

Initiating Coverage Voltamp Transformers Ltd.

13-April-2021





| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|----------------------------|------------|-----------------------------------|----------------------|----------------------|--------------|
| Heavy Electrical Equipment | Rs. 1032.3 | Buy at Rs. 989 and add at Rs. 887 | Rs. 1057.0 | Rs. 1194.0 | 2 quarters |

| | |
|----------------------------------|-------------|
| HDFC Scrip Code | VOLTRAEQNRR |
| BSE Code | 532757 |
| NSE Code | VOLTAMP |
| Bloomberg | VAMP:IN |
| LTP 12 th April, 2021 | 1032.3 |
| Equity Capital (Rs cr) | 10.1 |
| Face Value (Rs) | 10 |
| Equity Share O/S (cr) | 1.0 |
| Market Cap (Rscr) | 1044.4 |
| Book Value (Rs) | 739.6 |
| Avg. 52 Wk Volumes | 20850137 |
| 52 Week High | 1355.0 |
| 52 Week Low | 263.3 |

| Share holding Pattern % (31 st Dec, 2020) | |
|--|-------|
| Promoters | 50.0 |
| Institutions | 37.6 |
| Non Institutions | 12.4 |
| Total | 100.0 |

Fundamental Research Analyst

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Our Take:

Voltamp Transformers Ltd (VTL) is a leading manufacturer of oil filled power and distribution transformers, with an aggregate installed capacity of 13,000 MVA (Megavolt amperes) per annum. It has a strong track record in the transformer industry with a diversified clientele and experienced management.

Due to increasing number of small power-rating substation projects across the country, the small capacity transformer segment is expected to be the fastest-growing segment in India. According to a research firm, India's distribution transformer market is expected to rise at a CAGR of more than 4% by 2020-2025. Factors such as increasing energy demands from the industries and expansion of transmission and distribution systems are likely going to drive India's distribution transformer market.

Valuations & Recommendation:

Rapid urbanization will result in rising demand of power, which will pave the way for high demand of transformers. As the company exclusively serves the power sector of the country, with state DISCOMS forming a major part of its clientele, government efforts to push reforms in this sector augurs well for the company. The company's diversified product portfolio gives it a comparative edge over its peers. It enjoys a debt-free status, which raises its creditworthiness among financial institutions and would help with future borrowings.

However, delay in delivery acceptance and disrupted supply chain amidst the COVID pandemic still continues to cause pain. The company has sold 756 units in Q3FY21 as compared to 905 units in Q3FY20.

We believe investors can buy at Rs. 989.0 (7.3x FY23E P/E) and add at Rs. 887.0 (6.5x FY23E P/E) with a base case target of Rs. 1057.0 (7.8x FY23E P/E) and bull case target of Rs. 1194.0 (8.8x FY23E P/E) over the next two quarters.



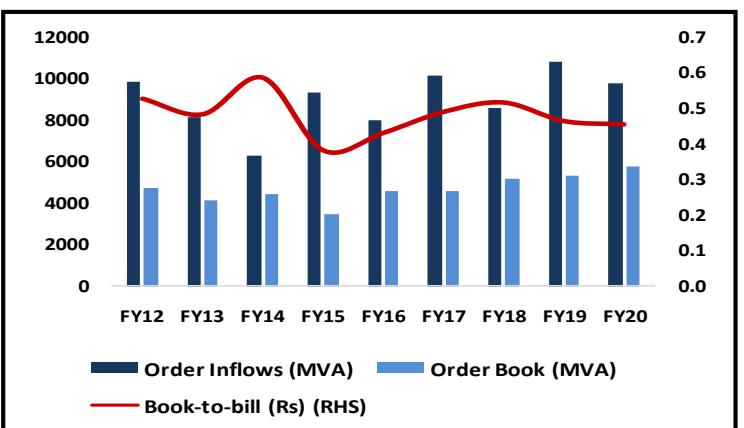
Financial Summary (Consolidated)

