

### Shakti Pumps India Limited Q1 Fy 2016 Results Update:

| INR Mn                             | Jun-15       | Jun-14       |
|------------------------------------|--------------|--------------|
| Net Sales / Income from Operations | 587.1        | 697.0        |
| RM Consumed                        | 330.6        | 349.8        |
| Change in inventory                | (64.6)       | (1.1)        |
| <b>Contribution</b>                | <b>321.1</b> | <b>348.3</b> |
| <b>Contribution Mgn %</b>          | <b>54.7%</b> | <b>50.0%</b> |
| Employee Costs                     | 99.4         | 80.4         |
| % of sales                         | 16.9%        | 11.5%        |
| Other Expenses                     | 128.2        | 127.6        |
| % of sales                         | 21.8%        | 18.3%        |
| EBITDA                             | 93.5         | 140.4        |
| EBITDA Margin %                    | 15.9%        | 20.1%        |
| Depreciation                       | 28.7         | 19.3         |
| EBIT                               | 64.8         | 121.1        |
| % of sales                         | 11.0%        | 17.4%        |
| Interest                           | 32.6         | 36.1         |
| PBT                                | 32.2         | 84.9         |
| % of sales                         | 5.5%         | 12.2%        |
| Taxes                              | 6.8          | 17.0         |
| PAT                                | 25.5         | 67.9         |
| PAT Margin %                       | 4.3%         | 9.7%         |

#### Revenue

Shakti Pumps reported sales of INR 587.1 mn for the quarter ended June FY 2016, which was 15.8% lower than the sales reported in the corresponding quarter of the previous financial year. The decline in revenues was largely due to

- Geopolitical issues in the Middle East (largely outside our control) and
- Delays in commissioning of solar pump projects in the March quarter 2014 (FY 14), the revenues of which were recognized in the June quarter FY 2015.

#### Revenue split by geography

| INR Mn       | Jun-15 | Jun-14 | Growth |
|--------------|--------|--------|--------|
| Exports      | 286.6  | 373.4  | -23.2% |
| Domestic     | 287.3  | 314.5  | -8.6%  |
| Other Income | 13.2   | 9.1    | 44.8%  |
| Total        | 587.1  | 697.0  | -15.8% |

#### Export Segment

In the Q1 FY 15, sales to troubled countries in the Middle East (Iraq and Libya) constituted around 39% of overall exports. Following tensions in the Middle East, the Company decided to not focus on these countries. The reality is that excluding these troubled countries in the Middle East, the company's exports grew 25.5% following enhanced focus on other geographies.

| Export Market (INR Mn)              | Jun -15 | Jun -14 | Growth |
|-------------------------------------|---------|---------|--------|
| Total Sales                         | 286.6   | 373.4   | -23.2% |
| Less Middle East Regions (Troubled) | 0       | 145.0   | -100%  |
| Excl Middle East Regions (Troubled) | 286.6   | 228.4   | 25.5%  |

### **Domestic segment**

While overall domestic sales declined 8.6% in the quarter ended June FY 2016 compared to the corresponding quarter of the previous year, the decline was only on account of the solar project business, all other domestic business segments reported growth. Excluding solar project business the domestic business grew by 13.6%

| <b>Domestic Sales (INR Mn)</b>             | <b>Jun – 15</b> | <b>Jun -14</b> | <b>Growth</b> |
|--|-----------------|----------------|---------------|
| Domestic sales<br>(ex Solar project sales) | 287.3           | 253.0          | 13.6%         |
| Solar Projects                             | 0               | 61.5           | -100.0%       |
| <b>Total</b>                               | <b>287.3</b>    | <b>314.5</b>   | <b>-8.6%</b>  |

The solar projects business is lumpy. Some of the solar project orders recorded in June 2015 quarter relate to projects that were to be executed in FY 2014.

### **Contribution**

Despite lower revenues, contribution margins increased to 54.7% during the quarter ended June FY 2016 from 50% in the same quarter of the previous year, demonstrating our ability to market value-added and margins-accretive products.

### **Margins**

- a) The decline in EBITDA margins despite an increased contribution margin was on account of lower operating leverage. Our employee costs increased following increase in team strength and recruitment of experienced marketing professionals, the benefits of which will be progressively visible.
- b) The company reduced interest costs to INR 32.6 Mn from INR 36.1 Mn.
- c) Depreciation was higher on account of additional capex during the quarter ended March FY 2015.

### **Outlook**

- a) The company remains confident of its investment in Product, People, Place (distribution network) and Plant and is hopeful of improved results in the subsequent quarters.
- b) The company has de-risked itself by creating a strong focus on markets outside the Middle East and we expect these new focus markets to make a healthy contribution to export sales in FY 2016.