Shakti Pumps (India) Limited

March 17, 2021

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	52.54	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	Reaffirmed; Outlook revised from Stable
Short-term Bank Facilities	210.00	**CARE A2 (A Two)**	Reaffirmed
Long-term/ Short-term Bank Facilities	43.50	**CARE BBB+; Positive / CARE A2 (Triple B Plus; Outlook: Positive / A Two)**	Reaffirmed; Outlook revised from Stable
Total Facilities	**306.04 (Rupees Three Hundred Six Crore and Four Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shakti Pumps (India) Limited (SPIL) continue to derive strength from its established operations in the pumps and motors business including submersible pumps, solar pumps and pressure booster pumps, its experienced promoters, established distribution network with a geographically diversified presence, comfortable leverage and adequate liquidity.

The ratings also continue to take into consideration favorable growth prospects for the solar pumps industry with government's focus towards increased usage of renewable energy, which is also reflected in significant recovery in SPIL's scale of operations and profitability during 9MFY21 (FY refers to the period April 01 to March 31), post moderation in its total operating income (TOI) in FY20 which had resulted in cash losses during the year.

The ratings, however, continue to remain constrained by volatility in SPIL's business operations, risk of delay in receipt of subsidies, its high working capital requirements due to large investment in inventory and receivables, susceptibility of its profitability to volatile raw material prices & forex rates and intense competition in the pumps manufacturing industry.

Outlook: Positive

The revision in the rating outlook of SPIL from 'Stable' to 'Positive' is on account of improved order inflows and better revenue visibility from government sponsored schemes for solar pumps, which is expected to result in an increase in the company's scale of operations and profitability in the near to medium term; while leverage and debt coverage indicators are expected to remain comfortable.

The outlook may be revised to 'Stable' in case of lower than envisaged improvement in its total operating income and profitability or any major increase in debt levels, resulting in deterioration in the leverage or debt coverage indicators of the company.

Rating Sensitivities

Positive Factors

- Significant volume driven growth in total operating income (TOI) along with controlled receivables
- Sustained operating profitability (PBILDT margin) of more than 18% and return on capital employed (ROCE) of more than 20%
- Improvement in overall gearing to below 0.50x with reduced reliance on external borrowings to fund working capital requirements, resulting in better liquidity
- Improvement in total debt/PBILDT to around 1.50 times on a sustained basis
- Improvement in net working capital cycle to around 130 days

Negative Factors

- Decline in TOI to lower than Rs.500 crore or decline in PBILDT margin below 10%, on a sustained basis
- Elongation in net working capital cycle to above 200 days on a sustained basis and an increase in the external borrowings to fund these requirements
- Any large sized debt-funded capex resulting in deterioration in leverage and debt coverage indicators
- Any major delinquency in receivables or write-off of inventory

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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 primarily 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, USA, Africa, Asia and Europe. Further, SPIL has established subsidiaries in United Arab Emirates (UAE), United States of America (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.