| Particulars (Rs cr) | Q3FY21 | Q3FY20 | YoY (%) | Q2FY21 | QoQ-(%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|-------|
| Total Operating Income | 175.7 | 251.3 | -30.1 | 160.2 | 9.7 | 828.8 | 858.6 | 698.7 | 846.4 | 997.3 |
| EBITDA | 16.5 | 30.4 | -45.8 | 21.9 | -24.7 | 93.6 | 107.8 | 87.2 | 114.1 | 135.0 |
| Depreciation | 2.3 | 2.4 | -6.8 | 2.2 | 3.3 | 7.2 | 9.0 | 8.8 | 10.3 | 12.2 |
| Other Income | 26.4 | 12.6 | 109.8 | 15.6 | 68.9 | 36.2 | 14.6 | 66.1 | 48.7 | 61.3 |
| Interest Cost | 0.0 | 0.0 | -100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 |
| Tax | 8.5 | 5.5 | 55.0 | 5.5 | 54.9 | 37.8 | 24.0 | 37.0 | 38.0 | 46.0 |
| APAT | 32.1 | 35.0 | -8.5 | 29.8 | 7.6 | 84.8 | 89.4 | 107.5 | 114.1 | 138.0 |
| Diluted EPS (Rs) | 31.7 | 34.6 | -8.5 | 29.5 | 7.6 | 83.9 | 88.3 | 106.3 | 112.8 | 136.4 |

Recent Triggers

Strong order book (Rs 540cr) with order inflows at Rs 190cr:

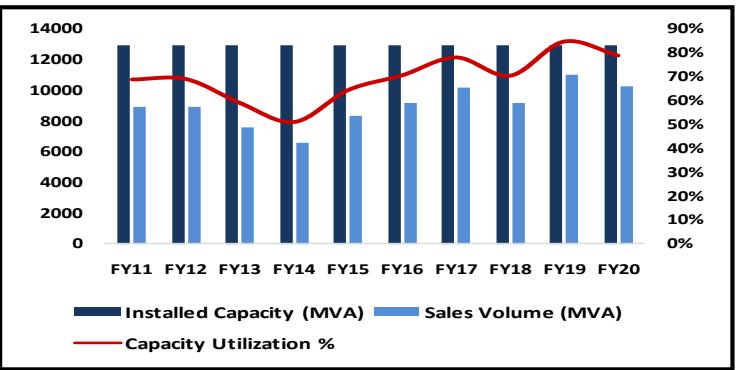
Even during challenging times, the company has reported a robust order book (FY21 - an addition of 382cr) and had orders at hand of Rs 531cr (~7703 MVA) as of Q3FY21 – thus providing medium term revenue visibility. Rising demand from sectors like infra, water, power, mining, oil & gas, ports, pharma, data centers, etc. provide the business visibility.





Debt-free status, strong FCF generation is an attraction point for investors:

The company has been debt-free for many years and has parked its surplus funds in diversified investment avenues viz. debt, equity, mutual funds, bonds, debentures, fixed deposits, PMS, tax-free bonds, etc. It has also managed working capital requirements quite efficiently. Since it is debt-free and is managing its working capital well, the company has managed its cash flows better and enjoys healthy return ratios. Prudent payment terms and diversified client base help Voltamp maintain healthy working capital. It has strong cash balance and the possible deployment of excess cash in the business for the creation of new capacities would improve its growth prospects and return ratios.



Long term Triggers

Power sector reforms to transform the transformer industry:

The union budget has given a big push to the power sector by announcing around Rs 3.06 lakh crore to the power distribution sector scheme, which has been a welcome move. This is expected to assist Discoms for infrastructure creation tied to financial improvements, including prepaid smart metering, feeder separation and upgradation of systems. It will also help enhance efficiency in the power distribution sector, induce fair competition, and address the monopoly business of Discoms. This will, in turn, increase the demand for transformers used in generating power. Further, 139 GW of installed capacity was added over six years, connecting additional 2.8 crore households with an addition of 1.41 lakh circuit km of transmission lines. This will benefit the power transmission companies. Companies involved in both transmission and generation will need more oil filled power and distribution transformers, thereby, which would work as a benefit for companies like VTL.



