

Good operating performance; robust order book, debt free status and free cash flow generation make us bullish on Voltamp; Maintain Buy

Current	Previous
CMP: Rs 1,073	
Rating: Buy	Rating : Buy
Target: Rs 1,317	Target: Rs 1,263

(NR-Not Rated)

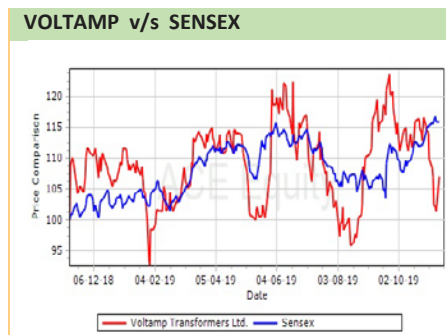
Stock Info	
INDEX	
BSE	532757
NSE	VOLTAMP
Bloomberg	VAMP IN
Reuters	VOLT.BO
Sector	Electrical Equipment
Face Value (Rs)	10
Equity Capital (Rs Mn)	101
Market Cap (Rs Mn)	10,856
52w H/L (Rs)	1274 /895
Avg Weekly Vol (BSE+NSE)	9,990

Shareholding Pattern	%
(As on Sept, 2019)	
Promoters	48.3
Public & Others	51.7

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
VOLTAMP	8.8	6.3	12.4
SENSEX	7.3	7.7	14.7

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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Voltamp Transformers reported good set of numbers in Q2FY20, mostly in line with our estimate except a miss on revenue front. Revenue for the quarter stood at Rs 1,949 mn, below our estimate of Rs 2,130 mn, registering +3.1% YoY/4.0% QoQ growth. Despite higher employee costs and other expenses, Voltamp was able to expand its margin by 74bps YoY to 10.8%, which is commendable. We are positive on Voltamp from longer term perspective owing to its debt free status, free cash flow generation and impressive return ratios. Maintain Buy with revised TP of Rs 1,317.

Q2FY20 Highlights

- In Q2FY20, Voltamp Transformers reported 3.1% YoY revenue growth to Rs 1,949 mn. The company sold 805 units in Q2FY20 as compared to 771 units in Q2FY19, a growth of 4.4% YoY. Sale of transformers in terms of MVA stood at 2291 MVA in Q2FY20 against 2506 MVA in Q2FY19, registering a de-growth of 8.6% YoY. The muted revenue growth can be partially attributed to heavy rain and flood in Baroda during the quarter (July 2019), which resulted in production loss of about 7 days, also dispatches of finished goods were impacted due to heavy monsoon.
- EBITDA for the quarter grew +10.7% YoY/+1.7% QoQ to Rs 210 mn mostly in line with our estimate of Rs 213 mn, while EBITDA margin expanded +74bps YoY to 10.8% beating our estimate of 10%. Though on QoQ basis margin saw a minor dip of 25 bps.
- PAT witnessed a robust growth of +68.2% YoY/+53.4% QoQ to Rs 259 mn, which was far above our estimate of Rs 192 mn. The stupendous growth in PAT was on the back of lower effective tax rate for the quarter. Effective tax rate for the quarter stood at 9.8% as against 33.6% QoQ and 34.2% YoY. Voltamp took the benefit of lower corporate tax rate as announced by the FM recently.

Valuation

At CMP of Rs 1,073, Voltamp is trading at FY20E and FY21E, P/E multiples of 10.4x and 8.1x respectively, which is attractive considering its debt free status, free cash flow generation and superior return ratios. After factoring in Q2FY20 results, we have revised our FY20E/FY21E estimates to reflect the lower effective tax rate (ETR). We now value the stock at a target P/E of 10x its FY21E earnings against 10.5x earlier, which yields a target price of Rs 1,317 per share, implying a potential upside of 22.7%. Maintain Buy.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin (%)	RoE (%)	P/E (x)
FY18	6,390	660	735	72.6	10.3	11.8	14.8
FY19	8,288	936	844	83.4	11.3	12.3	12.9
FY20E	9,068	1,034	1,045	103.3	11.4	13.5	10.4
FY21E	10,904	1,341	1,333	131.7	12.3	15.5	8.1

