

16 June 2020

## Voltamp Transformers

*Steady performance in challenging times; maintaining a Buy*Rating: **Buy**

Target Price: ₹1,241

Share Price: ₹1,000

Despite the lockdown during the quarter, Voltamp reported a steady operating performance. PAT, though, was hit by negative other income on account of marked-to-market losses on investments. Order inflows, too, were severely impacted. Yet, the strong EBITDA margin, its net-cash status and FCFs were positives. Given the present uncertain situation, we are cautious regarding order inflows and execution in the near term. However, long-term, we are positive on the company due to its industry-focus, debt-free status and consistent free-cash-flow generation (current cash and investments of ₹4.5bn, 45% of market cap). We maintain our Buy recommendation, with a lower target of ₹1,241 (13x FY22e P/E), earlier ₹1,297. Recovery in industrial activity is the key monitorable.

**Steady operating performance:** Lower volumes pulled down revenue 13% y/y to ₹2.2bn. The EBITDA margin expanded 260bps y/y to 15.9% due to better gross margin and lower employee costs on the reversal in incentives. Other income was a negative at ₹146m against positive ₹138m in Q4FY19, due to MtM losses of ₹200m on investments. Hence, PBT plunged 60% y/y to ₹186m. The tax rate was a higher, 38%, compared to 30.2% a year back. PAT plummeted 65% y/y to ₹115m.

**Order backlog ₹4.7bn (6,918 MVA):** With the current order backlog of ₹4.7bn, the implied order inflow for Q4 FY20 was ₹1.7bn, down 46% y/y. In the current order backlog, water & irrigation, oil & gas, infra and renewables sectors have higher contribution.

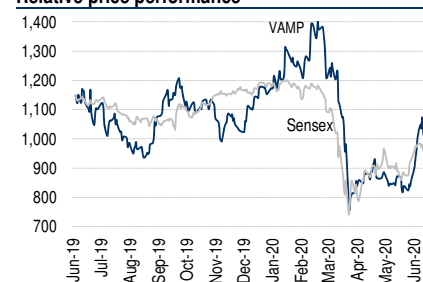
**Valuation:** The stock trades at 13x/11x FY21e/22e earnings. We retain our Buy recommendation. **Risks:** Keen competition might cut into profits; delay in industrial capex would lead to restrained order inflows.

Key data	VAMP IN / VOLT.BO
52-week high / low	₹1483 / 710
Sensex / Nifty	33605 / 9914
3-m average volume	\$0.1m
Market cap	₹10bn / \$132.7m
Shares outstanding	10m

Shareholding pattern (%)	Dec-19	Sep-19	Jun-19
Promoters	50.0	48.3	49.9
- of which, Pledged	-	-	-
Free float	50.0	51.7	50.1
- Foreign institutions	15.6	15.5	14.4
- Domestic institutions	21.3	18.3	18.8
- Public	13.1	17.9	16.9

Estimates revision (%)	FY21e	FY22e
Sales	-4.5	4.4
EBITDA	-6.3	2.1
EPS	-12.2	-4.3

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	6,390	8,288	8,586	7,170	8,722
Net profit (₹ m)	750	849	894	780	966
EPS (₹)	74.1	83.9	88.3	77.1	95.5
PE (x)	13.5	11.9	11.3	13.0	10.5
EV / EBITDA (x)	14.7	10.5	9.0	11.6	9.1
PBV (x)	1.6	1.5	1.4	1.3	1.2
RoE (%)	12.7	13.0	12.5	10.0	11.5
RoCE (%)	10.3	13.2	13.8	9.0	10.7
Dividend yield (%)	1.5	2.2	2.4	2.1	2.6
Net debt / equity (x)	-0.0	-0.0	-0.1	-0.1	-0.1

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

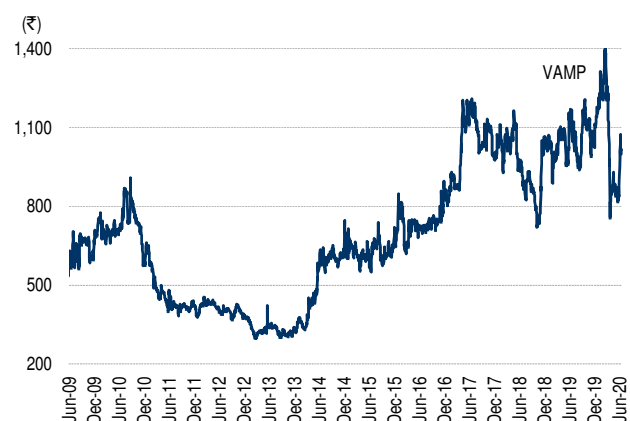
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Capacity utilisation (%)	71	85	79	65	80
Net revenues	6,390	8,288	8,586	7,170	8,722
Growth (%)	4.6	29.7	3.6	-16.5	21.7
Material cost	4,943	6,495	6,517	5,417	6,622
Employee & other exp.	777	857	991	945	1,087
<b>EBITDA</b>	<b>669.88</b>	<b>936</b>	<b>1,078</b>	<b>808</b>	<b>1,012</b>
EBITDA margins (%)	10.5	11.3	12.6	11.3	11.6
- Depreciation	60	72	90	106	115
Other income	407	362	146	341	393
Interest expenses	0	0	0	0	0
PBT	1,017	1,227	1,134	1,043	1,291
Effective tax rate (%)	26.2	30.8	21.2	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	750	849	894	780	966
Adjusted income	750	849	894	780	966
WANS	10.12	10.12	10.12	10.12	10.12
FDEPS (₹ / sh)	74.1	83.9	88.3	77.1	95.5
EPS growth (%)	3.1	13.1	5.3	-12.7	23.8

