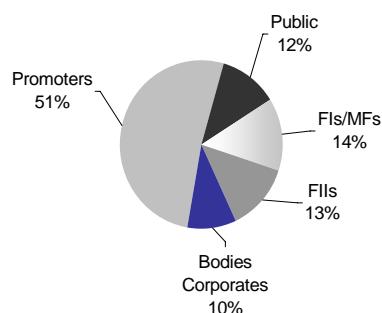


CMP Rs 762
BUY
Target Rs 1015

Sensex	15062
Nifty	4469
BSE Code	532757
NSE Code	VOLTAMP
Bloomberg Code	VAMP IN
Reuters Code	VOTL.BO

Out Standing Eq (No.of Shares)	10.12mn
Mkt Cap	Rs7711mn
52 wk Hi / Low	Rs.960 / 265
Avg Daily Vol(Wkly)	15132
Face Value	Rs.10.00

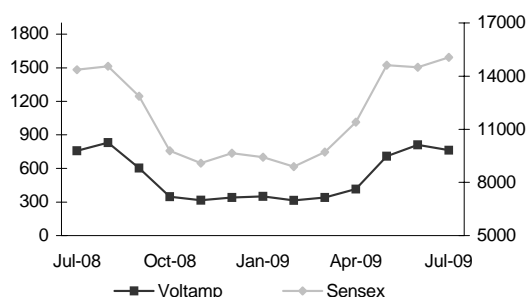
Share Holding Pattern



Stock Performance (%)

	3Mths	6Mths	1Year
Absolute	82	125	16
Relative	45	63	1

Price Movements


Amit Shah
amit.shah@indiacapitalmarkets.in
TEL +91-22-6777 6777

Voltamp Transformers Limited is among the top 3 players in building application transformers in the organised market and commands 20% market share in the industrial application transformers, with large installation base of more than 37000 transformers. We expect volumes to grow at a CAGR of ~14.5% over FY09-11 and expect revenues to grow at a CAGR of ~8.5% over the same period. Despite likely moderation in its FY10 earnings, any revival in order inflow in the current financial year on account of amplified focus on infrastructure development from the newly formed government will provide earnings upside in FY11.

Investment Rationale Highlights

De-Risked Business Model

The Company has a unique business model where unlike others, it generates 92% of its revenue from the industrial clients and only about 8% from the SEB's.

Market Leader in Dry Type of Transformers

The Company is a market leader in the Dry type distribution segment with 40% market share.

Strong Order Book

The Company has a strong order backlog of Rs 4.75 bn (representing 8806 mva) as on June 2009 which VTL expects to execute in current financial year.

Ramp up in capacity to meet additional demand

The Company plans to increase the installed capacity by 4000 MVA to 13000 MVA. The new facility is expected to commission by August 2009.

Valuation

At the current market price, the stock trades at 8.05x its FY 10E earnings of Rs 94.60 and 6.75x its FY 11E earnings of Rs 112.84. We recommend **BUY** with a target price of **Rs 1015** based on the P/E Multiple method (9x its FY11E earnings), i.e. a potential upside of 33% from its current levels. We believe the company offers decent opportunity to play on the India T&D sector story.

Financial Snapshot				(Rs.in Mn)
Particulars	FY2008	FY2009	FY2010E	FY2011(E)
Net Operating income	5623	6604	6290	7779
EBIDTA	1249	1672	1417	1618
EBIDTA(%)	21.22	23.49	20.62	19.06
PAT	799	1148	957	1142
PAT(%)	14.4	17.9	15.6	15.0
EPS (Rs.)	79	113	95	113
ROCE(%)	75.9	64.1	42.6	38.0
ROE(%)	48.5	43.4	27.7	25.7
P/Ex	9.7	6.7	8.1	6.8
EV/EBIDTAx	6.1	4.6	5.4	4.7

Source : Company, India Capital Markets Research

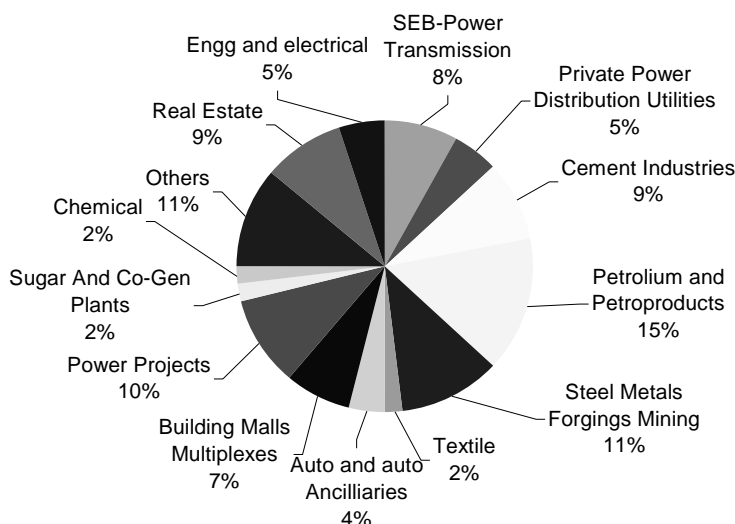
JULY 21, 2009

Investment Rationale

De-Risked Business Model

The Company has a unique business model where unlike others, it generates ~ 92% of its revenue from the industrial clients and only about 8% from the SEB's. This has helped the company to reduce its working capital requirement and subsequently improve its return ratios. Long term relationship which the Company has developed with the industrial clients has helped the Company to generate repeat business, although with aggressive marketing and new client acquisition, the Company's dependence on the top 10 clients has also come down from 51% in FY 04 to 39% in FY 2009.

