

Current	Previous
CMP : Rs 388	
Rating : BUY	Rating : BUY
Target : Rs 497	Target : Rs 651

(NR-Not Rated)

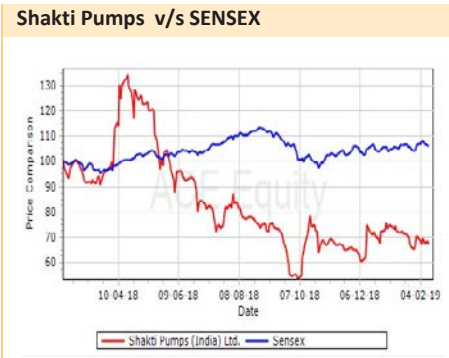
STOCK INFO	
INDEX	
BSE	531431
NSE	SHAKTIPUMP
Bloomberg	SKPI IN
Reuters	SHPU.BO
Sector	Capital Goods
Face Value (Rs)	10
Equity Capital (Rsmn)	184
Mkt Cap (Rs mn)	7,132
52w H/L (Rs)	790 / 293
Avg Weekly Vol (BSE+NSE)	58,437

SHAREHOLDING PATTERN	%
(As on December, 2018)	
Promoters	48.3
Public & Others	51.7

Source: NSE, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
Shakti Pumps	0.4	-14.5	-33.4
SENSEX	3.8	-4.5	5.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Shakti Pumps came out with stable set of numbers in Q3FY19, in line with our estimates. Revenue grew 3% YoY to Rs 1521mn, though EBITDA declined 10.7% YoY to Rs 272mn due to high base of last year. EBITDA margin contracted by 275bps YoY to 17.9% due to high employee costs (16.2% YoY rise) as well as 7% higher raw material cost. PAT for the quarter declined 24.3% YoY to Rs 126mn on higher base of last year (as we know Q3FY18 was an exceptionally good quarter).

Q3FY19 and 9MFY19 Highlights

- In Q3FY19 Shakti Pumps reported 3% YoY revenue growth to Rs 1521mn against Rs 1477mn in Q3FY18. While for 9MFY19 revenue witnessed 26.5% YoY growth to Rs 3868mn against Rs 3059mn in 9MFY18.
- EBITDA for Q3FY19 saw a de-growth of 10.7% YoY to Rs 272mn against Rs 305mn in Q3FY18 mainly on higher base of last year. While for 9MFY19 EBITDA grew 12.7% YoY to Rs 612mn against Rs 543mn in 9MFY18. However, due to high raw material costs as well as higher employee costs, EBITDA margin contracted 275bps YoY to 17.9% in Q3FY19 against 20.6% in Q3FY18. While for 9MFY19 margin contracted by 193bps YoY to 15.8% against 17.8% in 9MFY18.
- PAT for the quarter declined 24.3% YoY to Rs 126mn against Rs 167mn in Q3FY18 due to higher finance costs (46% YoY rise). For 9MFY19 PAT grew 16.4% YoY to Rs 285mn against Rs 245mn in 9MFY18.

Valuations

At CMP of Rs 388, Shakti Pumps is trading at FY19E, FY20E and FY21E, P/E multiples of 17.5x, 13.9x and 11.7x respectively. After taking into account the company's Q3FY19 results and listening to management conference call we have introduced FY21E estimates and revised our FY19E and FY20E estimates downwards to factor in the increased debt on its balance sheet and correspondingly higher borrowing costs. We have rolled over our target multiple to FY21E and now value the stock at FY21E target P/E multiple of 15x against 20x FY20E earlier, which yields a target price of Rs 497 per share. We maintain our BUY rating on the stock with a revised target price of Rs 497 (15x FY21E earnings), which gives an upside potential of 28.1%.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin %	RoE (%)	Adj.P/E(x)	EV/EBITDA (x)
FY17	4290	605	216	11.8	14.1	9.7	32.9	13.0
FY18	4366	774	341	18.6	17.7	13.4	20.9	10.2
FY19E	5451	954	407	22.2	17.5	17.0	17.5	8.9
FY20E	6610	1177	514	28.0	17.8	18.0	13.9	7.3
FY21E	7884	1419	609	33.1	18.0	18.5	11.7	6.2

