

Electric Equipments-Transformers

Voltamp Transformers Ltd

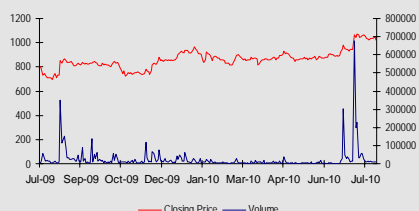
Reduce

CMP	Rs 929
Target Price	Rs 855

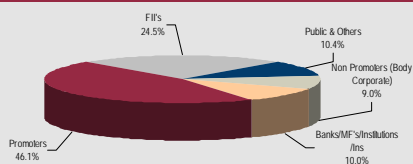
Key Data

Face value	10
Market cap(Rs in mn)	9401.5
Total O/S shares mn	10.12
Free Float	53.95%
52 week High/Low	1108/691
Avg. Monthly Volume (BSE)	68293
Avg Monthly volume (NSE)	127289
BSE Code	532757
NSE Code	VOLTAMP
Bloomberg code	VAMP IN
Beta	0.68
Date of Incorporation	1967
Last Dividend Declared	125%
Six month's return	19.16%
Indices	BSE 500
FCCB's Outstanding	NA
Warrants outstanding	NA

One Year Price / Volume Chart



Source: Capitaline

Share Holding Pattern (30th Jun' 2010)

Source: Company, KJMC Research

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Voltamp Transformers Ltd niche player in the transformer sector and a leading manufacturer of oil filled power and distribution transformers, declared its Q1FY11 results. Net sales reported a growth of 15% at Rs 1193.3 mn whereas PAT reported a de- growth of 28% at Rs 107 mn. EBITDA & PAT declined by 19.8% and 27.9% at Rs 130 mn & 107 mn respectively.

Key Highlights

- ▶ **Higher volumes leads to a 15% growth in the net sales:** Net Sales reported a growth of 15% at Rs 119.33 crs which was better than our estimates. The growth of 15% in net sales was driven by volume growth as the realisations continue to dip on account of stiff competition in the transformer industry. Sales in terms of MVA for the quarter remained at 1908 MVA as against 1590 MVA registering a growth of 20% in volume terms. Realisations dipped by 4.6%. Of the total sales, 54 % was contributed by the savli plant which was equivalent to 1040 MVA in volume terms and Rs 75 crs in value terms .
- ▶ **Higher raw material cost dampens the EBITDA margins:** An increase of 630 bps in the raw material cost to sales ratio at 83.5% resulted in the increase of raw material cost by 23.8%. Pressure on price realizations is partially responsible for the increase in the raw material to sales ratio. Realisations during the quarter declined by 4.6% which was in turn on account of the excess capacity and increasing competition. As a result EBITDA margins declined by 470 bps at 10.9%. EBITDA for the quarter declined by 19.8% at Rs 13.0 crs.
- ▶ **Increase in interest and depreciation puts further pressure on PAT margins:** Higher interest cost which was up by 26% at Rs 2.4 mn , 81.6% increase in depreciation at Rs 17.8 mn and lower other income which was down by 36.9% at Rs 45.6 mn resulted in lower PAT and PAT margins. PAT declined by 27.9% at Rs 107 mn which was much below our estimates with a decline of 530 bps in PAT margins at 9.0%

Financial Snapshot

Rs in Mn

Particulars	FY 08	FY 09	FY 10E	FY11E	FY12E
Net Sales	5553.5	6487.2	5419.7	6420.0	6670.0
EBITDA	1286.3	1736.6	1288.4	1225.7	1425.9
EBITDA margins%	11.0%	23.5%	19.5%	14.7%	16.6%
PAT	799.2	1145.7	825.3	793.0	927.9
PAT margins%	14.4%	18.0%	15.2%	12.4%	13.9%
EPS(Basic)	79.0	113.2	81.6	78.5	91.9
P/E (x)	11.8	8.2	11.4	11.8	10.1
EV/EBITDA (x)	7.3	5.4	7.3	7.5	6.0
ROE(%)	60.49	53.48	27.65	21.68	21.13

