

August 3, 2010

HOLD

| | |
|--------|--------------|
| Price | Target Price |
| Rs 933 | Rs 955 |
| Sensex | 18,119 |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------|-----|-----|-----|-----|
| Absolute | 0 | 2 | 1 | 19 |
| Rel. to Sensex | (3) | (1) | (8) | 3 |

Source: Bloomberg

Stock Details

| | |
|-----------------------------|-------------|
| Sector | Transformer |
| Reuters | VOTL.BO |
| Bloomberg | VAMP@IN |
| Equity Capital (Rs mn) | 101 |
| Face Value(Rs) | 10 |
| No of shares o/s (mn) | 10 |
| 52 Week H/L | 1,108/691 |
| Market Cap (Rs bn/USD mn) | 9/195 |
| Daily Avg Volume (No of sh) | 94534 |
| Daily Avg Turnover (US\$m) | 2.1 |

Shareholding Pattern (%)

| | J'10 | M'10 | D'09 |
|--------------|------|------|------|
| Promoters | 46.1 | 46.1 | 46.1 |
| FII/NRI | 24.2 | 24.5 | 24.3 |
| Institutions | 11.0 | 10.0 | 10.0 |
| Private Corp | 8.9 | 9.0 | 9.5 |
| Public | 9.9 | 10.4 | 10.1 |

Source: Capitaline

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- Competition led significant hit (470 bps yoy) in the EBITDA margins to 10.9%, resulted in PAT decline of 28% yoy
- Pricing visibility not there, margins to remain under pressure; annual report MDA hints towards much lower margins
- Downgrade earnings by 15%/14% for FY11E/12E driven by lower margin (-300bps) assumption (14.5%/15% in FY11E/12E)
- Valuations (EV) not cheap at 7.7x FY11E EBITDA (8% premium to peers); Downgrade to Hold, retain target of Rs955

EBITDA margins decline by 470bps yoy - competition visible in numbers

Voltamp reported numbers which were significantly below expectations mainly due to much lower EBITDA margins. It reported 15% yoy growth in revenues to Rs1.2bn which was slightly lower than our expectations of Rs1.3bn. The revenue growth was driven by 20% yoy volume growth to 1908MVA. However, realizations continued there downward pressure (-5% yoy) to Rs0.63mn/MVA. The realization decline is attributed to competition and consequently, the EBITDA margins declined by 470bps yoy to 10.9% versus our expectations of 17.5%. As a result of 470bps drop in EBITDA margins, EBITDA and PAT declined by 20% and 28% to Rs130mn and Rs107mn (our expectations Rs223mn and Rs173mn respectively).

Downgrade earnings by 14%/15% for FY11E/12E

Though we see slow improvement in numbers starting Q3FY11E due to - (1) higher commodity prices yoy driving absolute EBITDA in the transformer business, (2) pick up in the industrial capex and acceleration in utilities ordering. But, the pace of improvement is still not clear as the pricing still lacks visibility. Even the management discussion in the annual report hints towards much lower margins in FY11E versus FY10. Thus, though we continue to build in 15% volume growth but lower our EBITDA margin assumptions. We have now built in 14.5%/15% EBITDA margins versus earlier assumption of 17.5%/17.8% in FY11E/12E. As a result, we downgrade our earnings by 15%/14% to Rs72.4/89.4 for FY11E/12E.

Valuations not cheap; Downgrade to Hold

At CMP of Rs945, the stock is trading at 12.9x FY11E earnings, 2.3x FY11E Book value (ROE of 20%) and 7.7x FY11E EBITDA. On EV/EBITDA basis, the stock is trading at 8% premium to peers. Considering lack of pricing visibility in the industry, the valuations are not cheap. Unless there is visible improvement in the pricing scenario, we expect the transformer pack to underperform. Consequently, we expect the transformer stocks to languish for next 3 months at least.

We have valued Voltamp at 10% premium (considering strong balance sheet and track record) to peers, on EV/EBITDA basis. However, we do not see significant upside from the current level and downgrade the stock to hold rating, retain our price target of Rs955/Share (8x FY11E EBITDA).

