

Shakti Pumps India Limited

October 5, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	110.25 (enhanced from Rs.101.65 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long term / Short term Bank Facilities	60.00 (enhanced from Rs.20.00 crore)	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook Stable/ A Two Plus)	Reaffirmed
Short term Bank Facilities	100.00 (enhanced from Rs.82.00 crore)	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	270.25 (Rs. Two hundred seventy crore and twenty five lakh only)		

Details of 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 factor in the volume backed growth in SPIL's total operating income (TOI) in FY18 (FY refers to the period from April 1 to March 31) along with its healthy profitability and 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.

SPIL's ability to improve its capacity utilization along with growth in income from both domestic as well as export markets while maintaining its healthy profitability and comfortable leverage along with efficient management of its working capital 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 MD, who has an experience of more than three decades in the field of submersible pumps and motors. Considering the energy efficiency features of its pumps, Bureau of Energy Efficiency (BEE) has granted 5-star ratings to several of its pump models. 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 21 states. SPIL also has a presence in over 100 countries spread across Middle East, USA, Africa, Asia and Europe. SPIL is recognized as a 'Star Export House' by the Government of India.

Volume backed growth in total operating income (TOI) with healthy operating profitability and comfortable leverage:

During FY18, despite the decline in sales realizations by around 26% y-o-y for integrated solar pump sets (contributing 54% of the total domestic sales value), SPIL registered a marginal growth in its total operating income (TOI) on account of 34% y-o-y volume growth in sales of integrated pump sets on back of roll out of government tenders for purchase of solar pumps. Further, SPIL maintained its healthy operating profitability with a PBILDT margin of 18.18% and PAT margin of 7.77% during FY18. Furthermore, during FY18, SPIL's leverage remained comfortable marked by an overall gearing of 0.52x as on March 31, 2018. Also, owing to healthy cash accruals generated during the year, its debt coverage indicators too remained comfortable.

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 off the fastest growing regions over the next few years. In order to promote the use of solar pumps among farmers,

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

the government has launched Kisan Urja Suraksha Evam Utthaan Mahaabhiyan (KUSUM) scheme, under which around Rs. 50,000 crore of government assistance will be provided to incentivize farmers to run solar farm water pumps and use barren land for generating power for extra income of up to Rs.60,000 per acre every year. Furthermore, there is a huge opportunity in overseas markets post the launch of the International Solar Alliance (ISA) in November 2015, which has plans procure 500,000 solar pumps for farmers through global tender.

Key Rating Weaknesses

Working capital intensive operations: SPIL's operations are working capital intensive with investment required in both inventory and receivables. The revenue model of SPIL 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. During FY18, SPIL's operating cycle elongated to 176 days from 152 days in FY17, 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.

Operating profitability susceptible to volatility in raw material prices and forex rates: The primary raw materials used for the manufacturing of pumps include stainless steel and copper. The prices of these materials are inherently volatile and are driven largely by global as well as local demand and supply conditions. These raw materials account for around 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. SPIL is a net exporter and enjoys natural hedge against the forex movement to certain extent, however, significant foreign currency volatility coupled with high un-hedged portion may adversely impact SPIL's profitability in case of unfavourable movement in currency rates.

Analytical approach: Consolidated

CARE has taken a consolidated approach for analysis of SPIL, wherein 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.

Applicable Criteria:

[CARE's methodology for manufacturing companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios - Non- Financial Sector](#)

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 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. Its manufacturing facilities are located at Pithampur, Madhya Pradesh, wherein, it operates with capacity to manufacture around 500,000 pumps per annum.

Brief financials of SPIL (Consolidated) are tabulated below:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	430.90	438.99
PBILDIT	62.31	79.82
PAT	21.69	34.11
Overall gearing (times)	0.57	0.52
Interest coverage (times)	3.77	5.70

A: Audited

Further, on a consolidated basis, during Q1FY19, SPIL reported a total operating income of Rs.98.11 crore and PAT of Rs.6.64 crore, compared with a total operating income of Rs.90.76 crore and PAT of Rs.5.00 crore during Q1FY18.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

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.

Analyst Contact:

Name: Mr. Harshveer Trivedi

Tel: 079-4026 5610

Mobile: 85111 90020

Email: harshveer.trivedi@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Non-fund-based-LT/ST	-	-	-	60.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Cash Credit	-	-	-	83.75	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March 2022	26.50	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	70.00	CARE A2+
Fund-based/Non-fund-based-Short Term	-	-	-	30.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	26.50	CARE A-; Stable	-	1)CARE A-; Stable (25-Sep-17)	1)CARE BBB+ (25-Oct-16) 2)CARE BBB+ (07-Oct-16)	1)CARE BBB+ (14-Sep-15) 2)CARE BBB+ (26-May-15)
2.	Non-fund-based-LT/ST	LT/ST	60.00	CARE A-; Stable / CARE A2+	-	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)	1)CARE BBB+ / CARE A2 (14-Sep-15) 2)CARE BBB+ / CARE A2 (26-May-15)
3.	Fund-based - LT-Cash Credit	LT	83.75	CARE A-; Stable	-	1)CARE A-; Stable (25-Sep-17)	1)CARE BBB+ (25-Oct-16) 2)CARE BBB+ (07-Oct-16)	1)CARE BBB+ (14-Sep-15) 2)CARE BBB+ (26-May-15)
4.	Non-fund-based - ST-Letter of credit	ST	70.00	CARE A2+	-	1)CARE A2+ (25-Sep-17)	1)CARE A2 (25-Oct-16) 2)CARE A2 (07-Oct-16)	1)CARE A2 (14-Sep-15) 2)CARE A2 (26-May-15)
5.	Fund-based/Non-fund-based-Short Term	ST	30.00	CARE A2+	-	1)CARE A2+ (25-Sep-17)	1)CARE A2 (25-Oct-16) 2)CARE A2 (07-Oct-16)	1)CARE A2 (14-Sep-15) 2)CARE A2 (26-May-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 851111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com