

| Current | Previous |
|-------------------------|-------------------------|
| CMP: Rs 1,305 | CMP: 1,073 |
| Rating: Buy | Rating : Buy |
| Target: Rs 1,581 | Target: Rs 1,317 |

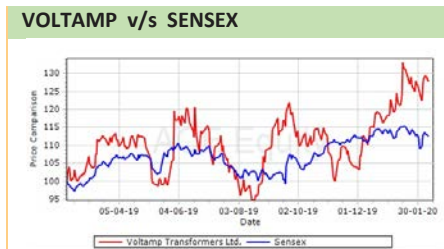
| Stock Info | |
|--------------------------|----------------------|
| INDEX | |
| BSE | 532757 |
| NSE | VOLTAMP |
| Bloomberg | VAMP IN |
| Reuters | VOLT.BO |
| Sector | Electrical Equipment |
| Face Value (Rs) | 10 |
| Equity Capital (Rs Mn) | 101 |
| Market Cap (Rs Mn) | 13,164 |
| 52w H/L (Rs) | 1390/960 |
| Avg Weekly Vol (BSE+NSE) | 4,920 |

| Shareholding Pattern | % |
|-------------------------------|------|
| (As on December, 2019) | |
| Promoters | 50.0 |
| Public & Others | 50.0 |

Source: NSE, Arihant Research

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|------|
| VOLTAMP | 27.8 | 31.6 | 27.6 |
| SENSEX | 1.6 | 10.9 | 12.6 |

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Voltamp Transformers yet again delivered strong performance during Q3FY20. The reported numbers was ahead of our estimates. Revenue for the quarter stood at Rs 2,513 mn, above our estimate of Rs 2,360 mn, registering +17% YoY/+29% QoQ growth. Despite higher employee costs and other expenses, Voltamp was able to expand its margin by 110bps YoY to 12.1%, 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 1581.

Q3FY20 Highlights

- In Q3FY20, Voltamp Transformers reported 17% YoY revenue growth to Rs 2,513 mn. The company sold 905 units in Q3FY20 as compared to 832 units in Q3F19, a growth of 8.8% YoY. Sale of transformers in terms of MVA stood at 3,089 MVA in Q3FY20 against 2,646 MVA in Q3FY19, registering a strong growth of 17% YoY.
- EBITDA registered superior growth of 28% YoY/45% QoQ to Rs 304 mn which was above our estimate of Rs 270 mn. Strong margin expansion seen on EBITDA front on the back of low raw material cost. EBITDA margin for the quarter expanded by 110bps YoY/135 bps QoQ. Raw material cost as a percentage of sales stood at 76% vs. 79% YoY.
- PAT witnessed a robust growth of 58% YoY/35% QoQ to Rs 350 mn, which was far above our estimate of Rs 260 mn. The stupendous growth in PAT was seen on the back of lower effective tax rate for the quarter. Effective tax rate for the quarter stood at 14% as against 30% YoY.

Valuation

At CMP of Rs 1,305, Voltamp is trading at FY20E and FY21E, P/E multiples of 11.9x and 9.9x respectively, which is quite reasonable. As on Q3FY20, Company has a strong order book of Rs 4,480 mn (unexecuted) for 6492 MVA, which provides good revenue visibility for future. We remain positive on the stock from longer term perspective due to its industrial focused business model, debt free status and consistent free cash flow generation. We expect company to deliver 15%/25% CAGR revenue and profit growth over the period of FY19-21E. We now value the stock at a target P/E of 12x its FY21E earnings against 10x earlier, which yields a target price of Rs 1,581 per share, implying a potential upside of 21%. We maintain our Buy rating on the stock.

