

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)

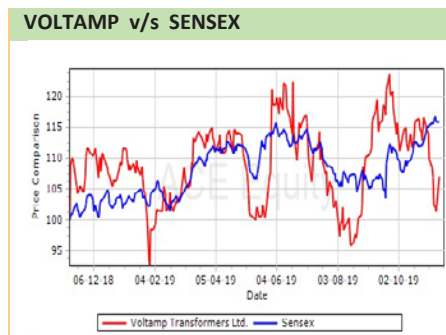
| Stock Info | |
|--------------------------|----------------------|
| INDEX | |
| BSE | 532757 |
| NSE | VOLTAMP |
| Bloomberg | VAMP IN |
| Reuters | VOLT.BO |
| Sector | Electrical Equipment |
| Face Value (Rs) | 10 |
| Equity Capital (Rs Mn) | 101 |
| Market Cap (Rs Mn) | 10,856 |
| 52w H/L (Rs) | 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



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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, Arianth 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, Arianth 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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