Industry Wise Revenue split for 2009



Source: Company, India Capital Markets Research

Market Leader in Dry Type of Transformers

The Company is a market leader in the Dry type distribution segment with 40% market share. This segment has grown at a CAGR of 45% over the last 5 years. The Company expects the demand to continue to grow in this segment due to stringent government norms and increasing demand for the safe and environment friendly products and hence intends to double the installed capacity to 2000 MVA. It has also imported one more new casting plant from German suppliers which will be operational by the end of 1st half of current financial year.

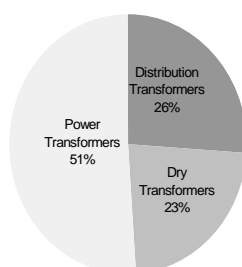
Variable Cost driven business model

The Company has created variable cost driven business model by outsourcing ancillary component like tank manufacturing, shot blasting, winding and core building of distribution transformer and radiators. VTL has also adopted a piece rate system to increase the productivity and decrease the staff costs, of the total staff of 700 people, company has only 161 people on its payroll. This has helped the company in reducing fixed cost and improving productivity for the company.

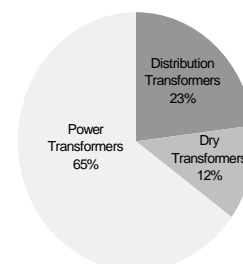
Strong Order Book

The Company has a strong order backlog of Rs 4.75 bn (representing 8806 mva) as on June 2009, which the Company expects to execute within the current financial year. The strong order book provides a decent visibility on the revenue front for the current financial year. The current order book size is 0.70x its FY09 revenue.

Value wise Orderbook break up



Volume wise Order book break up



Source: Company, India Capital Markets Research

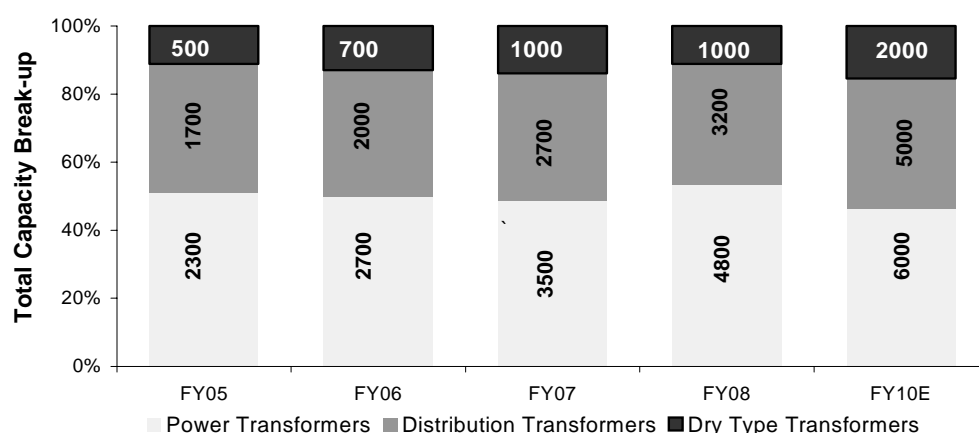
Better Margins due to high level of Customization

The Company enjoys better margins as there is high level of customization involved in the designs of the products as per the clients requirement and also as the execution cycle is shorter for the industrial client, due to a very tight delivery schedule.

Ramp up in capacity to meet additional demand

VTL currently operates at 106% of the existing installed Capacity. In order to meet the additional demand, VTL has a capex plan of Rs 270 mn which the Company expects to execute in the current financial year. The Company plans to increase the installed capacity by 4000 MVA to 13000 MVA. The new facility will be coming up at Savli in Baroda and will commission by August 2009. Once the new facility is set up, VTL plans to relocate the entire distribution transformers facility at the new place and utilize the existing facility for the manufacturing of power transformers.

Well Planned Capacity Expansion



Source: Company, India Capital Markets Research

Foray into 100MVA, 220KV class transformers

The Company has recently upgraded and forayed into 100 MVA, 220 KV class of transformers and has supplied order worth ~Rs 3crs from GETCO. The company has received a repeat order from GETCO for the same class of transformers.

Fall back strategy for SEB's

VTL had strategically decided to maintain lower exposure to state electricity boards (SEB's). This strategy had paid off in terms of better margins, better payment term and lower working capital requirement. With the slowdown in capex programme across various industries, VTL has started to cater to the SEB. The revenue contribution from SEB's which was less than 5% in FY08 has increased to 8% in FY 09. VTL has thus made a deliberate effort to increase its exposure to SEB's and use it as a fall back strategy in order to mitigate the risk of an industrial slowdown. VTL has recently bid for many SEB projects floated by SEB's like Haryana Rajashthan Maharashtra Gujarat etc and has an bagged an order worth Rs 810 mn from MSEB, which it expects to execute by the end of this financial year. In the current financial year we expect the contribution from SEB's to increase to 15% of the total sales.

Hedging mechanism to mitigate raw material risk

VTL has put in place a strong risk management system to mitigate any adverse price movements of raw materials like copper etc. It sources its raw material from Sterlite Ltd and Birla Copper Ltd. It has a unique way of entering into the contract with its clients. It enters into the contract on a cost plus basis, which means the tender, remains open for price variance clause till the order is confirmed. Once the client place the order VTL buys the copper from LME futures to hedge itself from price adversity. We believe that this strategy will help the company to reduce margin pressure from increase in raw material prices.

Healthy Balance sheet

VTL is a debt free Company with a superior working capital management system, this in turn has enabled the Company to manage its cash flows in a better way and enjoy superior return ratios as compared to its industry peers. It has an cash and cash equivalent of Rs 141per share.

Company Overview

Voltamp Transformers Limited is one of the manufacturers of transformers in India with focus on the industrial segment and large installation base of more than 37000 transformers. VTL has a capacity of 9000 MVA with a capability to manufacture transformers up to 100 MVA, 220 KV class for many applications covering most segments of users including industrial, utility and buildings. VTL caters to a wide spectrum of transformer users in various industries like: petrochemical, oil refining, cement, paper and pulp, pharmaceuticals, automobiles, steel, power plant, building, metro rail applications, mining and minerals and many others.

