

Management Meet Note

Shakti Pumps (India)

A dominant player in solar water pumps

Incorporated in 1982, Shakti Pumps (India) is an integrated player focused on manufacturing solar/electricity-operated submersible pumps. It is the only company to produce a diverse range of products in house including variable frequency drives, structures, motors, and inverters for solar water pump installation. As of December 2023, SKPI commanded ~25% market share in the domestic solar pump market under the PM-KUSUM Scheme. It is the pioneer in manufacturing 100% energy efficient stainless steel submersible solar pumps and motors. Till date, it has installed more than 11k pumps. Exports contributed 24% to FY23 revenue. It has been accredited as a star export house by the Centre. It boasts of a diversified customer mix (government, solar OEM players, industries, etc.), resulting in low concentration mix. The stock is not rated.

Dominant player in solar water pumps under the PM-KUSUM Scheme

Under the PM-KUSUM Scheme, SKPI provides submersible stainless steel pumps and energy efficient motors to farmers. It also offers back-end support to help boost efficiency and crop productivity. It has garnered 29% revenue CAGR to INR623cr under the PM-KUSUM Scheme over FY19–24. In FY24, revenue under this scheme rose 52% YoY to INR945cr. Till FY24 end, 12,94,787 pumps have been sanctioned under the state nodal agency and 3,14,675 pumps have been installed. Of this, SKPI has installed 81,754 pumps, leading to ~25% domestic market share. Order book was a robust INR2,400cr at the end of FY24. Of this, orders worth INR1,550cr/INR258cr/INR300cr/INR150cr are from Maharashtra/Haryana/Uttar Pradesh/Rajasthan. It added INR250cr to orders in Q4FY24. Its competitors are local players and are spread across states.

A diversified revenue model

The supply of solar water pumps to farmers under the PM-KUSUM Scheme and other state government initiatives contributed ~69% to FY24 revenue. Export of solar enabled water pumping systems, industrial motors, and pumps contributed 21%, with the rest being supply of pumps, motors, and various other equipment to clients in the industrial, OEM, and retail space.

To double capacities of solar water pumps, VFDs, and structures

SKPI has raised INR200cr (at INR1,209/share) via a qualified institutional placement (QIP) with SBI Mutual Fund and LIC Mutual Fund in March. This boosts the fund's holding by ~4.1% each. The proceeds will be utilised to fund capacity expansion at its new facility in Pithampur, Madhya Pradesh. This facility will manufacture pumps and motors, inverters, variable frequency drives (VFDs), and structures. The management aims to set up a new facility which will double the production capacity of pumps/motors to 101k units, inverters/VFD's to 41k units, and structures to 21k units.

Strong focus on fabrication technology

SKPI is the only domestic company that manufactures a whole range of products for solar pump installation in house. It has indigenously developed VFDs, an economical substitute for imported materials. It is the first company to receive a five-star rating from BEE in the pumping segment.

Focus is on the EV motors and controller business

SKPI will invest INR114cr in its wholly owned subsidiary Shakti EV Mobility Pvt in one or more tranches over the next five years. This subsidiary was formed in 2021 to offer EV solutions like motors, controllers, chargers, and a plug and play pump. It has received a patent for inventing a helical pump arrangement with anti-vibration coupling, taking its total patents to 13.

CMP: INR1,981

Rating: Not rated

Date: May 2, 2024

Bloomberg:	SKPI:IN
52-week range (INR):	404/1,981
M-cap (INR cr):	3,780
Promoter holding (%)	51.58

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Valuation and view

The highly backward integrated solar water pump business creates business moats. Replacement demand for electric and diesel generated water pumps stands ~320k/~100k units. We expect a huge acceleration in the solar water pumps business under the PM-KUSUM Scheme. We foresee revenue/EBITDA compounding annually at 25%/20% CAGR over FY24–26 and robust double-digit 15% profitability. The stock is not rated.

Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues (INR Cr)	1,179	968	1,371	1,713	2,142
Rev growth (%)	26.8	-17.9	41.7	25.0	25.0
EBITDA (INR Cr)	110	67	225	257	321
Adjusted PAT (INR Cr)	64.7	24.4	141.7	161.8	203.9
P/E (x)	56.3	149.4	28.0	24.5	19.5
EV/EBITDA (x)	36.5	60.3	17.1	15.3	11.9
ROACE (%)	10.9%	5.0%	18.0%	17.9%	20.3%
ROAE (%)	17.6%	6.0%	24.1%	19.4%	20.3%

Key risks:

Steep rise in input costs may adversely impact EBITDA

A steep increase in inputs like stainless steel, copper, etc may adversely impact EBITDA. As the government fixed the rate applicable to solar water system installation bidders under the PM-KUSUM Scheme, SKPI has locked in rates with input suppliers for one-year. This should sustain current profitability.

Heightened competition under the PM-KUSUM Scheme can lower revenue growth

Despite being the leader for solar water pump installation under the PM-KUSUM Scheme, the entry of additional bidders can lead to lower revenue growth for SKPI. However, its integrated solar pump components should enable it to maintain its market share.