In addition, 100% railway electrification and focus on DFCs (Dedicated Freight Corridor) and urban infrastructure, including the expansion of metro rail networks, infra creation for power distribution companies, expansion of gas distribution network to 100 new cities, thrust on renewables, developing one lakh digital villages through BharatNet, creation of a development financial institution for infrastructure financing and hydrogen energy mission for generating hydrogen out of green-powered sources will contribute significantly in enhancing the country's power demand. Further, a grant of Rs 1,000cr to the solar energy sector and Rs 1,500cr to the renewable energy sector is also a welcome move and will help the country achieve the ambitious target of 175 GW of renewable energy capacity by the year 2022. As sub-220 KV transformers are used in smaller applications, mainly by state utilities, and solar and industrial clients, VTL's products will be in demand. The company has a major market share in solar transformers, in which overall competition is extremely low, given unique requirements.

Due to the increasing number of new small power rating substation projects across the country, the small capacity transformer segment is expected to be the fastest-growing segment for distribution transformer industry. A smart grid is seen as a highly efficient and economical technology that can reduce carbon emissions. Upgradation for now existing networks can create several opportunities for India's distribution transformer market in the future. Moreover, the government's schemes such as the Deendayal Upadhyay Gram Jyoti Yojana (DDUGJY), the Integrated Power Development Scheme (IPDS) and the recently-launched Sahaj Bijli Har Ghar Yojana (Saubhagya), UDAY etc have generated a spurt in demand for transformers.

Increased urbanization and ever-increasing population will see a rise in demand for transformers:

Rapid growth in transmission and distribution systems by laying new transmission lines and installing new substations to fulfill the energy demand-supply gap is generating steady demand for transformer industry.

The company offers various after-market services with touch points across the country:

- It undertakes repair of transformers of any make and a range up to 220 KV/200 MVA, both at its works and also on site.
- The company has hands-on experience in inspecting failed/damaged transformers "in-situ" and an ability to give quickly a rough cost estimate for taking immediate decisions regarding repairs.
- VOLTAMP has the requisite confidence in its in-house technical strength to offer suitable guarantees on such repaired transformers even though the original units are of a make other than its own.
- VTL supplies spares required for any make of transformer as well OLTC (On-load tap changer), including imported brands.



- VOLTAMP has a complement of about 300 personnel (including 60 engineers) with branches in all major cities and service centers spread all over the country in important locations such as Mumbai, New Delhi, Chennai, Bangalore, Secundrabad, Pune, Bhubaneshwar, Kolkata, Chandigarh, etc.

What could go wrong in the near term?

- Lower volumes, lower order inflow on account of higher raw material prices may force buyers to reduce Capex and defer orders.
- Demand for transformers chiefly arises from the power sector - any slowdown in infrastructure spending by the government would affect the performance of transformer manufacturers.
- The rising cost of raw materials, mainly copper and CRGO steel, which accounts for ~35-40% of the cost, could impact the profitability of the company if it is unable to pass it on to customers.
- The wide fluctuation of rupee against the US dollar also affects the margin since some of the key raw materials, viz. copper, transformer oil, special steels for lamination, etc., are imported.
- VTL has ABB and Areva on its competitor list. MNCs such as ABB and Areva T&D have a strong presence in the Indian market. In addition, 10-12 domestic manufacturers, Chinese, Korean and unorganized players compete for orders from SEBs, utilities and industrial clients. This makes the market very competitive.
- Due to the entry of a large number of players during a favorable time, there is an overcapacity in the industry currently. As a result, aggressive pricing is undertaken by some of the players, which could impact margins.
- Due to the economic slowdown, the financial position of many companies has been impacted and they are facing a cash crunch. Although VTL has not been majorly impacted, delays in payments could increase its receivables position. Further, delay in the implementation of the projects due to lengthy government procedures is expected to restrain the India distribution transformer market.

