



“Shakti Pumps India Limited Q1FY15 Earnings Conference Call”

July 15, 2014



**MANAGEMENT: MR. DINESH PATIDAR – CHAIRMAN & MANAGING
DIRECTOR
MR. B.R. PATIDAR – DIRECTOR – FINANCE
MR. RAMESH PATIDAR – DIRECTOR - EXPORTS
MR. ANKIT PATIDAR – VP, SALES & MARKETING
MR. AKHILESH MARU – CFO
MS. NEHA PATIL – ANALYST, PERFECT RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to the Shakti Pumps India Ltd., Q1 FY15 Earnings Conference call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Neha Patil of Perfect Relations, thank you and over to you Maam.

Neha Patil: Thank you. Good morning and thank you for joining us on Shakti Pumps India Ltd., Q1 FY15 Earnings Conference Call. Today we have with us The Senior management represented by Mr. Dinesh Patidar – CMD, Mr. B R Patidar – Director - Finance, Mr. Ramesh Patidar – Director - Exports, Mr. Ankit Patidar – VP - Sales and Marketing and Mr. Akhilesh Maru – CFO. Before we begin, I would like to add that some of the statements to be made in today's discussion maybe forward looking in nature. So, we will begin this call with the opening remarks from the management, after which we will have the forum open for interactive Q & A session. I will now request Mr. Dinesh Patidar to make his opening remarks, thank you.

Dinesh Patidar: I am very happy to announce that we have achieved what we had promised about crossing Rs.68 crores by Q1 FY15, keeping our promise we have crossed the figure by Rs.68.79crores. Our topline have grown up by 40% and bottom line by 55%. In domestic market, we have grown by 92%, in this market we can see the changes happening for which we have already started our hard work. We had chosen Mr. Amitabh Bachchan as our brand ambassador, that effect is being seen in this quarter. With all our exclusive dealers we have started our branding and promotional activities.

Our sale in last year's last quarter, we are comparing from Q1 to Q1, at that time our Q1 was Rs. 16 crore and now our Q1 figures for the domestic stand at Rs. 31 crore. Since we made exclusive dealers, it has increased our margins and our dealers who were always in the habit to negotiate and used to ask for discount and schemes, for that we started focusing on our brand, and now our customers are coming forward to our dealers demanding for our pumps, this is how we know that we have achieved growth. We have appointed number1 brand ambassador hence we would also like to make our position as number 1 in Indian markets which is the reason why we are entering step by step in this market.

As always, we add more pumps to our basket, we have added some new products in solar two years back. In those two years we have established and have brought solar at such a position that we have started exporting and in domestic also we have shown a good performance. Resulting in which government in his budget has planned Rs. 500 crore in the budget for solar pumps. Other than that, would also like to tell you that the government through NABARD has decided a target of 10,000 solar pumps by giving 40% subsidy to the poor farmers at a reasonable interest rate. In Railway Budget, also they have mentioned about installing RO plant at every station. For one RO plant approximately two pumps are used, and if he wants to install water purifiers in 10,000 railway stations, then you and me have to install our pumps there, so I am seeing a good opportunity next quarter.

In exports also we have done some good work, from past 10yrs we are exporting, but we use to take a foot back in government tenders because it was difficult to make a tender with “Made in India” tag, but around 7-8 countries have been able to bring ourselves in such a position that now even government has started accepting the tenders under the name of Shakti Pumps. We are very happy to announce that we have received a good tender recently, we have executed an order of \$1.1 mn. whose 50% LC has already come to us and we are going to export it in this quarter. This will be considered as a milestone to us in the export market because usually in government departments big orders of pumps come from tenders, so now we have also began work on that side. We are very confident that next quarter we will do more than Rs.100 crore, as we had promised to you earlier also that we will cross Rs. 400 crores. Last year we had done Rs.306 crore but this time will cross Rs.400 crores, we are confident our whole team is confident. We are focusing on inorganic growth, we are monitoring small companies, some in Europe, some elsewhere, the marketing companies would lead our brand forward. We would like to first get a brand recognition and then would head forward. Having Amitabh Bachchan as our brand ambassador and our new exclusive dealers have helped in stabilizing our brand in the rural areas. Customers approach the dealers by taking our brand name and I also think that by giving our customers energy efficient pumps, we have shown them our performance and that is the main reason for the growth of 92% in the domestic in the last quarter. Now I am ready to take questions.

Moderator: Ladies and gentlemen, we will now begin the Question and Answer session. Our first question is from Baidik Sarkar of Unifi Capital. Please go ahead.

Baidik Sarkar: Sir in Q1, we have seen that domestic and international markets have grown by 90% and 30%, if I may request Ramesh Sir to spend some time and summarize the developments of the international markets. I mean you recently said that tenders have come but apart from this, our organic growth initiatives, how is our product pull? Our dealers are giving what sort of volume requirements, how are our sales mix improving? On these and couple of more parameters, if I may request Mr. Ramesh to spend some time and give us a perspective that would be helpful. I was asking that in the export market, the developments that are taking place in the export markets, if you can summarize on that, it will be very helpful. Because in the last quarter, you were saying that we have started exporting small containers to several countries, especially North America, Middle East, Caribbean, South America, over there how is the traction? sales volume is increasing, how is the realization mix improving, if you can just give us a sense of that? And what is the outlook from short to medium term in the open markets?

Ramesh Patidar: You would have seen that we have already grown in exports market, also in the last quarter we have opened some new markets in Central and South America. Our routine procedure of participating in exhibitions also has been followed; we did participate in some exhibitions in this quarter. And we have also done some new recruitment in sales, around 15%. We monitor them from here only; make them do new sales calls, fix new appointments with them, this is an on-going activity which will help in boosting our sales.