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	1,017	1,227	1,134	1,043	1,291
+ Non-cash items	-347	-291	-56	-235	-279
Oper. prof. before WC	670	936	1,078	808	1,012
- Incr. / (decr.) in WC	-62	-347	227	79	-209
Others incl. taxes	-262	-346	-303	-262	-325
Operating cash-flow	346	243	1,002	624	478
- Capex (tang. + intang.)	-125	-96	-196	-111	-132
Free cash-flow	222	147	806	513	346
Acquisitions	419	322	-19	341	393
- Div. (incl. buyback & taxes)	-164	-246	-259	-209	-259
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	-439	-190	-581	-300	-300
- Misc. (CFI + CFF)	1,205	872	1,681	1,019	1,118
Net cash-flow	38	33	-54	344	180

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

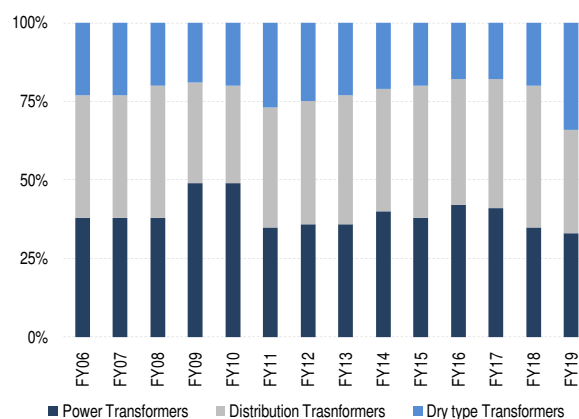
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	101	101	101	101	101
Net worth	6,201	6,867	7,482	8,053	8,760
Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	6	38	-25	-25	-25
<b>Capital employed</b>	<b>6,207</b>	<b>6,905</b>	<b>7,457</b>	<b>8,028</b>	<b>8,735</b>
Net tangible assets	421	466	567	572	589
Net intangible assets	9	16	10	10	10
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	29	2	12	13	13
Investments (strategic)	3,355	3,609	4,171	4,471	4,771
Investments (financial)	163	204	368	368	368
Current assets (ex cash)	2,641	3,096	2,955	2,702	3,077
Cash	80	114	60	404	584
Current liabilities	493	601	687	513	678
Working capital	2,148	2,495	2,268	2,190	2,399
<b>Capital deployed</b>	<b>6,207</b>	<b>6,905</b>	<b>7,457</b>	<b>8,028</b>	<b>8,735</b>
Contingent liabilities	-	-	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	13.5	11.9	11.3	13.0	10.5
EV / EBITDA (x)	14.7	10.5	9.0	11.6	9.1
EV / Sales (x)	1.5	1.2	1.1	1.3	1.1
P/B (x)	1.6	1.5	1.4	1.3	1.2
RoE (%)	12.7	13.0	12.5	10.0	11.5
RoCE (%) - after tax	10.3	13.2	13.8	9.0	10.7
RoIC (%) - after tax	7.9	9.6	11.5	7.5	9.0
DPS (₹ / sh)	15.0	22.5	23.7	20.7	25.6
Dividend yield (%)	1.5	2.2	2.4	2.1	2.6
Dividend payout (%) - incl. DDT	20.2	26.8	26.8	26.8	26.8
Net debt / equity (x)	-0.0	-0.0	-0.1	-0.1	-0.1
Receivables (days)	83	78	64	71	65
Inventory (days)	55	47	49	50	49
Payables (days)	1	0	3	1	1
CFO : PAT %	46.2	28.7	112.1	79.9	49.5