Financial Snapshot

Rs Mn

| YE- | Net | EBITDA | | EPS | EPS | RoE | | EV/ | | |
|-------|-------|--------|------|-------|-------|--------|------|------|--------|------|
| Mar | Sales | (Core) | (%) | APAT | (Rs) | % chg | (%) | P/E | EBITDA | P/BV |
| FY09 | 6,442 | 1,456 | 22.6 | 1,082 | 106.9 | 35.5 | 53.5 | 8.2 | 5.5 | 3.6 |
| FY10 | 5,361 | 993 | 18.5 | 796 | 78.6 | (26.4) | 27.6 | 11.4 | 8.0 | 2.8 |
| FY11E | 6,535 | 949 | 14.5 | 733 | 72.4 | (7.9) | 20.3 | 12.9 | 7.7 | 2.4 |
| FY12E | 7,741 | 1,158 | 15.0 | 904 | 89.4 | 23.4 | 21.1 | 10.4 | 6.1 | 2.0 |

| Rs mn | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 | Q1FY11 | YoY (%) | QoQ (%) |
|--------------------------------|--------------|--------------|---------------|---------------|---------------|--------------|--------------|
| Revenue | 1,042 | 1,112 | 1,445 | 1,821 | 1,193 | 14.5 | -34.5 |
| Expenditure | -880 | -913 | -1,117 | -1,452 | -1,063 | 20.9 | -26.8 |
| as % of sales | -84.4% | -82.1% | -77.3% | -79.7% | -89.1% | | |
| Consumption of RM | -765 | -821 | -1,062 | -1,384 | -996 | 30.1 | -28.0 |
| as % of sales | -73.4% | -73.8% | -73.5% | -76.0% | -83.5% | | |
| Power and Fuel | 0 | 0 | 0 | 0 | 0 | | |
| as % of sales | 0 | 0 | 0 | 0 | 0 | | |
| Other Mfg Expenses | 0 | 0 | 0 | 0 | 0 | | |
| as % of sales | 0 | 0 | 0 | 0 | 0 | | |
| Employee Cost | -44 | -34 | -36 | -40 | -41 | -7.8 | 1.4 |
| as % of sales | -4.3% | -3.0% | -2.5% | -2.2% | -3.4% | | |
| Other expenditure | -70 | -59 | -18 | -28 | -26 | -62.3 | -5.0 |
| as % of sales | -6.7% | -5.3% | -1.3% | -1.5% | -2.2% | | |
| EBITDA | 162 | 199 | 328 | 369 | 130 | -19.9 | -64.8 |
| Depreciation | -10 | -10 | -20 | -20 | -18 | 83.7 | -8.0 |
| EBIT | 152 | 189 | 308 | 350 | 112 | -26.5 | -68.0 |
| Other Income | 0 | 0 | 0 | 0 | 0 | | |
| Interest | 70 | 64 | 43 | 48 | 44 | -37.9 | -8.6 |
| PBT | 223 | 252 | 351 | 398 | 156 | -30.1 | -60.9 |
| Tax | -74 | -80 | -110 | -133 | -48 | -35.0 | -63.8 |
| Adjusted PAT | 149 | 172 | 241 | 265 | 107 | -27.7 | -59.4 |
| Extra ordinary items | 0 | 0 | 0 | 0 | 0 | | |
| Reported PAT | 149 | 172 | 241 | 265 | 107 | -27.7 | -59.4 |
| (Profit)/loss from JV's/Ass/MI | 0 | 0 | 0 | 0 | 0 | | |
| PAT after MI | 149 | 172 | 241 | 265 | 107 | -27.7 | -59.4 |
| Reported EPS | 14.7 | 17.0 | 23.8 | 26.1 | 10.6 | -27.7 | -59.4 |

| Margins (%) | | | | | | (bps) | (bps) |
|--------------------|------|------|------|------|------|-------|-------|
| EBIDTA | 15.6 | 17.9 | 22.7 | 20.3 | 10.9 | -468 | -940 |
| EBIT | 14.6 | 17.0 | 21.3 | 19.2 | 9.4 | -524 | -983 |
| EBT | 21.4 | 22.7 | 24.3 | 21.8 | 13.0 | -833 | -879 |
| PAT | 14.3 | 15.4 | 16.7 | 14.5 | 9.0 | -526 | -552 |
| Effective Tax rate | 33.3 | 31.9 | 31.3 | 33.5 | 31.0 | -230 | -248 |

