

Company Update

Shakti Pumps (India) Ltd

Bloomberg Code: SKPI IN

India Research - Stock Broking

HOLD

Solar Pumps Sales Boost Q1FY18 Revenue

Shaktis Q1FY18 revenue has grown by 18.6% YoY. The massive growth was supported by solar pumps sales of Rs.510mn which were just Rs.250mn last year. Shakti claims a market share of around 70%-80% in the solar pumps industry. Q1FY18 EBITDA margins were at 12.7% showing an improvement of 77bps YoY. PAT margins have shown an increase of 124bps to reach 3.2% in Q1FY18.

Solar Pumps Market: The solar pumps market growth could be termed as one of the growth drivers for Shakti pumps. The company has made Q1FY18 sales of Rs.510mn which is double when compared to Q1FY17. The company claims to be a market leader in the solar pumps segment. The solar pumps business can be divided into two segments such as solar integrated segment and solar OEM (Original Equipment Manufacturer) business. The solar integrated business is EPC (Engineering, Procurement and Construction) business of solar pumps; and solar OEM business is supplying just the pumps to its channel partners registered with MNRE (Ministry of New and Renewable Energy). Shakti takes measured approach towards solar pumps EPC business and Shakti due to lower cost and better efficiency pumps from the other competitors. The company says that 115000 solar pumps tenders are already out in the market and estimates solar pumps market to be around Rs.50 Bn; of which the company expects majority of business to come from OEMs. The company also expects large orders from African countries. Africa is under International Solar Alliance (ISA) project by FY19E. Management estimates the market potential to be between Rs.250bn to Rs.300bn and expects to capture close to 20% of the market going forward.

Export sales to be in focus: Shakti is trying to regain traction in exports market which it lost in FY16 due to sluggish demand from the gulf countries. In Q1FY18, the company has made total export sales of Rs.980mn. The company expects very good business from the new markets like Africa, LATAM (Latin America) on the basis of International Solar Alliance (ISA).

Valuation and Outlook

We expect the company to do a large chunk of business in solar pumps market due to their leadership in the segment. We base our earnings estimates for FY18E and FY19E on the opportunities available in the form of solar pumps market. We value the company at 26.5x of FY19E EPS to arrive at an upwardly revised target price of Rs. 572 representing an upside of 11%.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	2985	2638	4049	5132	6375
EBITDA	466	211	533	667	829
EBITDA Margin (%)	15.6	8.0	13.2	13.0	13.0
Adj. Net Profit	257	20	213	298	397
EPS (Rs.)	15.4	1.2	11.6	16.2	21.6
RoE (%)	12.3	1.0	9.6	11.3	12.5
PE (x)	13.3	124.1	16.9	31.7	23.8

Source: Company, Karvy Research; *Represents multiples for FY15, FY16 & FY17 are based on historic market price

For private circulation only. For important information about Karvy's rating system and other disclosures refer to the end of this material. **Karvy Stock Broking Research is also available on Bloomberg, KRVY<GO>**, Thomson Publishers & Reuters

Recommendation (Rs.)

CMP (as on Aug 02, 2017)	514
Target Price	572
Upside (%)	11

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	9450 / 148
52-wk High/Low (Rs.)	539 / 104
3M Avg. daily volume (mn)	0.9
Beta (x)	1.6
Sensex/Nifty	32477 / 10082
O/S Shares(mn)	18.4
Face Value (Rs.)	10.0

Shareholding Pattern (%)

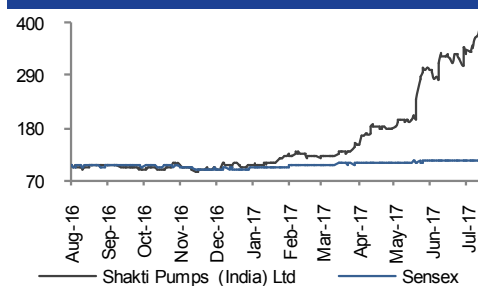
Promoters	47.6
FII	0.0
DII	0.2
Others	52.3

Stock Performance (%)