A dominant player in solar water pumps

Focus Charts

Exhibit 1: EBITDA Margin

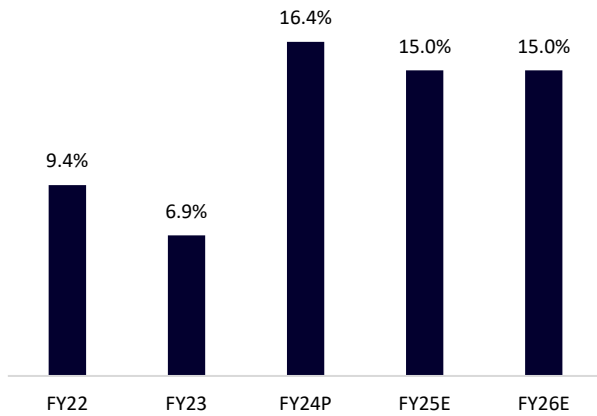


Exhibit 2: PAT Margin

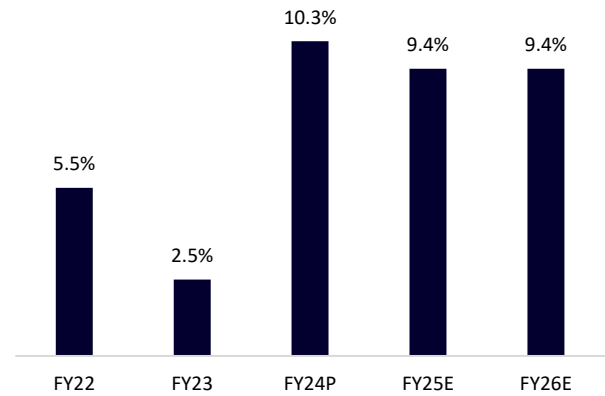


Exhibit 3: ROAE

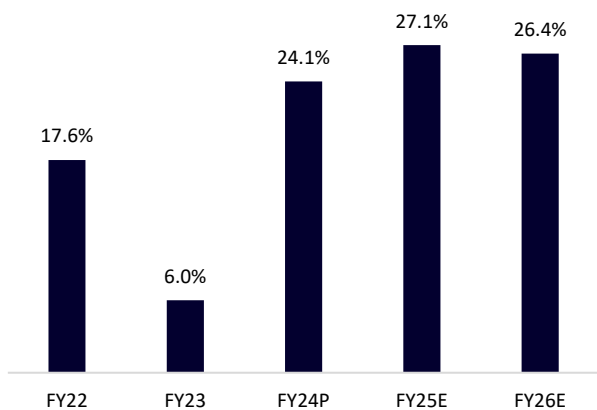


Exhibit 4: revenue break-up FY24

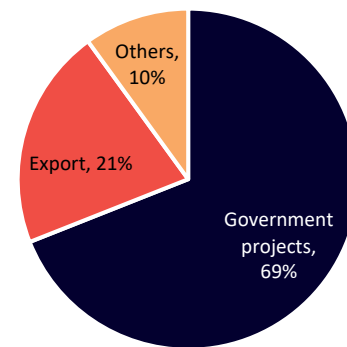


Exhibit 5: Revenue Growth

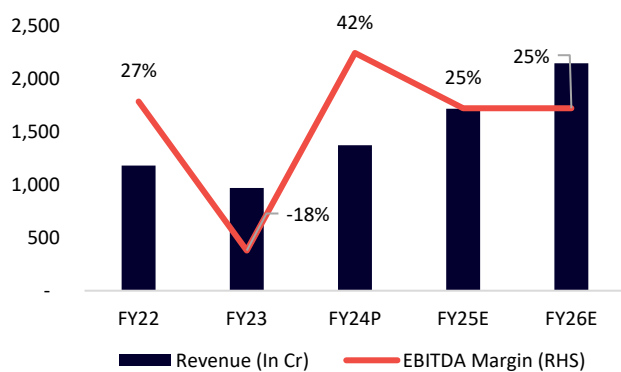


Exhibit 6: Order Book

Break-up	FY'24 end INR cr
Component B - Off-Grid Solar Photovoltaic Water Pumping Systems	
MSEDCL & MEDA	1,590
HAREDA	419
Dept. of agriculture, UP	241
Component C - Grid Connected Solar Water Pumping Systems	
Ajmer Vidyut Vitran Nigam Ltd	150
Total	~ 2400

Source: Company, Nuvama Wealth Research

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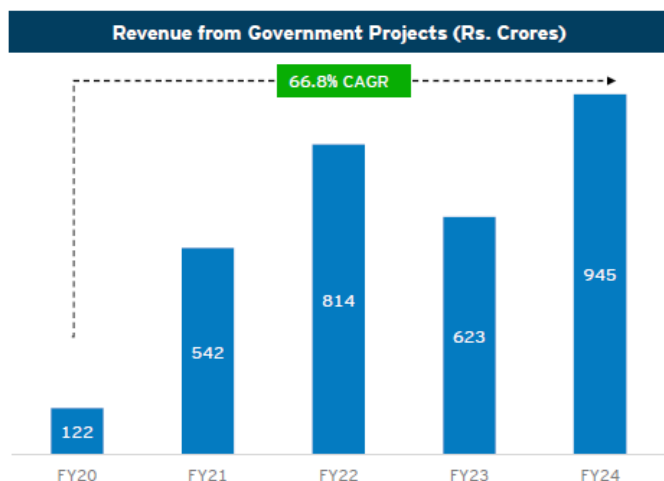
Revenue break-up FY24