Financials

Income Statement

| Y/E, Mar (Rs. mn) | FY09 | FY10 | FY11E | FY12E |
|--------------------------------|--------------|--------------|--------------|--------------|
| Net Sales | 6,442 | 5,361 | 6,535 | 7,741 |
| <i>Growth (%)</i> | 16.0 | -16.8 | 21.9 | 18.5 |
| Expenditure | 4,986 | 4,368 | 5,586 | 6,583 |
| Raw Materials | 4,698 | 4,111 | 5,305 | 6,268 |
| Construction Exp | 102 | 96 | 108 | 122 |
| Employee Cost | 181 | 155 | 172 | 192 |
| Other Exp | 5 | 6 | 0 | 0 |
| EBITDA | 1,456 | 993 | 949 | 1,158 |
| <i>Growth (%)</i> | 24.5 | -31.8 | -4.4 | 22.0 |
| EBITDA margin (%) | 22.6 | 18.5 | 14.5 | 15.0 |
| Depreciation | 45 | 60 | 90 | 107 |
| EBIT | 1,411 | 934 | 859 | 1,051 |
| EBIT margin (%) | 21.9 | 17.4 | 13.1 | 13.6 |
| Other Income | 174 | 245 | 235 | 299 |
| Interest expenses | 0 | 0 | 0 | 0 |
| PBT | 1,585 | 1,179 | 1,094 | 1,350 |
| Tax | 503 | 383 | 361 | 445 |
| <i>Effective tax rate (%)</i> | 31.9 | 32.5 | 33.0 | 33.0 |
| Adjusted PAT | 1,082 | 796 | 733 | 904 |
| (Profit)/loss from JV's/Ass/MI | 0 | 0 | 0 | 0 |
| Adjusted PAT after MI | 1,082 | 796 | 733 | 904 |
| <i>Growth (%)</i> | 35.5 | -26.4 | -7.9 | 23.4 |
| Net Margin (%) | 16.8 | 14.8 | 11.2 | 11.7 |
| E/O items | 66 | 30 | 0 | 0 |
| Reported PAT | 1,148 | 826 | 733 | 904 |
| <i>Growth (%)</i> | 43.7 | -28.1 | -11.2 | 23.4 |

Cash Flow

| Y/E, Mar (Rs. mn) | FY09 | FY10 | FY11E | FY12E |
|------------------------------|--------------|--------------|--------------|--------------|
| PBT (Ex-Other income) | 1,511 | 979 | 859 | 1,051 |
| Depreciation | 45 | 60 | 90 | 107 |
| Interest Provided | 0 | 0 | 0 | 0 |
| Other Non-Cash items | 0 | 0 | 0 | 0 |
| Chg in working cap | -99 | -450 | -58 | -315 |
| Tax paid | -510 | -423 | -291 | -386 |
| Operating Cashflow | 946 | 165 | 600 | 457 |
| Capital expenditure | -174 | -207 | -50 | -300 |
| Free Cash Flow | 772 | -42 | 550 | 157 |
| Other income | 174 | 245 | 235 | 299 |
| Investments | 0 | 0 | 0 | 0 |
| Investing Cashflow | 0 | 38 | 185 | -1 |
| Equity Capital Raised | 0 | 0 | 0 | 0 |
| Loans Taken / (Repaid) | -10 | 0 | 0 | 0 |
| Interest Paid | 0 | 0 | 0 | 0 |
| Dividend paid (incl tax) | -126 | -126 | -149 | -149 |
| Income from investments | -24 | -21 | 0 | 0 |
| Others | 0 | 2 | 0 | 0 |
| Financing Cashflow | -160 | -145 | -149 | -149 |
| Net chg in cash | 786 | 58 | 635 | 306 |
| Opening cash position | 627 | 1,413 | 1,471 | 2,106 |
| Closing cash position | 1,413 | 1,471 | 2,106 | 2,413 |