Voltamp Transformers operates mainly into 3 segments; Power Transformers, Distribution Transformers and Dry Type Transformers. The company has created three separate SBUs for each segment. Power and distribution transformers combined constituted 81% of revenues while dry type transformers constituted for the remaining 19% of revenues during F09. Power Transformers segment has grown at a CAGR of 41% over FY04-FY09 whereas Distribution Transformers segment has grown at a CAGR of 42% over the same period. Dry type transformers segment have shown a robust growth of 45% during the same period.

Product Portfolio

Products	Rating	Maximum Capacity
Power Transformers	66/110/132/220 KV	100 MVA
Distribution Transformers	11/22/33 KV	5 MVA
Dry Type Transformers	11/233KV	7.5 MVA

Source: Company, India Capital Markets Research

Product Description

Product	Applications
Power Transformers	Power transformers are used to transform low voltage from the generation point to high voltage at the transmission point.
Distribution Transformers	A Distribution Transformer is used to convert electrical energy of higher voltage to a lower voltage; it is usually the last in the chain of electrical energy supply. It is used to supply relatively small amounts of power to residences.
Dry Type Transformers	Dry type Transformers are used where there is a high risk of catching fire

Source: Company, India Capital Markets Research

Existing Manufacturing Facilities at Makarpura

Product Type	Power Transformers	Distribution Transformers	Dry Transformers	Total
Installed capacity	4800 MVA	3200 MVA	1000 MVA	9000 MVA
Product Range	5.00-100 MVA/220KV	315 KVA-5.00 MVA/33 KV	{63 KVA-7.5 MVA/33 KV}	

Source: Company, India Capital Markets Research

Proposed Facilities at Savli

Power Transformers	Distribution Transformers	Dry Transformers	Total
1200 MVA	1800 MVA	1000 MVA	4000 MVA
5.00-100 MVA/220KV	315 KVA-5.00 MVA/33 KV	{63 KVA-7.5 MVA/33 KV}	

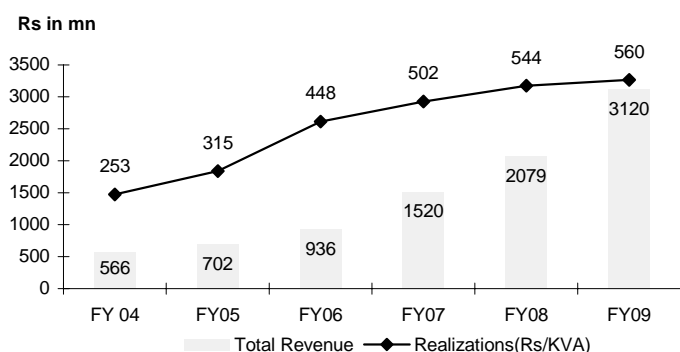
Source: Company, India Capital Markets Research

{The above proposed facilities will be commercially operational by August 2009}

Oil filled Power Transformers Segment: SBU 1

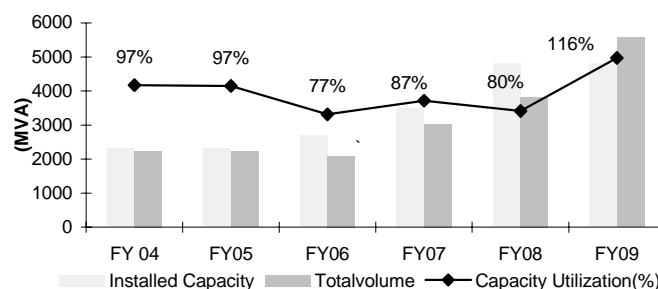
Voltamp manufactures power transformers up to the range of 100 MVA, 220 KV. This segment has grown at a 5 year CAGR of 41% between FY 04 and FY 09 on back of the strong demand from the EPC players and different industrial segment and also because of the aggressive marketing efforts from the Company. Voltamp was also able to improve its realizations Rs 253 per KVA in FY 04 to Rs 560 per KVA in FY09, because of shift in focus to higher rating power transformers.

Revenues and Realizations



Source: Company, India Capital Markets Research

Capacity and Utilization



Source: Company, India Capital Markets Research

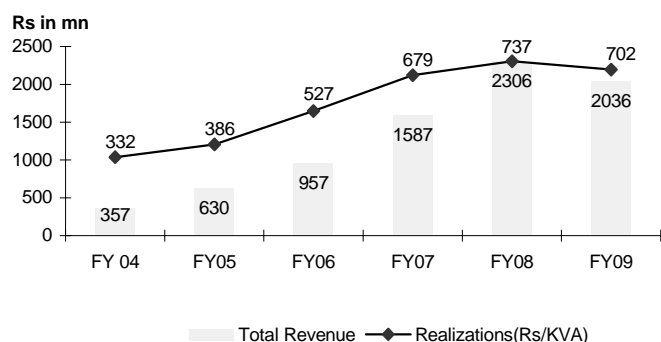
How ever we believe that the realizations for the power transformers segment has peaked and expect dip in the realizations in the coming years, as many players have put up additional facilities, which will increase competition and thereby put pressures on the realizations of the Company.

Voltamp is currently utilizing 116% of its installed capacities and is thus expanding its capacities by another 1200 MVA which is expected to start commercial production by August 2009. With the new capacity, Voltamps total installed capacity for the power transformer segment would reach to 6000 MVA.

