12 November 2018

Voltamp Transformers

Strong order book; maintaining a Buy

Rating: **Buy**
Target Price: ₹1,538
Share Price: ₹1,011

Due to deteriorating profitability, Voltamp has reduced exposure to renewable capex-related orders. The pick-up in infra orders for OEMs would lead to strong inflows for the company in the next six to nine months. We expect earnings to clock a 31% CAGR over FY18-20. We retain our Buy rating and revise our target to ₹1,538 (14x FY20e EV/ EBITDA).

Strong order book Voltamp's ₹4.3bn order-book on 30th Oct'18 is for transformers of ~5,800MVA, more than 88% from private operators, the rest from SEBs and utilities. In H1 FY19, order inflows grew 16% y/y to ₹3.8bn. Realisations have been flattish at ₹0.75m/MVA.

Infra capex-related orders to pick up. The company is the preferred vendor for OEMs such as L&T, ABB and Siemens. Most OEMs have shown strong growth in order inflows for the metro-rail and infra segments. Since, transformers account for ~4-5% of capex cost and are required at the last stage of execution, we expect order inflows for the company to improve in the next 12 months.

Strong balance sheet. Prudent payment terms and a diversified clientele with more private clients help it maintain healthy working capital. Its net cash position is ₹3.7bn.

Estimate change. To factor in the present order book, we slightly change our FY19e sales 5%, and 4% for FY20. Optimum utilisation will help to better margins. We cut FY19 earnings 16%, and 3% for FY20, to factor in the lower yield in Treasury investments.

Valuation. We believe that the order book would improve with capex revival especially in sectors such as the metro rail and commercial construction, and with greater distribution capex, more sales would ensure better profitability due to rising utilisation. **Risks.** Keen competition might affect profitability; delay in capex would lead to subdued order inflows.

Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	5,633	6,109	6,390	7,856	8,789
Net profit (₹ m)	440	722	735	872	1,248
EPS (₹)	43.6	71.5	72.8	86.4	123.6
PE (x)	17.9	14.1	13.9	11.7	8.2
EV / EBITDA (x)	19.9	16.5	15.1	11.2	9.1
PBV (x)	1.7	1.8	1.6	1.5	1.2
RoE (%)	9.7	14.0	12.4	13.2	16.4
RoCE (%)	13.0	17.9	16.8	18.4	22.5
Dividend yield (%)	1.9	1.5	1.5	1.5	1.5
Net debt / equity (x)	-0.1	-0.0	-0.0	-0.0	-0.0

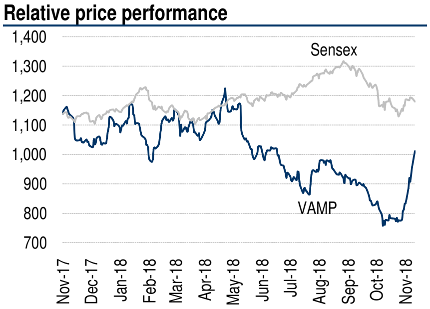
Source: Company, Anand Rathi Research

Key data	VAMP IN / VOLT.BO
52-week high / low	₹1280 / 731
Sensex / Nifty	34813 / 10482
3-m average volume	$0.1m
Market cap	₹10bn / $140.4m
Shares outstanding	10m

Shareholding pattern (%)	Sep-18	Jun-18	Mar-18
Promoters	47.5	47.5	47.5
- of which, Pledged	-	-	-
Free float	52.5	52.5	52.5
- Foreign institutions	15.6	15.6	15.6
- Domestic institutions	19.8	20.0	20.1
- Public	17.1	16.9	16.8

Estimates revision (%)	FY19e	FY20e
Sales	5.1	4.4
EBITDA	0.8	1.0
EPS	-15.9	-2.6

Relative price performance



Source: Bloomberg

Bhalchandra Shinde
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Volumes (MVA)	**9,202**	**10,189**	**9,032**	**11,103**	**12,423**
Net revenues	5,633	6,109	6,390	7,856	8,789
Growth (%)	***9.0***	***8.5***	***4.6***	***22.9***	***11.9***
Material cost	4,433	4,783	4,943	6,088	6,768
Employee & other exp.	826	724	787	881	928
EBITDA	**374**	**602**	**660**	**886**	**1,094**
EBITDA margins (%)	*6.6*	*9.9*	*10.3*	*11.3*	*12.4*
- Depreciation	60	58	60	68	72
Other income	283	390	407	409	708
Interest expenses	4	5	6	4	4
PBT	593	929	1,001	1,222	1,726
Effective tax rate (%)	*25.8*	*22.3*	*26.6*	*28.7*	*27.7*
+ Associates / (minorities)	-	-	-	-	-
Net Income	440	722	735	872	1,248
Adjusted income	440	722	735	872	1,248
WANS	10	10	10	10	10
FDEPS (₹ / sh)	43.6	71.5	72.8	86.4	123.6
EPS growth (%)	*54.5*	*64.1*	*1.8*	*18.7*	*43.1*