Exhibit 7: Diversified customer mix reduces concentration risk

Government Projects	<p>SPIL supplies solar pumps to farmers through various State Governments</p> <ul style="list-style-type: none"> PM KUSUM Scheme (Component B & C) Non PM KUSUM Scheme 	<p>69% Revenue Share in FY24</p>
Exports	<p>SPIL supplies solar enabled water pumping systems along with industrial motors and pumps</p> <ul style="list-style-type: none"> Presence in 100+ Countries 	<p>21% Revenue Share in FY24</p>
Other Customers	<p>SPIL also supplies its pumps, motors & various other Equipments to customers like Industrial, OEM, Retail and Others</p>	<p>10% Revenue Share in FY24</p>

Exhibit 8: SKPI's government projects performance

- Under Government Projects, SPIL provides submersible stainless steel pumps and energy efficient motors to the farmers
- Includes implementation and back-end support to farmers, helping them with improved efficiency and crop productivity



SPIL has ~26% domestic market share under PM KUSUM

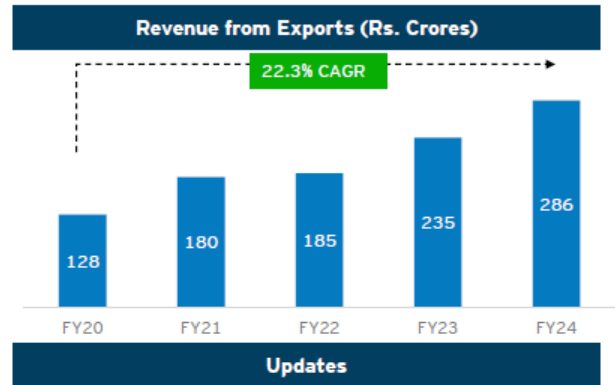
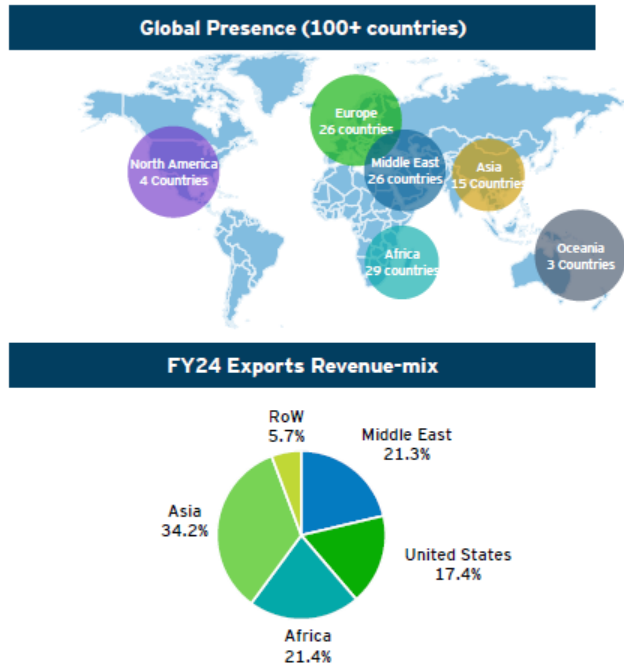
Status as on 31.03.2024	KUSUM SCHEME
Particulars	# of Pumps
Size	12,94,787
Executed	3,14,675
SPIL	81,754

Source: pmkusum.mnre.gov.in

Source: Company

A dominant player in solar water pumps

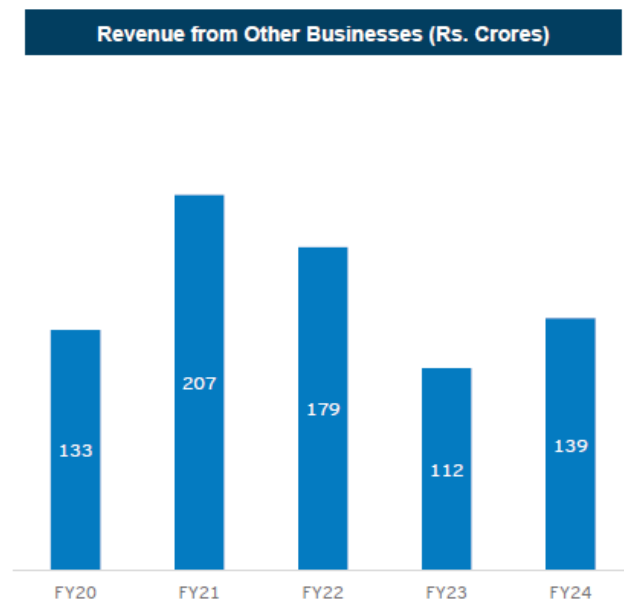
Exhibit 9: Presence across continents leads to revenue and margin expansion