	1M	3M	6M	12M
Absolute	11	106	218	276
Relative to Sensex	6	90	176	224

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contacts

Ankit Soni | De Arul Kaarthick

040 - 3321 6274/80

soni.ankit@karvy.com

arul.kaarthick@karvy.com

Exhibit 2: Solar pumps sales boost Q1FY18 revenue

YE Mar (Rs. Mn)	Q1FY18	Q4FY17	QoQ (%)	Q1FY17	YoY (%)
Turnover	840	1653	(49.1)	709	18.6
Op. Expenditure	734	1415	(48.2)	624	17.5
EBITDA	107	237	(55.1)	84	26.2
Depreciation	34	32	5.1	31	10.5
Interest	31	42	(27.7)	33	(6.3)
PBT	42	163	(74.2)	21	99.9
Tax (net)	15	53	(72.0)	7	114.9
PAT	27	109	(75.2)	14	92.5
EBITDA Margin (%)	12.7	14.4	(167) bps	11.9	77 bps
EBIT Margin (%)	8.6	12.4	(376) bps	7.6	107 bps
Net Profit Margin (%)	3.2	6.6	(339) bps	2.0	124 bps

Source: Company, Karvy Research

Key Takeaways of Conference Call

- **International Solar Alliance (ISA):** ISA is planning to come out with a global tender of 5,00,000 solar pumps before Dec 2018 in which Indian Pump manufacturers are expected to actively participate. The company expects the market size to be of Rs.250 Bn and expects to capitalize 20% market share.
- In India, Niti Aayog's target is to install 3 Mn solar pumps in ~3 years. Currently, 114000 pumps tenders are already out.
- The company currently is at 45% capacity utilization.
- Starting from Government's tender finalization to tender execution takes up around 30-40 days. The total receivable days on this government orders are around 120 days.
- The company claims to be holding 80% market share in solar pumps segment.

Key Risks

- Increasing competition from the unorganised market.
- Due to government orders working capital cycle could be effected.
- Foreign exchange fluctuation risk.

Financials

Exhibit 3: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	2985	2638	4049	5132	6375
Growth (%)	0.7	(11.6)	53.5	26.7	24.2
Operating Expenses	2520	2427	3516	4465	5546
EBITDA	466	211	533	667	829
Growth (%)	3.8	(54.6)	152.3	25.2	24.2
Depreciation & Amortization	98	121	128	136	146
Other Income	115	84	68	79	83
EBIT	482	174	473	610	765
Interest Expenses	132	140	160	172	182
PBT	350	34	313	438	583
Tax	93	15	100	140	187
Adjusted PAT	257	20	213	298	397
Growth (%)	(3.0)	(92.3)	979.5	39.6	33.3

Source: Company, Karvy Research

Exhibit 4: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Cash & Equivalents	66	63	104	106	108
Sundry Debtors	1165	942	1561	1828	2317
Inventory	824	841	853	1083	1333
Loans & Advances	352	355	408	410	413
Investments	6	6	20	20	20
Net Block	1060	1101	1212	1228	1232
CWIP	6	6	20	20	20
Miscellaneous	198	276	35	36	37
Total Assets	3718	3666	4194	4663	5363
Current Liabilities & Provisions	691	675	1040	1031	1163
Debt	870	870	814	861	910
Other Liabilities	63	70	123	127	128
Total Liabilities	1624	1615	1977	2019	2200
Shareholders Equity	317	317	184	184	184
Reserves & Surplus	1777	1733	2033	2460	2979
Total Networkth	2094	2051	2217	2644	3163
Total Networkth & Liabilities	3718	3666	4194	4663	5363

Source: Company, Karvy Research

Exhibit 5: Cash Flow Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
PBT	257	20	213	298	397
Depreciation	98	121	128	136	146
Interest	111	111	160	172	182
Inc/dec in Net WC	(454)	183	(266)	(501)	(608)
Other Income	(27)	(17)	(68)	(79)	(83)
Other non-cash items	2	2	2	-	-
Cash flow from operating activities	(12)	420	169	26	34
Inc/dec in capital expenditure	(293)	(198)	(25)	(150)	(150)
Inc/dec in investments	(1)	-	(14)	-	-
Others	38	19	(78)	66	69
Cash flow from investing activities	(256)	(179)	(118)	(84)	(81)
Inc/dec in borrowings	(108)	1	10	46	49
Issuance of equity	540	-	-	-	-
Dividend paid	(36)	(50)	(25)	(25)	(25)
Interest paid	(111)	(111)	(160)	(172)	(182)
Cash flow from financing activities	285	(161)	(176)	(151)	(158)
Net change in cash	17	80	(124)	(210)	(204)