Good recovery in 9MFY21 with improved order inflows, post moderation in TOI and cash losses incurred during FY20: During FY20, SPIL's TOI (on a consolidated basis, wherein SPIL has majority share) moderated by around 30% y-o-y to Rs.384.01 crore (Rs.547.61 in FY19). This was largely on account of delay in implementation of projects under govt. schemes which also resulted in slowdown in demand from original equipment manufacturers (OEMs) for solar pumps; alongwith subdued demand from agricultural, industrial and export segments as well. Dip in sales realization mainly under govt. orders owing to high competitive intensity also contributed to lower TOI.
With decline in TOI, SPIL's PBILDT margin also reduced significantly to 3.50% for FY20 (P.Y.: 16.49%) due to lower absorption of operating overheads amidst fixed price orders and high competitive intensity; translating into net loss of Rs.14.08 crore and cash loss of Rs.7.79 crore in FY20.
However, with improved order inflows during FY21 under a Central Government sponsored scheme for installation of solar pumps named Kisan Urja Suraksha evam Utthaan Mahaabhiyan (KUSUM) and improvement in demand from other segments, SPIL reported good recovery in its scale of operations, especially during Q3FY21. Company registered a TOI of Rs.612.32 crore in 9MFY21 as against a TOI of Rs.293.13 crore in 9MFY20, out of which around 52% of the TOI was registered during Q3FY21 with uptick in order inflow from both govt. and non-govt. segments. With improved TOI and cost-saving measures undertaken by SPIL, SPIL's PBILDT margin was also restored to 15.43% during 9MFY21 (6.05% in 9MFY20).
Furthermore, revenue visibility of the company remains healthy with an outstanding order book of around Rs.136 crore as of end January'21 which mainly included government orders, with orders under KUSUM scheme forming the major portion (~70% of govt. orders). This apart, company also receives continuous orders from other segments including exports, with order execution period usually ranging between four to five months.
Company witnessed good recovery in its performance during the current year. However, during the last five years ended FY20, company's business operations have exhibited some volatility. During select years of this period, its TOI dipped significantly due to low inflow of orders, which also severely impacted its profitability due to its high operating leverage. Thus, timely receipt of new orders and subsidies from government shall remain crucial for sustaining company's revenue, profitability and liquidity profile going forward.
Impact of Covid-19 on operations of the company
SPIL's plant remained closed from March 22, 2020 amidst lockdown announced to curb the spread of COVID-19 pandemic and resumed commercial operations from April 27, 2020; with company being able to dispatch goods only from May'20 onwards.

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 1 lakh crore including subsidies from both state and central governments. Issuance of work orders under KUSUM scheme commenced from FY21 onwards, after a delay of around a year from previously envisaged timelines. This has resulted in recovery in order inflows for industry players such as SPIL. However, the industry is characterised by high competition, both from organised and unorganised players, which restricts the margins of the industry players to certain extent.

Comfortable leverage and improvement in debt coverage indicators during 9MFY21; post moderation in FY20: SPIL's leverage remained comfortable marked by an overall gearing of 0.76x as on March 31, 2020 compared with 0.69x as on end FY19. Marginal deterioration was on account of increase in long-term borrowings for the recently concluded capex as well as increase in working capital borrowings to fund the working capital requirements following cash losses in FY20;

though company registered healthy cash flow from operations (CFO) of Rs.52.28 crore during the year which restricted the requirement of incremental working capital debt.
Overall gearing marginally improved and remained comfortable at 0.70x as on December 31, 2020 due to accretion of net profit to networth following improvement in company's profitability in 9MFY21. Furthermore, SPIL's debt coverage indicators, viz. PBILDT interest coverage, which had declined sharply from 5.07x in FY19 to 0.65x in FY20, improved to 7.29x for 9MFY21 (1.19x for 9MFY20) on the back of improved profitability.

Key Rating Weaknesses
Large working capital requirement resulting in high dependence on working capital debt: SPIL's operations are working capital intensive in nature, with significant investment required in both receivables as well as inventories, resulting in a long gross operating cycle of over 200 days in FY20.
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 state government agencies. As the volume, value and time of such sales is difficult to predict, SPIL maintains enough inventory. This inventory is also utilized to meet its distribution channel requirements, thus resulting in high inventory holding period of 149 days in FY20 (110 days in FY19). Further, collection period of the company also remains elongated (145 days in FY20, 108 days in FY19) with a significant time lag in receipts of payments from govt. entities for sales under their subsidised 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).
During FY20, SPIL exhibited good collection efficiency, reflected in reduction in its receivables as on end FY20, however, the same was offset by high inventory levels and some reduction in its payables as on March 31, 2020, leading to sustained working capital debt levels despite a reduction in TOI. Reduction in receivables and release of GST dues from government resulted in positive CFO during FY20, which provided some support to company's operations in the light of cash loss of Rs.7.79 crore during FY20.
During 9MFY21, SPIL's overall collection period improved with a relatively lower collection period under the KUSUM scheme which contributed around 50% of its revenue during 9MFY21, as compared with the collection period for orders executed under previous government subsidised schemes. 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 remains to be seen. Timely realization of funds under this scheme; along with overall efficient working capital management and reduced reliance on bank borrowings would remain crucial for the liquidity profile of the entity.