Source: Company, Arihant Research

Q3FY19 and 9MFY19 Financial Performance

Rs Mn (Consolidated)	Q3FY19	Q2FY19	Q3FY18	Q-o-Q	Y-o-Y	9MFY19	9MFY18	Y-o-Y
Net Revenue	1,521	1,387	1,477	9.6%	3.0%	3,868	3,059	26.5%
Material Cost	898	825	839	8.9%	7.0%	2,286	1,640	39.3%
Employee cost	132	131	113	0.1%	16.2%	384	332	15.5%
Other Expenses	220	222	220	-1.2%	0.0%	587	543	8.1%
EBITDA	272	209	305	30.2%	-10.7%	612	543	12.7%
EBITDA margin %	17.9%	15.1%	20.6%	283	-275	15.8%	17.8%	-193
Other Income	1	4	10	-81.7%	-93.5%	25	18	37.4%
Depreciation	38	37	36	2.2%	7.4%	111	105	6.0%
EBIT	235	175	279	33.9%	-16.0%	527	457	15.2%
Finance cost	52	47	35	10.1%	46.0%	131	97	34.7%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	183	128	244	42.7%	-25.0%	396	360	10.0%
Tax Expense	57	35	77	59.8%	-26.5%	111	115	-3.7%
Effective tax rate %	31.0%	27.7%	31.6%			27.9%	31.9%	
Reported Net Profit	126	93	167	36.1%	-24.3%	285	245	16.4%
Adj Net Profit	126	93	167	36.1%	-24.3%	285	245	16.4%
Adj Net margin %	8.3%	6.7%	11.2%	163	-292	7.3%	8.0%	-64
Reported EPS (Rs)	6.9	5.0	9.1	36.1%	-24.3%	15.5	13.3	16.4%
Adj EPS (Rs)	6.9	5.0	9.1	36.1%	-24.3%	15.5	13.3	16.4%

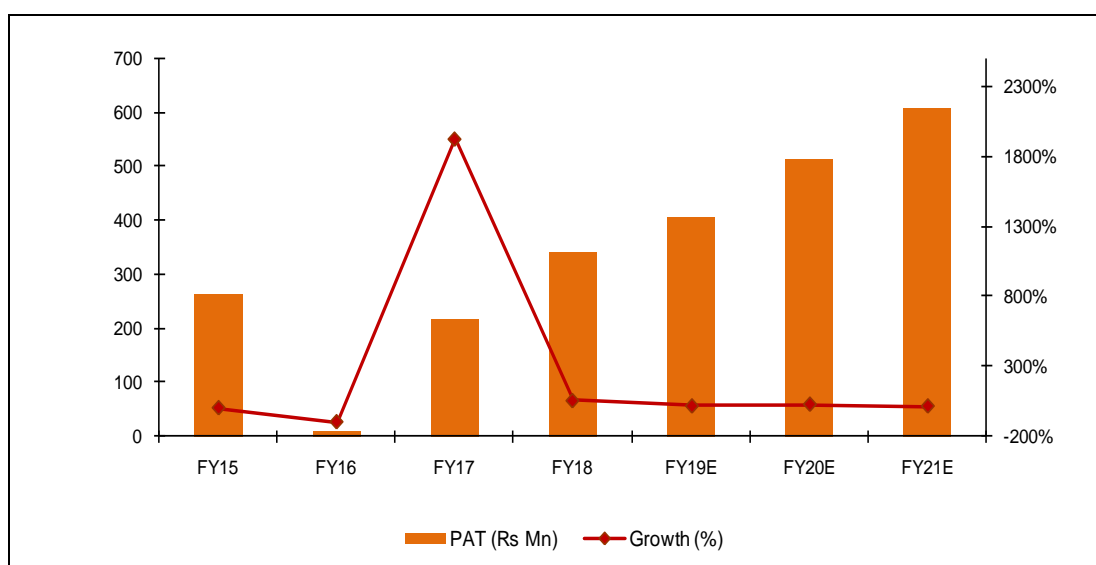
Source: Company, Arianth Research

■ Increased demand for efficient pumps to facilitate revenue growth

We expect Shakti's revenue to show strong growth of 21.8% CAGR over FY18-21E, primarily driven by higher demand for energy efficient pumps where Shakti has an edge over its peers as well as due to increased brand awareness and distribution reach of Shakti.

■ PAT to witness 21.3% CAGR over FY18-21E

With 21.8% CAGR revenue growth over FY18-21E and stable EBITDA margin around 17-18% level, we expect Shakti's PAT to grow from Rs 341mn in FY18 to Rs 609mn in FY21E, thereby registering a CAGR of 21.3% over FY18-21E.



