

## RESULTS

## REVIEW

# Voltamp Transformers Ltd.

Visibility woes continue; outlook remain weak

REDUCE

Analyst

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Nifty: 5,036; Sensex: 16,731

CMP	Rs483
Target Price	Rs441
Potential Upside/Downside	(9)%

### Key Stock Data

Sector	Capital Goods
Bloomberg / Reuters	VAMP IN/VOLT.BO
Shares o/s (mn)	10.1
Market cap. (Rs mn)	4,891
Market cap. (US\$ mn)	108
3-m daily average vol.	32,182

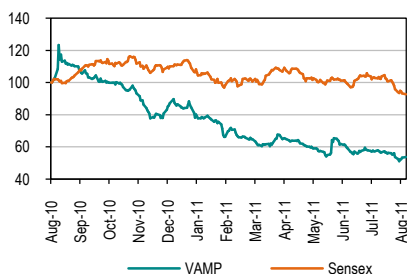
### Price Performance

52-week high/low	Rs1,135/451
	-1m -3m -12m
Absolute (%)	(6) (9) (46)
Rel to Sensex (%)	3 (1) (39)

### Shareholding Pattern (%)

Promoters	46.0
FII/IRIs/OCBs/GDR	24.7
MFs/Banks/FIs	8.2
Non Promoter Corporate	8.6
Public & Others	12.5

### Relative to Sensex



Source: Capitaline

## Summary

Voltamp Transformers (VAMP)'s Q1FY12 results were below our expectations. While, revenue de-grew 21.1% YoY to Rs941mm on back of volume de-growth (down 22.4%YoY to 1,480MVA) coupled with flat (up 2%YoY to Rs0.64 mn/MVA) transformer realization. EBITDA margins declined 150bps YoY to 9.4%, due to combination of sustained pricing pressure and higher employee costs. However, earnings de-growth was restricted to 13.3% YoY to Rs93 mn aided by lower tax rate and 42% YoY growth in other income.

VAMP continues to suffer from overcapacity in the transformer industry. Further, the distribution demand from SEBs as well as private players continues to remain subdued on back of SEB financial woes and private capex curb respectively. Consequently, we cut our FY12/13E revenue/earnings by 12.2%/11.5%/22.2%/22.2% to Rs4.9/5.2 bn/Rs446/473 mn respectively. Thus, our revenue/earnings CAGR stands downgraded to (0.2)%/(4.4)% (v/s 5.6%/5.6%) over FY11-13E. At CMP of Rs483, the stock trades at 11.0/10.3x on our revised FY12/13E EPS of Rs44.1/46.7 respectively. We remain negative on VAMP on back of 1) overcapacity in mid-sized transformers leading to margin pressure 2) lack of demand pick-up and 3) execution delay due to client deferrals impacting revenue growth. As a result, we maintain REDUCE with lower DCF based target price of Rs441 (from Rs507 earlier).

## Result Highlights

### ■ O/B flat; however visibility restricted

VAMP's O/B book stood at Rs4.3 bn (7,528 MVA) as on 10th, August, 2011 (0.9x FY12E revenue). Private sector contributed 95% and rest came from SEBs. The delay in revival of industrial capex is set to impact lower end-T&D capex such as mid-ranged transformers, especially from private sector. VAMP's O/B has remained flat (i.e. in the range of Rs4-4.5 bn) from the last ten quarters (flat QoQ). Stagnant O/B is a concern limiting revenue visibility.

### ■ Heightened competition; execution woes mar outlook

VAMP is a mid-sized transformer manufacturer that relied heavily on the private EPC and real estate players. In the last 2-3 years, transformer manufacturers (including VAMP) increased capacity substantially with a view that demand will increase led by SEB and private capex. However, prevailing higher interest rate scenario has deferred/curbed private capex. This coupled with project delays from SEBs led to severe pricing pressure on companies such as VAMP. Additionally, the company is facing increasing deferrals from customers (volume down 22.4% YoY to 1,480MVA) resulting into slower O/B execution and consequently, lower revenue growth.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY10	5,420	1,058	19.5	825	81.6	5.9	4.4	27.6	33.4
FY11	5,263	668	12.7	518	51.2	9.4	6.3	13.9	15.9
FY12E	4,947	596	12.0	446	44.1	11.0	5.7	10.3	11.2
FY13E	5,244	647	12.3	473	46.7	10.3	4.4	9.8	10.9