Oil filled Distribution Transformers: SBU 2

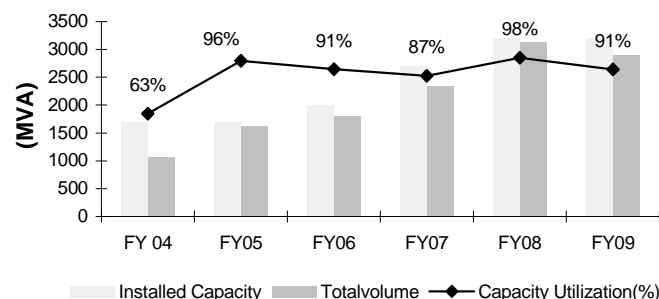
Voltamp manufactures oil filled transformers up to the range of 5 MVA, 33 KV rating. Revenue in this segment increased at a 5 year CAGR of 42% from FY 04 to FY09 on account of significant investment in T & D segment of power sector along with open access implementation and also as the realizations improved to Rs 702/KVA from Rs 332/KVA in FY 03.

Revenues and Realizations



Source: Company, India Capital Markets Research

Capacity and Utilization



Source: Company, India Capital Markets Research

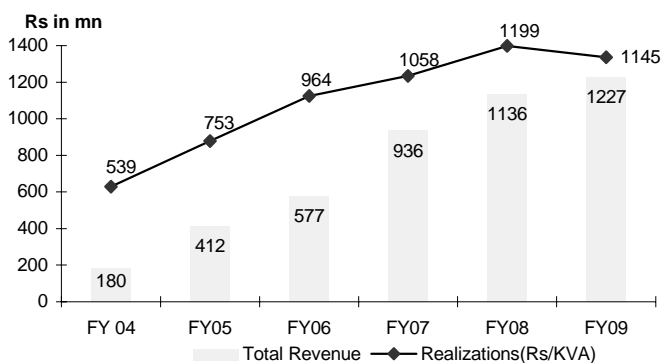
Voltamp has seen a huge surge in demand for the distribution transformers in the last few years and also due to its conservative expansion policy the company is utilizing its capacity above 90% levels. The Company plans to add another 1800 MVA facility during the current financial year, which is expected to start commercial production by August 2009. This would take the total installed capacity for the oil filled distribution transformers to 5000 MVA.

Dry Type Distribution Transformers: SBU 3

The company introduced dry type transformers in FY04 and from thereon the segment has grown at a CAGR of 45.4% till FY09. Dry type transformers find applications in multiplexes, housing complexes, SEZs, industries, shopping malls, etc. All these industries are growing at rapid pace leading to robust demand for the company's products. It has been a market leader with ~40% market share in this segment.

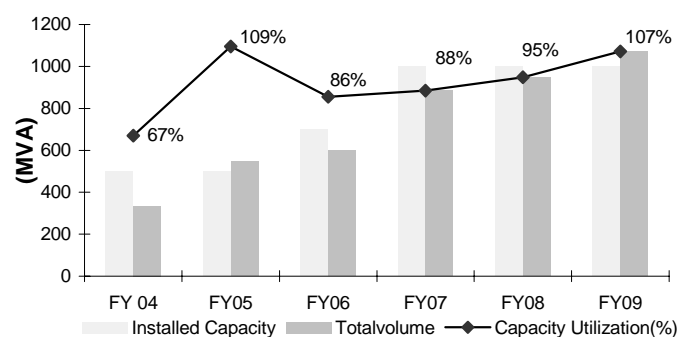
The Company currently operates its dry type transformers plant at 107.20% level. Anticipating huge demand from its user industries it has planned to double its capacity to 2000 MVA.

Revenues and Realizations



Source: Company, India Capital Markets Research

Capacity and Utilization



Source: Company, India Capital Markets Research

Voltamp manufactures two type of Dry type Transformers

Vacuum resin impregnated type

The company has entered into a technical collaboration in 1998, with m/s Mora Transformatoren GmbH, Germany for the manufacture of vacuum resin impregnated dry type transformers. Voltamp has ability to manufacture up to 5MVA, 11KV transformers under this product line.

Cast resin type

Voltamp has entered into a technical collaboration with HTT, Germany for the manufacture of cast resin dry type transformers. As the windings are casted, the cast resin type gets the additional insulation compared to vacuum impregnated dry type transformers. Under this product line, the company manufactures transformers up to 7.5MVA, 33KV ratings. Voltamp has installed one more new casting plant for increasing the capacity of cast resin transformers, the Company has imported the plant from Germany which will be operational by the end of 1st half of current financial year.

Comparison of Dry type transformers and Oil filled transformers

Characteristics	Dry Type	Oil Filled
Operational Safety	No fire hazard	Fire hazard
Location	Near Load center or even near to load	Away from workshop for fire safety
Smoke generation	Small	Heavy
Suitability for indoor use	Suitable as no fire risk	Generally not suitable
Suitability for higher ambient temperatures	Suitable as permissible temperature rise is higher	Un-economical as permissible temperature rise is low

Source: Company, India Capital Markets Research

Due to significant advantages of dry type transformers over oil filled transformers, there has been significant rise in the demand for dry type transformers. High demand has also resulted in phenomenal rise in the product's average realization, which has grown from Rs 539/KVA in FY04 to Rs1145/KVA in FY09.

Peer Group Comparison

Companies (FY 09)	Revenues	EBIDTA	PAT	EPS (Rs)	Price (Rs)	P/E	EV/Ebidta	EV/Sales	RoCE %	RoE%
Voltamp	6431	1672	1148	113	762	6.7	4.6	1.2	64.1	43.4
Indotech*	2067	646	390	37	263	7.1	4.4	1.3	50.5	36.5
Bharat Bijlee	5420	872	475	80	810	10.1	5.6	0.9	40.3	25.8
EMCO*	9963	1383	531	9	84	9.3	3.7	0.5	23.4	18.5
Transformers and Rectifiers	4801	783	441	34	304	8.9	6.0	0.9	28.0	19.5

Source : Company Annual Reports,Capitaline,India Capital Markets Research

*ROCE, ROE calculated on FY08 basis

Industry Overview

The Indian Transformer Industry stands at ~Rs 81 bn as on FY07 (Source: IEEMA). The transformer industry today is in a position to manufacture transformers covering the entire requirement of the country including higher system voltage of 800KV. The transformer industry is usually divided into distribution transformers, power transformers & other types of special transformers for welding, traction, furnace etc.

