

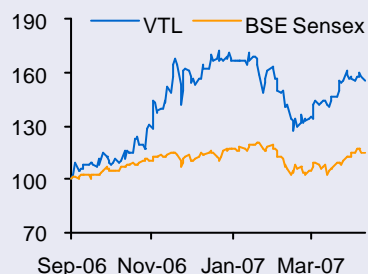
## Voltamp Transformers Ltd (Q4 FY07) - Investment Update

<b>Recommendation</b>	<b>BUY</b>
CMP	Rs653
Target Price	Rs818
Upside	25.1%
Sensex	14,078
52 Week H/L	Rs734/369
Average Volumes (6m)	141,327
Market Cap	Rs6.6bn
Face Value	Rs10
BSE Code	532757
NSE Code	VOLTAMP

### Share Holding Pattern

<b>Mar'07</b>	<b>(%)</b>
Promoters	51.0
Non Promoter Corp. Holding	3.0
Institutions	13.0
Foreign	24.0
Public & Others	16.0

### Share Price Trend



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**Voltamp Transformers Ltd (VTL), one of the players in the transformers industry, recently announced its Q4FY07 and FY07 results. During FY07 its topline and bottomline registered 62.7% and 70.1% growth respectively. It is in the process of adding further capacity in order to take advantage of the huge capex announced by various companies and government. This should translate into stronger demand for transformers, which will help the company's bottomline to witness 44.2% CAGR over FY06-09E. At Rs653 the stock currently trades at 12.4x and 9.6x FY08E and FY09E earnings of Rs52.5 and Rs68.1 respectively. We recommend BUY with a price target of Rs818, an upside of 25.1%.**

### Financial highlights

Period to (Rs mn)	03/07 (3)	03/07 (12)	03/06 (12)	Growth (%)
Net sales	1,225	4,049	2,488	62.7
Expenditure	(996)	(3,439)	(2,149)	60.0
Operating profit	229	610	339	79.8
Other income	15	48	43	13.0
Interest	(5)	(13)	(10)	25.0
Depreciation	(6)	(22)	(19)	13.2
PBT	233	624	353	76.9
Tax	(97)	(235)	(125)	88.3
PAT	136	390	228	70.7
Exceptional items	2	2	2	(1.8)
Adjusted PAT	138	392	230	70.1
OPM (%)	18.7	15.1	13.6	1.4
Equity capital	101	101	101	-
EPS Annualized (Rs)	54.4	38.7	22.8	-
NPM (%)	11.2	9.7	9.3	0.4

### Expanded capacity results into improved topline

VTL, during the year commenced its third shift of operations, thereby taking its total capacity to 7,200MVA from 5,400MVA earlier. This coupled with improved realizations enabled it to clock a 62.7% topline growth to Rs4bn for FY07 against Rs2.5bn in the corresponding period last year. The company continued to focus on maintaining its revenue mix between dry type, distribution and power transformers. Dry type transformers are usually 60-70% more expensive as compared to the conventional oil filled transformers.

### Revenue break up

(Rs mn)	FY07 (12)	FY06 (12)	(%)
Net sales	4,049	2,488	62.7
-Power transformer	1,539	1,144	34.4
-Distribution Transformer	1,579	995	58.7
-Dry Type Transformer	931	323	187.9

Source: Company

### Production and average realization

	FY07	FY06	(%)
Total MVA produced	6,253	4,503	38.9
Average Realization per MVA (Rs)	647,524	552,505	17.2

Source: Company

During the year VTL maintained its product mix, with majority being contributed by distribution transformer SBU followed by power and dry type transformers. VTL's focus has remained on catering to its industrial clients, which is visible from the 95% contribution from these clients during the year.