- Updates**
- New orders which may translate into better overall margins as the segment has the strongest margin out of the other segments
 - Secured contract worth USD 35.30 million from Government of Uganda for supplying solar-powered water pumping
 - SPIL is also the part of International Solar Alliance (ISA) which have following demand:
 - Aggregated demand for more than 2,70,000 solar pumps across 22 countries
 - More than 1 GW of solar rooftop across 11 countries and
 - More than 10 GW of solar mini-grids across 9 countries under its respective programmes

Source: Company

Exhibit 10: Industrial, OEM, retail, and other businesses



Other Businesses include

Industrial Customers

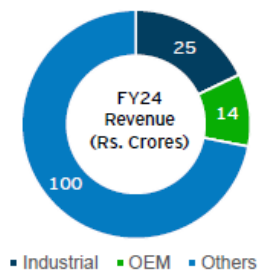
Our products are used in industries for variety of purposes such as fire-fighting, sewage, heating & cooling of systems, washing, storage, etc.

OEM Customers

Under this, the company sells its products to solar OEM players (L&T, Mahindra, REIL, Adani & Tata Power). However, SPIL is currently focusing less on this business and pushing their own sells into the market to gain the market opportunities

Other Customers

Our products are also used for domestic needs in bungalows, housing complexes, and for sewage purposes to drain flood water from basements, car parks, etc. The products are also used in hotels, corporates, malls, high rises buildings and commercial premises



Source: Company

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Exhibit 11: A diversified product range with in-house manufacturing of energy efficient products

Shakti's Range of Product	Key Differentiators
	High quality energy efficient stainless steel Pumps
	30-40% less energy consumption
	~40% more output compared to cast iron pumps
	Rust & corrosion free ~ 2X life compare to cast Iron pumps
	Indigenously developed VFDs. Economical substitute for imported materials
	Inbuilt remote monitoring system

Source: Company

Exhibit 12: Varied range of applications makes SKPI less dependent on any one sector

Solar Channel partner with MNRE with top notch 1A ratings, pumps ranging from 0.5 HP to 300 HP that are simple to operate with remote monitoring system offering 50-60% more discharge	1
Agriculture For agricultural needs like irrigation pumps, solar pumping solutions agricultural sprinkler system with pumps or with solar pumps	2
Commercial Used in hotels, corporates, malls, high rises buildings, commercial premises where heavy pressure and boosting is required	3
Domestic For domestic needs of bungalows, high-rise buildings, housing complexes and apartment. ideally used for tasks such as water supply, over tank storage watering, gardens and fountains	4
Industrial used in industries for variety of purposes such as fire fighting, sewage, heating & cooling of systems, washing, storage etc	5
Sewage & Drainage offers wide range of necessitates from draining flood water from various areas like basements, car parks, empty cesspools to managing sewage in a water treatment plant	6

Source: Company

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Exhibit 13: State-of-the-art manufacturing facilities with strong backend support

1 World class manufacturing unit

Main Unit (I) Capacity: 3,50,000 pumps per annum	Unit I - Main unit: (Total Area-16 acres) <ul style="list-style-type: none"> 4", 6", 8" & 10" Motor Manufacturing Plant Submersible & Industrial Pump Manufacturing Unit Solar structures High Tech R&D Unit
SEZ Unit (II) Capacity: 1,50,000 pumps per annum	Unit II - SEZ Unit: (Total Area-3.15 acres) <ul style="list-style-type: none"> 100% stainless steel submersible pumps for exports Advanced and modern P&M to ensure superior quality matching global benchmarks
E&C Unit Capacity: 2,00,000 VFDs per annum	Unit III - Electronic & Control unit (E&C) Part of Unit I <ul style="list-style-type: none"> Japanese technology based plant 200,000 Variable Frequency Drive (VFD) and Solar Inverters p.a. capacity Supplying power electronics products outside SKIL also