- Baidik Sarkar:** So this Q2, Q3, and Q4 which are the company's strongest quarters, can we expect from them that growth rates will remain on a higher base, like 30% or something like that?
- Ramesh Patidar:** The projections which we have already declared, for example, our export's Q2 quarter which we have planned for Rs. 65 crore, so according to this quarter we will plan it, we have already planned it and we will do it.
- Baidik Sarkar:** When we had spoken for Q1, I think the whole year's export target was within the range of Rs. 230 crore, I just wanted to check are we still confident with that number, broadly?
- Ramesh Patidar:** Definitely, what we had planned in Q1 Rs. 38 crore we have already achieved that, for Q2 we have planned for Rs. 65 crore we will achieve that. We have planned our season's base and customer's base accordingly, that range is around Rs 230 – Rs. 250 crore.
- Baidik Sarkar:** My next question is to Dinesh and B R Sir, our EBITDA margin in the previous two quarters, our range was 16-18%, it has increased up to 20% from there. I just wanted to understand, B R Sir if you could summarize the levers that have led to the EBITDA improvement and importantly are these margins sustainable, going forward?
- Dinesh Patidar:** I will reply to your question, because in the domestic as we said, we have exclusive counters now, due to exclusive counters, it has helped our pricing. What used to happen before is, when we used to go the dealers, the schemes, discounts and negotiations used to go on but now that due to brand recognition no negotiations takes place now. This is the main reason for increase in the margin.
- Baidik Sarkar:** So, sir which means going forward the sustainability of the margin range is quite high, right?
- Dinesh Patidar:** Yes, of course.
- Baidik Sarkar:** What is our debtors days position now, both on domestic and international, domestic side it is cash and carry but on the international front any improvement on the debtors' days? I just wanted to get a sense on the working capital, our sundry debtors outstanding days on the international market are those showing any improvement?
- Dinesh Patidar:** Yes, of course there is improvement because on the last quarter we had talked about that about 110 days' debtors, now we have made them to 90-92 days, so that we will get fast payment. So, in debtors also our improvement is going on.
- Moderator:** Our next question is from Deepesh Agarwal of Ambit Capital. Please go ahead.
- Deepesh Agarwal:** Sir I wanted to know what is the impact of the weak monsoon on the sales of our business, is it that the demand for the pump is likely to increase because of the weak monsoon which is going in the country right now?

- Dinesh Patidar:** Your question is absolutely correct because of the scanty rainfall the water levels have also decreased, our farmers have to collect the water by going very deep into the land for which they require big pumps. Small capacity pumps can be used of local companies but its installation, maintenance in small pumps which is done by the farmer itself and it does not require crane or lorry. But for big capacity pumps he requires lorry whose installation cost is high also pumps cost are expensive, the motors winding and repairing is also very costly. Thus always a farmer thinks that he should switch to the branded products and in branded products we are very well established because we supply 2,000 feet pumps in Yemen, in Saudi we have supplied 1,250 feet pumps and in Dubai also we have supplied 1,250 feet pumps, so already in this line we are a worldwide leader, wherein the pumps are required to excavate water from very deep into the land. In this category of pumps very less number of manufacture make it and we are one of them.
- Deepesh Agarwal:** Sir secondly, you spoke about the opportunities in the renewable sector, given that government has allocated 5 billion for the renewable sector with major focus on the solar sector, what are the opportunities we are looking in from the solar pumps in next two to three years?
- Dinesh Patidar:** Yes, I am very happy about the budget, he has already made a provision, wherein Rs. 500 crore solar pumps are to be purchased and other than that through NABARD scheme, he has planned to purchase 10,000 solar pumps. I am very confident that our pump is very good and we run it on solar energy, from a 5 HP rated pump, approximately a 10 acre land can be irrigated and the 5 HP pump costs Rs. 6, 40,000 and if the electric bill has Rs. 5/unit then in 5.15 years the investment made is paid back and his capital investment becomes free for him. So, our Central government has kept this in mind that it will be electricity free, there are no line losses, where there is generation of electricity, there itself it is utilized. It is maintenance free, green power driven, environment is also not harmed. If you again install it in a solar plant then you will have to bear the expense of transformer and 40% will go in line losses. What I wish is that the government should make all the agricultural pumps solar power driven, then our country's power problem will be resolved once and for all.
- Deepesh Agarwal:** As you mentioned Rs. 500 crores is the expected market size for the solar pumps due to the new government, what is the share we are targeting in that from the Rs. 500 crores demand from the solar pump?
- Dinesh Patidar:** For the solar pump, Rs. 500 crores which they have planned, is only for solar pump besides that they have different budget for MNRE, different budget for NABARD and what we are planning is that since they are going to purchase Rs. 500 crore, then we would also like to maximize the use of it.
- Ankit Patidar:** I would like to bring to your notice that this Rs. 500 crore has been preserved for solar pumps sets by MNRE. Now this Rs. 500 crores is the 30% subsidy amount which would be given to the State governments, whoever wants it. So, in total the actual number of pump sets to be installed in this 9 months interim budget is 1 lakh pump sets which Arun Jaitley has already announced that he wants to install 1 lakh pump sets in these 9 months and this Rs. 500 crore is the 30% of the subsidy value, it is not the total amount to be given to the solar department.