### Share in revenue

Product wise break up (%)	FY07	FY06
-Power Transformer	38.0	46.5
-Distribution Transformer	39.0	40.4
-Dry Type Transformer	23.0	13.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

### Margins expand to 15.1% during FY07

The company follows the strategy of undertaking last minute orders as a result of which it is able to charge higher to its clients. This coupled with higher contribution from industrial clients, resulting into higher churning of assets also enabled it to improve its margins. As a result of improved realizations, VTL experienced a decline in costs (as a percentage of net sales), margins expanded to 15.1% during FY07 from 13.6% in FY06. Its diligent hedging techniques helped it to reduce its raw material expenses by 60bps. Coupled with this economies of scale also enabled the company to register 110bps decline in manufacturing costs.

### Cost analysis

Period	Q4FY07	FY07	FY06	Inc/Dec
<b>As % of sales</b>	<b>(3)</b>	<b>(12)</b>	<b>(12)</b>	
Raw Material	72.9	76.6	77.1	(0.6)
Manufacturing expenses	3.5	3.3	4.5	(1.1)
Staff cost	3.2	2.6	2.7	(0.1)
Other Exps	1.7	2.4	2.1	0.4
<b>Total Expenditure</b>	<b>81.3</b>	<b>84.9</b>	<b>86.4</b>	<b>(1.4)</b>

### Bottomline jumps by 70.1% during FY07

The impact of robust realizations and improved volumes were witnessed in the bottomline, which grew by 70.1% to Rs392mn during FY07 from Rs230mn in FY06. This translates into earnings of Rs38.7 for FY07 against Rs22.8 during the corresponding period last year. We expect the company to maintain this performance during the forthcoming years.

### Rs4.1bn order book provides visibility

VTL's order book of Rs4.1bn is just about 1x FY07 revenues, which is due to be executed over the next nine months. However, the company has been undertaking more of last minute orders, which encourages us to believe that it should continue its performance in future too. This strategy should also ensure that the margins are intact as the delivery time lines will be shorter. We expect the order book size to be maintained and deliveries to be faster, which will enable the topline to witness 42.4% CAGR over FY06-09E.

### Share in order book

Product wise break up	(Rs mn)	(%)
-Power Transformer	1,980	48.6
-Distribution Transformer	1,420	34.9
-Dry Type Transformer	670	16.5
<b>Total</b>	<b>4,070</b>	<b>100.0</b>

Source: Company

### Outlook

The government is making efforts to reduce the demand supply gap of power by enhancing generating capacities along with reducing transmission and distribution (T&D) losses. The government plans to enhance generating capacity to just over 200,000MW by 2012, i.e. an additional 71,568MW. To improve the T&D system another investment of Rs2,000bn in each of the segments will be required.

With every megawatt of generating capacity being added, an additional requirement of 8MVA transformer capacity is needed. This translates into an additional installed capacity of 572,522MVA to service this extra production. In addition to this investment by the government, there is an equally high investment announced by the private sector too. These investments announced are largely by power consuming industries viz oil and gas, metals and cement. This provides opportunity to players like VTL to take advantage of this oncoming demand. Demand is also expected from the replacement and export market too.

VTL will expand its capacity from 7,200MVA to 9,000MVA. This expanded capacity coupled with improved realization and different client mix, should enable the company to witness bottomline growth of 44.2% CAGR over FY06-09E.

### Valuation

Voltamp Transformers Ltd topline and bottomline is poised to grow at 42.4% and 44.2% CAGR over FY06-09E respectively. It is in the process of adding 1,800MVA to its current capacity of 7,200MVA. The company's order book of Rs4.1bn stands at just over 1x its FY07 revenues, but its strategy of undertaking shorter duration contracts provides comfort towards achieving these growth rates. This should translate into earnings of Rs52.5 and Rs68.1 for FY08E and FY09E respectively. At Rs653 the stock trades at 12.4x and 9.6x its forward earnings. We recommend BUY with a price target of Rs818, an upside of 25.1%.