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	101	101	101	101	101
Net worth	4,696	5,650	6,201	7,006	8,254
Total debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (assets)	-22	1	6	-	-
Capital employed	**4,675**	**5,651**	**6,207**	**7,006**	**8,254**
Net tangible assets	390	382	364	344	321
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	5	12	96	-	-
Investments (strategic)	-	-	-	-	-
Investments (financial)	2,196	3,127	3,519	4,030	5,002
Current assets (ex cash)	2,576	2,564	2,641	3,141	3,495
Cash	18	42	80	55	55
Current liabilities	511	476	493	564	620
Working capital	2,065	2,088	2,148	2,576	2,876
Capital deployed	**4,675**	**5,651**	**6,207**	**7,006**	**8,254**
Contingent liabilities	73	1,470	1,679		

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	593	929	1,001	1,222	1,726
+ Non-cash items	-65	-93	-57	-63	-72
Oper. prof. before WC	528	836	944	1,160	1,653
- Incr. / (decr.) in WC	277	-137	60	428	299
Others incl. taxes	264	395	262	356	477
Operating cash-flow	-12	578	622	376	877
- Capex (tang. + intang.)	-30	-58	-125	47	-49
Free cash-flow	-42	520	497	423	828
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	122	304	152	152	152
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	90	931	392	512	972
- Misc. (CFI + CFF)	-238	-737	-86	-216	-297
Net cash-flow	-15	22	39	-26	0

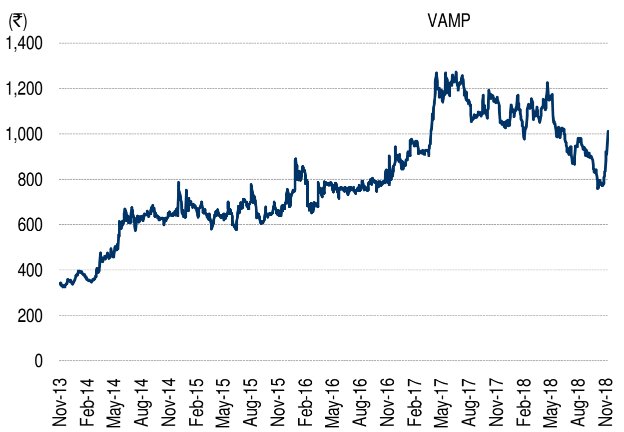
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	17.9	14.1	13.9	11.7	8.2
EV / EBITDA (x)	19.9	16.5	15.1	11.2	9.1
EV / sales (x)	1.3	1.6	1.6	1.3	1.1
P/B (x)	1.7	1.8	1.6	1.5	1.2
RoE (%)	9.7	14.0	12.4	13.2	16.4
RoCE (%) - after tax	13.0	17.9	16.8	18.4	22.5
RoIC (%) - after tax	18.4	28.8	28.5	31.0	40.1
DPS (₹ / sh)	15.1	15.1	15.1	15.1	15.1
Dividend yield (%)	1.9	1.5	1.5	1.5	1.5
Dividend payout (%) - incl. DDT	34.6	21.1	20.7	17.5	12.2
Net debt / equity (x)	-0.1	-0.0	-0.0	-0.0	-0.0
Receivables (days)	96	92	83	85	85
Inventory (days)	61	49	55	46	46
Payables (days)	3	1	1	1	1
CFO : PAT %	-2.7	80.1	84.6	43.1	70.2

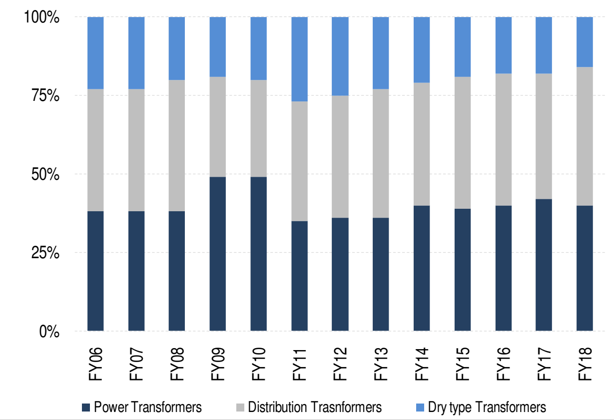
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Sales mix



