approach: Consolidated**

CARE has taken a consolidated approach for analysis of SPIL, which includes operational and financial risk profiles of SPIL and its various domestic and overseas subsidiaries established for marketing, procurement, and related business purposes. All the entities operate under the common brand of 'Shakti' and have a common management, apart from having business and financial linkages.

List of SPIL's subsidiaries consolidated in SPIL as on March 31, 2021 is mentioned in Annexure 6.

### **Applicable Criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)□  
[Rating Outlook and Credit Watch](#)  
[Short Term Instruments](#)  
[Manufacturing Companies](#)  
[Policy on Withdrawal of Ratings](#)

### About the Company

SPIIL was originally established in 1982 as a partnership firm by Mr. Manoharlal Patidar. Later, the firm was converted into a public limited company in 1995. SPIIL is engaged in manufacturing of energy efficient stainless steel submersible pumps, pump motors, solar pumps and pressure booster pumps. Pumps manufactured by SPIIL find application in irrigation, residential as well as industrial sectors.

SPIIL's manufacturing facilities are located at Pithampur, Madhya Pradesh with an installed capacity to manufacture 500,000 pumps per annum.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (P)
Total operating income	384.01	930.60	798.19
PBILDT	13.44	142.89	78.43
PAT	-14.08	75.59	42.85
Overall gearing (times)	0.76	0.46	0.69
Interest coverage (times)	0.65	8.81	7.32

A: Audited; P: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Please refer Annexure-4

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 2024	0.00	Withdrawn
Fund-based/Non-fund-based-Short Term	-	-	-	0.00	Withdrawn
Fund-based-Long Term	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-Short Term	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	0.00	Withdrawn
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	0.00	Withdrawn

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE A-; Stable (07-Jul-21)	1)CARE BBB+; Positive (17-Mar-21) 2)CARE	1)CARE BBB+; Stable (25-Feb-20) 2)CARE A-; Negative	1)CARE A-; Stable (05-Oct-18)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						BBB+; Stable (28-Sep-20)	(25-Nov-19)	
2	Fund-based/Non-fund-based-Short Term	ST	-	-	1)CARE A2+ (07-Jul-21)	1)CARE A2 (17-Mar-21) 2)CARE A2 (28-Sep-20)	3)CARE A-; Stable (09-Oct-19)	1)CARE A-; Stable / CARE A2+ (05-Oct-18)
3	Fund-based-Long Term	LT	-	-	1)CARE A-; Stable (07-Jul-21)	1)CARE BBB+; Positive (17-Mar-21) 2)CARE BBB+; Stable (28-Sep-20)	1)CARE A2 (25-Feb-20) 2)CARE A-; Negative (25-Nov-19) 3)CARE A-; Stable (09-Oct-19)	1)CARE A-; Stable (05-Oct-18)
4	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A2+ (07-Jul-21)	1)CARE A2 (17-Mar-21) 2)CARE A2 (28-Sep-20)	1)CARE A2 (25-Feb-20) 2)CARE A2+ (25-Nov-19) 3)CARE A2+ (09-Oct-19)	1)CARE A2+ (05-Oct-18)
5	Fund-based/Non-fund-based-Short Term	ST	-	-	1)CARE A2+ (07-Jul-21)	1)CARE A2 (17-Mar-21) 2)CARE A2 (28-Sep-20)	1)CARE A2 (25-Feb-20) 2)CARE A2+ (25-Nov-19) 3)CARE A2+ (09-Oct-19)	1)CARE A2+ (05-Oct-18)
6	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	-	-	1)CARE A-; Stable / CARE A2+ (07-Jul-21)	1)CARE BBB+; Positive / CARE A2 (17-Mar-21) 2)CARE BBB+; Stable / CARE A2 (28-Sep-20)	-	-
7	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	1)CARE A2+ (07-Jul-21)	-	-	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Fund-based-Long Term	Simple
4	Fund-based/Non-fund-based-Short Term	Simple
5	Non-fund-based - LT/ ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Letter of credit	Simple

#### Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

#### Annexure 6: List of entities consolidated in SPIL as on March 31, 2021

Sr. No.	Name of entity	Domicile	% Shareholding of SPIL as on March 31, 2021	Primary business activity of the entity
1.	Shakti Pumps USA LLC	USA	100%	Marketing and service arm of SPIL
2.	Shakti Pumps FZE	UAE	100%	
3.	Shakti Pumps Pty. Ltd.	Australia	100%	
4.	Shakti Pumps (Bangladesh) Ltd.	Bangladesh	100%	
5.	Shakti Pumps (Shanghai) Ltd.	China	100%	Procurement arm of SPIL for its imports
6.	Shakti Energy Solutions Pvt. Ltd. (SESPL)	India	100%	Manufacturing of steel structures for solar cells and pump solutions

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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#### About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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