Source: Company, Arihant Research

Q2FY20 and H1FY20 Financial Performance

Rs Mn	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	1,949	1,873	1,890	4.0%	3.1%	3,822	3,549	7.7%
Raw Material Cost	1,509	1,438	1,501	4.9%	0.5%	2,947	2,805	5.1%
Employee cost	77	74	66	3.6%	16.8%	152	132	15.2%
Other Expenses	154	154	134	-0.5%	14.7%	308	260	18.5%
EBITDA	210	206	189	1.7%	10.7%	416	352	18.0%
EBITDA margin %	10.8%	11.0%	10.0%	-25bps	+74bps	10.9%	9.9%	+95bps
Other Income	99	67	61	47.7%	61.8%	166	129	28.7%
Depreciation	21	19	16	12.9%	28.4%	40	31	28.1%
EBIT	287	254	234	12.9%	22.8%	542	450	20.4%
Finance cost	0	0	0	-	-	0	0	
Exceptional Item	-	-	-			-	-	
PBT	287	254	234	13.0%	22.8%	542	450	20.4%
Tax Expense	28	85	80	-67.0%	-64.7%	114	145	-21.9%
Effective tax rate %	9.8%	33.6%	34.2%	-2377bps	-2434bps	21.0%	32.3%	-1135bps
PAT	259	169	154	53.4%	68.2%	428	304	40.6%
PAT margin %	13.3%	9.0%	8.1%	+428bps	+514bps	11.2%	8.6%	+262bps
EPS (Rs)	25.6	16.7	15.2	53.4%	68.2%	42.3	30.1	40.6%

Source: Company, Aриhant Research

Sales and Operational Performance

Rs Mn	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y
Sales	1,949	1,873	1,890	4.0%	3.1%
Volume (MVA)	2,291	2,260	2,506	1.4%	-8.6%
Units Sold	805	732	771	10.0%	4.4%
Revenue per Unit (mn)	2.42	2.56	2.45	-5.4%	-1.2%
Revenue Per MVA	0.9	0.8	0.8	2.6%	12.8%

Order Book

Voltamp Transformer has a robust order book of Rs 8,700 mn at the end of Q2FY20, against Rs 7,053 mn at the end of Q1FY20, a growth of 23.4% QoQ. This order book includes Rs 360 mn order from TRANSCO for 760 MVA. The current order book is 1x its FY19 sales, thereby providing good revenue visibility for the next one year, i.e. FY20E. In our revised estimates we have factored in 9.4% and 20.3% YoY sales growth for FY20E and FY21E respectively against 11.8% and 20.2% for FY20E and FY21E earlier.

Financials

Income Statement

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	6,109	6,390	8,288	9,068	10,904
<i>Change (%)</i>	8.5%	4.6%	29.7%	9.4%	20.3%
Raw materials	4,750	4,956	6,619	7,073	8,287
Stock Adjustments	33	-13	-123	0	0
Employee costs	221	245	295	326	403
Other expenses	504	542	563	635	872
Total Expenses	5,508	5,730	7,352	8,034	9,563
EBITDA	602	660	936	1,034	1,341
Other Income	390	407	362	453	545
Depreciation	58	60	72	87	103
Interest	5	6	5	6	7
PBT	928	1,001	1,222	1,394	1,777
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	928	1,001	1,222	1,394	1,777
Tax	206	267	378	348	444
<i>Rate (%)</i>	22.2%	26.6%	31.0%	25.0%	25.0%
PAT	722	735	844	1,045	1,333
<i>Change (%)</i>	64.1%	1.8%	14.8%	23.9%	27.5%

