

SHAKTI PUMPS (INDIA) LTD.

CMP : ₹428

Target price: ₹690

HP* : Upto 3 years

Our Vriddhi pick for the month of November is Shakti Pumps Ltd. The company is manufacturer of water pumps and motors. In 2012, it initiated with manufacturing of solar pumps and now it has become the market leader in this sector. We see that solar energy is the next sunrise sector and it is ageless due to its limitless availability. We expect solar pumps would be in great demand in the near future as its source is the cheapest renewable resource available globally. Also, it the next best alternative for pumps consuming electricity and other fuels such as diesel. Domestic and international demand is auguring well for the company.

Investment Rationale

1) Solar pumps – emerging growth segment

Due to erratic and insufficient electric supply and rising fuel costs, farmers are in need of an alternative which is sourced from natural resources. Thus, solar pumps are generating huge demand not only in India but also in the international market. India being a largely agriculture dependent country, the demand for solar pumps seems to be never ending and this sector has the potential to emerge as the next prominent growth sector. Shakti Pumps commands leading market share of 80% in the manufacture and supply of solar pumps.

2) Capacity utilisation with technological development

Shakti Pumps was the first company to manufacture stainless steel pumps and motors. Its state-of-the-art technology, high-tech processes and innovative designs have enabled the company to create a competitive edge over other players in the market. It uses advanced precision fabric technology to save 30-40% power and provide more output.

3) Global presence

The company is a prominent exporter of pumps and is present in more than 100 countries across the globe. Shakti Pumps has huge demand in France, Germany, Turkey, Sudan, Morocco and Algeria. It is now expecting good business and potential markets in Africa and Latin America. For FY17, the company generated 24% of total revenue from exports.

4) Market conditions boosting demand for pumps

The government's initiatives, growing pharmaceutical demand, growing need for water treatment and waste water management, oil and gas expansion are some of the macroeconomic factors that will boost the demand and production of water pumps not only in India but across international markets.

Company Details

Industry	Compressors / Pumps
Chairman cum Managing Director	Dinesh Patidar
Company Secretary	Ravi Patidar
BSE Code	531431

Key Market Indicators (Consolidated)

Latest Date	15-Nov-2017
Latest Price (Rs)	428.00
Previous Close (Rs)	449.05
1 Day Price Var%	-0.55
1 Year Price Var%	272.66
52 Week High (Rs)	556.85
52 Week Low (Rs)	117.00
Beta	1.00
Face Value (Rs)	10.00
Industry PE	38.28
TTM Period	201703
TTM EPS(Rs)	11.18
TTM CEPS(Rs)	18.14
Price/TTM CEPS(x)	24.76
TTM PE (x)	40.18
Price/BV(x)	3.70
EV/TTM EBIDTA(x)	14.77
EV/TTM Sales(x)	2.12
Dividend Yield%	0.45
MCap/TTM Sales(x)	1.94
Latest Book Value (Rs)	121.44
Market Cap (Rs. In Crores)	825.36
EV (Rs. In Crores)	901.97
Latest no. of shares (In Crores)	1.84

Share Holding Pattern as on 201709

Promoter No of shares (In Crores)	0.87
Promoter %	47.59
FII No of Shares (In Crores)	0.00
FII %	0.06
Total No of Shares (In Crores)	1.84
Free Float %	52.41

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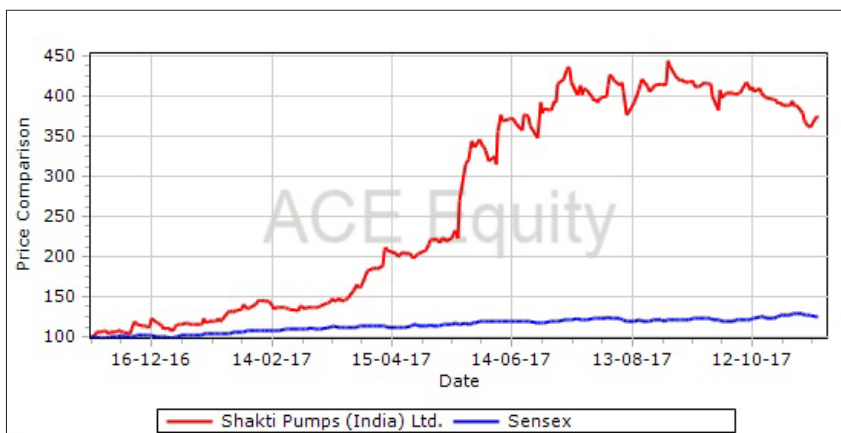
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Valuation

The company is trading at TTM P/E of 39x with TTM EPS of Rs 11.18. It has delivered ROE and ROCE of 10.14% and 15.72%, respectively, for FY17. We expect that, in the long run, when awareness about solar energy will rise, the demand for solar products is bound to increase. Thus, demand for solar pumps will gain momentum in India and the international markets. Solar pumps have varied applications other than just for agriculture purpose. FY18 is expected to see tepid increase in revenue and FY19 is expected to see next phase of growth. We see an upside of 61% with target price of Rs 690 over a period of three years. We urge investors to invest in three tranches.