About the company

Voltamp Transformers Ltd. (VTL) is a leading manufacturer of oil filled power and distribution transformers. Its product portfolio comprises oil-filled power and distribution transformers up to 160 MVA, 220 KV class and dry type transformers up to 12.50 MVA, 33 KV class. The products have applications in varied industries, including power, refineries, real estate, automobile, infrastructure and steel. VTL has a diversified clientele, including private players and government entities, with private players contributing a large part of its revenue. The company's production facilities are located at Makarpura and Savli in Vadodara, Gujarat, with an aggregate installed capacity of 13,000 MVA per annum.



What is a transformer?

A transformer is defined as a passive electrical device that transfers electrical energy from one circuit to another through the process of electromagnetic induction. It is most commonly used to increase ('step up') or decrease ('step down') voltage levels between circuits. A transformer that increases voltage between the primary (the coil that draws power from the source) to secondary windings (the coil that delivers the energy at the transformed or changed voltage to the load) is defined as a step-up transformer. Conversely, a transformer that decreases voltage between the primary to secondary windings is defined as a step-down transformer.

Each transformer needs a cooling medium to stop it from overheating and becoming a potential fire or explosion hazard. Overheating is inevitable when transformers are under load, but it must be solved because temperature rises are not acceptable when transformers are being used.

Oil-filled transformers are known to be more efficient than dry-type transformers, which are limited in their voltage rating and their size. VTL has both oil-filled and dry-type transformers.



Oil Filled Transformers:

The company has an installed facility to manufacture oil filled power and distribution transformers up to 160 MVA, 220 KV Class. It has earned distinguished customers, which include leaders in government and semi-government projects, refineries, fertilizer plants, cement, steel, chemical, pharma, paper, and various other industries and state electricity boards in India as well as abroad.



Cast Resin Transformers:

The company has Resin Impregnated Dry-type transformers up to 5 MVA, 11 KV Class (in technical collaboration with a leading GERMAN company) and cast resin dry type transformers up to 12.5 MVA, 33 KV Class (in technical collaboration with a leading German company). This introduction supplements VTL's existing product viz. vacuum resin impregnated dry type transformers. Dry type transformers of both the above varieties are in use.



Advantage of Cast Resin Transformers

- No fire hazard
- Near load center or even near to load.
- Low as transformer is near to load. Also cable drop is reduced.
- Negligible smoke generation.
- Suitable for indoor use as no fire risk.
- Can be fitted outdoor in IP (degree of protection) 45 enclosure.
- Suitable for as low as -25° C ambient temperature.



Unitised Sub-Station

In accordance with IEC 62271 standard, the prefabricated steel enclosure housed HT Switchgear, Transformer and LT Switchgear and associated equipment to form a composite compartmentalized unitized substation with concern to safety and for meeting the urban and industrial needs. The substation is designed to take care of moisture, dirt, and condensation in coastal areas and is completely lockable, to protect against unauthorized access.



Induction Furnace Transformers

Induction furnace has a coil constructed from heavy copper tubing. It is designed and tuned to the inverter circuit, which applies a medium frequency (generally 500 Hz or 1000 Hz) voltage to the induction coil. The magnetic field produced by the induction coil induces eddy currents in the charge and heats it. Medium frequency is necessary to enhance the rate of heat generation.

The inverter circuit requires for its operation a D.C. Voltage, which is obtained by converting available three phase A.C. Voltage. Transformers that are used for transforming available three phase A.C. voltage to required voltage for converter circuit of the induction furnace are referred to as induction furnace transformers. Thus, they are essentially rectifier/converter duty transformers.

Voltamp Tranformers Ltd.

Financials (Consolidated)

Income Statement

| (Rs Cr) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Income from operations | 828.8 | 858.6 | 698.7 | 846.4 | 997.3 |
| Cost of materials consumed | 649.5 | 651.7 | 525.1 | 635.9 | 764.2 |
| Employee Cost | 29.5 | 33.3 | 34.1 | 38.5 | 39.7 |
| Other expenses | 56.3 | 65.8 | 52.3 | 57.9 | 58.3 |
| Total expenses | 735.2 | 750.8 | 611.5 | 732.3 | 862.3 |
| EBITDA | 93.6 | 107.8 | 87.2 | 114.1 | 135.0 |
| Depreciation | 7.2 | 9.0 | 8.8 | 10.3 | 12.2 |
| Other Income | 36.2 | 14.6 | 66.1 | 48.7 | 61.3 |
| EBIT | 122.7 | 113.4 | 144.6 | 152.4 | 184.1 |
| Finance expenses | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 |
| EBT | 122.7 | 113.4 | 144.6 | 152.2 | 184.0 |
| Tax Expenses | 37.8 | 24.0 | 37.0 | 38.0 | 46.0 |
| PAT | 84.8 | 89.4 | 107.5 | 114.1 | 138.0 |
| EPS | 83.9 | 88.3 | 106.3 | 112.8 | 136.4 |