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 around 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. 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 adequate cushion in accruals vis-à-vis its repayment obligations (GCA of Rs.69.65 crore in 9MFY21, as against repayments of around Rs.11 crore in FY21) and moderate cash balance of Rs.7.49 crore as on September 30, 2020. Further, SPIL had unutilized fund based working capital limits of around Rs.28 crore as on December 31, 2020 (based on its drawing power).
Further, the capex over the next 2-3 years is expected to be routine in nature, to be funded through a mix of additional debt and internal accruals, for which SPIL has sufficient headroom, given its low long-term debt and sufficient accrual generation.
However, utilization of SPIL's fund based working capital limits continued to remain high, averaging at 81% for the 12 months ended December 2020, given company's long gross operating cycle.
SPIL had availed moratorium of six months from March to August 2020, announced by Reserve Bank of India (RBI) in wake of COVID-19 pandemic, from two of its four lenders.

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, 2020 is mentioned in **Annexure 3**.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria for Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Consolidation
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
SPIL 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. SPIL is engaged in manufacturing of energy efficient stainless steel submersible pumps, pump-motors, solar pumps and pressure booster pumps. Pumps manufactured by SPIL find application in irrigation, residential as well as industrial sectors. SPIL caters to the domestic market through a wide-spread distribution network consisting of over 550 dealers, over 15,000 retailers and multiple marketing branches with presence in 20 states. SPIL also has a global presence in over 118 countries and over 400 dealers spread across Middle East, USA, Africa, Asia and Europe, alongwith overseas subsidiaries to enhance its presence in these markets.
SPIL's manufacturing facilities are located at Pithampur, Madhya Pradesh with an installed capacity to manufacture 500,000 pumps per annum.

Brief consolidated financials of SPIL:

Brief Financials (Rs. Core)	FY19 (A)	FY20 (A)
Total operating income	547.61	384.01
PBILDT	90.32	13.44
PAT	45.09	(14.08)
Overall gearing (times)	0.69	0.76
Interest coverage (times)	5.07	0.65

A: Audited

Further, as per the provisional financials for 9MFY21, SPIL reported TOI of Rs.612.32 crore with a PAT of Rs.45.09 crore, compared with TOI of Rs.293.13 crore with a net loss of Rs.7.93 crore for 9MFY20.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
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	21.04	CARE BBB+; Positive
Fund-based/Non-fund-based-Short Term	-	-	-	110.00	CARE A2
Fund-based-Long Term	-	-	-	31.50	CARE BBB+; Positive
Non-fund-based - ST-Letter of credit	-	-	-	75.00	CARE A2
Fund-based/Non-fund-based-Short Term	-	-	-	25.00	CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	43.50	CARE BBB+; Positive / CARE A2

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	21.04	CARE BBB+; Positive	1)CARE BBB+; Stable (28-Sep-20)	1)CARE BBB+; Stable (25-Feb-20) 2)CARE A-; Negative (25-Nov-19) 3)CARE A-; Stable (09-Oct-19)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (25-Sep-17)
2.	Fund-based/Non-fund-based-Short Term	ST	110.00	CARE A2	1)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 A-; Stable / CARE A2+ (05-Oct-18)	1)CARE A-; Stable / CARE A2+ (25-Sep-17)
3.	Fund-based-Long Term	LT	31.50	CARE BBB+; Positive	1)CARE BBB+; Stable (28-Sep-20)	1)CARE BBB+; Stable (25-Feb-20) 2)CARE A-; Negative (25-Nov-19) 3)CARE A-; Stable (09-Oct-19)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (25-Sep-17)
4.	Non-fund-based - ST-Letter of credit	ST	75.00	CARE A2	1)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)	1)CARE A2+ (25-Sep-17)
5.	Fund-based/Non-fund-based-Short Term	ST	25.00	CARE A2	1)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)	1)CARE A2+ (25-Sep-17)
6.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	43.50	CARE BBB+; Positive / CARE A2	1)CARE BBB+; Stable / CARE A2 (28-Sep-20)	-	-	-

Annexure-3: List of entities consolidated in SPIL as on March 31, 2020

Sr. No.	Name of entity	Domicile	% Shareholding of SPIL as on March 31, 2020	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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based-Long Term	Simple
3.	Fund-based/Non-fund-based-Short Term	Simple
4.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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