- Deepesh Agarwal:** Can you provide me a margin break up between export and domestic revenues?
- Dinesh Patidar:** In the exports we keep a margin of 20% and work and in domestic we have kept a target of 15% margin (EBITDA level) and subsequently increase it as it grows and slowly our work is progressing in that line.
- Deepesh Agarwal:** One question, I am new to the company of Shakti Pump, if I see the past trend, normally Q2 and Q3 are the strongest quarters but the revenue growth is normally flat between Q4 and Q1 but this time if I see, there has been a 36% increase in YOY revenues, the decline in the QOQ revenue is 29%, so any comment on that because Q4 revenues and Q1 revenues are more or less 5-10% plus, minus?
- Dinesh Patidar:** Our product is an agricultural product and in this there are seasonal effects. Secondly, we with our dealers be it export dealers, from Spain, when we allot the dealer his respective area and tell him that you will handle our marketing and sales in this particular area, so we make him sign a Minimum Understanding Value (MoU) amount, we sign with him annual business. So we work on that business annually. So, already the work which is being done in Q2, Q3 and Q4 that is already planned, our customers MoU is already signed with us and that is the reason why we are confident about taking risk for the next quarter.
- Deepesh Agarwal:** Sir, what is the competitive intensity in the domestic market, I believe Shakti is the only company in the stainless steel segment from the domestic manufacturer, is it right to say that?
- Dinesh Patidar:** Yes, right. Indian markets size is very big, 10,000 cr pumps market and we are doing only Rs. 100 crores presently. So, for us we have a big opportunity for the steel pumps and energy efficient pumps.
- Deepesh Agarwal:** Other competitors from domestic market, are they planning to enter in the stainless steel pump, any sense on that?
- Dinesh Patidar:** Yes. See, all the listed competitors, all of them have shown negative growth and the people who are well known regarding pumps in India, either Coimbatore based, Ahmadabad based, it has already been discussed that they are not even able to make last year's growth. Because of our energy efficiency and brand name we have grown, else the listed companies in the market are working on de-growth.
- Moderator:** Our next question is from Shashank Kanodia from ICICI Direct. Please go ahead.
- Shashank Kanodia:** I have a couple of questions for the quarter by Sir, firstly in this quarter raw materials price has increased drastically, previous quarter it was 40% this quarter it was for 50%. So was there a specific reason why the raw materials cost increased so much?
- Dinesh Patidar:** In raw material cost which has increased, the difference is within the range from 2.5-3%, I think you have some confusion about it.

- Shashank Kanodia:** So this is basically back of stainless steel this is the only reason or anything else?
- Dinesh Patidar:** No there is no other reason. The price has increased from 2.5-3%, this is the only reason for it.
- Shashank Kanodia:** Secondly, in our annual report recently, we have mentioned that 2021 target is for Rs. 5500 crore hundred topline. So what is the company's road map or what confidence you have because this means around 50% plus CAGR plus next seven years?
- Dinesh Patidar:** This is our company's vision that in 2021 it will become Rs.5,500 crores company and we will be there for what we are planning for, the whole team of Shakti Pumps is planning for this and working out on this. And the growth which you are observing from 35-40% which we had planned from last year till now, this growth will be maintained in future. In this we would like to include the market of un-organized sector, apart from that, would also like to undergo an inorganic growth, in this growth we are also looking for small companies, we are also open about them too, we are thinking to go ahead with them in future and the most important point in this is that in India sewage, water treatment plant are big problems and no one has thought about them yet. This is a very big market where city's waste should be treated and should be used. For that also we have already developed those plans as well; we have developed plans and testing those plans too. As I had told you earlier that we had developed Solar two years ago but have received the results now. Similarly our sewage pumps, water treatment plant pumps, as I had just said that in 10,000 railway stations RO pumps will be installed, such pumps are manufactured by Shakti Pumps, we have already established that two to three years ago, worked on it so we are confident on that, those who have become our dealers now they will be associated with us for 10-20 years, those who are our customers now, they have been associated with us for 10-20 years this is the reason we are confident that we will fulfill their increasing requirements and keep moving ahead.
- Shashank Kanodia:** Currently we understand is that our capacity is Rs 5 lakh pumps and recently we have made it 1,78,000 pumps close to 55% production level, so going forward on what type of capital resolution will we plan for next phase of CAPEX and that for how much and where will it happen? If you can guide us?
- Dinesh Patidar:** See the CAPEX which we are talking about now, we do not have any requirement for CAPEX now because our capacity now is 1 lakh 75 thousand for one shift and that comes to nearly 55% capacity we have run our plant last year, so again we do not have to go up to Rs. 500 crore it is not our required.
- Moderator:** Our next question is from Nainesh Rajani of Tata Mutual Fund. Please go ahead.
- Nainesh Rajani:** Couple of questions from my end, first of all Sir on the gross profit margins and the operating profit margins, now I am not talking about quarterly basis but even on a yearly basis there has been a significant fluctuation as far as your raw material cost and percentage to sales and your gross profit margins. Can you throw some light on that please? Sir your operating profit margin is improving but your gross profit margin, which is just raw material expenditure as a percentage

of sales that is varying quite a bit. So, I wanted to understand that why the gross profit margins or the raw material expenditure as a percentage is varying so much?

Dinesh Patidar: See we have worked on margin, we are improving our margins. If you see on quarter to quarter basis, it is varying by just 3%.

Nainesh Rajani: Okay but why is that varying so much? What is the reason? Your margins have increased but your raw material costs have gone up.

Dinesh Patidar: That is because of dollar price. Although we have got appreciation of the dollar price but for raw material we will have to put the current dollar price. That is why our raw material cost is high. You are seeing our sales conversion; you are seeing our profit, so the raw material costs will also increase because of dollars price.

Nainesh Rajani: Sir my second question is on account of your realization per pumps, can you give quarterly volumes for your pumps and in various categories, like how many solar pumps have been sold, what is the breakup of various HP pumps, so it will be easier for us to see growth is coming in which segment?

Dinesh Patidar: Realization per pump, in this quarter the pumps that we have made, if you go onto see the average price it comes across Rs. 17,500 - 18,000.

Nainesh Rajani: Okay, so what is the volume in this quarter?

Dinesh Patidar: In this quarter, the volume is 41,000 pumps.

Moderator: Our next question is from Shashank Kanodia from ICICI Direct. Please go ahead.

Shashank Kanodia: Wanted to have a sense on the pledging, we have been fusing many companies by warrants, so I have a question like why do not we decrease our pledging initially and then probably infuse equity in the company. From the last two three quarters the pledging custody is almost constant, it is around 60% although we had reduced this earlier. So, why do not we reduce our pledging forward and then infuse money in the company? We are infusing through warrants but I am not understanding why are we not reducing our pledging percentage?

Dinesh Patidar: Actually, our shares which have been mortgaged by me for company's limits, those shares are still mortgaged with the bank; we had also requested the bank that it is spoiling our image, so they then released some percentage from it.

Shashank Kanodia: Sir going forward are there any plans that this pledging should be controlled? Are we intending to decrease the pledging percentage going forward? The 60% which is there now presently will that decrease in the future times.

