

Shakti Pumps (India) Limited

September 28, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	52.54 (reduced from 93.49)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	210.00 (enhanced from 180.00)	CARE A2 (A Two)	Reaffirmed
Long-term/ Short-term Bank Facilities	43.50	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Assigned
Total Facilities	306.04 (Rupees Three Hundred Six Crore and Four lakh only)		

Details of instruments/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 submersible pumps, solar pumps, pressure booster pumps and motors industry aided by its experienced promoters, established distribution network and geographically diversified presence; along with its comfortable leverage. 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. The ratings also factor in recovery in SPIL's scale of operations during FY21 (FY refers to the period April 01 to March 31); post moderation in its total operating income (TOI) in FY20 which resulted in cash losses.

The ratings, however, continue to remain constrained by SPIL's 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.

Rating Sensitivities

Positive Factors

- Volume driven growth in total operating income (TOI) beyond Rs.600 crore along with 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 its total debt/PBILDT to below 2 times on sustained basis

Negative Factors

- Decline in TOI to lower than Rs.350 crore or decline in operating profitability with PBILDT margin below 10% on a sustained basis
- Elongation in gross working capital cycle to above present level of 290 days; and increase in external borrowings to fund these requirements
- Any large sized debt-funded capex resulting in deterioration in debt coverage indicators
- Any major delinquency in receivables or write-off of inventory

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.

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

Good recovery expected in FY21, post moderation in scale of operations during FY20, resulting in cash losses: 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), which was largely on account of delay in implementation of projects under govt. schemes, resulting in slowdown in demand from original equipment manufacturers (OEMs) for solar pumps; alongwith subdued demand from agricultural, industrial and export segments as well. Moreover, dip in sales realization mainly under govt. orders owing to high competitive intensity also contributed to lower TOI. Further, 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 its operating overheads amidst fixed priced 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 the issue of letter of awards/intents (LOA/LOI) and allocation of work orders under KUSUM scheme from FY21 onwards and improvement in demand from other segments, SPIL reported good recovery in its scale of operations, marked by TOI of Rs.93.26 crore in Q1FY21 (Rs.106.91 crore in Q1FY20) and healthy revenue booking during July'20 & August'20.

SPIL's PBILDT margin was restored to 13.24% during Q1FY21 (11.04% in Q1FY20) despite marginally lower TOI during Q1FY21, y-o-y, largely on account of cost-savings measures undertaken by SPIL.

Revenue visibility of the company remains healthy with an outstanding order book of around Rs.238 crore as on end of August'20 mainly for government orders including KUSUM; apart from continuing orders from other segments including exports, with order execution period usually ranging between four to five months. Timely execution of these orders and receipt of funds thereof shall however remain crucial.

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. Sales have picked up from subsequent months with increased order inflow and restoration of supply chains, and company also resorted to certain cost saving measures which resulted in restoration of its profitability.

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 Kisan Urja Suraksha evam Utthaan Mahaabhiyan (KUSUM) which also encompasses sale of excess power generated from these sources to the grid to promote more installation under this scheme. Issue of work orders under KUSUM scheme from FY21 onwards, after a delay of around a year, has resulted into recovery in order inflows for industry players. However, the industry is characterised by high competition, both from organised and unorganised players, which restricts the margins of the industry players.

Comfortable leverage and recovery in debt coverage indicators during Q1FY20; 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 0.67x as on June 30, 2020 following some decline in working capital borrowings as on June 30, 2020 owing to decline in TOI. SPIL's debt coverage indicators, viz. PBILDT interest coverage, declined sharply from 5.07x in FY19 to 0.65x in FY20, however, recovered to 2.74x for Q1FY21 (2.58x for Q1FY20) on the back of improvement in its profitability during the period.

Key Rating Weaknesses

High 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.

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 be predicted, SPIL maintains sufficient amount of inventory, which is also utilized to meet its distribution channel requirements; resulting in high inventory holding period of 149 days in FY20 (110 days in FY19). Further, collection period 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.

Collection period for orders under KUSUM scheme, from which company is expected to generate significant revenue going forward, is expected to be lower than that under previous subsidy payment schemes as per the payment terms of the contracts, however materialisation of the same 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 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.7.36 crore in Q1FY21, as against repayments of around Rs.11 crore in FY21) and moderate cash balance of Rs.6.60 crore as on March 31, 2020. Further, SPIL had unutilized fund based working capital limits of around Rs.43 crore (based on its drawing power) as on June 30, 2020.

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 for SPIL's fund based working capital limits continued to remain high, averaging at 78% for the 12 months ended June 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 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 and Factoring Linkages in Ratings](#)

[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. Crore)	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 Q1FY21, SPIL reported TOI of Rs.93.26 crore with a PAT of Rs.3.31 crore, compared with TOI of 106.91 crore with a PAT of Rs.2.48 crore for Q1FY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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+; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	110.00	CARE A2
Fund-based-Long Term	-	-	-	31.50	CARE BBB+; Stable
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+; Stable / 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+; Stable	-	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 (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+; Stable	-	1)CARE BBB+; Stable (25-Feb-20) 2)CARE A-; Negative	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (25-Sep-17)

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
						(25-Nov-19) 3)CARE A-; Stable (09-Oct-19)		
4.	Non-fund-based - ST-Letter of credit	ST	75.00	CARE A2	-	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 (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+; Stable / CARE A2	-	-	-	-

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/Non-fund-based-Short Term	Simple
3.	Fund-based-Long Term	Simple
4.	Non-fund-based - ST-Letter of credit	Simple
5.	Fund-based/Non-fund-based-Short Term	Simple
6.	Non-fund-based - LT/ ST-Bank Guarantees	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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