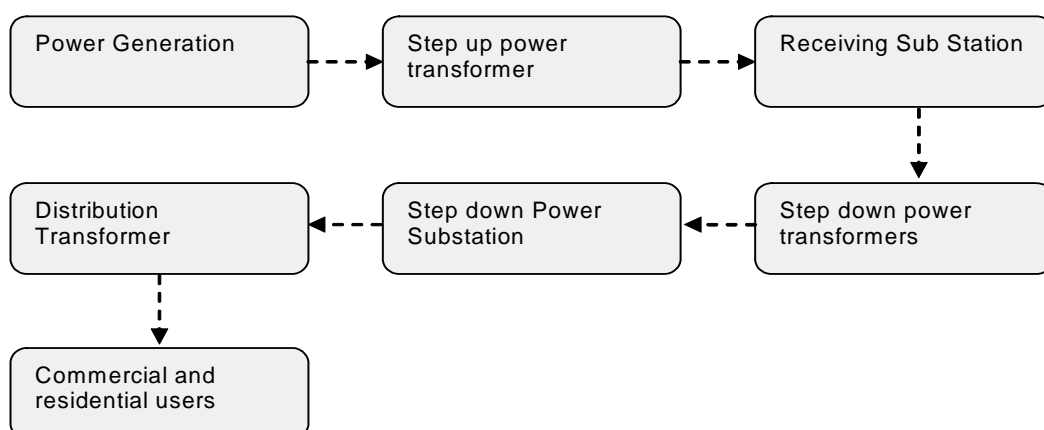
A transformer is a voltage changer.

There are mainly two types of transformers, namely power transformers and distribution transformers.

Power transformers are used to transform low voltage from the generation point to high voltage at the transmission point. The step-up power transformers are used to convert low voltage level to high voltage level and step-down transformers are used to decrease high voltage level at the transmission point to low voltage level at the sub transmission level.

A distribution transformer is used to convert electrical energy of higher voltage to a lower voltage; it is usually the last in the chain of electrical energy supply. It is used to supply relatively small amounts of power to residences.

Usage of Transformers



Transformers Industry

Over the past five years, the transformer industry grew at a 17.61% CAGR. The growth for power transformers was at 18.31% and for distribution transformers at 15.33%. The implementation of Accelerated Power Development Reform Program (APDRP) and the introduction of Accelerated Rural Electrification Programme (AREP) are responsible for the increased business potential for the industry. There are about 150 transformer companies in India, with an overall production of approximately 153373 MVA per annum.

(Units in MVA)						
Production	March-05	March-06	March-07	March-08	March-09	CAGR
Power Transformers	60787	62577	77674	94390	119101	18.31%
Distribution transformers	19369	27181	35188	40412	34272	15.33%
Total	80156	89758	112862	134802	153373	17.61%

Source: CMIE IAS

The total transformer capacity available in India is ~180,438 MVA (FY09) operating at 85.00% utilization resulting in an output of 153,373MVA. However, there is a total demand of 176,847 MVA (123,550 MVA on the back of fresh generation capacity addition, 17,708.20 MVA due to replacement, and 30,240 MVA on the back of exports) at present, and is expected to grow at 22% CAGR over 2007-12. This led to an actual demand-supply gap of 23,474 MVA in FY09. Although many leading players have ramped up their capacities, the residual demand-supply gap is not likely to be plugged fully.

Particulars	FY07	FY08	FY09	FY10	FY11	FY12
Power Generation (MW)	128581	137884	155534	173184	190834	216831
Average Generation Capacity to be added(MW)		17650	17650	17650	17650	17650
Transformer Demand (MVA)						
Total Transformers Installed capacity (MVA)	900067	1071874	1248721	1434728	1627993	1829967
Demand from power generation(MVA)	0	123550	123550	123550	123550	123550
Replacement Demand (MVA) (Yr.1980-85)	88541*	17708	17708	0	0	0
Replacement Demand (MVA) (Yr.1985-90)	104101*	0	0	20820	20820	20820
Demand from Captive Consumption (MVA)	26744^	5348.84	5348.84	5348.84	5348.84	5348.84
Exports (MVA)	17500^	21000	25200	30240	36288	43546
Incremental Exports Demand	3500	4200	5040	6048	7258	8709
Incremental Exports growth rate!	20%	20%	20%	20%	20%	20%
Total Demand (MVA)		171807	176847	186007	193265	201974
Transformer Supply						
Installed capacity (MVA)	136260	161260	180438	198482	218330	240163
Incremental Capacity addition (MVA)		25000	19178	18044	19848	21833
Incremental capacity Growth rate!		18%	12%	10%	10%	10%
Industry Capacity Utilisation!	83%	84%	85%	85%	85%	85%
Total Supply	112862	134652	153372	168710	185581	204136
Demand Supply mismatch		37155	23475	17297	7684	-2162
Demand Supply mismatch %		22%	13%	9%	4%	-1%
Demand Supply mismatch in Next three years (FY10-12)			22819			

Source :India Capital Markets Research

* Actual Installations during the years

^ Actual numbers for the year FY 06

! Assumptions from India Capital Markets Research

Business Outlook and Drivers

Investment Overview of Power Sector (Rs bn)	
Particulars	Amount
Generation	4,109
Repairs & Maintenance	159
Distributed Decentralized Generation	200
Transmission Projects	1,400
Distribution Projects (Including Rural Electrification Investment of Rs.400 bn)	2,870
HRD	5
R&D Outlay	12
Demand Side Management	7
Captive Power Plants	1,155
Merchant Power Plants	400
Total	10,316