Source: Company, Arianth Research

Consolidated Financials

Income Statement (Rs mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Revenues	4,290	4,366	5,451	6,610	7,884
<i>Change (%)</i>	62.4%	1.8%	24.9%	21.3%	19.3%
Raw materials	2,253	2,365	2,944	3,603	4,297
Stock Adjustments	89	16	0	0	0
Employee costs	413	446	561	694	828
Other expenses	930	766	992	1,137	1,340
Total Expenses	3,686	3,592	4,497	5,434	6,465
EBITDA	605	774	954	1,177	1,419
Other Income	21	35	33	66	79
Depreciation	128	139	144	144	150
Interest	165	140	216	308	411
PBT	332	530	627	791	937
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	332	530	627	791	937
Tax	116	189	219	277	328
<i>Rate (%)</i>	34.9%	35.6%	35.0%	35.0%	35.0%
PAT	216	341	407	514	609
<i>Change (%)</i>	1929.7%	57.6%	19.4%	26.2%	18.4%

Source: Company, Arianth Research

Balance Sheet (Rs mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Sources of Funds					
Share Capital	184	184	184	184	184
Reserves & Surplus	2,050	2,353	2,212	2,672	3,107
Net Worth	2,234	2,536	2,396	2,856	3,291
Loan Funds	829	1,059	1,659	1,809	1,959
Deferred Tax & other liabilities	84	100	100	100	100
Capital Employed	3,148	3,695	4,155	4,765	5,350
Application of Funds					
Gross Block	1,877	2,004	2,154	2,304	2,454
Less: Depreciation	668	799	944	1,088	1,238
Net Block	1,209	1,205	1,210	1,216	1,216
CWIP	3	8	8	8	8
Other non current assets	49	75	0	0	0
Net fixed assets	1,261	1,288	1,219	1,224	1,225
Investments	32	0	0	0	0
Deferred tax assets	0	0	0	0	0
Debtors	1,384	1,433	1,717	2,083	2,484
Inventories	1,035	1,161	1,371	1,678	2,001
Cash & bank balance	132	256	336	363	328
Loans & advances & other CA	345	435	597	724	864
Total current assets	2,896	3,287	4,022	4,848	5,677
Current liabilities	1,002	839	1,045	1,268	1,512
Provisions	40	40	40	40	40
Net current assets	1,855	2,407	2,937	3,541	4,125
Total Assets	3,148	3,695	4,155	4,765	5,350

Source: Company, Arianth Research

Cash flow Statement (Rs mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	332	530	627	791	937
Depreciation	128	139	144	144	150
Interest & others	144	105	183	241	333
Cash flow before WC changes	605	774	954	1,177	1,419
(Inc)/dec in working capital	-466	-686	-783	-1,017	-1,155
Operating CF after WC changes	139	88	171	159	264
Less: Taxes	-116	-189	-219	-277	-328
Operating cash flow	23	-100	-49	-118	-64
(Inc)/dec in F.A + CWIP	96	-155	-75	-150	-150
(Pur)/sale of investment	-32	32	0	0	0
Cash flow from investing	64	-123	-75	-150	-150
Free cash flow (FCF)	-129	-229	-199	-268	-214
Loan raised/(repaid)	-60	230	600	150	150
Equity raised	-134	0	0	0	0
Interest & others	200	185	-323	218	102
Dividend	-37	-68	-74	-74	-74
Cash flow from financing activities	-30	347	204	295	178
Net inc /(dec) in cash	56	124	80	27	-36
Opening balance of cash	76	132	256	336	363
Closing balance of cash	132	256	336	363	328

Source: Company, Arianth Research

Key Ratios

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	11.8	18.6	22.2	28.0	33.1
CEPS	18.7	26.1	30.0	35.8	41.3
BVPS	121.6	138.0	130.4	155.4	179.1
DPS	2.0	3.7	4.0	4.0	4.0
Payout (%)	17.0%	19.9%	18.0%	14.3%	12.1%
Valuation (x)					
P/E	32.9	20.9	17.5	13.9	11.7
P/CEPS	20.7	14.8	12.9	10.8	9.4
P/BV	3.2	2.8	3.0	2.5	2.2
EV/EBITDA	13.0	10.2	8.9	7.3	6.2
Dividend Yield (%)	0.5%	1.0%	1.0%	1.0%	1.0%
Return ratio (%)					
EBIDTA Margin	14.1%	17.7%	17.5%	17.8%	18.0%
PAT Margin	5.0%	7.8%	7.5%	7.8%	7.7%
ROE	9.7%	13.4%	17.0%	18.0%	18.5%
ROCE	15.1%	17.2%	19.5%	21.7%	23.7%
Leverage Ratio (%)					
Total D/E	0.4	0.4	0.7	0.6	0.6
Net D/E	0.3	0.3	0.6	0.5	0.5
Turnover Ratios					
Asset Turnover (x)	1.4	1.2	1.3	1.4	1.5
Inventory Days	161	178	170	170	170
Receivable Days	118	120	115	115	115
Payable days	89	74	70	70	70

Source: Company, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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