

ANNUAL REPORT 2019-20



Simha Universal Drive



Monoblock SNB



Kalpavriksha (SUPSC)

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Forward-looking statement:

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should know or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.





CHAIRMAN'S MESSAGE



Dear Shareholders,

It gives me immense pleasure to present to you the annual report of our company for the financial year 2019-20.

I present this annual report in a time when the world is dealing with an extraordinary challenge by the unexpected emergence of the Covid-19 pandemic, which has a tragic impact on human lives and businesses across the world. India has been one of the major economies, which has been adversely affected due to this pandemic. To prevent the spread of the virus among the masses, the government of India had announced a nationwide lockdown. This has impacted the local businesses and the global trade had come to a temporary pause. For your company, our number one priority is the health and safety of our employees, those we do business with around the globe, and the communities where we live and work.

The Indian economy started this financial year on a dull note due to the liquidity crisis and rising tensions between the world's two largest economies – the US and China. To help in achieving the government's vision of making India a USD 5 trillion economy by 2025, the finance ministry slashed domestic corporate tax rates to 25.17% in the mid-year to spur the investments in the economy. As a result, the domestic investments contributed intermittently to India's growth story, but this proved to be too little, too late.

At a time when the world is suffering from a deadly pandemic, India planned to convert this crisis into an opportunity and to strengthen its fight against the pandemic by becoming Aatmanirbhar or self-reliant. Atmanirbhar Bharat merges domestic production and consumption with global supply chains. It is not about becoming self-contained or being closed to the world, rather being self-sustaining and self-generating. The economic package that was announced by the Prime Minister along with various reliefs extended during the lockdown period comes to around INR 20 lakh crore, which is about 10 percent of India's GDP. It is expected to provide support and strength to various sections of the country and give a renewed boost to the development journey of the country. It is time to become vocal for our local products and make them global. Your company has always adhered to being self-reliant and is well equipped with a backward integrated facility.

India and Global markets have been battling with this pandemic for months now. This has led to stagnation in various economies across the globe. The entire value chain right from the small manufacturers to the larger ones had faced major disruption in their businesses. As a result, many governments across the world have taken drastic steps to infuse stimulus package to fuel up the economy to get it running back on track. With all these capital infusions and taking necessary precautionary measures, the manufacturing and global trade is slowly returning to normalcy.

The Financial Year 2019-20 witnessed a de-growth for your company due to delay in the KUSUM scheme which led to state governments not floating its tenders. Due to this, your company's consolidated top-line stands at INR 3,828 Mn, and EBITDA was clocked at INR 122 Mn in FY20. Your company incurred a loss of INR 141 Mn during FY20. Your company has always aimed to reach greater heights and continues to add value to its stakeholders.

In the Budget for 2020-21, the Finance Minister announced the expansion of Pradhan Mantri Kisan Urja Suraksha Utthan Mahabhiyan (PM KUSUM) Scheme to double farmers' income by 2022 and further burnish India's green energy credentials. Under the scheme 20 lakh farmers would be provided funds to set up standalone solar pumps and 15 lakh farmers would be provided funds to set up 15 lakh grid-connected solar pumps. This scheme has eliminated farmers' dependence on diesel and kerosene and linked them to solar energy. The scheme also enables the farmers to set up solar power generation capacity and sell it to the grid.

Global Pumps Market revenue is expected to cross USD 91 Billion by 2025. New technologies and digital transformations are rapidly changing the dynamics of various sectors and the global pumps market is no exception to this trend. Over the past few years, numerous key developments in the field have led to better energy efficiency, increasing demand, and saving

valuable resources. The costs of energy keep on escalating, the cost of manufacturing activities also rises which prompted for more product innovation in the market while keeping a close eye on its impact on the environment.

The Indian pump industry plays a very important role in almost every sphere including infrastructure and agriculture, which contributes significantly to the growth of the Indian economy. Rapid depletion of groundwater, increased use of solar pumps coupled with government-initiated projects, and rapid urbanization contribute to the exponential growth of the water pumps market in India. The water pump market in India is likely to cross USD 3.8 Billion by 2022. As the country moves towards urbanization, energy efficiency continues to be of importance, the solutions including intelligent water and wastewater management will witness increased demand, owing to initiatives like smart cities etc.

