



Farsight

MORNING FARSIGHT

Tuesday, October 23, 2018

SHAKTI PUMPS

CMP:RS 428

TRGT:RS 515

TIME HORIZON: 1 YEAR

Shakti Pumps, manufacturing energy efficient stainless steel submersible pumps, pump-motors, solar pumps and pressure booster pumps etc. used across irrigation, residential as well as industrial sector, has posted excellent earnings for Q2FY19 with revenue rising to Rs 138cr from Rs 96 cr QoQ and Rs 68 cr YoY, a growth of 44% QoQ and Rs 102% YoY. This led to EBITDA of Rs 21.2 cr against Rs 15.3 cr QoQ and Rs 11.4 cr YoY, a growth of 38% QoQ and 86% YoY, with steady EBITDA margin of 15.4% against 15.9 %QoQ, despite rising input cost pressures. PAT was placed at Rs 93 cr against Rs 6.6 cr QoQ and Rs 3 cr YoY, rising by 41% QoQ and 201% YoY, yielding an EPS of Rs 5.04 for Q2FY19 and Rs 8.66 in H1FY19. Seasonally, H2 and especially Q4 is the strongest quarter for the company accounting for 78% of PAT in FY18 and 70% of PAT in FY17. Hence we believe that company is likely to post an EPS of over Rs 27 for FY19, given robust demand growth from governments thrust on renewable energy and promotion of solar pumps through schemes like KUSUM, with Shakti having more than 50% market share in solar pumps, making it a direct beneficiary. The company currently has two manufacturing facilities both located at Pithampur (MP) with an aggregate capacity to manufacture 5 lakh units of pumps per annum. One must note that India is one of the largest regional markets for solar pumps after Middle East Asia (MEA) and China and is expected to be one of the fastest growing regions over the next few years. In order to promote the use of solar pumps among farmers, 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. Available in the range of 1 HP-100 HP, Shakti Solar Pumps offer 40% more discharge as compared to other ordinary pumps. Naturally, this makes Shakti' pumps the undisputed leader in the pump market. Also, Shakti Pumps is a channel partner of Ministry of New and Renewable Energy (MNRE), Govt of India with the highest performance rating 1A. Company 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. It also has a presence in over 100 countries spread across Middle East, USA, Africa, Asia and Europe. Share is trading at PE of sub 16x, while on an estimated EBITDA of Rs 110 cr, EV/EBITDA is at 8x, which is at discount to peers like Kirioskar Brothers, KSB Pumps, Crompton Greaves, V-Guard. Share ruling at Rs 428 can move to Rs 515 in 1 year. Buy as an investor only for given time horizon.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.