Source: Company, Karvy Research

Exhibit 6: Key Ratios

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin (%)	15.6	8.0	13.2	13.0	13.0
EBIT Margin (%)	16.1	6.6	11.7	11.9	12.0
Net Profit Margin (%)	8.6	0.7	5.3	5.8	6.2
Dividend Payout Ratio (%)	13.0	127.2	17.2	9.3	6.9
Net Debt/Equity (x)	0.2	0.1	0.2	0.2	0.2
RoE (%)	12.3	1.0	9.6	11.3	12.5
RoCE (%)	8.3	0.6	7.0	8.5	9.7

Source: Company, Karvy Research

Exhibit 7: Valuation Parameters

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	15.4	1.2	11.6	16.2	21.6
DPS (Rs.)	2.0	1.5	2.0	1.5	1.5
BVPS (Rs.)	103.1	123.8	116.1	132.2	158.0
PE (x)	13.3	124.1	16.9	31.7	23.8
P/BV (x)	2.0	1.2	1.7	3.9	3.3
EV/EBITDA (x)	8.1	12.7	7.7	14.9	12.1
EV/Sales (x)	1.3	1.0	1.0	1.9	1.6

Source: Company, Karvy Research; *Represents multiples for FY15, FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

Connect & Discuss More at

 1800 419 8283 (Toll Free)

 research@karvy.com

 Live Chat



Disclaimer

- **Analyst certification:** The following analyst(s), **Ankit Soni & De Arul Kaarthick**, who is (are) primarily responsible for this report and whose name(s) is/are mentioned therein, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.
- **Disclaimer:** Karvy Stock Broking Limited [KSBL] is registered as a research analyst with SEBI (Registration No INH200003265). KSBL is also a SEBI registered Stock Broker, Depository Participant, Portfolio Manager and also distributes financial products. The subsidiaries and group companies including associates of KSBL provide services as Registrars and Share Transfer Agents, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, financial consultancy and advisory services, realty services, data management, data analytics, market research, solar power, film distribution and production, profiling and related services. Therefore associates of KSBL are likely to have business relations with most of the companies whose securities are traded on the exchange platform. The information and views presented in this report are prepared by Karvy Stock Broking Limited and are subject to change without any notice. This report is based on information obtained from public sources, the respective corporate under coverage and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KSBL. While we would endeavor to update the information herein on a reasonable basis, KSBL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent KSBL from doing so. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KSBL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither KSBL nor any associate companies of KSBL accepts any liability arising from the use of information and views mentioned in this report. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Past performance is not necessarily a guide to future performance. Forward-looking statements are not predictions and may be subject to change without notice. Actual results may differ materially from those set forth in projections.
- Associates of KSBL might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
- Associates of KSBL might have received compensation from the subject company mentioned in the report during the period preceding twelve months from the date of this report for investment banking or merchant banking or brokerage services from the subject company in the past twelve months or for services rendered as Registrar and Share Transfer Agent, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, consultancy and advisory services, realty services, data processing, profiling and related services or in any other capacity.
- KSBL encourages independence in research report preparation and strives to minimize conflict in preparation of research report.
- Compensation of KSBL's Research Analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.
- KSBL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
- KSBL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
- KSBL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report and have no financial interest in the subject company mentioned in this report.
- Accordingly, neither KSBL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- It is confirmed that KSBL and Research Analysts, primarily responsible for this report and whose name(s) is/ are mentioned therein of this report have not received any compensation from the subject company mentioned in the report in the preceding twelve months.
- It is confirmed that **Ankit Soni & De Arul Kaarthick**, Research Analysts did not serve as an officer, director or employee of the companies mentioned in the report.
- KSBL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
- Neither the Research Analysts nor KSBL have been engaged in market making activity for the companies mentioned in the report.
- We submit that no material disciplinary action has been taken on KSBL by any Regulatory Authority impacting Equity Research Analyst activities.

Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India
Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

For More updates & Stock Research, visit www.karvyonline.com