The solar water pumping systems market in India has recorded a substantial growth in the last few years and is estimated to grow at a compound annual growth rate (CAGR) of more than 27 percent during 2018-2024. Indeed, support from the government of India to encourage the use of new and renewable energy has created a positive effect on the market. The National Solar Mission of India, an initiative by the government to promote solar energy, has set a target of achieving 100 GW of solar power by the year 2022. Some of the new government programs focusing on solar pumps and the agriculture sector are also helping to propel the growth in the sector. Over 181,000 solar water pumps had been installed across the country till October 2019. Chhattisgarh accounted for the highest number of installations of 60,430 solar pumps, followed by Andhra Pradesh, a distant second with 28,267 installations. Here is a detailed list of state-wise installations. States with no installations have been excluded.

I would like to extend my sincere gratitude to our customers, shareholders, suppliers, employees, lending institutions, and the government of India for their continuous trust and support throughout our journey.

Sincerely,

Dinesh Patidar

Chairman & Managing Director



The solar water pumping systems market in India has recorded a substantial growth in the last few years and is estimated to grow at a compound annual growth rate (CAGR) of more than 27 percent during 2018-2024. Indeed, support from the government of India to encourage the use of new and renewable energy has created a positive effect on the market. The National Solar Mission of India, an initiative by the government to promote solar energy, has set a target of achieving 100 GW of solar power by the year 2022.



MANAGEMENT DISCUSSION & ANALYSIS

GLOBAL ECONOMY OVERVIEW

The calendar year 2019 started off with rising tensions between the world's two largest economies – US and China. US and China together account for 40% of the global GDP and the trade disputes between them had an adverse effect on the global economy and sentiments overall. This impact was not only seen in the commodities and financial markets (equities, bonds, currencies), but also impacted the output and profitability of firms leading to deterred investment decisions of businesses. However, as the year progressed, market sentiments were boosted by tentative signs of intermittent favourable news on US-China trade negotiations.

If the pain felt across global economies was not enough in 2019, the year ended off on a worse footing with the Corona Virus or COVID-19 being first detected in December and quickly spread across the world. COVID-19 not only triggered a global crisis that assumed the form of a global health crisis, but also led to the deepest global recession since the second world-war. The baseline forecast envisions a 5.2 percent contraction in global GDP in 2020—the deepest global recession in eight decades, despite unprecedented policy support. Growth forecasts for all regions have been severely downgraded, while many countries have avoided more adverse outcomes through sizable fiscal and monetary policy support measures. Other than essential commodities like foods, pharmaceuticals and FMCG, all other sectors across the world were impacted through reduced demand, supply chain disruptions, labour problems, creating a domino effect on the financials and working capital cycles.

INDIAN ECONOMY OVERVIEW

The Indian economy started FY20 on a dull note due to the

ongoing liquidity crisis. In order to achieve the government's vision of making India a USD 5 trillion economy by 2025, the finance ministry slashed domestic corporate tax rates to 25.17% midyear.

The Current Account Deficit narrowed primarily on account of lower non-oil, non-gold imports and robust services exports supported by software, travel and financial services. India's crude oil import bill fell by 9% Y-o-Y to \$102 billion in 2019-20 on account of price crash; though volumes remained fairly unchanged. Foreign fund outflows and the Fed's grim prognosis for the US economy further weighed on the rupee as it touched 77 against US dollar in April 2020. The CPI inflation stood at 5.84% YoY in March 2020 higher from 2.86% in March 2019. According to the Indian Budget 2020, the real GDP growth was estimated at 5.0% in the financial year 2019-20 but due to the recent COVID-19 crisis, it was ensured that FY2021 will be a challenging one for India and the world. As per Fitch ratings, India's GDP growth is likely to slip to 0.8% for FY21.

KEY GOVERNMENT INITIATIVES

The Indian government has been continuously taking initiatives to strengthen the national economy. In the Union Budget 2020-21, the Agriculture sector was identified as one of the key drivers of the economy. The Central government will work with state governments to allow farmers to benefit from e-NAM. The government has further announced plans to launch Krishi Udaan on international and national routes. PM-KUSUM scheme has been extended to support 20 lakh farmers for setting up stand-alone solar pumps and further help another 15 lakh farmers solarize their grid-connected pumps. INR 1.34 lakh crore has been allocated for the Ministry of Agriculture and Farmer's welfare and INR 8,363 crore has been allocated to the Department of Agricultural Research and Education.

PRADHAN MANTRI KISAN SAMMAN NIDHI YOJANA (PM KISAN)



Prime Minister of India, launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-Kisan) and transferred Rs 2,021 crore (US\$ 284.48 million) to the bank accounts of more than 10 million beneficiaries on February 24, 2019, and eligible farmers will get Rs 6,000 (US\$ 85.84) in three installments.