Source: Company, Arian Research

Balance Sheet

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Share Capital	101	101	101	101	101
Reserves & Surplus	5,549	6,100	6,766	7,642	8,496
Net Worth	5,650	6,201	6,867	7,744	8,597
Loan Funds	0	0	0	0	0
Deferred Tax & other liabilities	1	6	38	38	38
Capital Employed	5,651	6,207	6,905	7,781	8,635
Application of Funds					
Gross Block	440	548	671	821	971
Less: Accumulated Depreciation	58	118	190	277	379
Net Block	382	430	481	544	592
CWIP	12	29	2	2	2
Other non current assets	124	139	163	163	163
Deferred tax assets	0	0	0	0	0
Net fixed assets	518	598	647	710	757
Investments	2,952	3,355	3,609	3,459	3,309
Debtors	1,538	1,446	1,766	1,863	2,241
Inventories	825	970	1,077	1,163	1,362
Cash & bank balance	42	80	114	958	1,388
Loans & advances & other CA	252	250	294	373	448
Total current assets	2,658	2,747	3,250	4,356	5,439
Current liabilities	367	372	478	621	747
Provisions	109	121	123	123	123
Net current assets	2,181	2,254	2,649	3,612	4,569
Total Assets	5,651	6,207	6,905	7,781	8,635

Source: Company, Arian Research

Cash Flow Statement

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	928	1,001	1,222	1,394	1,777
Depreciation	58	60	72	87	103
Interest & others	-327	-308	-358	-447	-538
Cash flow before WC changes	660	753	936	1,034	1,341
(Inc)/dec in working capital	334	-42	-330	-119	-527
Operating CF after WC changes	993	711	606	915	815
Less: Taxes	-213	-280	-378	-348	-444
Operating cash flow	781	431	228	566	370
(Inc)/dec in F.A + CWIP	-57	-142	-49	-150	-150
(Pur)/sale of investment	-542	-77	-254	150	150
Cash flow from investing	-600	-219	-303	0	0
Free cash flow (FCF)	724	289	203	416	220
Loan raised/(repaid)	0	0	0	0	0
Equity raised	0	0	0	0	0
Interest & others	1	8	336	530	364
Dividend	-152	-183	-228	-253	-304
Cash flow from financing activities	-152	-174	108	277	60
Net inc / (dec) in cash	30	38	34	844	431
Opening balance of cash	13	42	80	114	958
Closing balance of cash	42	80	114	958	1,388

Source: Company, Arian Research

Key Ratios

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	71.4	72.6	83.4	103.3	131.7
CEPS	77.1	78.6	90.4	111.9	141.9
BVPS	558.5	613.0	678.8	765.4	849.8
DPS	15.0	18.1	22.5	25.0	30.0
Payout (%)	21.1%	24.9%	27.0%	24.2%	22.8%
Valuation (x)					
P/E	15.0	14.8	12.9	10.4	8.1
P/CEPS	13.9	13.7	11.9	9.6	7.6
P/BV	1.9	1.8	1.6	1.4	1.3
EV/EBITDA	18.0	16.3	11.5	9.6	7.1
Dividend Yield (%)	1.4%	1.7%	2.1%	2.3%	2.8%
Return Ratio (%)					
EBIDTA Margin	9.9%	10.3%	11.3%	11.4%	12.3%
PAT Margin	11.8%	11.5%	10.2%	11.5%	12.2%
ROE	12.8%	11.8%	12.3%	13.5%	15.5%
ROCE	9.6%	9.7%	12.5%	12.2%	14.3%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	0.0	0.0	0.0	-0.1	-0.2
Turnover Ratios					
Asset Turnover (x)	1.1	1.0	1.2	1.2	1.3
Inventory Days	63	72	61	60	60
Receivable Days	92	83	78	75	75
Payable days	28	28	26	25	25

Source: Company, Arian Research

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Stock Rating Scale**Absolute Return**

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

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