2 Additional facilities

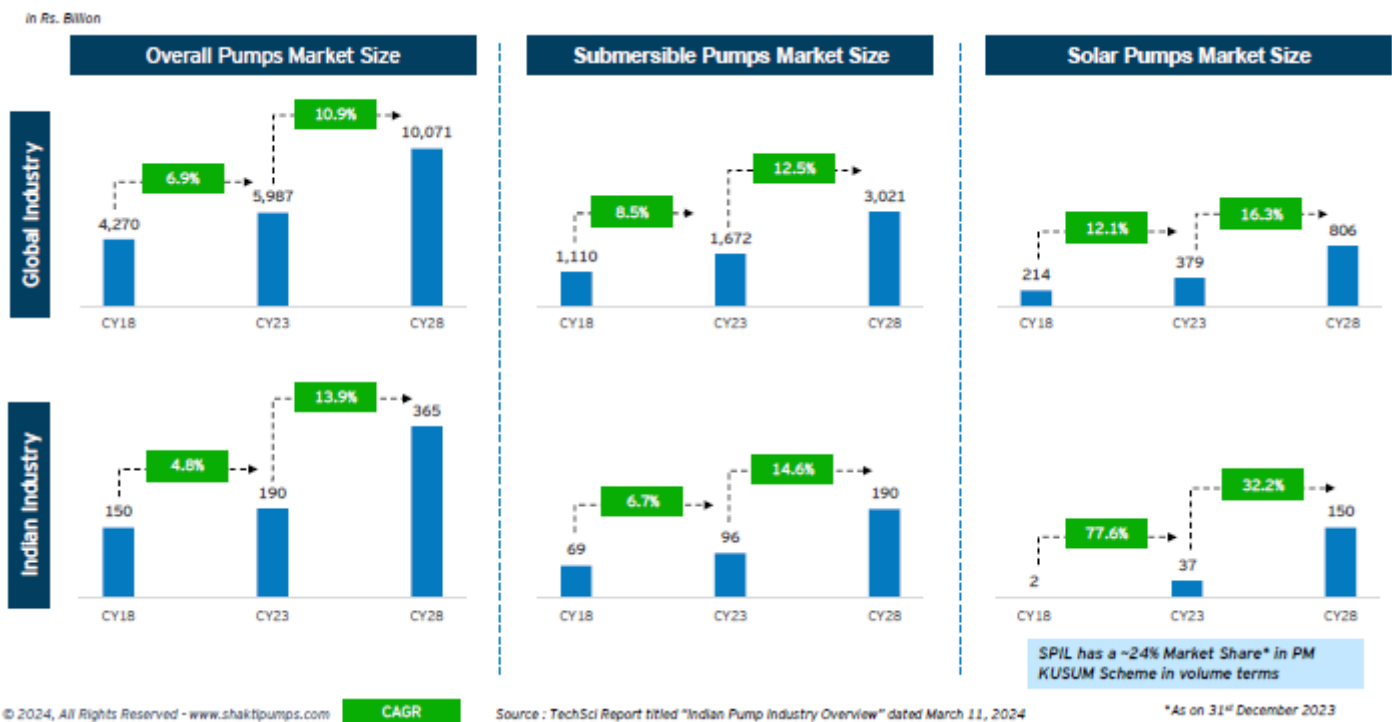
- Backward Integrated - In-house manufacturing all the key components required for pumps and motor manufacturing
- Manufacturing Solar Structures for solar panel with 1,00,000 units structure capacities
- Computerised Testing Facility to maintain high international standard
- Advanced R&D facilities to develop innovative products to capture newer opportunities and the wing is supported by IIT Delhi under the Government of India's Advanced Invention Scheme
- Filled for 29 products patents for its unique products and received approval for thirteen patents till date

3 Certifications & Approvals

- UL Certificate
- North American Component Certified
- Certificate of Compliance
- European Conformity Certified
- ISO Certifications
- ISI Mark Certification
- India's First 5 star rated pumps
- Star Export House Certificate

Source: Company

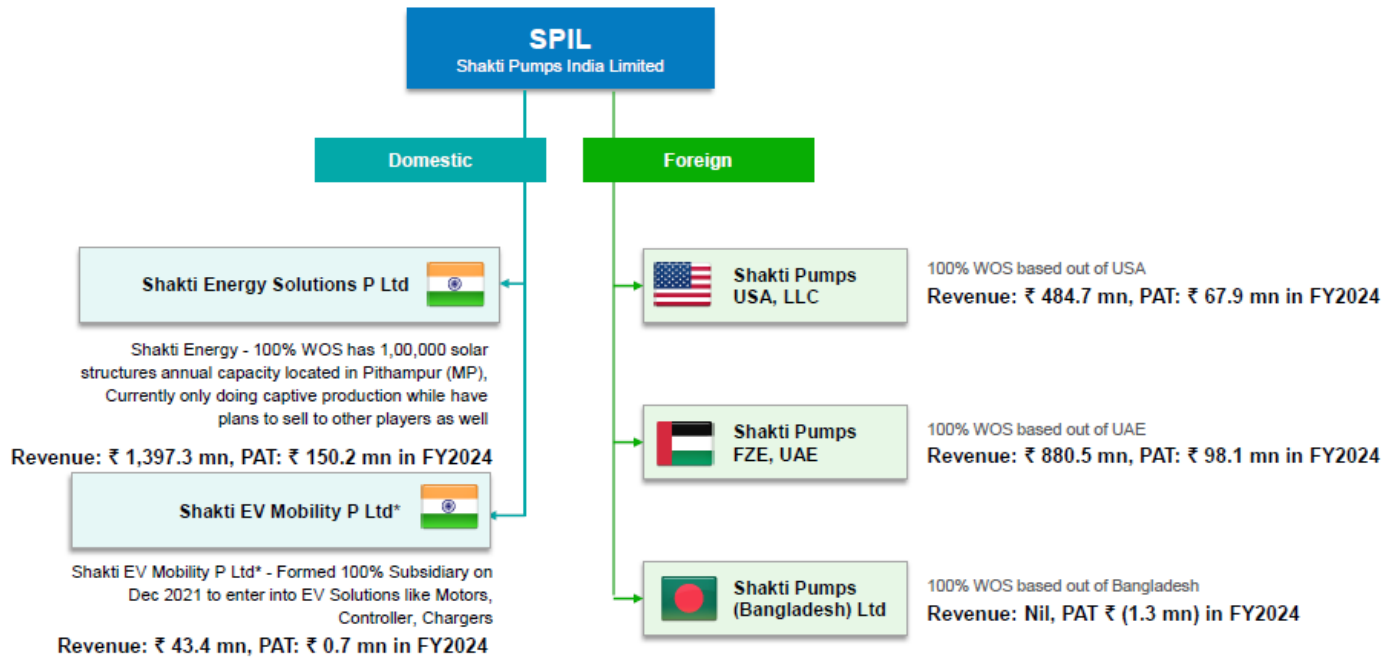
Exhibit 14: Global and domestic market size and opportunity for the pump industry