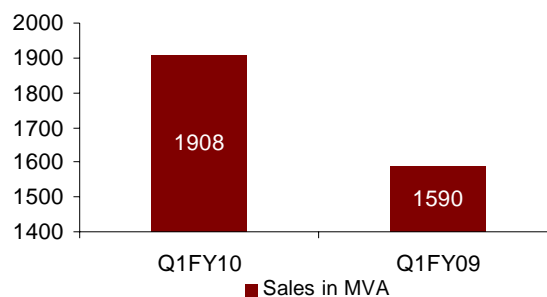
Source: Company, KJMC Research

- ▶ **Order book stands at Rs 420 crs:** The order book of VTL stood at Rs 420 crs which is equivalent to 6,985 MVA. The current order book indicates a further decline in the realizations and hence the margins too are likely to remain weak in future. Of the total order book, more than 90% of the order book is from Non SEB's.

Other Highlights

- ▶ VTL has planned a capex of Rs 11 crs for FY11 which will be mainly to equip power transformer facility with better handling and modern testing facility.
- ▶ Debtors, Creditors, Inventory and cash & bank balance as on 30th June 2010 stood at Rs 1147 mn, Rs 82 mn, Rs 765.9 mn and Rs 1,500 mn respectively.
- ▶ Other income for the quarter declined by 37% at Rs 45.6 mn and mainly constituted of income from investments, interest on fixed deposits, miscellaneous income and amount recovered which were written off in past.

Q1FY11 Sales in Volumes (MVA)



Source: Company, KJMC Research

Q1FY11 Result Update

Rs in Mn

Particulars	Q1FY11	Q1 FY10	% y-o-y
Net Sales	1193.29	1041.95	14.5%
Raw materials	996.3	804.5	23.8%
Employee exps	40.6	44.5	-8.8%
Other expenditure	26.4	30.9	-14.6%
Total Expenditure	1063.3	879.9	20.8%
EBITDA	130.0	162.1	-19.8%
EBITDA margins(%)	10.9%	15.6%	- 470 bps
Interest	2.4	1.9	26.3%
PBDT	127.6	160.2	-20.3%
Depreciation	17.8	9.8	81.6%
PBT	109.8	150.4	-27.0%
Other Income	45.6	72.3	-36.9%
PBT	155.4	222.7	-30.2%
Tax	48.3	74.2	-34.9%
PAT	107.1	148.5	-27.9%
PAT margins(%)	9.0%	14.2%	- 530 bps
Equity Capital	101.2	101.2	-
FV	10	10	-
No. of shares	10.12	10.12	-
EPS	10.58	14.67	11.9%

Source: Company, KJMC Research

Future Outlook

The outlook in the short term though is not very positive for the transformer sector and the company as well on account of the demand supply mismatch situation, we believe with the additional generation capacities of 82,200 MW coming up in the XIIth Five year plan & the balance of unexecuted target generation capacity in the XIth five year plan will see the creation of demand for the transformers industry in long run which will benefit the existing players.

Voltamp healthy balance sheet and strong clientele base is having an edge over its peers and is likely to improve its performance with the raw material prices getting stabilized and pick up in demand for the transformers..

In view of the steep increase in the raw material to sales ratio and the existing order book with lower realizations we are downgrading our earlier estimates for FY11E & FY12E as under:

Particulars	FY11E		growth%	FY12E		growth%
	New	Old		New	Old	
EBITDA	945.7	1418.3	-33.3%	1105.9	1525.9	-27.5%
EBITDA margins%	14.7%	17.7%	- 700 bps	16.6%	18.10%	-350 bps
PAT	793.0	927.9	-14.5%	927.9	998	-7.0%
PAT margins%	12.4%	14.5%	- 490 bps	13.9%	15.00%	- 250 bps
EPS	78.5	91.9	-14.6%	91.9	98.8	-7.0%

Source: Company, KJMC Research

Valuation

At the CMP of Rs 929 the stock is trading at 11.8x and 10.1x its FY10E and FY11E earnings of Rs 78.5 and Rs 91.9 respectively. We recommend a “Reduce” on the stock with target price of Rs 855 which translates into a potential downside of 8% from the CMP.

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Recommendation Parameters

Expected returns in absolute terms over a one-year period

Buy	-	appreciate more than 20% over a 12- month period
Accumulate	-	appreciate 10% to 20% over a 12- month period
Hold / Neutral	-	appreciate up to 10% over a 12- month period
Reduce	-	depreciate up to 10% over a 12- month period
Sell	-	depreciate more than 10% over a 12- month period

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