Source: Infraline website

Investment in the power Sector

The investment to be made in the power segment in the 11th 5-Year Plan is expected to be huge. In the 11th five year plan, 78,577 mw of power generation capacity, ~ 2,95,000 ckm of transmission lines addition and ~1,37,000 MVA of substation capacity has been planned. The projected investment to achieve the afore-mentioned target in the generation sector is huge at Rs 4109 bn for the 11th 5-Year Plan. The planned total investment in the T&D segment in the 11th 5 Year Plan is close to Rs 4,270bn (including rural electrification). This huge investment will entail a massive opportunity for all the companies in the T&D space in the country. The major driver for demand for transformers and meters is the Rural Electrification and the APDRP scheme. The APRDP scheme encourages the states to reduce Aggregate Technical and Commercial (AT&C) losses by upgrading their network and through efficient metering and billing, which in turn will generate huge demand for the meters. The formation and integration of the National Grid will also be one of the demand drivers for transformers, transmission towers and substation. The power grid is taking the total grid capacity from the current 17,000MW to 37,150MW by the end of the XIth five-year plan (2007-12).

Replacement Demand for Transformers

Transformers have a useful life of 20-30 years. Hence, those transformers which were installed during the 1980's are likely to be replaced over the next few years. The same would be as given below:

Particulars		Capacity (at the end of the period in MVA)			Capacity Additions in MVA		
Plan	Period	Power	Distribution	Total	Power	Distribution	Total
4th Pan	1970-75	75734	25884	101618	NA	NA	NA
5th Plan	1975-80	124275	39061	163336	48541	13177	61718
6th Plan	1980-85	191371	60506	251877	67096	21445	88541
7th Plan	1985-90	272527	83451	355978	81156	22945	104101

(Source: Energy, May 2005, Centre for Monitoring Indian Economy, Mumbai)

As seen above, at the end of the sixth five-year plan a total of 88,541 MVA of transformer capacity was added. Of this power transformers accounted for 76% and the balance 24% was on account of distribution transformers. On an average, about 17,708 MVA of transformer capacity has been added annually during the sixth five-year plan. Since the life of these transformers exceeds 20 years, they are eligible for a replacement.

Massive capex planned by user industries is likely to ensure strong demand for power equipment

The key growth driver for the transformer industry has been the new capex in Power; Infrastructure related industries, SEZs, and overall industrial expansion. All capex in the afore-mentioned sectors would necessitate the use of captive power plant as it will be much more economical and reliable as compared to power supply from the grid, which in turn will generate demand for the transformers. According to industry sources, over the next 8-10 years, capex of about Rs 9000 billion in the power sector, Infrastructure related Industries, SEZs, and general industrial expansion is likely to be incurred, which will ensure strong demand for transformers. The dry type transformers will also be in huge demand as their application increases in the retail stores, malls, hotels and other commercial places.

Risks and Concerns

Growth dependent on initiatives taken by the government

Any delay in the implementation of the 11th five year plan by the Government would lead to a fall in demand for transformers used in the generation, transmission and distribution segments as transformer demand is driven by addition in power generation capacity. This could lead to a decline in revenue and profitability for VTL.

Further slowdown in corporate capex plan execution

Any further slowdown in corporate capex planning and execution due to prevailing economic slowdown and tight liquidity may impact the growth of VTL and thereby may impact the top line and bottom line of the Company.

Raw Material Cost

Copper, CRGO, Transformer Oil and steel are the main raw materials required for the manufacturing of the Company's products; hence any further rise or volatility in the prices of these raw materials may impact the margins or growth of the company as it constitutes ~70% of the net sales.

High Level of Competition might create pressure on the margins

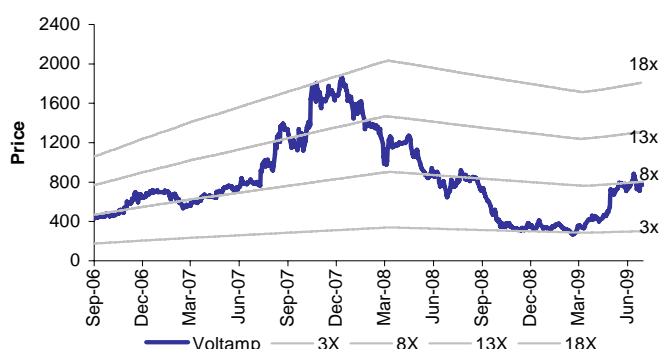
Huge Capacity addition has taken place in the transformers business segment, as many players have expanded their existing capacities to take benefits of the increasing demand of transformers from the user industries. This new capacities can put pressure on the growth of revenue and margins of VTL.