Dinesh Patidar: Yes. Over a period of time this will come down.

- Shashank Kanodia:** Secondly, on the micro irrigation parts lots of emphases have been put in, we have to increase our micro irrigation. So, on that side do we have any exposure or any ties with any micro irrigation company?
- Dinesh Patidar:** With the micro irrigation company, presently a tender is coming and we are working on it, so it is too early to comment on that, I will be able to tell you in the next quarter only.
- Shashank Kanodia:** And lastly, our contract with Mr. Amitabh Bachchan I think is ending in October this year. So, are we going to revive that or what is your plan going forward?
- Dinesh Patidar:** This question also can be answered in the next quarter.
- Moderator:** Our next question is from Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Just one question on the result side, if we look at other expenses as a broad number there is a drop, is it because of some FOREX gain accounting over there? When we look at your raw materials and sales you are telling that 300 bps QOQ been increased, but in other expenses is there something like accounting is such that FOREX is there, gain is also there, where you must have hedged or a currency benefit?
- Dinesh Patidar:** If I compare YOY so there is a drop in other expenses, like Rs.18.6 crore has come down to Rs. 12.7 crore. Are you talking about comparing last quarter with this quarter?
- Chirag Shah:** No from last year or from FOREX gain or other income gain or is there gain from other expenses? It was Rs. 13.6 crore last year and now it is RS. 12.7-12.8 crores.
- Dinesh Patidar:** I will reply this through mail because I do not have the figure here with me.
- Chirag Shah:** It could be that last year you must have spent on brand promotion, I wanted the color nothing else.
- Dinesh Patidar:** We have already worked on this portion.
- Chirag Shah:** If you could provide little information it would be of help.
- Dinesh Patidar:** There was Amithabh Bachchan's fees in the last quarter.
- Chirag Shah:** Okay that was for the last year which was given in the first quarter?
- Dinesh Patidar:** Yes.
- Chirag Shah:** And secondly Sir the query of the previous participant was that the variation which comes from RM to sales, there was a follow up on that, if your domestic V/s export changes, and is mixed, for example, in terms of contribution or if agri V/s non agri changes due to that will your raw

material and consumption increase or decrease? Does something like this happen? Is there any major change in the structure of pump due to it?

Dinesh Patidar: No there is no major change because of it.

Chirag Shah: So it is largely because of currency variation. Is there any impact on cost Sir? Due to stainless steel prices has cost increased? What is the outlook in future?

Dinesh Patidar: No at this point prices have not increased much, it is just the regular pricing which keeps on increasing and decreasing to some extent, we ourselves range it and also make our inventory. I had spoken about it in the last quarter, will explain it to you again. When the raw material prices increases, then we decrease our inventory level and when they decrease we increase our inventory level.

Chirag Shah: But Sir how do you make the decision on pricing? If I have to understand that yearly once you increase the price or depending upon your cost you increases the price in 2-3 months? I understand that market dynamic do play a role but generally how do you adjust your cost? How do you decide pricing to charge the customer?

Dinesh Patidar: Price is always, product's price is always decided by its competitor, when there is an opportunity to decide or correct the price, price is corrected there, without doing all this company cannot function.

Chirag Shah: So generally within 2-3 months are you able to increase the price?

Dinesh Patidar: No not within 2-3 months, we look at the situations of that market and that area, plan between 5-6 months.

Chirag Shah: So in a year basically, you are able to hike the price broadly, twice?

Dinesh Patidar: Yes.

Moderator: Our next question is from Janiel Jhaveri of JNJ Holdings Pvt. Ltd. Please go ahead.

Janiel Jhaveri : Congratulations on very good numbers, I had one or two questions on the annual report in non-current assets, around Rs. 16 crore up from Rs 5.88 crores, Sir. Miscellaneous expenditure has been mentioned but no details have been provided. So what exactly was that?

Dinesh Patidar: In advertising you would have seen the amount spent on our brand promotion, equities, it is that figure.

Janiel Jhaveri : Okay so that is in miscellaneous expenditure, but it was different for advertising also.

- Dinesh Patidar:** No the expenditures done in the previous year, but pertaining to next year have been included in the deferred expenses. The reason is that Amitabh Bachchan's campaign or advertising expenses are from October to October, which will be divided in the financial year. It has been capitalized.
- Janiel Jhaveri:** So the Rs. 5.88 crore has now become Rs. 16 crore, so it will stay at around this level or this will be coming in the P&L?
- Dinesh Patidar:** Now it will be less, as the sales will increase it will decrease.
- Janiel Jhaveri:** And one more thing in it is that it includes Rs 82 lakhs which is of the debtors, so will that money be recovered or not? What exactly is that?
- Dinesh Patidar:** It will surely come.
- Janiel Jhaveri:** But why it is since a year because more than a year, usually, will it be a write off or not? Is there any explanation on this?
- Dinesh Patidar:** It has been covered through ECGC so it will come from there we will claim.
- Janiel Jhaveri :** So you do not feel it is a problem, that it might not come or anything else.
- Dinesh Patidar:** No it will come, the money is with ECGC so there will be a delay but it will surely come, it is covered by ECGC.
- Moderator:** Our next question is from Swapnil Shah of Sahara Mutual Fund. Please go ahead.
- Swapnil Shah:** In your – release you have mentioned the shift in demand from unorganized to organized sector, can you just throw more light on that?
- Dinesh Patidar:** The aim to hire the number one brand ambassador was that, unorganized sectors who want to make the brand and purchase that market, in which we can successfully do it and this is the reason that we have taken 92% growth in the last quarter and we will do it, we are confident about it. It is just a thinking that India's farmers need cheap pumps and they do not want energy efficient product. They need water, electricity is not provided, it is only there for a time period of 6 hours, in 6 hours they cannot, now the farmers understand when they use our pumps, there is mouth-to-mouth publicity, so now he is clear on that this pump will take us further and will be beneficial.
- Swapnil Shah** So in unorganized sector, which sectors you classify under unorganized, which segment?
- Dinesh Patidar:** There are many small people in pumps who make it, few are in Ahmadabad. I will ask Ankit to reply on this.
- Ankit Patidar:** The areas which will define us as unorganized markets are those areas which are not potential enough or they have been deprived from the proper electricity coverage, or the farmers of those areas are very much below average land holding capacity, so that they do not require 3HP Plus