Source: Company

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Exhibit 15: Corporate structure and global presence

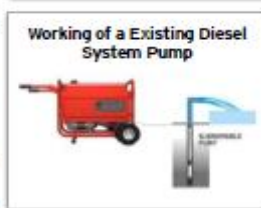
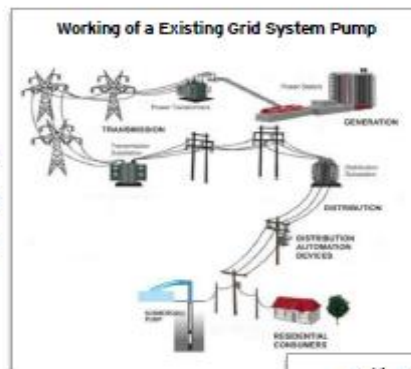


Source: Company

Exhibit 16: Solar pumping systems



- A solar-powered pump is a pump running on solar energy generated by photovoltaic panels or the radiated thermal energy available from collected sunlight as opposed to grid electricity or diesel run water pumps.
- The operation of solar powered pumps is more economical mainly due to the lower operation and maintenance costs and has less environmental impact than pumps powered by an internal combustion engine (ICE).
- On-grid or Off-Grid Solar Pumps are useful in both scenarios where there is grid power supply and no grid



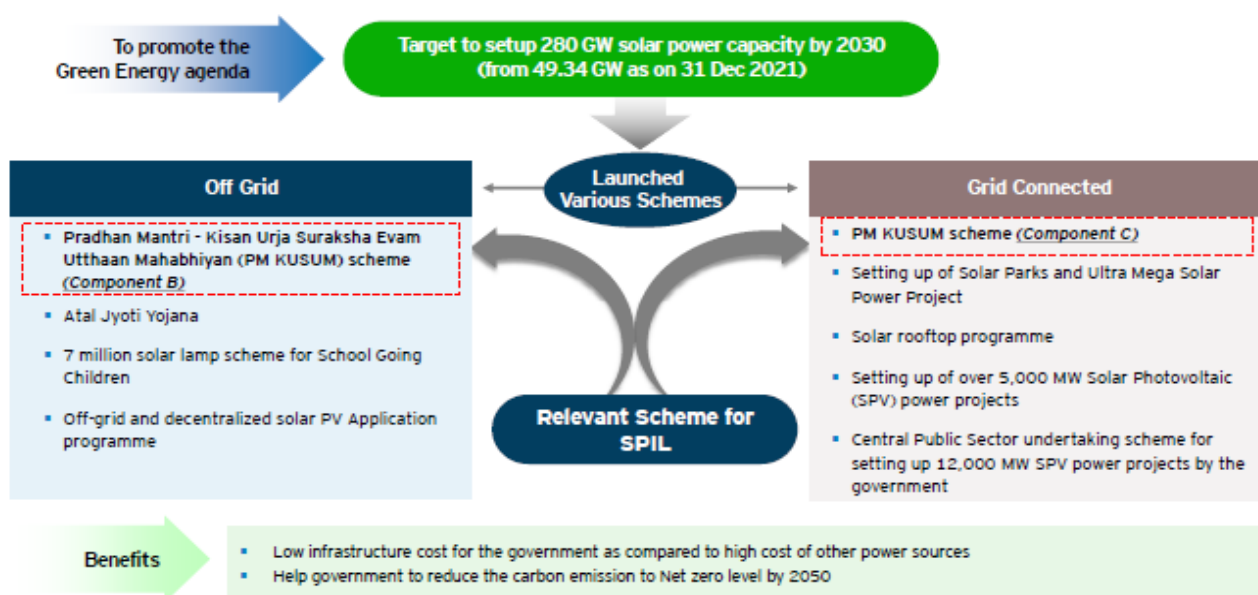
PM supporting Solar power to push farmer income
PM speech on Solar pump



Source: Company

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Exhibit 17: Government initiatives to boost solar power generation



Source: Company

Exhibit 18: PM-KUSUM an initiative to transform the agriculture sector

In FY 2018-19, a ₹480 bn budget was setup for a 10-year period

Subsidy scheme to install new solar pumps and replace the existing electrical/diesel pumps to reduce the dependency of grid power

Component A	Addition of 10,000 MW solar power capacity with the installation of small plants of up to 2 MW capacity each
Component B	<p>Installation of 14 lakh Solar-powered Agricultural Pumps (Off-grid)</p> <ul style="list-style-type: none"> Farmers applied for electricity connection, but the request is still pending with the department Farmers want to terminate their electricity connections after getting it replaced with solar power <p>Replacement of existing diesel pumps</p> <ul style="list-style-type: none"> Replacement demand is ~320 lakh pumps with ~220 lakh electric pump and ~100 lakhs diesel pumps
Component C	Solarisation of 35 lakh existing Grid-connected Agriculture Pumps (on-grid)

Solar Pumps - Market Size			
Particulars	KUSUM 1	KUSUM 2	KUSUM 3 & beyond
Solar Pumps (Lakh nos.)	1.50	3.17	49.0 (Component B + C)
Avg. Price* (₹ Lakh)	-	-	3.00
Market Size (₹ bn)	-	-	1,470

Source: Company

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Exhibit 19: Project execution process in the PM-KUSUM Scheme

General Mechanism

Respective Nodal Agency of each state looks after the activities for New & Renewable Energy sector:

STEP 1:

Farmer submits interest for Solar equipment and contributes 10% to State Nodal Agency

STEP 2:

MNRE contributes 30% to State Nodal Agency (MNRE is controlled by Central Govt.)