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

Year-end: March	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)
Volumes (MVA)	1,908	2,363	2,213	2,489	1,480	(22.4)
Realization/MVA	0.625	0.526	0.604	0.599	0.636	1.7
Gross Sales	1,341	1,247	1,503	1,654	1,055	(21.3)
Less: Excise Duty	147	3.1	167	164	113	(23.2)
<b>Net Sales</b>	<b>1,193</b>	<b>1,243</b>	<b>1,336</b>	<b>1,490</b>	<b>941</b>	<b>(21.1)</b>
1. Consumption of raw materials	1,107	1,069	1,293	950	1,027	(7.2)
2. Employees Cost	40.6	41.1	39.3	38.3	42.8	5.3
3. Other Expenditure	26.4	31.9	18.9	51.2	22.9	(13.1)
<b>EBITDA</b>	<b>130</b>	<b>125</b>	<b>145</b>	<b>268</b>	<b>88</b>	<b>(31.9)</b>
<i>EBITDA margins (%)</i>	<i>10.9</i>	<i>10.1</i>	<i>10.8</i>	<i>18.0</i>	<i>9.4</i>	<i>(150)bps</i>
Other income	46	45.4	48.2	43.4	64.9	42.4
Interest	2.4	2.1	1.5	1.5	1.4	(40.9)
Depreciation	17.8	16.4	18.0	22.7	20.2	13.9
<b>PBT</b>	<b>155</b>	<b>152</b>	<b>173</b>	<b>287</b>	<b>132</b>	<b>(15.2)</b>
Tax	48	59	46	97	39	(19.4)
<b>PAT</b>	<b>107</b>	<b>93</b>	<b>128</b>	<b>190</b>	<b>93</b>	<b>(13.3)</b>
<i>Net margins (%)</i>	<i>9.0</i>	<i>7.5</i>	<i>9.6</i>	<i>12.7</i>	<i>9.9</i>	<i>90bps</i>
<b>Reported PAT</b>	<b>107</b>	<b>93</b>	<b>128</b>	<b>190</b>	<b>93</b>	
<i>Outstanding shares (mn)</i>	<i>10.1</i>	<i>10.1</i>	<i>10.1</i>	<i>10.1</i>	<i>10.1</i>	
<b>EPS (Rs)</b>	<b>10.6</b>	<b>9.2</b>	<b>12.6</b>	<b>18.8</b>	<b>9.2</b>	<b>(13.3)</b>

Source: Company; IDBI Capital Research

## Outlook and Valuation

Transformer industry is still reeling under pricing pressure on account of overcapacity in the industry. In last 2-3 years, transformer industry increased its capacity substantially in wake of expected increase in demand. However, demand remained sluggish on back of tendering delays by SEBs as well as private players. In a bid to garner market share, most of these transformers players are resorting to price competition. Further, the higher interest scenario has delayed the industrial capex, which put a curb on private capex. Consequently, we foresee the company's margin pressure to sustain till the time industrial capex picks up meaningfully. We remain negative on VAMP on the back of lower order book growth and consequent margin pressure.

At CMP of Rs483, the stock trades at 11.0/10.3x on our revised FY12/13E EPS of Rs44.1/46.7 respectively. We remain negative on VAMP on back of 1) overcapacity in mid-sized transformers leading to margin pressure 2) lack of demand pick-up and 3) execution delay due to client deferrals impacting revenue growth. As a result, we maintain **REDUCE** with lower DCF based target price of Rs441 (from Rs507 earlier).

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
<b>Net sales</b>	<b>5,420</b>	<b>5,263</b>	<b>4,947</b>	<b>5,244</b>
Growth (%)	(16.5)	(2.9)	(6.0)	6.0
Operating expenses	(4,362)	(4,595)	(4,352)	(4,597)
<b>EBITDA</b>	<b>1,058</b>	<b>668</b>	<b>596</b>	<b>647</b>
Growth (%)	(30.0)	(36.9)	(10.8)	8.6
Depreciation	(60)	(75)	(111)	(122)
<b>EBIT</b>	<b>998</b>	<b>593</b>	<b>485</b>	<b>525</b>
Interest paid	(6)	(8)	(6)	(6)
Other income	231	183	183	183
<b>Pre-tax profit</b>	<b>1,223</b>	<b>768</b>	<b>661</b>	<b>701</b>
Tax	(398)	(250)	(215)	(229)
Effective tax rate (%)	32.5	32.6	32.6	32.6
<b>Net profit</b>	<b>825</b>	<b>518</b>	<b>446</b>	<b>473</b>
<b>Adjusted net profit</b>	<b>825</b>	<b>518</b>	<b>446</b>	<b>473</b>
Growth (%)	(28.1)	(37.3)	(13.9)	6.1
Shares o/s (mn nos)	10	10	10	10