Balance Sheet

| Y/E, Mar (Rs. mn) | FY09 | FY10 | FY11E | FY12E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Equity share capital | 101 | 101 | 101 | 101 |
| Reserves & surplus | 2,546 | 3,224 | 3,808 | 4,563 |
| Net worth | 2,647 | 3,325 | 3,909 | 4,664 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Secured Loans | 0 | 0 | 0 | 0 |
| Unsecured Loans | 0 | 0 | 0 | 0 |
| Loan Funds | 0 | 0 | 0 | 0 |
| Net deferred tax liability | -6 | -3 | -3 | -3 |
| Total Liabilities | 2,642 | 3,323 | 3,907 | 4,662 |
| Gross Block | 371 | 682 | 737 | 1,037 |
| Less: Depreciation | 190 | 245 | 335 | 442 |
| Net block | 180 | 437 | 402 | 595 |
| Capital work in progress | 144 | 35 | 30 | 30 |
| Investment | 0 | 0 | 0 | 0 |
| Current Assets | 3,017 | 3,493 | 4,316 | 5,030 |
| Inventories | 523 | 605 | 687 | 814 |
| Sundry debtors | 1,019 | 1,304 | 1,416 | 1,677 |
| Cash & bank balance | 1,413 | 1,471 | 2,106 | 2,413 |
| Loans & advances | 63 | 113 | 107 | 127 |
| Other current assets | 0 | 0 | 0 | 0 |
| Current lia & Prov | 699 | 642 | 842 | 994 |
| Current liabilities | 424 | 392 | 522 | 615 |
| Provisions | 275 | 250 | 320 | 379 |
| Net current assets | 2,318 | 2,851 | 3,475 | 4,036 |
| Misc. exp & Def. Assets | | | | |
| Total Assets | 2,642 | 3,323 | 3,907 | 4,662 |

Key Ratios

| Y/E, Mar | FY09 | FY10 | FY11E | FY12E |
|----------------------------|-------|-------|-------|-------|
| Profitability (%) | | | | |
| EBITDA Margin | 22.6 | 18.5 | 14.5 | 15.0 |
| Net Margin | 16.8 | 14.8 | 11.2 | 11.7 |
| ROCE | 65.5 | 31.2 | 23.7 | 24.5 |
| ROE | 53.5 | 27.6 | 20.3 | 21.1 |
| RoIC | 85.2 | 40.9 | 31.5 | 34.8 |
| Per Share Data (Rs) | | | | |
| EPS | 106.9 | 78.6 | 72.4 | 89.4 |
| CEPS | 111.3 | 84.5 | 81.3 | 99.9 |
| BVPS | 261.6 | 328.6 | 386.3 | 460.9 |
| DPS | 12.5 | 12.5 | 14.8 | 14.8 |
| Valuations (x) | | | | |
| PER | 8.2 | 11.4 | 12.9 | 10.4 |
| P/CEPS | 8.4 | 11.0 | 11.5 | 9.3 |
| P/BV | 3.6 | 2.8 | 2.4 | 2.0 |
| EV / Sales | 1.2 | 1.5 | 1.1 | 0.9 |
| EV / EBITDA | 5.5 | 8.0 | 7.7 | 6.1 |
| Dividend Yield (%) | 1.3 | 1.3 | 1.6 | 1.6 |
| Gearing Ratio (x) | | | | |
| Net Debt/ Equity | -0.5 | -0.4 | -0.5 | -0.5 |
| Net Debt/EBITDA | -1.0 | -1.5 | -2.2 | -2.1 |
| Working Cap Cycle (days) | 51 | 94 | 76 | 77 |

Recommendation History: Voltamp Transformers – VAMP IN

| Date | Reports | Reco | CMP | Target |
|------------|--|------------|-----|--------|
| 13.05.2010 | Voltamp Q4FY10 Result update | Accumulate | 869 | 955 |
| 02.02.2010 | Voltamp Q3FY10 Result Update | Accumulate | 920 | 955 |
| 03.11.2009 | Voltamp Q2FY10 Result Update | Buy | 770 | 955 |

Recent Research Reports

| Date | Reports | Reco | CMP | Target |
|------------|--|------------|-------|--------|
| 30.07.2010 | Emco Q1FY11 Result Update | Reduce | 67 | 60 |
| 28.07.2010 | Transformers & Rectifiers Q1FY11 Result Update | Accumulate | 418 | 448 |
| 26.07.2010 | NTPC Q1FY11 Result Update | Accumulate | 202 | 220 |
| 23.07.2010 | Bharat Bijlee Q1FY11 Result Update | Accumulate | 1,260 | 1,350 |

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