



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

4th Dec 2017

VOLTAMP TRANSFORMERS LIMITED

BSE : VOLTAMP

Sector: POWER & TRANSMISSION

BSE: 537524

View - BUY

CMP : Rs. 1045

Target Price: Rs 1270 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Established in 1963, Voltamp Transformers Ltd (Voltamp) is engaged in the manufacturing of oil filled power transformers, oil filled distribution transformers and dry type distribution transformers for industrial, building and power applications. VTL is engaged in manufacturing transformers for government & semi-government projects, refineries, fertilizer plants, power sector, pharma, paper, steel & among others

Voltamp's clientele includes private giants of the across sectors like ABB Ltd, Siemens, L&T, Hindalco, Essar, Reliance Energy etc. VTL is the market leader in dry-type transformers with 40% share. The industrial segment accounts for 80-90% of VTL's client base. VTL's production facilities are located at Makarpura and Savli in Vadodara, Gujarat with an aggregate installed capacity of 13,000 MVA per annum.

INVESTMENT HIGHLIGHTS

Soft numbers post GST by VTL as on H1FY18 –

VTL reported a weak set of H1FY18 numbers with net sales at Rs 271.98 crs, as compared to a revenue of Rs 301.74 crs in H1 last year, with EBIDTA placed at Rs 18.25 crs from Rs 18.69 crs in H1 last year and the PAT in H1 FY18 degrew by 22% YoY to Rs 29.37 crs as compared to Rs 37.82 crs in H1 last year.

For FY17 VTL has recorded net revenue of Rs 609.37 crs, a EBIDTA of Rs 55.20 crs and a PAT of Rs 67.96 crs. VTL paid a dividend of 150% for FY17.

Orderbacklog Rs 380 crs (6,185 MVA), imparts revenue visibility –

VTL has orderbacklog of Rs 380 crs (6,185 MVA) that imparts revenue visibility of next 2 quarters. VTL has declared Rs 300 crs of order inflow till date in H1 of FY18E from different verticals like Solar Power Generation, State Transcoms, Refining, Chemicals, Sugar and other SMEs. We expect order inflow of 10989 MVA and 11939 MVA in FY18E & FY19E respectively

KEY DATA

FACE VALUE Rs	10.00
DIVD YIELD %	1.43
52 WK HI/LOW	1367/836
NSE CODE	-----
BSE CODE	VOLTAMP
MARKET CAP	RS 1053 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	53%
BANKS, MFs & DIIs	-	16%
FIIIs	-	21%
PUBLIC	-	10%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	-10	12	16
EBIDTA Gr%	-33	32	31
PAT Gr%	-13	20	21
EPS Gr%	-13	20	21
EPS (Rs)	59	70	85
ROE %	11	12	13
ROCE %	6	7	9
P/E(x)		15	12



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State Transcoms, IPDS & DDUGJY and Renewable Power spending to improve demand prospects –

Voltamp by virtue of dominant presence in the 11-220 kV distribution & power transformer segment is bound to be a major beneficiary of increase in spending by State Transcom' and two central sponsored schemes (IPDS+DDUGJY).

The share of state transcoms in overall transformer industry is estimated to catapult to Rs 5,700 cr in FY18E from Rs 3,000 crs in FY15. Further, under IPDS and DDUGJY schemes, total spending on T&D infrastructure in India is estimated at Rs 1,14,000 cr, of which Rs 15,500 cr is expected to be spent on procurement of power & distribution transformers (11-66 kV). Further, Solar Power Generation has created incremental Rs 600 crs of market for transformers. Moreover, Voltamp, being an organised distribution transformer player, will be a major beneficiary of MoP's standardisation norms.

Increasing government focus towards T&D to improve order inflows for the sector –

Greater emphasis on generation over the last few decades has resulted in under-investments in T&D space leading to lower transformational capacity, network congestion, higher AT&C losses etc. Despite focus over the last few years, AT&C losses still remains elevated & is one of the major concern areas for the government.

In order to catch-up with the deficit, the government has envisaged an investment of Rs.2600 bn towards T&D in its 13th Plan which is substantially higher than the last plan (up 50%). Apart from augmenting inter-state grid, strengthening & expansion of the intra-state grid in order to support inter-state capacities is likely to be one of the major focus areas wherein state transco have to play a pivotal role & hence the proportion of state contribution in total spend has almost doubled from Rs.700 bn in 12th Plan to Rs.1300 bn in 13th Plan, thus forming 50% of the total spend vs 40% in last plan.

