Shakti Pumps (India) Limited

October 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	93.49 (reduced from Rs.110.25 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	180.00 (enhanced from Rs.100.00 crore)*	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**273.49 (Rupees Two Hundred Seventy Three Crore and Forty Nine Lakh only)**		

*Details of instruments/facilities in Annexure-1; *certain bank facilities have been reclassified from Long Term / Short Term bank facilities to Short Term bank facilities*

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Shakti Pumps (India) Limited (SPIL) continue to derive strength from its established operations in the submersible pumps and motors segment aided by its experienced promoters, strong distribution network and geographically diversified presence. The ratings also factor in the volume backed growth in SPIL's total operating income (TOI) in FY19 (FY refers to the period from April 1 to March 31) along with its comfortable leverage and debt coverage indicators. The ratings also take into consideration favorable growth prospects for the solar pumps industry with government's support for increased usage of renewable energy.

The ratings, however, continue to remain constrained by SPIL's working capital intensive operations, susceptibility to volatility in raw material prices & forex rates and intense competition in the pumps manufacturing industry. The ratings also take cognizance of the decline in SPIL's profitability during Q1FY20 on account of the increased competitive intensity in the solar pumps market.

SPIL's ability to improve its capacity utilization along with growth in income from both domestic as well as export markets while improving its profitability and efficiently managing its working capital resulting in shortening of its gross current assets days and concomitant to reduction in debt levels would be the key rating sensitivities.

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 21 states. The company also has an established presence in over 100 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.

Volume backed growth in total operating income (TOI): During FY19, SPIL reported 25% growth in its total operating income (TOI) driven by around 67% y-o-y sales volume growth in integrated solar pump sets on the back of roll-out of government tenders for these pumps, which offset the volume de-growth in other segments. This trend continued in Q1FY20 with a 9% y-o-y growth in SPIL's TOI during the quarter. Further, while SPIL largely maintained its healthy operating profitability in FY19, (PBILDT margin of 16.49% in FY19 compared with 18.18% in FY18), it declined in Q1FY20 (PBILDT margin of 11.04% in Q1FY20) due to heightened competitive intensity in the tender based business as well as imposition of anti-dumping duty on a key material required for manufacturing of solar panels. Due to this decline in operating profitability, SPIL's PAT margin also declined in Q1FY20 to 2.31%, which had remained relatively stable at 8.23% in FY19 compared to FY18.

Comfortable leverage: SPIL's leverage remained comfortable marked by an overall gearing of 0.69x as on March 31, 2019, compared with 0.52x as on end FY18. Further, SPIL's debt coverage indicators remained comfortable in FY19 owing to its healthy cash accruals generated during the year, underlined by interest coverage of 5.07x and total debt/GCA of 3.20x in FY19.

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

Favourable growth prospects with government's impetus on incremental usage of renewable energy for agriculture: 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 regions 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) through various schemes including Kisan Urja Suraksha evam Utthaan Mahaabhiyan (KUSUM), which also encompasses sale of excess power generated from these sources to the grid. Further, there is a huge opportunity in overseas markets post the launch of the International Solar Alliance (ISA) in November 2015, which plans to procure 500,000 solar pumps for farmers through global tender.

Liquidity: Adequate
SPIL's liquidity was adequate with healthy cash accruals, current ratio of 1.68x and moderate utilization of working capital limits (fund based and non-fund based limits) at 70% for trailing twelve months ended August 2019. Further, SPIL's annual term loan repayments in the range of Rs.8.49-10.61 crore over the next three years are expected to be adequately met through its envisaged cash accruals over the period, supporting its liquidity.