model. In those sectors companies from Ahmadabad and Rajkot dictate the market wherein they supply very cheap products and the products are mostly single phase, wherein they use the domestic lines, the electricity which is supplied to you and deliver in help the household. They use those electricity in agricultural usage. So, that particular market in our industry is described as unorganized market, wherein due to the government guidelines and the Electricity Board guidelines, a company should not supply pump sets in the domestic or the single-phase sector for agricultural purpose. So, they are playing in the grey area where they supply that product mix, the electricity can be used for agricultural purpose. Now when lot of reforms and very positive vibes from the new government has come in and lot of funds have been transferred for electrification and the proper development of those areas. So, now we see that those markets will get converted into organized and being a brand player and one of the pioneers in the industry, we see an organic leadership in that market by presenting ourselves with Mr. Bachchan, so we will give that market or try to capture that market.

- Moderator:** Our next question is from Aksh Vora of Praj Financials. Please go ahead.
- Aksh Vora:** There are two things, this Rs. 250 crore target for exports in FY15 and roughly Rs. 400 crore for full year which you have given, so this target you will be able to achieve this year, right?
- Dinesh Patidar:** Yes we will definitely be able to do so.
- Aksh Vora:** And sir have you planned any target for the next year for sales growth?
- Dinesh Patidar:** Yes we have done. These 200000 pumps will generate Rs. 400 crores, next year we will make Rs. 550 crores.
- Aksh Vora:** So, what will be the breakup in this for exports and domestic?
- Dinesh Patidar:** 60-40% ratio we always maintain. 60% is always put in the export market.
- Aksh Vora:** And sir you have mentioned in the annual report that your target by 2021 is Rs. 5500 crore, in this on what basis have you done, I mean that you might be having some vision that how you would achieve this target, so can you give some detail on this?
- Dinesh Patidar:** I had answered this earlier but I will repeat it again, we are always expecting a growth of 35-40% growth from our existing products. Our existing products is in its own way a big series we have and we will get growth from this every year. Besides this we will develop 35% new products every year, like we had started solar 2 years before and now it has been streamlined and also sewage pumps have been stabilized. The market of India on today's date is of Rs. 10,000 crore, so this market will be much bigger in 2021 and in that we have also take exports 60%. So, I am confident that we will achieve this.
- Aksh Vora:** In 2021, also your mix will be same, exports 60 and domestic 40%?

- Dinesh Patidar:** Yes. In this we are also searching for small companies wherein we could buy them and with that increase our market share.
- Aksh Vora:** Sir in this I wanted to understand that if you are planning to acquire a company, in which filed, in agriculture.
- Dinesh Patidar:** In the pump line those people who have good network and those who are selling in foreign countries and those who have already working on 10-15% profits, such companies we are searching, we are thinking about it.
- Aksh Vora:** This Rs. 5500 crore mark which you have set, on that basis by 2021 do you think the market will be sustainable and the products which we serve till that level can we reach?
- Dinesh Patidar:** See sir, water is required always, in agriculture water is needed and there will be growth in agriculture also and even for drinking water also our government has already planned to install RO plants. So, the demand will increase by this also, I am sure. Even if I have to reach to the moon to excavate water, there also pump will be required.
- Moderator:** Our next question is from Arpit Jain of Arihant Capital Markets. Please go ahead.
- Arpit Jain:** Wanted certain details, what is the exact cost of debt and the pledging and the working capital requirements which we have done, what is the exact cost?
- BR Patidar:** The average cost of debt around 10.5%.
- Arpit Jain:** And secondly, I wanted to ask what is our sales strategy targeting new countries for our export because it is very hard to crack new countries like you started targeting 6, 7 new countries here?
- Ramesh Patidar:** Sales strategy is usually kept confidential, it cannot be disclosed. Because competitors are involved in this one.
- Arpit Jain:** This is very difficult to crack new markets.
- Ramesh Patidar:** Normally we participate in trade fares, we do dealer mix and we try out different promotion schemes and we work on branding promotion, even in foreign we work on branding promotion.
- Arpit Jain:** At present in exports to which country the market share is highest?
- Ramesh Patidar:** That is what I told you know, these sales figures of country wise cannot be disclosed because on this competitors also keep a watch.
- Arpit Jain:** And sir you have been saying that there are lot of government schemes which is coming up, so how good do we stand to bag all these orders?

- Ankit Patidar:** Firstly, just to satisfy your question about the export, to revive a country or to start a country it takes almost a year or two years, as last quarter Mr. Ramesh had already explained the process of how do we activate a country. First the sample orders are sent in, then a larger quantity of the sample is sent in and then when the products are installed and our customer and his customer have faith in the larger quantities order, so it takes a year or a two year process, so that is why past 3-5 years we have been keep on adding, this has been our previous efforts, which we are constantly adding country and I would like to add this is that, the year we started exporting is 1995, since 1995 Shakti pumps have been the number 1 exporter in the pump category from India. So, we have almost 33-35% of pump industry exports from India. So, we are number 1 exporters from India.
- Arpit Jain:** And secondly, I wanted to ask that we have mentioned that we have the growth of 92% in domestic sales but in balance sheet it is, we are targeting both industrial and household segments, so if we can have the growth break up for both segments?
- Ankit Patidar:** Domestic, yes we have grown by 92% but the mix of the industry and sales cannot be disclosed at this point of time. Yes I can say that our agriculture is very strong and we are growing in agriculture and post the campaign of Mr. Bachchan we have been rewarded with a very good response from the organized that is the industrial sector, OEM sector as well.
- Moderator:** Our next question is from Bhavya Gandhi of CIMB. Please go ahead.
- Bhavya Gandhi:** Sir basically I just checked the market size is around Rs. 10,000 crore, so in that how much will be government and how much will be non-government?
- Dinesh Patidar:** No, government business is not there in this. This Rs. 10,000 crore which we are talking about, it is only the agri market, without government business.
- Bhavya Gandhi:** And broadly what you are saying that in government's budget, the requirement is of 1, 30,000 pumps.
- Dinesh Patidar:** Yes. In solar what they have planned, they are telling that they are going to buy 1, 00,000 pumps through MNRE, this is their additional business, these are all agri pumps.
- Bhavya Gandhi:** And Sir how will be the marginal dynamics in this, will there be any cover shares?
- Dinesh Patidar:** Yes, of course. We have said that on export, we always keep 20% margin, on domestic we keep 15%.
- Bhavya Gandhi:** I am asking about solar, Sir.
- Dinesh Patidar:** In solar also, when competitors are less, then margin's profit is definitely there. In that, we are keeping around 20-22% cash flows.