Focus on renewable (solar capacity target of 100 GW by 2022) coupled with increased electrification of villages is further likely to drive T&D spend over next 2-3 years.

Hence, the central government has come out with two schemes i.e. DDUGJY (Deendayal Upadhyaya Gram Jyoti Yojana) & IPDS (Integrated Power Development Scheme) in order to resolve major issues like AT&C losses etc. & to improve the distribution system.

The DDUGJY scheme (outlay Rs.756 bn) will enable to initiate much awaited reforms in the rural areas. It focuses on feeder separation (rural households & agricultural) and strengthening of sub-transmission & distribution infrastructure including metering at all levels in rural areas. This will help in providing round the clock power to rural households and adequate power to agricultural consumers.

The earlier scheme for rural electrification viz. Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) has been subsumed in the new scheme as its rural electrification component. IPDS scheme (outlay Rs.326 bn) has been launched with the major objectives like 1) Strengthening of sub-transmission and distribution network in the urban areas 2) Metering of distribution transformers /feeders / consumers in the urban areas 3) IT enablement of distribution sector and strengthening of distribution network.

The government has envisaged a plan to spend Rs.1.1 Lac Crs under this scheme by 2022. This in turn would entail an additional opportunity of Rs.150 bn for the power & distribution transformer companies over FY16-22. The current market size of the industry stands at Rs.130-140 bn.



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VTL enjoys a broad based Product Range –

VYL manufactures power, distribution and dry type transformers. In the power transformer segment, VTL manufactures up to 100 MVA and 220 Kv class transformers. **In dry type transformers, the company is a leader with a market share of 40%.**

It manufactures two types of dry transformers, vacuum resin impregnated up to 5 MVA, 11Kv and Cast resin up to 7.5MVA, 33 Kv, in technical collaboration with MORA (Germany) and HTT (Germany) respectively. Power transformers (49%) contribute to the majority of VTL's revenue followed by distribution and dry-type transformers.

VTL has adequate capacity to meet increasing demand for next 2-3 years –

Government of India has planned to increase the power generation capacity by 1,00,000 MW during 12th Five Year Plan, which will give rise the demand for transformers to the tune of approximately 7,00,000 MVA.

Though, the government has made ambitious capacity expansion programmes to increase the power generation capacity, but the past history has indicated that it has never been able to achieve more than 50-60% of the assigned target.

Further, the capacities which has been created by the large transformer manufacturers for the export market has been diverted to India due to financial and political problems abroad.

This has led in to over supply situation in the industry leading to shrinkage of realizations quarter on quarter.

Thus, we expect that the volume wise growth would be seen by the companies having excess capacities. Voltamp has increased its capacity from 9,000 MVA FY09 to 13,000 MVA during FY10.

Increasing demand of Dry type Transformers –

Dry type transformers are used where the risk of fire hazard is very high. Dry type transformers are non-inflammable because of the absence of transformer oil. Air is used as the coolant instead. Demand for these types of transformers in malls, software parks, hospitals, airports and residential townships are increasing due to the fire resistant qualities.

Government of India has imposed ban on the use of oil filled transformers in the metro city is another key point to give rise of the demand of dry type transformers.

Voltamp also operates in the Dry Transformer segment in the domestic markets and is the market leader with 40% market share. Voltamp has entered in this market in 1999. It has executed Technical License Agreement on 07/11/1998 with MORA Transformatoren GmbH, Usingen, Germany for manufacture of Vacuum Resin Impregnated Dry Type Transformers (up to 5MVA, 11 KV class). This is a technology transfer agreement .

Voltamp has also a technical license Agreement on December 22, 2001 with HOCHSPANNUNGSTECHNIK UND TRANSFORMATORBAU GMBH, (HTT), Germany, for manufacture and sale of Cast Resin Dry Type Transformers (up to 7.5 MVA, 33 KV class). VYL is manufacturing these transformers since 2003-04. Keeping in view buoyant demand Voltamp has enhanced the capacity of dry type transformers from 500 MVA in FY04 to 2,000 MVA in FY10.

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VTL is a debt free company –

Voltamp is a debt free company since FY08. It's a cash surplus company which meets its working capital requirement and capacity expenditure programmes through internal accruals, which in-turn strengthens its bottomline.

Favorable working capital cycle enhances its cash surplus status.