### Balance Sheet

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Net fixed assets	432	551	534	505
Investments	1,427	1,002	1,002	1,002
Other non-curr assets	2	3	3	3
<b>Current assets</b>	<b>2,222</b>	<b>3,124</b>	<b>3,525</b>	<b>4,056</b>
Inventories	605	882	725	767
Sundry Debtors	1,304	1,445	1,220	1,149
Cash and Bank	199	678	1,467	2,020
Loans and advances	113	120	113	120
<b>Total assets</b>	<b>4,083</b>	<b>4,680</b>	<b>5,064</b>	<b>5,566</b>
<b>Shareholders' funds</b>	<b>3,325</b>	<b>4,119</b>	<b>4,565</b>	<b>5,038</b>
Share capital	101	101	101	101
Reserves & surplus	3,223	4,018	4,464	4,937
<b>Curr Liab. &amp; prov.</b>	<b>893</b>	<b>775</b>	<b>643</b>	<b>682</b>
Current liabilities	642	561	499	528
Provisions	251	214	145	154
<b>Total liabilities</b>	<b>642</b>	<b>561</b>	<b>499</b>	<b>528</b>
<b>Total equity &amp; liabilities</b>	<b>4,083</b>	<b>4,681</b>	<b>5,064</b>	<b>5,566</b>
<b>Book Value (Rs)</b>	<b>329</b>	<b>407</b>	<b>451</b>	<b>498</b>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Pre-tax profit	1,223	768	661	701
Depreciation	440	575	761	994
Tax paid	(453)	(272)	(230)	(215)
Chg in working capital	(417)	(485)	340	38
<b>Cash flow from operations (a)</b>	<b>793</b>	<b>586</b>	<b>1,533</b>	<b>1,519</b>
Capital expenditure	(168)	(194)	(93)	(94)
Chg in investments	(74)	425	-	-
<b>Cash flow from investing (b)</b>	<b>(242)</b>	<b>231</b>	<b>(93)</b>	<b>(94)</b>
Dividend (incl. tax)	(147)	(93)	(80)	(85)
<b>Cash flow from financing (c)</b>	<b>(147)</b>	<b>(93)</b>	<b>(80)</b>	<b>(85)</b>
<b>Net chg in cash (a+b+c)</b>	<b>404</b>	<b>724</b>	<b>1,360</b>	<b>1,340</b>

### Financial Ratios

Year-end: March	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	81.6	51.2	44.1	46.7
Adj EPS growth (%)	(28.1)	(37.3)	(13.9)	6.1
EBITDA margin (%)	19.5	12.7	12.0	12.3
Pre-tax margin (%)	22.6	14.6	13.4	13.4
ROE (%)	27.6	13.9	10.3	9.8
ROCE (%)	33.4	15.9	11.2	10.9
<b>Turnover &amp; Leverage ratios</b>				
Asset turnover (x)	1.5	1.2	1.0	1.0
Leverage factor (x)	1.2	1.2	1.1	1.1
Net margin (%)	15.2	9.8	9.0	9.0
Net Debt/Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	41	61	54	53
Receivable days	88	100	90	80
Payable Days	6	5	5	5

### Valuations

Year-end: March	FY10	FY11	FY12E	FY13E
PER (x)	5.9	9.4	11.0	10.3
Price/Book value (x)	1.5	1.2	1.1	1.0
PCE (x)	5.5	8.3	8.8	8.2
EV/Net sales (x)	0.9	0.8	0.7	0.5
EV/EBITDA (x)	4.4	6.3	5.7	4.4
Dividend Yield (%)	2.6	1.6	1.4	1.5

Source: Company; IDBI Capital Research



# Notes

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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