STEP 3:

State Govt contributes 30% to 60% (including loan to farmer subsidized rates, if any) to State Nodal Agency

STEP 4:

State Nodal Agency opens tender and issues work order to the bidder

STEP 5:

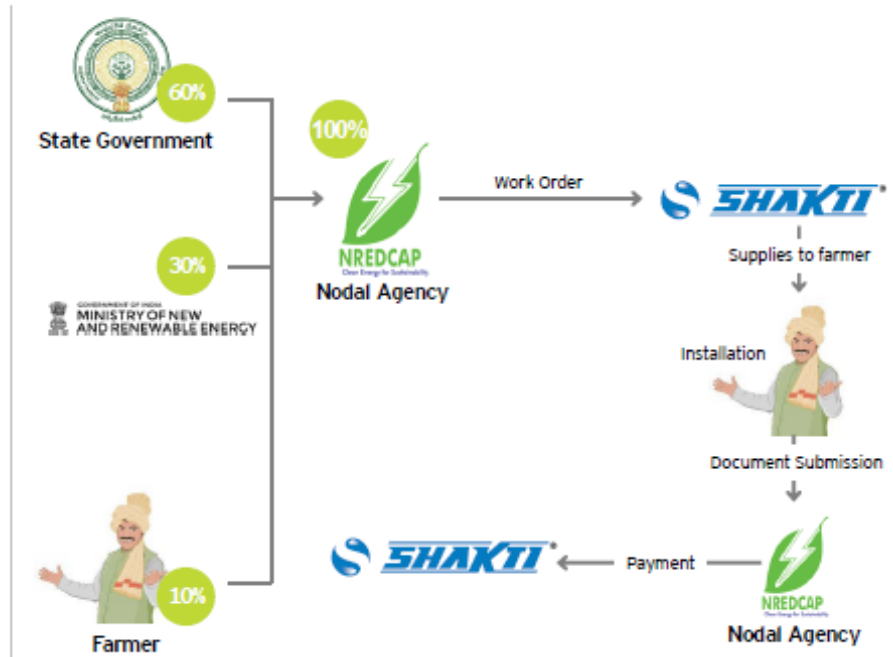
Bidder supplies materials to farmers & completes installation

STEP 6:

Bidder submits document to the Nodal Agency for release of payment against the work completed

STEP 7:

Nodal Agency verifies the installation and releases the payment to the Bidder



Source: Company

Exhibit 20: PM-KUSUM — Benefitting farmers at the core and slowing base issues in the sector

State	State Nodal Agency	Project	Farmer Share	State Share	MNRE Share	Total
Rajasthan	RHDS - Jaipur	PM-KUSUM	40%	30%	30%	100%
Haryana	HAREDA - Panchkula	PM-KUSUM	25%	45%	30%	100%
Punjab	PEDA - Chandigarh	PM-KUSUM	15% - SC, 20% - Gen.	45%	30%	100%
Himachal Pradesh	SDSCO - Shimla	PM-KUSUM	15% - SC, 20% - Gen.	45%	30%	100%
Gujarat	GUVNL - Vadodara	PM-KUSUM	40%	30%	30%	100%
Madhya Pradesh	MPUVN - Bhopal	PM-KUSUM	35%	35%	30%	100%
Chhattisgarh	CREDA - Raipur	SSY-5 & 6	5%	95%	-	100%
Maharashtra	MSEDCL - Mumbai	(T-03 & T-04)	5% - SC/ST, 10% - Gen/OBC	95% 90%	-	100%

Progress under PM KUSUM

As on 31st March 2024

Amount Sanctioned by Central Government for PM Kusum Scheme *				State	Installed Pumps under Component B ^ (Nos)
Particulars (Rs. Crores)	FY21	FY22	FY23		
Rajasthan	52.1	153.5	247.6	Maharashtra	84,020
Maharashtra	-	9.6	247.6	Haryana	87,000
Haryana	51.3	161.1	138.0	Rajasthan	65,479
Uttar Pradesh	15.3	13.7	82.3	Uttar Pradesh	32,212
Punjab	8.3	23.7	31.1	Punjab	12,952
Jharkhand	16.1	-	20.0	Jharkhand	12,985
Other States	13.4	44.4	34.7	Other States	20,027
Total	156.4	406.0	801.4	Total	3,14,675