Balance Sheet

| (Rs Cr) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------|--------------|--------------|--------------|---------------|---------------|
| EQUITY AND LIABILITIES | | | | | |
| Share Capital | 10.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Reserves and Surplus | 676.6 | 738.1 | 827.4 | 923.4 | 1043.2 |
| Shareholders' Funds | 686.7 | 748.2 | 837.6 | 933.5 | 1053.3 |
| Deferred Tax Liabilities (Net) | 3.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Provisions | 6.5 | 8.0 | 4.8 | 8.2 | 8.3 |
| Non-current Liabilities | 10.3 | 8.0 | 4.8 | 8.2 | 8.3 |
| Trade Payables | 1.0 | 6.9 | 3.8 | 4.6 | 5.4 |
| Other Current Liabilities | 46.7 | 46.0 | 39.8 | 48.3 | 54.2 |
| Short Term Provisions | 5.8 | 7.7 | 4.6 | 7.9 | 8.0 |
| Current Liabilities | 53.6 | 60.6 | 48.2 | 60.7 | 67.5 |
| TOTAL | 750.6 | 816.9 | 890.6 | 1002.4 | 1129.1 |
| ASSETS | | | | | |
| Fixed Assets | | | | | |
| Gross Block | 66.7 | 84.0 | 93.2 | 108.2 | 120.7 |
| Less: Acc. Depreciation | 18.6 | 26.3 | 35.1 | 45.4 | 57.6 |
| Net Block | 48.1 | 57.7 | 58.1 | 62.8 | 63.1 |
| Capital work-in-progress | 0.2 | 1.2 | 2.0 | 2.0 | 2.0 |
| Non-current Investments | 360.9 | 417.1 | 417.1 | 417.1 | 417.1 |
| Other Non-current Assets | 16.3 | 22.3 | 18.3 | 29.9 | 36 |
| Total Non-current Assets | 377.2 | 439.3 | 435.4 | 446.9 | 453.1 |
| Current Investments | 20.4 | 36.8 | 46.8 | 56.8 | 58.8 |
| Inventories | 107.7 | 115.5 | 136.5 | 177 | 211.3 |
| Trade Receivables | 176.6 | 150.3 | 176.7 | 206.9 | 243.8 |
| Cash and Bank Balances | 11.4 | 6.0 | 2.8 | 10.9 | 51.0 |
| Short-Term Loans and Advances | 0.7 | 0.3 | 3.8 | 4.6 | 5.4 |
| Other Current Assets | 8.3 | 9.6 | 28.4 | 34.5 | 40.6 |
| Current Assets | 325 | 318.6 | 395.1 | 490.7 | 611 |
| TOTAL | 750.6 | 816.9 | 890.6 | 1002.4 | 1129.1 |

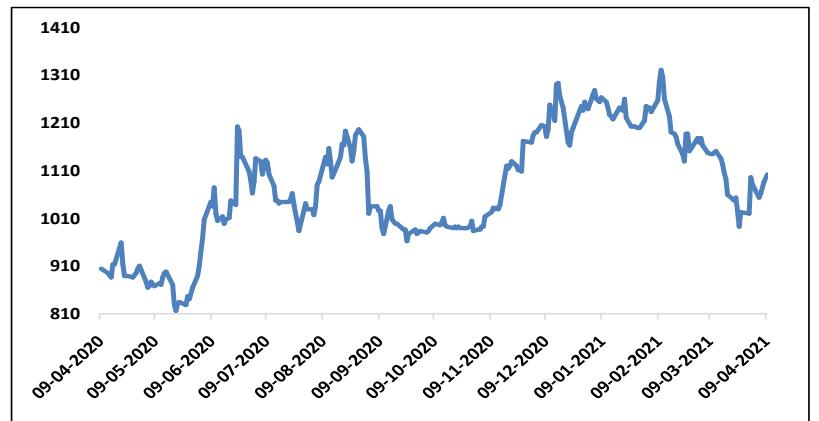
Voltamp Tranformers Ltd.