Outlook Valuation and Rating

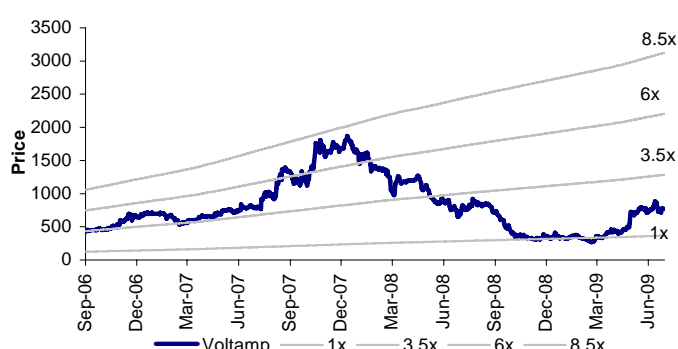
We hold a positive outlook on Voltamp Transformers Limited on account of its de-risked business model, leadership in dry type transformers, demonstrated execution capabilities and its progressively growing presence in utility segment. With an established set-up and capacity addition on stream, we believe Voltamp Transformers Limited would be among the key beneficiaries of any revival and increased investment in sectors such as power, cement, real estate, steel, etc which contributes significantly to its top line as well as the bottom line. We expect volumes to grow at a CAGR of ~14.5% over FY09-11 and expect revenues to grow at a CAGR of ~8.5% over the same period. Despite likely moderation in its FY10 earnings, pick up in order inflow in the current financial year on account of amplified focus on infrastructure development from the newly formed government will provide earnings upside in FY11. At the current market price, the stock trades at 8.05x its FY 10E earnings of Rs 94.60 and 6.75x its FY 11E earnings of Rs 112.84. We recommend **BUY** with a target price of Rs 1015 based on the P/E Multiple method (9x its FY11E earnings), i.e. a potential upside of 33% from its current levels.

One Year Forward Rolling Valuation Band Chart

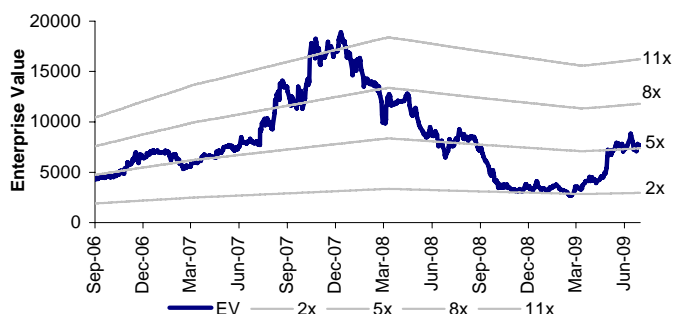
PE Ratio



PBV Ratio



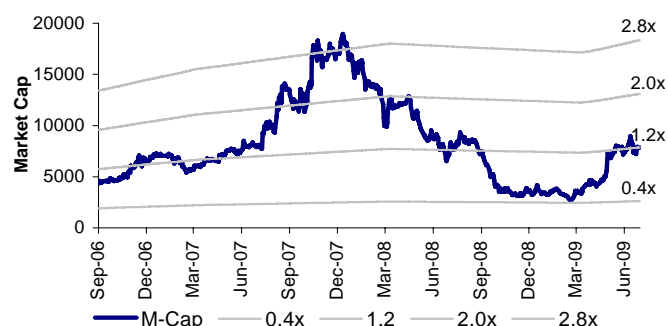
EV-EBIDTA



EV-Sales

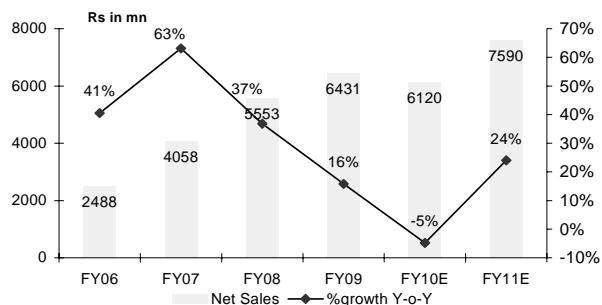


M-Cap Sales



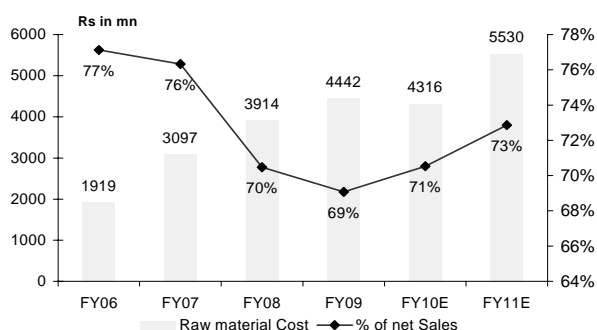
Source: Company, India Capital Markets Research

Financial and Earnings Outlook



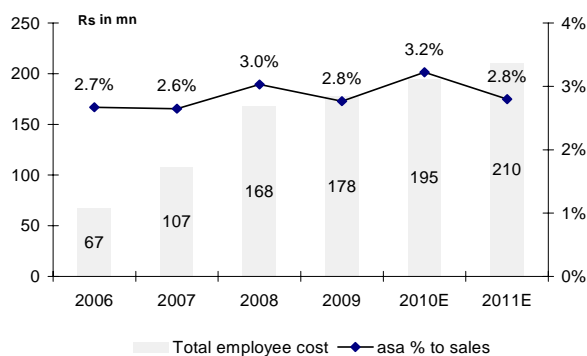
Moderate Top Line Growth

The Company's revenues increased to Rs 6603.81 mn in FY09 from Rs 4104.79 mn in FY07, i.e. a CAGR growth of 27%. Given the industry scenario and the current order book position of Rs 4750 mn, we expect the revenues to grow at a CAGR of 8.5% to Rs 7779 mn by FY11E. Despite likely moderation in FY10 revenue, we believe that the likely pick up in the order inflow in the current financial year on account of the increased focus from the government side on infrastructure development will help the company to post robust revenue growth in FY 11.



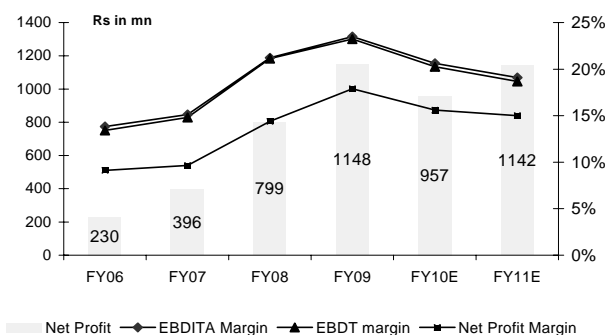
Raw material cost

Raw Material forms the major component of the total cost of a transformer. It constitutes ~ 70% of net sales. VTL bags a majority of its orders from Industrial Clients, and most of the contracts are fixed price contracts. VTL uses hedging mechanism to prevent the volatility in the raw material prices impact its operating margins. VTL has been able to manage its raw material cost in the effective way in the past and we expect the same from VTL in the near future.



