



Company Name	: SHAKTI PUMPS (INDIA)
BSE Code	: 531431
Time Duration	: 1 year
CMP	: ₹467.25 (as on 12 July, 2018)
Target Price	: ₹595

The Value Pick for the month of July is Shakti Pumps Ltd. The company is engaged in the manufacture of water pumps and motors. 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.

In 2012, the company commenced 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 fossil fuels such as diesel. The demand for solar pumps in the domestic and international markets is auguring well for the company.

### Set up of VFD plant

The company has started its new plant under the Electric and Control Division at Pithampur, Madhya Pradesh in July 2018. It has invested Rs 15 crore for this plant. This fully-automated plant using cutting-edge Japanese techniques and manufacturing methods will manufacture electric motor drive (VFD), electronic motor starters and hybrid inverters with capacity of producing 50,000 VFDs per year. This technology has not been used in India before and Shakti Pumps is the only company to foray into it. VFD will fetch good margins for the company.

### Capacity utilisation and outlook for FY19

The company uses advanced precision fabric technology to save 30-40% power and provide more output. 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. In FY18, it executed orders for a total of 1,41,000 pumps. Presently, the company utilizes only 51% of its total capacity. This implies that over next 2-3 years as the demand for company's pumps increases, the company can increase its utilisation levels up to 100%. No additional capacity expansion will be required and, hence, no additional capex will be needed.

The management expects growth of 20-25% in FY19. It expects business worth Rs 340 crore to be generated from solar and OEMs only. The total turnover would be around Rs 575-580 crore. The EBITDA margin of 18% is expected to be sustainable.

### Growth in exports

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. In FY18, its exports grew by 11% YoY to Rs 130 crore and the management expects 20-25% growth over the next couple of years. Since last two decades, the company has been exporting its products majorly to the Gulf countries, but due to deteriorating geopolitical and operating conditions in the Gulf region, 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 which operates in the US market.

### Solar pumps – emerging growth segment in India

Due to erratic and insufficient electric supply and rising fuel costs, farmers are in need of an alternative energy source that can be sourced from natural resources. 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 a dominant market share of 80% in the manufacture and supply of solar pumps. The 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. For 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 demand for centrifugal pumps will continue to be domi-

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DSIJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsij.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

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nant 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. 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 the rapid penetration of desalination plants.

### Government initiatives to promote solar pumps

The Niti Aayog has set a target of 3 million solar pump installations 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, out of which Indian pump manufacturers are expected to get a large pie under the 'Make in India' campaign. India intends to double its farmers' incomes by 2022. In this process, the government has announced 'Kusum Yojna' scheme wherein the farmer is expected to do solar farming. The company has started working on it since last year and has succeeded in the demo plants. So far, it has participated in the tenders for supply of 15,000 pumps.

### Financial Performance

Since FY12, the company has been growing steadily, but FY17

had been an exceptional year. In FY18, although the company had strong order book, the state governments of MP and Rajasthan delayed the payments due to which the revenue increased marginally by 2.1% YoY to Rs 434 crore. However, due to better operating efficiency, its EBITDA for the year was up by 42.3% YoY to Rs 76.87 cr from Rs 54.02 cr. The EBITDA margin improved from 12.7% in FY17 to 17.6% in FY18. Its PAT jumped by 57.5% YoY to Rs 34.11 cr from Rs 21.65 cr due to lower interest costs and depreciation. The PAT margin improved to 7.8% in FY18 from 5.05% in FY17. The debt-equity ratio for FY18 stood at 0.41x.

### Valuation

The company is trading at TTM P/E of 25.14x with TTM EPS of Rs 18.56. It has delivered ROE and ROCE of 13.45% and 24.97%, respectively, for FY18. With four state elections and Lok Sabha elections round the corner, the order book of the company is set to get stronger as the company gets major orders from the government. FY19 and FY20 would be the next phase of growth. Also, the exports are increasing, which is driving the company's topline. With the setting up of VFD plant, the margins of the company would also gradually improve. We see an upside of 27% with a target price of Rs 595 over a period of one year and urge investors to invest in tranches.

### Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	433.61	424.58	264.23	296.62	292.09
Total Income	440.10	431.62	273.00	308.09	302.28
Total Expenditure	359.17	370.56	244.10	249.46	248.75
PBIDT	80.93	61.06	28.90	58.64	53.53
PAT	34.11	20.54	1.07	26.28	24.98
Dividend %	0.00	20.00	15.00	20.00	20.00
Adj. EPS(Rs)	18.56	11.18	0.64	15.19	16.39

### Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201803	201712	Q on Q Var%	201703	Y on Y Var%
Net Sales	129.95	147.67	-12.00	166.55	-21.98
Total Expenditure	107.66	117.20	-8.14	143.31	-24.88
PBIDT (Excl OI)	23.10	30.48	-24.22	23.80	-2.97
PAT	9.59	16.68	-42.51	11.86	-19.14
PBIDTM% (Excl OI)	17.66	20.64	-14.44	14.24	24.02
PBIDTM%	18.93	21.31	-11.17	14.88	27.22
PATM%	7.33	11.29	-35.08	7.10	3.24
Adj. EPS(Rs)	5.22	9.07	-42.45	6.45	-19.07



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