PRADHAN MANTRI ANNADATA AAY SANRAKSHAN ABHIYAN' (PM-AASHA)

In September 2018, the Government of India announced Rs 15,053 crore (US\$ 2.25 billion) procurement policy, under which states can decide the compensation scheme and can also partner with private agencies to ensure fair prices for farmers in the country.

AGRICULTURAL EXPORT POLICY, 2018

This new policy aims to increase India's agricultural exports to US\$ 60 billion by 2022 and US\$ 100 billion in the next few years with a stable trade policy regime harnessing the export potential of Indian agriculture, through suitable policy instruments, to make India global power in agriculture and raise farmers' income.

ATMANIRBHAR BHARAT PACKAGE (AGRICULTURE)

Measures worth Rs 1.5 lakh crore focused on the agriculture and allied sectors including dairy, animal husbandry and fisheries as the government announced steps to strengthen the overall farm sector. Rs 1 lakh crore has been allocated to the agriculture infrastructure fund for farm-gate infrastructure including using it for setting up cold chains and post-harvest management infrastructure.

INDIAN AGRICULTURE SECTOR



The Indian Agricultural industry has reached a value of INR 56,564 Billion in 2019 and constitutes an important component of the Indian economy in terms of its contribution to the GDP as well as a source of employment to the majority of the country's population. India has the 10th largest arable land resource in the world. With 20 agri-climatic regions, all 15 major climates in the world exist in India. India also possesses 46 of the 60 soil types in the world. Growth in Gross Value Added (GVA) by agriculture and allied sectors stood at 4% in 2019-20.

The agriculture sector is showcasing a large amount of opportunities with India being one of the world's largest agricultural producers by value. A lot of transformations have taken place in this sector over the past few decades. These include - rising penetration of the organized sector, growth in contract farming, agriculture becoming more mechanized, easy loan facilities, the rise of exports, use of agrochemicals and high yielding seeds and an increasing role of the private sector in processing, branding, and marketing, etc.

GLOBAL PUMPS SECTOR

Global Pumps Market revenue is expected to cross USD 91 Billion by 2025. New technologies and digital transformations are rapidly changing the dynamics of various sectors so the global pumps market is no exception to this trend. Over the past few years, numerous key developments in the field have led to better efficiency, increasing demand, and saving valuable resources. The costs of energy keep on escalating, the cost of manufacturing activities also rises which prompted for more product innovation in the market while keeping a close eye on its impact on the environment.

GLOBAL PUMPS MARKET DRIVERS

Global Pumps market is growing fast due to the increase in demand from the building and construction and oil and gas industry in addition to the mining industry over the past few years and also their wide uses in various industries. Furthermore, there is an increase in investments in developing economies due to rapid urbanization in the Asia Pacific and Latin American regions. Expenditure in the fixed investment allows manufacturers to expand and upgrade their production facilities, which involves the usage of pumps for several applications. This trend is projected to boost the product market to a large extent.

OUTLOOK

The demand for water-pumps is expected to increase due to the increasing need for industrial wastewater treatment. The increased infrastructural developments in the emerging nations could have a positive impact on the water-pumps market. The development of the industrial and agricultural sectors, could increase the demand for water-pumps sector.

Moreover, the growing dependency on groundwater, instead of the monsoons, for irrigation and agricultural purposes in developing nations like India demonstrates an increase in the demand for water-pumps in the agricultural sector. Several global government initiatives for recycling of wastewater to reduce water pollution also indicates growth for waterpumps demand.

The need to consume clean water to maintain a healthy and disease-free lifestyle, the construction of water recycling industries, and rising demand for solar water-pumps indicates opportunities for water-pump players.

INTERNATIONAL SOLAR ALLIANCE



International Solar Alliance (ISA) is an alliance of 121 solar resource-rich countries lying fully or partially between the Tropics of Cancer and Capricorn. ISA was launched by the Indian Prime Minister Mr. Narendra Modi and the then President of France Mr. François Hollande in 2015.

The objective of the International Solar Alliance is to provide a dedicated platform for cooperation among solar resource-rich countries and global stakeholders, including bilateral and multilateral organizations, corporates, and industries to achieve a common goal. This goal is directed towards increasing the use of solar energy in meeting the energy needs of ISA member countries in a safe, convenient, affordable, equitable, and sustainable manner.

Through this initiative, the countries intend to mobilize more than USD 1,000 billion for investments by 2030. An important ISA focus comprises investments in solar pumps India, Bangladesh, Sudan, Uganda, Senegal, and Mauritius, among others.