- Bhavya Gandhi:** What are the chances of the working capital improvement in the next 1 or 2 years?
- Dinesh Patidar:** You can see that from last quarter from 110 days, we have brought it to 90 days, so in future also we will be growing. Who likes to give interest on business? Let me clear this to you. When the export commercial council, ECGC has given me some insurance then why will I not do the business? I am earning money, I am getting name and fame, our brand is also getting popularized, so that is the reason we do this.
- Bhavya Gandhi:** Gradually your domestic business is also growing and in domestic the working capital requirement is not as high as exports, right?
- Dinesh Patidar:** The working capital requirement in domestic is not as high as exports, so we do cash and carry business in domestic only.
- Bhavya Gandhi:** How many dealers are you going to add this year, exclusively?
- Dinesh Patidar:** Now also if you see, we have sponsor a program on 'Aaj Tak' called 'Har Har Ganga', on that 8:30-9:00 our advertisement is coming because we want to add new dealers.
- Bhavya Gandhi:** Still what is your target? Last year it was 450.
- Dinesh Patidar:** Till now, we have crossed 550 this quarter and in future we are planning that we will make it 750 – 800.
- Bhavya Gandhi:** What will be our current assets this quarter? I mean the quarter asset.
- Dinesh Patidar:** Quarter's current assets? I used to see balance sheet assets.
- Akhilesh Maru:** I will give you the answer because generally the balance sheet that gets finalized is of H1, so what the quarterly figure are, I will remove and give you.
- Bhavya Gandhi:** Okay, fine.
- Moderator:** We will take the next question is from Pankaj Bobade of Axis Securities. Please go ahead.
- Pankaj Bobade:** The solar pump's business opportunity that you are showing, how much of that solar pump which is costing around Rs. 6,00,000 which includes both solar panels and the pump, how much of that would be our contribution?
- Dinesh Patidar:** Our contribution, I can say is around 10%, our pump price is 50,000 to 60, 000, that is what the price of the solar pump is.
- Pankaj Bobade:** Will the target market for us be only the pump or the complete set up?

- Dinesh Patidar:** We work in both. We work in the complete set up also and in pumps also. Recently, the pumps that we have supplied on Rajasthan Government, in that we have gone with our OEM. In that Sun Edison is there and Waaree is there, many other vendors are there. We are experts in making pumps and we support our channels.
- Pankaj Bobade:** So you mean to say we are supplying our pumps to the OEMs, who in turn would be supplying the full unit to the Government.
- Dinesh Patidar:** Right.
- Pankaj Bobade:** And how competitive are we as against other pump suppliers in this segment?
- Dinesh Patidar:** In Solar, AC there is no one, we are alone. So in this, there is no question of competition. There are few other companies in the world who are making in China. There are few American companies; with them also our rates are competitive. So we can say it is very good time to tie for us for our solar markets.
- Pankaj Bobade:** You talked about AC and DC pumps, what is the market for AC pumps and what is that for DC pumps?
- Dinesh Patidar:** The voltage available in India today is for AC pumps and the speciality of our pump is that during daytime you can run it on solar energy and during nights, you can run it on AC supply; you can even run it on grid. DC pumps does not have this facility, it will not work during night time. It will work only with DC power and solar. The third main point is, our pump's discharge is very good. Due to good discharge, the government's subsidy market that is here, where other companies are also installing pumps. Our solar channel partners had installed some pumps, which we have replaced by our pumps and our pumps' performance is so good that what the farmer does is, the solar manufacture who is there, who picks up the Rs. 6,40,000 order in tender, in that our pump which is of Rs. 50,000 to Rs. 60,000, that pump decides whether it will get water or not because the farmer does not sign on that file unless he does not get the pump which he is confident on. He himself says I want Shakti pump, if you are installing this pump then you can install solar at my place, otherwise I do not need solar because I have seen the neighbor's discharge.
- Pankaj Bobade:** You talked about AC market. Outside India, what is the market potential? Which all countries have this AC power and which are having DC power? So I just wanted to gauge the potential for our solar pumps or our units.
- Dinesh Patidar:** In the whole world, we believe the AC solar pump's demand is very good. And we have already supplied in few countries and we have stabilized ourselves. So we would want to get stabilized in other countries also because AC market is very good and the main benefit of AC is that it is easily repairable, it gives confidence. The entire world is using AC pumps. DC pumps are hardly used by less than 0.5%, who uses solar. It is difficult to repair, it is difficult to understand, that

is the reason our local export dealers have also started buying AC pumps slowly. It has good market in Africa and we have already done good sale in Africa.