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201709	201706	Q on Q Var%	201609	Y on Y Var%
Net Sales	67.19	90.88	-26.07	77.91	-13.77
Total Expenditure	56.83	79.57	-28.58	66.84	-14.98
PBIDT (Excl OI)	10.87	12.42	-12.48	12.26	-11.28
PAT	3.02	4.83	-37.54	4.65	-35.18
PBIDTM% (Excl OI)	16.06	13.51	18.87	15.50	3.61
PBIDTM%	16.88	14.43	16.98	16.33	3.37
PATM%	4.45	5.25	-15.24	5.88	-24.32
Adj. EPS(Rs)	1.64	2.63	-37.64	2.53	-35.18

Inc/Exp Statement(Consolidated) (Rs in Crore)					
Description	201703	201603	201503	201403	201303
Net Sales	424.58	264.23	296.62	292.09	208.80
Total Income	431.62	273.00	308.09	302.28	215.48
Total Expenditure	370.56	244.10	249.46	248.75	178.72
PBIDT	61.06	28.90	58.64	53.53	36.77
PAT	20.54	1.07	26.28	24.98	16.82
Dividend %	20.00	15.00	20.00	20.00	10.00
Adj. EPS(Rs)	11.18	0.64	15.19	16.39	11.03



Niti Aayog is set to install 3mn solar pumps over next 3 years



International Solar Alliance plans a global tender of 5,00,000 solar pumps in 2018



Company is capable of manufacturing 5,00,000 pumps p.a.

Solar pumps – emerging growth segment

Solar industry in India is gaining momentum. The government has announced a target of 100 GW of solar capacity by 2022, the present capacity being 12.30 GW. In FY17, 5.5 GW capacity was added. For the next fiscal (FY19), India is planning to add 5 GW of rooftop and 10 GW of large-scale capacity. This would turn out as a huge opportunity for companies like Shakti Pumps. Many state governments are initiating and providing projects to the company. India's farm sector is expected to deploy 30 million conventional pumps, of which only 1% are deployed now. The Niti Aayog has set a target to install 3 million solar pumps over the next three years, of which tenders for 1,14,000 pumps have been already announced. The International Solar Alliance plans a global tender of 5,00,000 solar pumps in 2018 in which Indian pump manufacturers are expected to get a large pie under the 'Make in India' campaign.

Capacity utilisation with technological advancement

The company has the capacity to manufacture 5,00,000 pumps per annum. Presently, the company utilizes only 46% of its total capacity. This implies that in the near future if the demand for company's pumps increases, then the company can increase its production with the existing capacity. Any additional capacity expansion will not be required and, hence, no additional capex will be needed.

The company not only assembles and manufactures pumps, but it also manufactures all key components required in the manufacture of pumps. Thus, by using its advanced technology, the company provides integrated solution having core pump utility with solar energy panel features.

Global presence

Since last two decades, the company has been exporting its products majorly to the Gulf countries. But due to declining geopolitical and operating conditions in the Gulf, the company is presently shifting its focus to other geographical areas. In the last two years, it has forayed into six new countries and added 12 new dealers. The company has a subsidiary to operate in the US market.

Market conditions boosting demand for pumps

Global demand for fluid handling pumps is expected to increase by 5.5% per year to USD 84 million in 2018. The Asia/Pacific region will generate 44% of new pump demand through 2018. Demand for centrifugal pumps will continue to be dominant in the upcoming years. In India, 95% of the pumps sold are centrifugal pumps. The market for pumps in India is expected to grow at a CAGR of 12% up to FY20. India intends to double its farmers' incomes by 2022. In this process, the government is offering many subsidies to farmers to promote use of solar pumps. The growing dependence on groundwater and irregular monsoons are catalysing the demand for water pumps in the agricultural segment. After agriculture, the next segment where pumps are in demand is the industrial segment due to rapid penetration of desalination plants. The government's ambitious projects such as Swachhh Bharat Abhiyan, cleaning of Ganga, interconnecting of rivers, housing for all and rural electrification will fuel the growth of this sector.



In FY17, 24% of the total revenue generated through exports



Market for pumps in India is expected to grow at CAGR of 12% till FY20



Solar pumps to be next best alternative for pumps operated through electricity or diesel

Financial Performance

Since FY12, the company has been growing steadily but FY17 has been an exceptional year. In FY17 revenue grew by 60.7% YoY to Rs 424.58 crore from Rs 264.23 crore. Its EBITDA increased by 168.5% YoY to Rs 50.03 crore from Rs 20.12 crore as a result of higher revenues, thereby showing operational efficiency. The EBITDA margin improved from 7.6% to 12.7% YoY in FY17. The company's PAT jumped from Rs 1.07 crore to Rs 20.54 crore, showing growth of 1819.6% YoY. For FY17, the company's debt-equity ratio was 0.4x and interest coverage ratio was 2.96x.

The company has reported revenue of Rs 159.01 crore in H1FY18 as against Rs 157.22 crore in H1FY17. Its PAT in H1FY18 was Rs 7.84 crore, a growth of 18.3% YoY as against Rs 6.57 crore in H1FY17. The EPS grew from Rs 3.58 to Rs 4.27 in H1FY18.

About the Company

Shakti Pumps Ltd. was incorporated in 1982 and has emerged as a leading manufacturer of energy-efficient submersible pumps in India. It caters to the needs of diversified sectors such as agriculture, industry, domestic and horticulture. Its manufacturing units are situated at Pithampur DTA and Pithampur SEZ (Indore, Madhya Pradesh). The company's products are marketed through a network consisting of 550 domestic and 90 overseas dealers.