Through this programme, members would also be able to implement the project effectively from in-built monitoring mechanisms and develop a large number of local employment opportunities.

INDIAN PUMPS MARKET



The Indian pump industry plays a very important role in almost every sphere including infrastructure and agriculture, contributes significantly to the growth of the Indian economy. Rapid depletion of groundwater, increased use of solar pumps coupled with government initiated projects and rapid urbanization contribute to the exponential growth of the water pumps market in India.

The water pump market in India is likely to cross USD 3.8 Billion by 2022. As the country moves towards urbanization, energy efficiency continues to be of importance. Solutions including intelligent water and wastewater management will witness increased demand, owing to initiatives like smart cities etc.

INDIAN PUMPS MARKET DRIVERS

The growth in the Indian Pumps Market is attributed to the rise in infrastructure development, growth in agriculture and other water-intensive industries. Further, the Government has announced Nal se Jal scheme, which aims to provide piped water connection to every household by 2024, which in turn will increase the demand for water pumps in the country. Also, initiatives like Swachh Bharat Abhiyan and Namami Gange will drive the growth of the pumps market in India.

OUTLOOK

India has 4 percent of the world's freshwater reserves and 18 percent of the world's population. The demand for water across various consumer segments has always been on the rise over the years. However, with the fixed supply of water resources, demand will outpace availability before 2050. Further, per capita availability of water, which is already declining, will plunge from 2,209 cubic metres in 1991 to 1,341 cubic metres by 2025.

To overcome this issue and ensure continuous availability of water, measures to improve water use by various end users is being taken up. The Ministry of Jal Shakti has identified full utilisation of the created facilities as an important strategy. The government has introduced measures such as improvement in

irrigation practices through various flagship schemes such as the Pradhan Mantri Krishi Sinchayee Yojana, the Accelerated Irrigation Benefits Programme, and the Bharat Nirman programme, new irrigation techniques such as drip irrigation and the development of additional irrigation potential which in turn is highly potential for the pumps industry.

OPPORTUNITIES

Water Pumps market in India is witnessing an impressive rate of growth on the back of depleting ground water level, rapid urbanization, and various infrastructure initiatives launched with the purpose of improving infrastructure including construction of roads, homes, toilets, schools and cleaning of major water bodies such as the Ganges, Yamuna, etc.

Agriculture accounts for a significant share in the country's water pumps market. This demand is complemented by the industrial sector where power plants, chemical manufacturing and water & waste water treatment are the prime application areas.

Rapid penetration of desalination plants in the industrial sector is expected to drive the demand for water-pumps in the segment. Water pumps are gaining demand in the power sector as well.

SOLAR PUMP INDUSTRY

The solar water pumping systems market in India has recorded a substantial growth in the last few years and is estimated to grow at a compound annual growth rate (CAGR) of more than 27 percent during 2018-2024. Indeed, support from the government of India to encourage the use of new and renewable energy has created a positive effect on the market. The National Solar Mission of India, an initiative by the government to promote solar energy, has set a target of achieving 100 GW of solar power by the year 2022. Some of the new government programs focusing on solar pumps and the agriculture sector are also helping to propel the growth in the sector.

Over 181,000 solar water pumps had been installed across the country by October 2019. Chhattisgarh accounted for the highest number of installations of 60,430 solar pumps, followed by Andhra Pradesh, a distant second with 28,267 installations. Here is a detailed list of state-wise installations. States with no installations have been excluded.

| States | Solar Pumps Installed in India | | | | Total |
|-------------------|--------------------------------|---------|---------|----------|--------|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20* | |
| Andhra Pradesh | 4,841 | 13,925 | 9,501 | - | 28,267 |
| Arunachal Pradesh | 4 | - | - | - | 4 |
| Bihar | - | - | 225 | - | 225 |
| Chhattisgarh | 9,585 | 28,297 | 22,548 | - | 60,430 |
| Gujarat | 5,649 | 3,471 | - | - | 9,120 |
| Haryana | - | 750 | - | - | 750 |
| Jharkhand | 3,146 | 556 | 155 | 433 | 4,290 |
| Karnataka | 697 | 1,359 | 1,507 | - | 3,563 |
| Kerala | - | 8 | - | - | 8 |
| Madhya Pradesh | 2,007 | 1,771 | 12,229 | - | 16,007 |
| Maharashtra | 1,777 | 1,287 | 1,000 | 5,022 | 9,086 |
| Orissa | 5,922 | 1,718 | 530 | 224 | 8,394 |
| Punjab | - | - | 2,000 | - | 2,000 |
| Rajasthan | 9,867 | - | 6,985 | - | 16,852 |