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 | 18.0 |
| FY19 | 8,288 | 936 | 844 | 83.4 | 11.3 | 12.3 | 15.7 |
| FY20E | 9,068 | 1,034 | 1,045 | 103.3 | 11.4 | 13.5 | 12.6 |
| FY21E | 10,904 | 1,341 | 1,333 | 131.7 | 12.3 | 15.5 | 9.9 |

Source: Company, Arihant Research

Q3FY20 and 9MFY20 Financial Performance

| Rs Mn | Q3FY20 | Q2FY20 | Q3FY19 | Q-o-Q | Y-o-Y | 9MFY20 | 9MFY19 | Y-o-Y |
|------------------------|--------------|--------------|--------------|----------------|----------------|--------------|--------------|----------------|
| Net Revenue | 2,513 | 1,949 | 2,152 | 29.0% | 16.8% | 6,335 | 5,700 | 11.1% |
| Raw Material Cost | 1,910 | 1,509 | 1,695 | 26.6% | 12.7% | 4,857 | 4,500 | 7.9% |
| Employee cost | 121 | 77 | 65 | 56.6% | 85.6% | 272 | 197 | 38.5% |
| Other Expenses | 178 | 154 | 155 | 16.2% | 15.3% | 486 | 415 | 17.3% |
| EBITDA | 304 | 210 | 237 | 45.1% | 28.4% | 720 | 589 | 22.2% |
| EBITDA margin % | 12.1% | 10.8% | 11.0% | +135bps | +110bps | 11.4% | 10.3% | +110bps |
| Other Income | 126 | 99 | 99 | 27.2% | 27.0% | 291 | 228 | 28.0% |
| Depreciation | 24 | 21 | 20 | 15.7% | 24.0% | 64 | 51 | 26.5% |
| EBIT | 405 | 287 | 316 | 41.1% | 28.3% | 947 | 766 | 23.6% |
| Finance cost | 0 | 0 | 0 | - | - | 0 | 0 | |
| Exceptional Item | - | - | - | | | - | - | |
| PBT | 405 | 287 | 316 | 41.1% | 28.3% | 947 | 766 | 23.6% |
| Tax Expense | 55 | 28 | 94 | 95.0% | -41.3% | 169 | 239 | -29.5% |
| Effective tax rate % | 13.6% | 9.8% | 29.7% | | | 17.8% | 31.2% | |
| PAT | 350 | 259 | 222 | 35.2% | 57.6% | 778 | 527 | 47.8% |
| PAT margin % | 13.9% | 13.3% | 10.3% | +65bps | +361bps | 12.3% | 9.2% | +305bps |
| EPS (Rs) | 34.6 | 25.6 | 22.0 | 35.2% | 57.6% | 76.9 | 52.1 | 47.8% |

Source: Company, Aриhant Research

Sales and Operational Performance

| Rs Mn | Q3FY20 | Q2FY20 | Q3FY19 | Q-o-Q | Y-o-Y |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 2,513 | 1,949 | 2,152 | 29.0% | 16.8% |
| Volume (MVA) | 3,089 | 2,291 | 2,646 | 34.8% | 16.7% |
| Units Sold | 905 | 805 | 832 | 12.4% | 8.8% |
| Revenue per Unit (mn) | 2.78 | 2.42 | 2.59 | 14.7% | 7.4% |
| Revenue Per MVA | 0.8 | 0.9 | 0.8 | -4.4% | 0.1% |

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, Arihant 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, Arihant 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 | 18.3 | 18.0 | 15.7 | 12.6 | 9.9 |
| P/CEPS | 16.9 | 16.6 | 14.4 | 11.7 | 9.2 |
| P/BV | 2.3 | 2.1 | 1.9 | 1.7 | 1.5 |
| EV/EBITDA | 18.0 | 16.3 | 11.5 | 9.6 | 7.1 |
| Dividend Yield (%) | 1.2% | 1.4% | 1.7% | 1.9% | 2.3% |
| 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, Aриhant 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, Aриhant Research

Recommendation & Rating History

| Date | Recommendation | CMP | Target Price |
|-------------|----------------|-------|--------------|
| 11-Feb-2020 | Buy | 1,305 | 1,581 |
| 11-Nov-2019 | Buy | 1,073 | 1,317 |
| 19-Aug-2019 | Buy | 968 | 1,263 |
| 24-Jul-2019 | Buy | 1,044 | 1,263 |

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Stock Rating Scale

BUY
ACCUMULATE
HOLD
NEUTRAL
REDUCE
SELL

Absolute Return

>20%
12% to 20%
5% to 12%
-5% to 5%
-5% to -12%
<-12%

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