Cash Flow Statement

| (Rs Cr) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|--------------|--------------|--------------|--------------|--------------|
| Profit Before Tax | 122.7 | 113.4 | 144.6 | 152.2 | 184 |
| Depreciation | 7.2 | 9.0 | 8.8 | 10.3 | 12.2 |
| Others | -29.7 | -7.0 | 3.9 | -11.3 | -6.0 |
| Change in working capital | -30.7 | 22.2 | -85.2 | -61.6 | -71.3 |
| Tax expenses | -37.0 | -30.0 | -37.0 | -38.0 | -46.0 |
| Cash flow from Operating activities | 32.5 | 107.5 | 35.0 | 51.6 | 72.9 |
| Net Capex | -10.9 | -19.9 | -10.0 | -15.0 | -12.5 |
| Other investing activities | 0.0 | -65.9 | -10.0 | -10.0 | -2.0 |
| Cash flow from Investing activities | -10.9 | -85.7 | -20.0 | -25.0 | -14.5 |
| Proceeds from Eq Cap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Borrowings / (Repayments) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | -18.3 | -27.4 | -18.2 | -18.2 | -18.2 |
| Interest paid | 0.0 | 0.0 | 0.0 | -0.2 | -0.1 |
| Cash flow from Financing activities | -18.3 | -27.5 | -18.2 | -18.5 | -18.3 |
| Net Cash Flow | 3.3 | -5.6 | -3.2 | 8.1 | 40.1 |

One Year Price Chart



Key Ratios

| Particulars | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------|-------|-------|-------|-------|--------|
| PROFITABILITY RATIOS (%) | | | | | |
| EBITDA Margin | 11.3 | 12.6 | 12.5 | 13.5 | 13.5 |
| EBIT Margin | 14.8 | 13.2 | 20.7 | 18.0 | 18.5 |
| APAT Margin | 10.2 | 10.4 | 15.4 | 13.5 | 13.8 |
| RoE | 13.0 | 12.5 | 13.6 | 12.9 | 13.9 |
| RoCE | 18.8 | 15.8 | 18.2 | 17.2 | 18.5 |
| SOLVENCY RATIOS | | | | | |
| Net Debt/EBITDA (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net D/E (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PER SHARE DATA | | | | | |
| EPS | 83.9 | 88.3 | 106.3 | 112.8 | 136.4 |
| CEPS | 90.9 | 97.2 | 115.0 | 123.0 | 148.5 |
| DPS | 22.5 | 25.0 | 15.0 | 15.0 | 15.0 |
| BVPS | 678.8 | 739.6 | 827.9 | 922.7 | 1041.1 |
| TURNOVER RATIOS | | | | | |
| Debtors Turnover (X) | 5.1 | 5.2 | 4.2 | 4.4 | 4.4 |
| Inventory Turnover (X) | 8.0 | 7.6 | 5.5 | 5.4 | 5.1 |
| Payables (days) | 0.5 | 3.4 | 2.3 | 2.3 | 2.3 |
| VALUATION | | | | | |
| P/E (x) | 12.3 | 11.7 | 9.7 | 9.2 | 7.6 |
| P/BV (x) | 1.5 | 1.4 | 1.2 | 1.1 | 1.0 |
| EV/EBITDA (x) | 11.0 | 9.6 | 11.9 | 9.1 | 7.4 |
| EV/Revenues (x) | 1.3 | 1.2 | 1.5 | 1.2 | 1.0 |
| Dividend Payout (%) | 26.8 | 28.3 | 14.1 | 13.3 | 11.0 |



Disclosure:

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