- Pankaj Bobade:** And second question on Amitabh Bachchan campaign, how much of that was expended. What was the cost of total campaign and how much has already been capitalized or expended?
- Dinesh Patidar:** You can just accept that a good lot of expense has been done on this. Akhilesh, you share the data with him.
- Akhilesh:** I have noted down.
- Moderator:** Our next question is from Amit Kadam of LIC Nomura. Please go ahead.
- Amit Kadam:** I have two questions. One is on the dealer's spent and the current branding what we have taken. So currently, we have 450 dealers' network, so I wanted to know after getting Amitabh Bachchan for this branding activity, what is the jump from last year. I mean to say what was it last year?
- Dinesh Patidar:** It is 92%. You have seen it during our last quarter; we have got the sale jump to 92%. Our previous dealers were multi brand counters, whom we could not ideally say our dealers because they used to sell other pumps as well. Now our 450 pump selling dealers, you can call them channel partners or business partners, they are in our field, who are promoting out pumps for us.
- Amit Kadam:** Still can I get a rough idea. Just to quantify the branding effects, like right now we have 450, so how much was it last year, so that if the same branding activity continues in future, how will be our growth rate in dealers?
- Dinesh Patidar:** Last year because they were multi counters, so there were 750 – 800 dealers, so we have reduced them and brought up to 450. In future, we want to increase our exclusive counters.
- Amit Kadam:** That means we can take this as the base because this is a new thing what we started at the company level or branding our pumps. So if you take this as the base and go along, how much will it be? Our long term vision is getting 700 – 800. So how much time will it take to get 800 dealers under our network?
- Dinesh Patidar:** We will complete it within next 2 years because this process will go on. How much we will increase our counters, how easily you will give the availability to the customers. As the customer gets material from his nearest counter, that much our sale will increase. So we will do it slowly.
- Amit Kadam:** The second question is on the competition in the stainless steel. Currently, I understand that currently, there is not much competition to our efficiency in the market but 3 years down the line; are there any chances of getting competition? How difficult or easy is to copy this particular technology and replicate? I mean to say, since the market is growing, competitors are keeping watch on this or maybe 1 or 2 years down the line, they may enter the market.

- Ankit Patidar:** We have said time and again that the amount of money required to build up such a structure and how many machines and how many engineers are required to produce such particular product for Indian market, has been said again and again almost Rs. 500 crores to Rs. 600 crores and very much experienced manpower is required to produce such particular of products.
- Amit Kadam:** So you mean to say Rs. 500 crores is the entry barrier in terms of money and maybe a set of engineers, like almost 3 years of hard work or something like this is the entry target.
- Ankit Patidar:** We always welcome the competition because if the competition comes in and if he is priced below me then I get a justification, a new company is charging this much, my price is revised. And either ways if a new company comes in and for example, I am at Rs. 100 and if the new company comes in at Rs. 90, I am able to justify my rates to Rs. 110 and if a new company comes in at Rs. 100 or Rs. 110, then even I can justify my rates at Rs. 120. Either ways, my ROI will increase and I will be the happiest person if the new company comes in. They will create the market for us, then we will not have to shout out loud for the stainless steel pump sets.
- Moderator:** Our next question is from Abhinav Sharma of HDFC Securities. Please go ahead.
- Abhinav Sharma:** You mentioned that our total agri pump market is 10,000 crores and our revenue comparatively is only 100 crores. Can you throw some light on who are the other large players in this market?
- Ankit Patidar:** The other large players are non-public unit companies, people like CRI is there, TEXMO is there and some South based company, Kirloskar, some south based companies are there.
- Abhinav Sharma:** What is the total unorganized sector in this, if you can give some idea?
- Dinesh Patidar:** Total shares for organized and unorganized share is around 5000 crores total market shares, it is 50 – 50% shares each.
- Abhinav Sharma:** I wanted one clarification; did you mention that one solar pump cost is around Rs. 6,40,000?
- Dinesh Patidar:** Right.
- Abhinav Sharma:** And sir comparatively our realization is only 17000 to 18000 per pump that you mentioned. So relatively, this is a very high cost pump. So why you think that demand will come? Will it be coming only because of government subsidies or is there any other reason for that?
- Dinesh Patidar:** This is not high cost. You are getting the full payback within 5-6 years and then you are going to enjoy for 25 years? And you are getting green power. Now you just imagine, the pump that is installed in your house, if you install it with solar and you will get the payback within 5-6 years, then why will you not install it? And I am calculating only with Rs. 5 per unit, if in future, the electric rates will be Rs. 12 per unit then you will get the complete payback within 3 years.
- Abhinav Sharma:** So that way, you are saying from a total ownership cost perspective, it is cheaper.

- Dinesh Patidar:** Yes, there is no requirement for subsidy. Now, you will see in many places where we have installed solar pumps, in forests, etc., where electricity cannot be reached at all. If we install solar pumps and forest gets water then it will be of a great use in India because in today's date, to supply 5 Horse Power connections in that jungle, in that village, Rs. 10,00,000 is spent. And here you are getting the complete system for Rs. 6,00,000 which you are installing and running there.
- Abhinav Sharma:** Can you break up your sales in terms of agri and industrial?
- Dinesh Patidar:** It is difficult to say at this point of time. Next quarter, I will bring it separately and tell you.
- Moderator:** Our next question is from Agastya Dave of CAO Capital. Please go ahead.
- Agastya Dave:** I have 2 questions, One is on macro, opportunity looks quite big and I have been hearing your commentary from past 2-3 years and you have been maintaining roughly Rs. 500 to Rs. 550 crores' turnover, that is the target for 2016. You are still maintaining it. My question is, considering how much push has come in from government's side in this budget that there will be a breather line depression for agriculture, you talked about railway opportunity, and you talked about solar pumps. Don't you not think the opportunity is suddenly much bigger than what you thought 2 years back? And considering that you are on 50% utilization only, to increase your turnover expectation more, what are your drawbacks? I mean to say, what is the shortfall which will prevent you from further growth? And my other question is also linked. You said that the subsidy amount for solar pumps is Rs. 500 crores. So in effect, the remaining 6-9 months those are remaining for the financial year, in that the Government's push is for Rs. 1,500 crores. One of the handlers had asked you now as to what will be your share in it, so my question is also the same. What is the reason that you cannot take the big chunk of complete Rs. 1,500 crores this year?
- Dinesh Patidar:** It will not be the right time to say that, however I am ready to tell you that there are ~72 registered channel partners of MNRE who supplies the pump, out of which 58 channel partners use my pump, number 1. So now you can understand as to how many percent we are working in solar market. Number 2, the one that you are talking about, the figures that are supposed to come or the rural feeder that has been separated from the government and what support will we get from the government in the market, all those things you have already seen, how our old government used to take decisions and today the new government is taking decisions faster, so if the government takes decisions faster, then I understand whether it is solar or energy efficient product, the government has to take quick decisions in both because today everyone is aware of the loss of every discount. This is my tax payer's money which is a loss in discount. So if you replace the pump with energy efficient pump then the cost of the pump is Rs. 40,000 and you can get the complete payback from it within one and a half year's savings. So many people are already working on it and many people have given statements on it. It is going forward and even we are also growing forward.
- Agastya Dave:** Sir my question regarding the opportunity, I have 2 questions in that. Considering that what has been announced by the government is getting implemented and considering the problems, like