Employee cost

VTL's current workforce strength is of 700 people with only 161 people on the payroll. With the new transformers capacity coming up in the current financial year. We expect the total employee cost to stabilize around 2%-3% of the net sales over the next few years.



Margins

Voltamp's operating profits have grown at a CAGR of 65% from FY 06-09 due to a better product mix, better inventory management and also because of better realizations. The Company currently enjoys an operating margin of 23.20% which is amongst the best in the industry. We expect the margins of the Company to subdue a bit in the near future to 19% owing to tough economic scenario, increase in the competition and thereby reduction in the realizations.

Source: Company, India Capital Markets Research

Voltamp Transformers Ltd

Financial Statements

Income Statement

(Rs.in Mn.) (YE March)	FY 2008	FY 2009	FY2010(E)	FY 2011(E)
Net Operating Income	5623	6604	6290	7779
Growth (%)	37.0	17.4	-4.8	23.7
Raw material Cost	3914	4442	4316	5530
Personnel Cost	168	178	195	210
General and Administration Exp	67	78	112	130
Selling Exp	38	24	62	75
Other Expenses	187	211	188	216
Total Operating Expenses	4375	4932	4872	6161
EBIDTA	1249	1672	1417	1618
Margins (%)	21.2	23.5	20.6	19.1
Interest	5	5	8	12
Depreciation	31	45	71	75
Other Income	38	67	120	140
PBT	1250	1689	1458	1671
Tax	451	541	501	529
PAT	799	1148	957	1142
Margins (%)	14.4	17.9	15.6	15.0
Minority Interest	0	0	0	0
Profit after Minority Interest	799	1148	957	1142
Margins (%)	14.4	17.9	15.6	15.0
EPS	79	113	95	113
FV	10	10	10	10

Balance Sheet

(Rs.in Mn.) (YE March)	FY 2008	FY 2009	FY2010(E)	FY 2011(E)
Equity Capital	101	101	101	101
Reserves and Surplus	1546	2546	3355	4349
Shareholders funds	1647	2647	3456	4450
Secured Loans	10	0	0	0
Unsecured Loans	0	0	0	0
Total Loans	10	0	0	0
Deferred Tax Liability	-3	-5	-5	-5
Minority Interest	0	0	0	0
Capital Employed	1655	2642	3452	4446
Gross Block	325	371	595	625
Less: Depreciation	147	190	262	337
Net Block	178	180	333	288
CWIP	17	144	30	0
Investments	581	1353	2052	2595
Inventory	807	523	555	900
Receivables	826	1019	1050	1350
Cash and Bank	46	61	102	121
Loans and Advances	94	63	91	135
Current Assets	1773	1664	1798	2506
Payables	139	24	40	70
Other Liabilities and Prov.	755	675	721	873
Current Liabilities	894	699	761	943
Net Current Assets	879	965	1037	1563
Misc. Expenses not w/o	0	0	0	0
Capital Deployed	1655	2642	3452	4446

Source: Company, India Capital Markets Research

Ratio Analysis

	FY 2008	FY 2009	FY2010(E)	FY 2011(E)
Return Ratios (%)				
EBIDTA	21.2	23.5	20.6	19.1
PBT	22.5	26.3	23.8	22.0
PAT	14.4	17.9	15.6	15.0
RoCE	75.9	64.1	42.6	38.0
RoE	48.5	43.4	27.7	25.7
RoA	31.4	34.4	22.7	21.2
Growth Ratios (%)				
Net Sales	36.9	15.8	-4.8	24.0
EBIDTA	92.1	27.1	-16.8	14.6
PAT	102.0	43.7	-16.6	19.3
Per Share data				
EPS	79	113	95	113
CEPS	82	118	102	120
BV	163	262	342	440
DPS	12.5	12.5	12.5	12.5
Valuation Ratios (x)				
PE	9.7	6.7	8.1	6.8
CPE	9.3	6.5	7.5	6.3
Market Cap/Sales	1.4	1.2	1.3	1.0
EV/Sales	1.4	1.2	1.2	1.0
EV/EBIDTA	6.1	4.6	5.4	4.7
CMP/BV	4.7	2.9	2.2	1.7
Dividend Payout (%)	125.0	125.0	125.0	125.0
Dividend Yield (%)	1.6	1.6	1.6	1.6
Turnover Ratios				
Sales/Total Assets (x)	3.1	2.3	1.7	1.6
Sales/Net FA (x)	28.6	19.8	16.9	26.4
Debtors turnover (days)	54.0	56.0	61.0	63.0
Inventory turnover (days)	70.0	42.0	45.0	57.0
Payable turnover (days)	12.0	2.0	3.0	4.0
Work. Cap. Turn (days)	112.0	96.0	103.0	116.0
Other Key Ratios				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Coverage Ratio	247.7	358.0	177.2	134.9
Current Ratio (x)	2.0	2.4	2.4	2.7
Quick Ratio (x)	1.1	1.6	1.6	1.7
Cash Flow Statement				
(Rs.in Mn.) (YE March)	FY 2008	FY 2009	FY2010(E)	FY 2011(E)
Cash generated from operations	456	1059	872	563
cash flow form Investments	-406	-881	-674	-384
Cash Flow from Financing	-98	-163	-156	-160
Net addition to cash during the year	-48	15	42	19
Opening Cash and cash balance	95	46	61	102
Closing cash and cash balance	46	61	102	121

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