Shakti Pumps (India) Limited

November 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	93.49	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short-term Bank Facilities	180.00	**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;

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 take cognizance of 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. 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 are further tempered by decline in SPIL's scale of operations and moderation in its profitability during H1FY20 on account of the increased competitive intensity in the solar pumps market and lower demand from its customers due to delay in implementation of centrally sponsored schemes resulting in moderation in its debt coverage indicators.

Outlook: Negative

The outlook for the long-term rating of SPIL has been revised from 'Stable' to 'Negative' on CARE's expectation that SPIL's scale of operations and profitability are likely to be lower than that envisaged earlier on account of delay in implementation of centrally sponsored schemes for installation of solar pumps for agricultural uses. This along with sustained debt levels is also expected to translate into weaker than anticipated debt coverage indicators.

The outlook could be revised to 'Stable' in case of sustainable increase in SPIL's scale of operations and better than expected profitability or there is meaningful reduction in its debt levels aided by better collections or reduced inventory holding.

Rating Sensitivities

Positive Factors

- Volume driven growth in scale of operations from present levels along with better operating profitability (PBILDT margin beyond 18%) on a sustained basis
- Reduction in its working capital cycle to less than 100 days and reduced reliance on external borrowings to fund working capital requirements

Negative Factors

- Further decline in its total operating income (TOI lower than Rs.400 crore) or decline in operating profitability (PBILDT margin below 10%) on a sustained basis
- Elongation in working capital cycle beyond 200 days (161 days in FY19) and increase in external borrowings to fund these requirements

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.

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

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.

Comfortable leverage and moderate debt coverage indicators: SPIL's leverage remained comfortable marked by an overall gearing of 0.67x as on September 30, 2019, compared with 0.69x as on end FY19. However, during H1FY20, SPIL's debt coverage indicators deteriorated on account of lower cash accruals generated by SPIL leading to deterioration in its interest coverage to 1.74x in H1FY20 compared with 5.07x in FY19. Also, despite its lower scale of operations in H1FY20, its debt levels continued to remain stable due to slower than expected collections and inventory, which has led to moderation in its debt coverage indicators.

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 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) 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. However, the implementation of the scheme has been delayed from that envisaged, which has affected the industry players, as the state governments have halted their orders (under the previous subsidy payment scheme) in anticipation of implementation under KUSUM scheme.

Adequate liquidity: Despite lower generation of cash accruals and sustained debt levels, SPIL's liquidity remained adequate with continued moderate utilization of its working capital limits (both fund based and non-fund based limits) at around 70-80% for the trailing 12 months ended October 2019. Further, the term loan repayment obligations of the company are at a relatively modest level of around Rs.8.49-10.61 crore over the next three years ending FY22, which are expected to be adequately met through its envisaged cash accruals over the period, thereby providing support to its liquidity. Also, it has low capex requirements, as it has built up adequate capacity to cater to any anticipated growth in turnover over the next two years. Further, a low overall gearing of 0.67x as on September 30, 2019 also provides some financial flexibility for raising funds.

Key Rating Weaknesses

Moderation in scale of operations and decline in profitability during H1FY20 post good performance in FY19: 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. Further, SPIL's operating profitability remained healthy in FY19, marked by PBILDT margin of 16.49% in FY19 compared with 18.18% in FY18, which translated into improvement in PAT margin during the year. However, during H1FY20, SPIL's TOI declined by around 16% on a y-o-y basis on account of decline in demand for solar pumps in domestic market (both integrated as well as OEM segment) due to the delays in implementation of projects under the central subsidy scheme, which also halted the regular inflows of orders from state governments under previous subsidy claim mechanism. With continued delay in the commencement of implementation in the subsidy based schemes, SPIL's scale of operations is expected to be lower than that previously envisaged. Further, SPIL reported decline of 701 bps in its PBILDT margin to 8.46% for H1FY20 compared with 15.47% for H1FY19. This decline was largely on account of decline in SPIL's scale of operations leading to lower absorption of its operating overheads, underlining the operating leverage inherent to SPIL's business. Heightened competitive intensity in the solar pumps industry also affected SPIL's profitability. This moderation on operating profitability also resulted in deterioration in its debt coverage indicators. Going forward any further decline in SPIL's scale of operations is likely to adversely affect its profitability and debt coverage indicators.

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 long, 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. During H1FY20, SPIL exhibited good collection efficiency which is reflected in reduction in its outstanding receivables; however, the same was offset by increase in its inventory and reduction in its payables as on September 30, 2019, which has led to sustained debt levels. Efficient management of its working capital resulting in shortening of its working capital cycle 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.

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 its 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 H1FY20, on a consolidated basis, SPIL reported a total operating income of Rs.198.69 crore and PAT of Rs.0.77 crore, compared with a total operating income of Rs.235.92 crore and PAT of Rs.15.91 crore in H1FY19.

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-; Negative
Fund-based/Non-fund-based-Short Term	-	-	-	110.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	67.50	CARE A-; Negative
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-; Negative	1)CARE A-; Stable (09-Oct-19)	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 A2+ (09-Oct-19)	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-; Negative	1)CARE A-; Stable (09-Oct-19)	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+ (09-Oct-19)	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+ (09-Oct-19)	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.*

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About CARE Ratings:
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