people are talking about monsoon, more than the monsoon an even bigger danger is that water table is getting reduced in Central India and North India, especially in Punjab and Haryana. Considering your normal product, the non-solar one, in that what is the size of the suction of the pump, what is the size of delivery pipe and how is the discharge such that you will get any additional benefit as the water table starts dropping. So my guess is, that is additional opportunity unorganized, I seriously doubt that they will be able to cater to that requirement and suddenly from Punjab and Haryana the demand can go through the roof, so I was just wondering that will you people be able to handle that. And the second question was that, the river-linking scheme that is there, which will be able to handle large discharge quantity, about which the government is talking about that they will do river-link, big sewage pipelines will come on both the sides of river Ganga. For that also, the pumps requirement is there. So can you handle such large discharges? Right now, you are doing small discharges.

Dinesh Patidar:

First of all, we are making pumps from 1 liter per minute to 10, 000 liter per minute, this is a very big range. That means we make pumps from 0.5 horse power to 500 horse power and in that we can cater to whole of India's requirement whether it is in agricultural sector or water supply sector, we can complete the requirement. Now regarding the second thing, that the water level is going down, I remember when we had started exports in 2001, when our pumps had gone to Dubai, and there we had installed the pump from 1250 feet. We have installed pump in Yemen from 2000 feet, we have also installed many pumps in Saudi, those pumps are still working there on that water table. So, this is such a question that we cannot see here and there, water requirement is there and we have to fulfil it. We have to drill and remove water because there is no other alternative. If you do not have water, what will you do? It is okay, you will recharge, you will make dams, you will make canals, and you have to make those. It has to be preplanned, but you want it today, within 2 days you need a pump, so there is no other solution remaining with us other than the pump.

Agastya Dave:

One last question from my side. The opportunity is so big and somebody asked you about competition. I was wondering does any imports come from China, proper preassembled pumps?

Dinesh Patidar:

Quality is not there. As I said before, our channel partners had installed some pumps and we have replaced them all.

Agastya Dave:

So sir, what can go wrong? What is the biggest threat to you?

Dinesh Patidar:

I cannot see any biggest threat. I cannot think that water will get over, this cannot be a threat. People will stop drinking water, is what I do not think so. Anyone can live without water; this also I do not think so. And anyone will come from America or abroad and sit in my company; this also is not a possibility. I am a very positive human being.

Moderator:

We will take our next question from Ketan Vora of Value Quest. Please go ahead.

Ketan Vora:

I just wanted to understand, you say that in export you make 20% margin and in domestic you make 15% margin and during this quarter our domestic grew by almost a 100% and exports just

grew by 13% but still there was an improvement on the margin front. So just can you make us understand what went right for us?

Dinesh Patidar: As I have said before, the exclusive counters that we have created in India, from there the dealers always use to negotiate we have removed that point, we have got exclusive counter due to which we have got a good price, our margin has increased, and improvement is there. But still alternatively, we have taken Amitabh Bachchan as brand ambassador. That is the reason behind taking Amitabh Bachchan.

Ketan Vora: You are right Sir. You said your domestic margins are lower than your exports margins, correct? But in this quarter, where our domestic has grown by 100%, exports have grown by 15%, I wanted to know, how will this margin remain maintained at 20%?

Dinesh Patidar: Value is more, you see our exports value in this quarter. It is Rs. 37 crores, domestic is Rs. 31 crores.

Ketan Vora: We supply in Iraq also, correct?

Dinesh Patidar: We supply in many countries in the world, we supply in 125 countries.

Ketan Vora: Was there any impact on Iraq market?

Dinesh Patidar: Nothing.

Moderator: Our next question is from Partha Mazumder of Ashika Stock Broking. Please go ahead.

Partha Mazumder: I just have a couple of questions. First of all, out of the total domestic sales, which are all the States which mainly contribute to your revenue?

Dinesh Patidar: We are doing good work in Maharashtra, in MP; and we are doing good in Rajasthan. Now, we are going to UP, we will enter Punjab now. In south, we have already worked in few pockets.

Partha Mazumder: And there were some any ballpark expectation, monsoon is going to be bad and BJP Government is very bullish on irrigation, so what will be its impact in terms of percentage, will there be any improvement in your revenues or volumes?

Dinesh Patidar: Definitely there will be improvement. As I said earlier, we are looking out for a new market, in railway stations, RO plants will be installed. So the pumps which are used in RO plant, Shakti Pumps does manufacture those pumps.

Partha Mazumder: Did your net working capital improved in Q1 this quarter from FY14?

B R Patidar: Our debtor level which was 110 days before has now reduced to 90 days. Similarly, we have worked on inventory also. There also inventory has reduced in terms of number of days. So definitely, net working margin or net working capital is improving.

Moderator: Thank you, Ladies and Gentleman that was the last question, I now handover the floor back to the management for closing comments.

Dinesh Patidar: Thank you very much. My best wishes to everyone that you all grow. Thank you for giving your time and listening to me and my company. I am confident, we will meet again the next quarter, and I will issue my numbers. Our country will also prosper and grow. My wishes once again, thank you very much.

Moderator: Thank you ladies and Gentleman. On behalf of Shakti Pumps India Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.