Source: Company

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Financials

Income Statement

(INR Crs)	FY22	FY23	FY24P	FY25E	FY26E
Net Revenue/Income from Operations	1,179	968	1,371	1,713	2,142
Direct Costs	905	743	920	1,153	1,441
Gross Profit	274	224	451	560	700
as % to net sales	1	1	1	1	1
Employee Costs	52	54	66	94	118
Other Expenses	111	104	160	209	261
Total Operating Expenses	1,068	901	1,146	1,456	1,820
EBITDA	110	67	225	257	321
Depreciation and amortisation	19	18	19	22	26
EBIT	92	48	206	235	295
Interest Expense	16	19	20	25	29
Non-operating Income	6	3	4	7	7
Extraordinary Income	-	-	-	-	-
Profit before tax	82	32	190	217	273
Provision for tax	18	8	48	55	69
Core profit	65	24	142	162	204
Extraordinary items	-	-	-	-	-
Profit after tax (before MI)	65	24	142	162	204
Share of Minority in profits	-	-	-	-	-
Profit after tax	65	24	142	162	204
Adjusted Profit after tax	65	24	142	162	204
Shares outstanding (crores)	18	18	20	20	20
Adjusted EPS (INR)	35	13	71	81	102

Common size metrics - as % of net revenues

Year to March	FY22	FY23	FY24P	FY25E	FY26E
Operating expenses	90.6	93.1	83.6	85.0	85.0
Depreciation	1.6	1.9	1.4	1.3	1.2
Interest expenditure	1.3	2.0	1.4	1.4	1.4
EBITDA margins	9.4	6.9	16.4	15.0	15.0
Net profit margins	5.5	2.5	10.3	9.4	9.5

Growth metrics (%)

	FY22	FY23	FY24P	FY25E	FY26E
Revenues	26.8	-17.9	41.7	25.0	25.0
EBITDA	-22.3	-39.5	236.5	14.3	25.0
PBT	-26.1	-60.5	484.3	14.2	26.0
Net Profit	-14.4	-62.3	480.7	14.2	26.0
EPS	-14.4	-62.3	433.2	14.2	26.0

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Balance Sheet

(INR cr)

As on 31st March	FY22	FY23	FY24P	FY25E	FY26E
Equity Share Capital	18	18	20	20	20
Reserves & Surplus	375	400	736	888	1081
Shareholders funds	393	418	756	908	1101
Secured loans	10	4			
unsecured loans	96	71	83	118	118
Total Debt	106	75	83	118	118
Other long term Liabilities	6	6	8	8	8
Deferred tax liabilities	7	7	0	0	0
Minority Interest					
Sources of Funds	512	506	847	1034	1227
Gross Block	290	305	325	370	391
Depreciation	144	158	177	199	225
Net Block	146	147	148	172	166
Capital work in progress	1	2	38	200	200
Total fixed assets	146	148	186	372	366
Investments	5	15	18	18	18
Inventories	216	207	298	373	466
Sundry Debtors	383	244	667	771	916
Cash & Equivalents	45	17	201	156	280
Loans & advances	69	94	79	99	124
Total current assets	713	562	1245	1399	1786
Sundry creditors	284	127	434	544	680
Provisions & others	68	92	168	210	263
Total CL & provisions	352	219	602	754	943
Net current assets	361	343	643	645	843
Misc expenditure	0	0	0	0	0
Uses of funds	512	506	847	1034	1227
Book value per share (INR)	214	227	377	453	549

Cash flow statement

(INR cr)

Year to March	FY22	FY23	FY24P	FY25E	FY26E
Operating Profit After Tax Before WC changes	-93	40	-61	108	104
WC changes	90	9	117	47	74
CFO	-2	50	55	155	178
CFI	0	-31	-59	-208	-20
CFF	5	-46	188	8	-34
Total Cash Flow	3	-28	184	-45	124

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Ratios	FY22	FY23	FY24P	FY25E	FY26E
ROAE(%)	17.6%	6.0%	24.1%	19.4%	20.3%
ROACE(%)	10.9%	5.0%	18.0%	17.9%	20.3%
Debtors(days)	119	92	178	164	156
Current ratio	2.0	2.6	2.1	1.9	1.9
Debt/Equity	0.3	0.2	0.1	0.1	0.1
Inventory(days)	87	102	118	118	118
Payable(days)	155	199	199	199	199
Cash conversion cycle(days)	50	-6	96	83	75
Debt/EBITDA	1.0	1.1	0.4	0.5	0.4
Adjusted debt/Equity	0.2	0.1	-0.2	0.0	-0.1

Valuation Parameters	FY22	FY23	FY24P	FY25E	FY26E
Diluted EPS (INR)	35.2	13.3	70.7	80.8	101.8
Y-o-Y growth (%)	-14.4	-62.3	433.2	14.2	26.0
Diluted P/E(x)	56.3	149.4	28.0	24.5	19.5
Price/BV(x)	9.3	8.7	5.3	4.4	3.6
EV/Sales(x)	3.4	4.2	2.8	2.3	1.8
EV/EBITDA(x)	36.5	60.3	17.1	15.3	11.9
Diluted Shares O/S	1.8	1.8	2.0	2.0	2.0
Basic EPS	35.2	13.3	70.7	80.8	101.8
Basic PE(x)	56.3	149.4	28.0	24.5	19.5

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