Source: Company, Anand Rathi Research

**Fig 6 – Sales mix**



Source: Company

## Result Highlights

**Fig 7 – Sales and order-book trends**

₹ m)	FY19				FY20				Y/Y %
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Sales	1,659	1,890	2,152	2,588	1,873	1,949	2,513	2,250	(13.0)
Sales in MVA	2,412	2,506	2,642	3,493	2,261	2,291	3,089	2,656	(24.0)
Realisations (₹ / MVA)	687,669	754,215	814,433	740,861	828,470	850,721	813,620	847,254	
EBITDA margins (%)	9.9	10.1	11.2	13.3	11.0	10.8	12.1	15.9	
Order book	4,510	4,250	4,550	5,050	5,377	4,850	4,480	4,710	(6.7)
Order book (in MVA)	6,534	5,800	6,268	6,848	7,291	6,577	6,492	6,918	

Source: Company Anand Rathi Research

**Fig 8 – Quarterly trend**

₹ m)	FY18				FY19				FY20				Y/Y %
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Net revenues	1,304	1,289	1,601	2,196	1,659	1,890	2,152	2,588	1,873	1,949	2,513	2,250	-13.0
EBITDA	96	86	188	290	165	191	241	936	206	210	304	358	-61.7
Margins (%)	7.4	6.7	11.7	13.2	9.9	10.1	11.2	13.3	11.0	10.8	12.1	15.9	
Other income	110	137	123	37	67	61	96	138	67	99	126	-146	
Depreciation	14	15	16	16	15	16	20	21	19	21	24	26	23.2
Interest	1	1	1	3	1	1	1	-	-	-	-	-	
PBT	192	207	295	309	216	234	316	461	254	287	405	186	-59.5
Tax	47	54	58	108	66	80	94	130	85	28	55	71	
Adjusted PAT	145	153	236	201	150	154	222	331	169	259	350	115	-65.1
Net margins %	11.1	11.8	14.7	9.2	9.1	8.1	10.3	12.8	9.0	13.3	13.9	5.1	
EPS (₹)	14.3	15.1	23.3	19.9	14.9	15.2	22	31.8	16.7	25.6	34.6	11.4	-64.1

Source: Company Anand Rathi Research

## Valuations

With slowdown in private capex and the current adverse economic scenario, enquiries have been sluggish. The current OB reassures us of Voltamp's revenue for next couple of quarters. Also, with expected normalcy in the industrial capex, we expect inflow and execution to see pickup. We maintain our Buy recommendation on it, with a target of ₹1,241 (at 13x FY22e P/E).

**Fig 9 – Change in estimates**

₹ m)	Original estimates		Revised estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	7,510	8,358	7170	8722	-4.5	4.4
EBITDA	862	992	808	1012	-6.3	2.1
EPS (₹)	87.9	99.8	77.1	95.5	-12.2	-4.3

Source: Anand Rathi Research

**Fig 10 – PE Band**



Source: Company, Anand Rathi Research

### Key risks

- **Delay in industrial recovery.** More than expected delay in industrial recovery is likely to impact demand and, thereby, volumes.
- **Rise in raw-material cost.** Any sharp rise in cost of raw materials (copper and CRGO steel) could eat into profits if the company is unable to pass them on to customers.

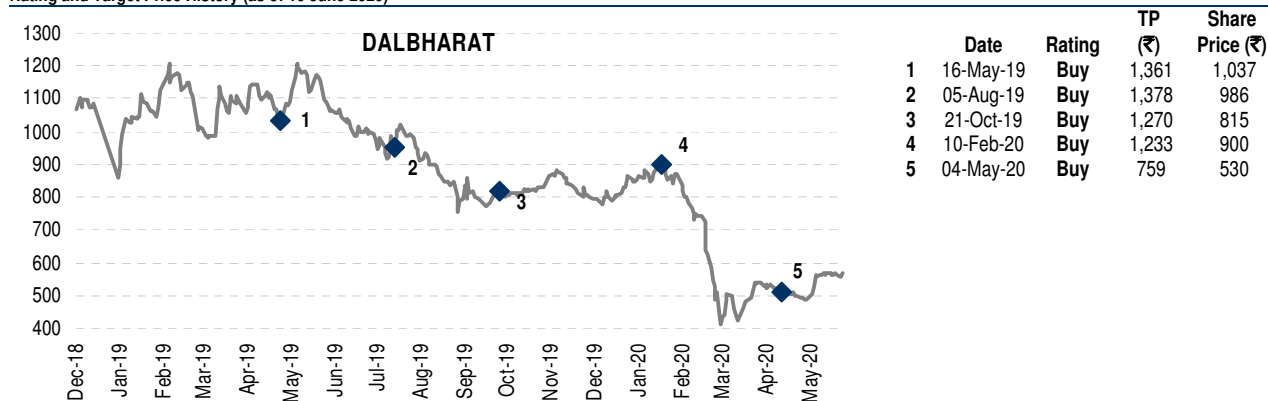
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