VTL is also seriously looking at the Solar Power Market –

Renewable energy, the focus area of the government has been another demand driver for the transformer companies. Solar capacities have increased by 1.5x over the last 2 years to 4.1 GW which government aims to increase it to 100 GW by 2022, thus opening up newer avenues from power equipment industry. Voltamp has been active in this space wherein its revenue from the solar segment has increased by 100% YoY in FY16 to Rs.100 Crs (forming 19% of top-line). Management remains optimistic on the growth prospects of the segment but intends to limit its exposure to 22-25% of the total revenues

VTL enjoys a strong balance sheet with huge operating leverage potential going ahead –

VTL runs a asset light business which is more working capital intensive in nature. VTL has virtually no debt on the balance sheet and as on FY17 as compared to a tangible networth of Rs 576.13 crs as on Sept 2017 VTL had liquid investments to the tune of Rs 344.76 crs as on the same period.

We expect that going ahead overall bottomline growth in the next 3 years starting FY17 onwards should easily increase at a CAGR of 10-12% and with capex unlikely to be high, as already there is adequate capacity will ensure that net cash flows generated will remain healthy going ahead. The key trigger to cashflows in FY19 and FY20 would largely depend upon the macro recovery in the economy and fresh capital investments in the T & D sector where we expect good traction going ahead.

Despite challenging headwinds in the transformer sector VTL has managed its finances very well and funded all expansions from internal accruals and clearly highlights the fact that it is one of the few players which has made good profits even in difficult times which speaks highly of its competitive position in the industry as compared to its peers

Delayed power projects due to economic slowdown or other issues are being revived which should result in higher order flows in the coming years. Capacity utilization has increased from 50% in FY14 to over 70% in FY17. We expect the utilization to improve further to 80-89% over FY17-FY19E on back of robust order inflows and higher execution.

With sufficient generation capacity, there would be a need for a robust transmission network integrating the various conventional and renewable power sources as a key policy objective. India has achieved almost 100% of the transmission infrastructure target set in the 12th Five-Year Plan (FY13-17). The transmission capex for the 13th Plan (FY18-22) is at Rs2.6tn.

VTL 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. Also structural demand recovery especially from Solar Power Generation and investment by State Transcoms over next 3-4 years will drive demand for transformers.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 546 crs.

On the bottomline level we expect the company to record a PAT of Rs 59 crs in FY18E. Thus on a conservative basis, VTL should record a EPS of Rs 59 for FY18E. For FY19E and FY20E our expectation is that earnings traction for VTL will continue to remain strong wherein we expect a EPS of Rs 70 and Rs 85 respectively.

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VTL has a diverse industrial client base and it is not dependent on any particular industry. It supplies to various industries such as petrochemicals, metals, cement, real estate and others. No sector contributes more than 15% to its revenue

The key trigger to cashflows in FY19 and FY20 would largely depend upon the macro recovery in the economy and fresh capital investments in the T & D sector where we expect good traction going ahead.

The VTL stock trades at a P/E of 15x and 12x based on FY19E and FY20E, which looks attractive considering its strong execution capability, financial track record and healthy financials and cash rich zero debt status which should help it immensely once a macro recovery gets kick started and where it will benefit significantly from operating leverage. On a very conservative basis we expect a 12% EPS growth over the next 2 years starting FY19 onwards.

Hence we believe that the VTL stock should be purchased at the current price for a price target of around Rs 1270 over the next 12 to 18 months.



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FINANCIALS

For the Year Ended March RsCr	FY17A	FY18E	FY19E	FY20E
Net Sales	609.37	546.00	611.52	709.36
EBIDTA	55.2	37.1	48.92	63.84
EBIDTA %	9.06	6.79	8.00	9.00
Interest	0.47	0.4	0.4	0.38
Depreciation	5.81	5.7	6.00	6.4
Non Operational Other Income	42.07	49.26	54.00	60.00
Profit Before Tax	90.99	80.26	96.52	117.06
Profit After Tax	67.96	59.37	71.2	86.1
Diluted EPS (Rs)	67.22	58.72	70.43	85.16
Equity Capital	10.11	10.11	10.11	10.11
Reserves	527.42	571.79	627.99	699.09
Borrowings	0.00	0.00	0.00	0.00
GrossBlock	38.4	43.4	49.4	54.4
Investments	282.72	317.72	367.72	432.72

Source Company our Estimates

KEY CONCERNS

Slow down in Power Sector Reforms – It is clear that main demands for transformers come from power sector. Any slow down in infrastructure spending by the Government would adversely affect the performance of the transformer companies

Rising cost of raw material, i.e. Copper and CRGO Steel, can impact the profitability of the companies if they are not able to pass this on to the customers



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