Source: Company

Result Highlights

Fig 7 – Sales and order-book trend

	FY17				FY18				FY19		Y/Y (%)
(₹ m)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Sales	1,151	1,608	1,053	2,282	1,304	1,289	1,601	2,196	1,659	1,890	46.6
Sales in MVA	1,983	2,606	1,891	3,709	1,849	1,709	2,471	3,149	2412	2506	46.6
Realisations (₹ / MVA)	580,432	617,183	556,692	615,177	705,498	7,54,269	6,47,927	6,97,255	6,87,669	7,54,215	(0.0)
EBITDA margins (%)	*6.0*	*7.3*	*9.5*	*11.6*	*7.4*	*6.7*	*11.7*	*13.2*	*9.9*	*10.1*	
Order book (₹ m)	3,559	3,750	3,800	2,999	3,045	3,655	4,008	4,031	4,510	4,250	16.3
Order book (in MVA)	6,377	6,814	6,185	4,739	4,970	6,039	6,350	6,170	6,534	5,800	(4.0)
Realizations (₹ / MVA)	558,100	550,283	614,390	632,876	612,757	6,05,200	6,31,239	6,53,396	6,90,220	7,32,759	21.1

Source: Company

Fig 8 – Quarterly trend

	FY17				FY18				FY19		
(₹ m)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)
Net revenues	1,151	1,608	1,053	2,297	1,304	1,289	1,601	2,196	1,659	1,890	46.6
EBITDA	70	118	100	315	96	86	188	290	165	191	121.5
Margins (%)	*6.0*	*7.3*	*9.5*	*13.7*	*7.4*	*6.7*	*11.7*	*13.2*	*9.9*	*10.1*	
Other income	85	156	43	77	110	137	123	37	67	61	(55.3)
Depreciation	13	14	15	16	14	15	16	16	15	16	10.4
Interest	1	1	1	2	1	1	1	3	1	1	8.4
PBT	140	258	127	374	192	207	295	309	216	234	13.3
Tax	30	48	34	123	47	54	58	108	66	80	48.5
Adjusted PAT	111	210	93	251	145	153	236	201	150	154	0.8
Net margins %	*9.6*	*13.0*	*8.9*	*10.9*	*11.1*	*11.8*	*14.7*	*9.2*	*9.1*	*8.1*	
EPS (₹)	11.0	20.7	9.2	24.8	14.3	15.1	23.3	19.9	14.9	15.2	0.8

Source: Company

Valuations

The stock trades at 11.7x FY19e and 8.2x FY20e. Voltamp Transformers will see strong orders in oil-filled power and distribution transformers. Oil & gas and infra-related capex are likely to throw up sound order inflows in the next two years. Hence, we believe that the company will see a re-rating in core valuations. We maintain our Buy rating and slightly lower our target price to ₹1,538 (at 14x FY20e EV/EBITDA).

Key risks

- **Slowdown in power-sector reforms.** Demand for transformers chiefly arises from the power sector. Any slowdown in infrastructure spending by the government would affect the performance of transformer manufacturers.
- **Rising cost of raw materials.** The rising cost of raw materials (copper and CRGO steel) could eat into the profitability of the company if it is unable to pass it on to customers.

Appendix

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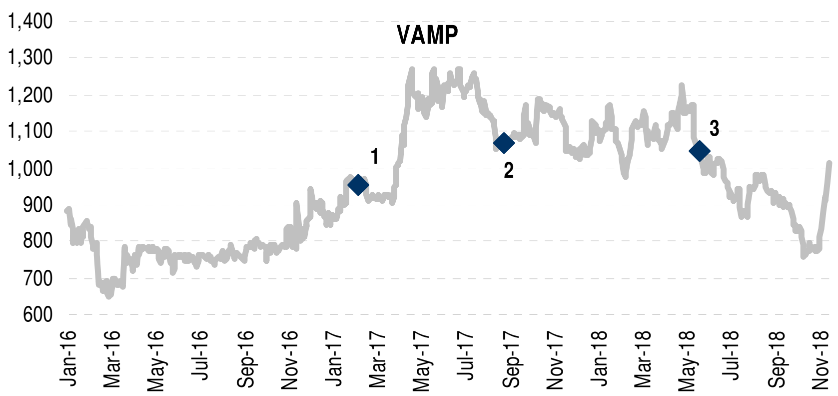

	Date	Rating	TP (₹)	Share Price (₹)
1	03-Feb-17	Buy	1,433	973
2	22-Aug-17	Buy	1,741	1,077
3	17-May-18	Buy	1,707	1,070

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