| Solar Pumps Installed in India | | | | | |
|--------------------------------|---------------|---------------|---------------|--------------|----------------|
| States | 2016-17 | 2017-18 | 2018-19 | 2019-20* | Total |
| Tamil Nadu | 849 | - | 221 | 475 | 1,545 |
| Telangana | 424 | - | - | - | 424 |
| Uttar Pradesh | 5,644 | 1,223 | 8,382 | 81 | 15,330 |
| West Bengal | 605 | - | - | - | 605 |
| Others | - | - | 609 | - | 609 |
| Through NABARD | 2,027 | 1,985 | - | - | 4,012 |
| Total | 53,044 | 56,350 | 65,892 | 6,235 | 181,521 |

*As on Oct 31, 2019

Source: MNRE

SHAKTI PUMPS' COMPETITIVE ADVANTAGE

Shakti Pumps has been a leader and first-mover across the last couple of decades – first in the manufacture of stainless steel pumps, then in the manufacture of all components for these pumps, in the extension of these pumps to the solar segment and thereafter to the manufacture of all supporting digital sub-products to complete the solution.

The result is that the Company is an extensively integrated company, leveraging its engineering excellence to create complete product eco-systems that enhances sub-product dependence, quality and also captures the largest slice of the valuechain.

Steady progress in power electronics and PV panel efficiencies would widen the scope of solar energy applications leading to the development of integrated systems that can handle an array of domestic applications. Similarly improvements in efficiency of panels, pumps and controllers could optimize costs and enhance efficiency.

Besides, the Company has been an active player in the global water pumps sector with a rich experience of engaging in more than 125 countries.

SEGMENTAL OVERVIEW:

The company has broadly 4 business segments viz,

- 1) Government Solar
- 2) OEM
- 3) Exports
- 4) Domestic and Industrials

On a segment wise performance

The Government Solar stood at Rs. 12,195 lacs in FY20 which decreased by 46% from Rs. 22,647 lacs in FY19. The OEM declined by 52% in FY20 with a revenue of Rs. 4,606 lacs as compared to Rs. 9,614 lacs in FY19. The decline in both the segments was mainly because of the delay in the KUSUM scheme.

The export sales witnessed de-growth of 8% from Rs. 13,883 lacs in FY19 to Rs. 12,796 lacs in FY20.

The domestic and industrial in FY20 stood at Rs. 8,368 lacs as compared to Rs. 8,082 lacs in FY19, registering a growth of 4%

KUSUM YOJANA

The Indian government launched the Kisan Urja Suraksha Evam Utthaan Mahabhiyan (KUSUM) for farmer's welfare.

The objective of this scheme is to add solar and other renewable power plants in the country. The scheme aims to add solar and renewable capacity of 25,750 MW by 2022 with Central financial support of Rs. 34,422 crore.

KUSUM can be a game-changer for India's irrigation and energy economies. At present, there are over 30 million agricultural pumps installed in India, out of which nearly 10 million pumps are diesel-based and balance are electric, grid-connected pumps. The Distribution Companies (DISCOMs) are not in a position to energize these pumps through grid connection as seen from the long waiting lists with such Distribution Companies. Hence, there is a need to provide a clean source of energy to these pumps through solar energy. In addition, over 20 million grid-connected agriculture water pumps installed in the country consume more than 17 percent of the total annual electricity consumption of the country. Solarisation of the same can reduce the dependence of these pumps on conventional sources of energy supplied by DISCOMs and thus reducing their burden of subsidy on agriculture consumption of Electricity. This will also provide an additional source of income to farmers who will be in a position to sell the surplus power to DISCOMs. The new Scheme has provisions for decentralized renewable energy plants, solar agriculture water pumps and solarization of existing Grid-connected Agriculture pumps.

ENERGY EFFICIENCY SERVICES LIMITED (EESL) AND INDIA'S SOLAR PUMPS SECTOR

Energy Efficiency Services Limited is a joint venture of NTPC Limited, Power Finance Corporation, Rural Electrification Corporation, and Power-grid Corporation set up under the Ministry of Power to facilitate the implementation of energy efficiency projects. EESL aims to unlock the energy efficiency market that can result in energy savings of up to 20% of the current consumption by way of innovative business and implementation models and is engaged in solarizing India's