Key Rating Weaknesses
Working capital intensive operations: SPIL's operations are working capital intensive in nature, with significant investment required in both receivables as well as inventories. SPIL's revenue model is both tender based as well as order based, with around 60% of its revenue contributed by sales under the tenders floated by state government agencies. As the volume, value and time of such sales cannot be predicted, SPIL maintains sufficient amount of inventory, which is also utilized to meet its distribution channel inventory requirements. Further, it needs to provide a credit period of around 90-120 days to such agencies, resulting in elongated collections. Both these factors translate into sizeable working capital requirements for the company. An inverted duty structure for solar pumps also contributes to the working capital intensity of SPIL's business. During FY19, SPIL's operating cycle improved to 161 days from 176 days in FY18, however, continued to remain longer, primarily due to elongation in trade receivables over the last two years with higher scale of operations and a longer credit period for government supplies. As on March 31, 2019, SPIL also had outstanding statutory receivables (incl. GST) of Rs.61.42 crore. However, during Q1FY20, SPIL exhibited good collection efficiency which is reflected in some reduction in its outstanding debtors as on June 30, 2019. Efficient management of its working capital resulting in shortening of its gross current assets days would remain a key rating sensitivity.

Operating profitability susceptible to volatility in raw material prices and forex rates especially in the backdrop of 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% 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. SPIL's PBILDT margin declined to 11.04% for Q1FY20 compared to 15.56% for Q1FY19 on account of increase in raw material costs (primarily solar modules) and operating overheads (primarily employee costs which increased by around 10%) during Q1FY20, which SPIL was unable to pass on to its customers immediately due to its fixed price orders.

Analytical approach: Consolidated
CARE has taken a consolidated approach for analysis of SPIL. The operational and financial risk profile of SPIL's various domestic and overseas subsidiaries established for marketing, procurement and related business purposes have been considered for analysis. All the entities operate under the common brand of 'Shakti' and have a common management. List of wholly owned subsidiaries consolidated in SPIL as on March 31, 2019 are mentioned in **Annexure 3**.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology – Manufacturing Companies]
[Financial ratios - Non- Financial Sector]
[Rating Methodology: Factoring Linkages in Ratings]

About the Company

Shakti Pumps (India) Limited (SPIL) was originally established in 1982 as a partnership firm by Mr. Manoharlal Patidar. The firm was later 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's manufacturing facilities are located at Pithampur, Madhya Pradesh with an installed capacity to manufacture 500,000 pumps per annum.

Brief Financials of SPIL (consolidated) are tabulated below:

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	438.99	547.61
PBILDT	79.82	90.32
PAT	34.11	45.09
Overall gearing (times)	0.52	0.69
Interest coverage (times)	5.70	5.07

A – Audited;

Further, as per the published financial results of Q1FY20, on a consolidated basis, SPIL reported a total operating income of Rs.106.91 crore and PAT of Rs.2.47 crore, compared with a total operating income of Rs.97.98 crore and PAT of Rs.6.64 crore in Q1FY19.

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	25.99	CARE A-; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	110.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	67.50	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	45.00	CARE A2+
Fund-based/Non-fund-based-Short Term	-	-	-	25.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	25.99	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (25-Sep-17)	1)CARE BBB+ (25-Oct-16) 2)CARE BBB+ (07-Oct-16)
2.	Fund-based/Non-fund-based-Short Term	ST	110.00	CARE A2+	-	1)CARE A-; Stable / CARE A2+ (05-Oct-18)	1)CARE A-; Stable / CARE A2+ (25-Sep-17)	1)CARE BBB+ / CARE A2 (25-Oct-16) 2)CARE BBB+ / CARE A2 (07-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	67.50	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (25-Sep-17)	1)CARE BBB+ (25-Oct-16) 2)CARE BBB+ (07-Oct-16)
4.	Non-fund-based - ST-Letter of credit	ST	45.00	CARE A2+	-	1)CARE A2+ (05-Oct-18)	1)CARE A2+ (25-Sep-17)	1)CARE A2 (25-Oct-16) 2)CARE A2 (07-Oct-16)
5.	Fund-based/Non-fund-based-Short Term	ST	25.00	CARE A2+	-	1)CARE A2+ (05-Oct-18)	1)CARE A2+ (25-Sep-17)	1)CARE A2 (25-Oct-16) 2)CARE A2 (07-Oct-16)

Annexure-3: List of entities consolidated in SPIL as on March 31, 2019

Sr. No.	Name of entity	Domicile	% Shareholding of SPIL as on March 31, 2019	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 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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Harshveer Trivedi
Contact No.: +91-79-4026 5610
Email ID – harshveer.trivedi@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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