## Financials

### Projected Income Statement

Period to (Rs mn)	FY04 (12)	FY05 (12)	FY06 (12)	FY07P (12)	FY08P (12)	FY09P (12)
Net Sales	1,100	1,744	2,488	4,049	5,527	7,185
Operating expenses	(949)	(1,511)	(2,149)	(3,439)	(4,697)	(6,104)
Operating profit	151	233	339	610	830	1,080
Other income	32	29	41	48	46	45
PBIDT	183	262	380	659	876	1,126
Interest	(6)	(8)	(11)	(13)	(21)	(23)
Depreciation	(11)	(16)	(19)	(22)	(38)	(41)
Profit before tax (PBT)	166	238	350	624	818	1,061
Tax	(67)	(91)	(123)	(235)	(287)	(372)
Profit after tax (PAT)	98	147	227	390	531	689
Extraordinary / prior period items	1	3	3	2	-	-
Adjusted profit after tax	100	150	230	392	531	689

### Projected Balance Sheet

Period to (Rs mn)	FY04 (12)	FY05 (12)	FY06 (12)	FY07P (12)	FY08P (12)	FY09P (12)
<b>Sources</b>						
Share Capital	8	101	101	101	101	101
Reserves	322	369	593	974	1,490	2,162
Net Worth	329	470	695	1,075	1,591	2,263
Loan Funds	96	132	189	180	245	265
Def Tax liability	1	1	-	1	3	2
<b>Total</b>	<b>426</b>	<b>603</b>	<b>884</b>	<b>1,256</b>	<b>1,839</b>	<b>2,530</b>
<b>Uses</b>						
Gross Block	118	150	178	206	356	391
Accd Depreciation	(63)	(78)	(97)	(118)	(156)	(197)
Net Block	55	72	81	87	200	193
Capital WIP	-	2	4	7	2	2
Total Fixed Assets	55	74	85	94	202	195
Investments	1	1	1	1	1	1
Total Current Assets	548	700	1,126	1,784	2,245	2,970
Total Current Liabilities	(177)	(170)	(328)	(623)	(607)	(636)
Net Working Capital	370	529	798	1,161	1,637	2,334
Def Tax assets	-	-	1	-	-	-
<b>Total</b>	<b>426</b>	<b>603</b>	<b>884</b>	<b>1,256</b>	<b>1,839</b>	<b>2,530</b>

**Key ratios**

Period to	FY04 (12)	FY05 (12)	FY06 (12)	FY07P (12)	FY08P (12)	FY09P (12)
<b>Per share ratios (Rs)</b>						
EPS	128.1	14.8	22.7	38.7	52.5	68.1
Div per share	10.0	0.8	0.5	1.0	1.3	1.5
Book value per share	423.2	46.5	68.7	106.2	157.3	223.7
<b>Valuation ratios (x)</b>						
P/E	5.1	44.2	28.7	16.9	12.4	9.6
P/BV	1.5	14.1	9.5	6.2	4.2	2.9
EV/sales	0.5	3.8	2.7	1.7	1.2	0.9
EV/EBIDTA	3.1	25.6	17.8	10.2	7.8	6.0
<b>Profitability ratios (%)</b>						
OPM	13.7	13.3	13.6	15.1	15.0	15.0
PAT	9.1	8.6	9.2	9.7	9.6	9.6
ROCE	43.0	43.5	43.0	52.5	47.7	44.5
RONW	30.3	31.8	33.1	36.4	33.4	30.5
<b>Liquidity ratios</b>						
Current ratio	3.1	4.1	3.4	2.9	3.7	4.7
Debtors days	84.0	87.6	56.0	56.0	56.0	56.0
Inventory days	46.0	43.7	92.7	81.9	77.9	77.9
Creditors days	4.7	2.7	15.8	18.8	18.8	18.8
<b>Leverage ratios</b>						
Debt / Total equity	0.29	0.28	0.27	0.17	0.15	0.12
<b>Component ratios (as % of sales)</b>						
Raw material	76.1	76.8	77.1	76.5	76.4	76.1
Admin & selling charges	2.4	2.1	2.1	2.4	2.4	2.4
Staff cost	2.8	3.0	2.7	2.6	2.7	2.7
Mfg & other expenditure	5.1	4.7	4.5	3.3	3.5	3.8
Total operating expenses	86.3	86.7	86.4	84.9	85.0	85.0



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