

August 13, 2024

Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	14,922		14,922	
Sales (Rs. m)	19,227	22,781	19,227	22,781
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,586	4,333	3,586	4,333
% Chng.	-	-	-	-
EPS (Rs.)	316.4	373.1	316.4	373.1
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	13,851	16,162	19,227	22,781
EBITDA (Rs. m)	2,309	3,223	3,586	4,333
Margin (%)	16.7	19.9	18.7	19.0
PAT (Rs. m)	1,999	3,074	3,201	3,774
EPS (Rs.)	197.6	303.8	316.4	373.1
Gr. (%)	50.5	53.7	4.2	17.9
DPS (Rs.)	60.0	90.0	94.9	111.9
Yield (%)	0.5	0.7	0.7	0.8
RoE (%)	19.5	25.0	21.8	21.9
RoCE (%)	21.6	25.2	23.5	24.0
EV/Sales (x)	9.6	8.2	6.9	5.8
EV/EBITDA (x)	57.4	41.2	37.0	30.6
PE (x)	66.7	43.4	41.6	35.3
P/BV (x)	12.0	9.8	8.4	7.2

Key Data

VOTL.BO | VAMP IN

52-W High / Low	Rs.14,600 / Rs.4,208
Sensex / Nifty	78,956 / 24,139
Market Cap	Rs.133bn / \$ 1,588m
Shares Outstanding	10m
3M Avg. Daily Value	Rs.362.06m

Shareholding Pattern (%)

Promoter's	38.00
Foreign	27.28
Domestic Institution	24.30
Public & Others	10.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.0	84.6	147.3
Relative	11.1	67.3	104.6

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Drivers in place for strong long-term growth

We recently interacted with Voltamp Transformers' (VAMP) management team, wherein they highlighted their strategies to capture the growing opportunities in India's transformer industry. Domestic demand outlook over the next 5 years is robust, with traction across market segments, particularly in data centers and green energy projects. Oil & gas capex will also pick up in 2 years and see momentum for a long period. Current demand upcycle is well diversified across ~30 sectors, with industrial capacity expansions being funded in a disciplined manner, largely from internal accruals of corporates. On the other hand, pricing pressure is expected to pick up as the overall industry capacity increases, while shortage of cold-rolled grain-oriented (CRGO) steel poses a key risk to execution. VAMP is expanding its capacity by 6,000 MVA (with scope for additional 10,000 MVA) to cater to the growing demand, while maintaining its stringent focus on balance sheet quality and cash flow visibility. The company also aims to increase revenue from its margin-accretive services business to Rs1bn in the next 2 years.

We remain positive on VAMP considering its 1) strong market position in industrial transformers, 2) healthy demand momentum, 3) robust balance sheet, 4) consistent free cash flow generation, and 5) growing high-margin services business. The stock is currently trading at a P/E of 41.6x/35.3x FY25/26E. We maintain 'Accumulate' rating with an unchanged TP of Rs14,922, valuing the stock at a P/E of 40x FY26E (same as earlier).

Management Meet Key Highlights:

Prioritizing balance sheet quality: VAMP maintains a sharp focus on preserving its balance sheet quality. When taking new orders, it looks for high execution clarity and the shortest cash conversion cycle, and restricts exposure to bank guarantees. The company aims to stay away from government tenders as they are prone to multiple contract revisions. Hence, it does not do business with state & central utilities (except GETCO in Gujarat). It primarily works with corporates, including cash-rich PSUs, where there is greater certainty of payment and contract terms.

Expanding power transformer capacity by 6,000 MVA: VAMP's current installed capacity stands at 14,000 MVA, including 8,000 MVA in power transformers (up to 120 MVA/220 kV), 4,500 MVA in oil-filled distribution transformers, and 1,500 MVA in dry-type distribution transformers. It has announced capacity expansion of 6,000 MVA in higher size power transformers (up to 250 MVA/220 kV) at a capex outlay of up to Rs2bn (~Rs1.3bn for the plant and ~Rs0.7bn for land acquisition), which will take its total capacity to 20,000 MVA. The plant is expected to be operational within 24 months of land acquisition, which is likely in Oct-24. The infrastructure at the new facility will be set up such that another 10,000 MVA can be added at a marginal cost. VAMP also has some land in Savli that it is looking to sell. It is not using this land for the expansion as is not suitable for a higher size power transformer facility.

Traction in green energy projects from private players: As corporates look to improve their ESG footprint, they are increasingly setting up green captive power plants (e.g., solar), thereby driving demand for transformers. Given that solar power plants typically run for ~8 hours/day, they require ~3x the capacity installation (including transformers) of a thermal power plant to meet the same level of power requirements. Green energy projects typically use higher capacity transformers, so VAMP's 6,000 MVA capacity expansion will enable the company to cater to these requirements. The company's exposure to green energy will be limited to ~25% of the total business, and it will be well diversified across corporates.

Significant opportunity in data centers: VAMP supplies both power and dry-type transformers to data centers. With ~30% market share, it is among the top 3 players in this segment along with ABB and Siemens. Bharat Bijlee and Schneider Electric are also prominent players. Data centers present a significant opportunity for the transformer industry given their large power requirements. They require highly reliable transformers so as to avoid any kind of power disruption.

Aiming for Rs1bn services revenue: VAMP's services business has increased from Rs170mn in FY19 (pre-pandemic) to Rs757mn in FY24, and accounts for ~5% of total revenue. The company is targeting services revenue of Rs1bn in the next 2 years. Key growth drivers include 1) servicing its 74,000+ installed base as well as 3rd party transformers, 2) upgrading old transformers to increase energy efficiency, and 3) transformer "health checkups" every ~3 months, primarily in power-intensive segments such as data centers as well as in pharma & healthcare MNCs where reliability is a key factor. Spares & services generally have ~40% PBIT margin, and hence, are margin accretive.

Prices starting to normalize as industry capacity expands: VAMP has benefitted considerably from a healthy run-up in pricing since the pandemic. Transformer prices rose ~70% over Jul-20 to Dec-23, driving margins higher. However, prices have begun to correct as industry players are expanding their capacities. Transformer capacity in India currently stands at ~350,000 MVA, with organized players accounting for 150,000-200,000 MVA, catering to utilities, EPCs, private companies, and exports. Over the next 24 months, another 80,000-100,000 MVA capacity is expected to be added (including VAMP's 6,000 MVA expansion). This will increase transformer supply in the market, driving prices lower.

CRGO unavailability poses a risk: CRGO steel accounts for ~20% of the cost of a transformer. It is made from silicon steel, which is not manufactured in India. CRGO steel is included under the specialty steel PLI scheme in order to promote local manufacturing, but its availability has become scarce and prices have accordingly risen by up to ~15% (depending on the grade). For instance, the government recently cancelled the licenses of two Chinese mills that were selling CRGO steel to India, and their CRGO stocks at Indian ports had to be diverted away. This shortage poses a risk to transformer manufacturing in India, and could lead to requiring the import of transformers.

FY25 outlook: The management is expecting 100%+ capacity utilization (implying 14,000+ MVA sales volume) in FY25 and has conservatively guided for 14-15% EBITDA margin.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	13,851	16,162	19,227	22,781
YoY gr. (%)	22.9	16.7	19.0	18.5
Cost of Goods Sold	10,327	11,303	13,882	16,448
Gross Profit	3,524	4,859	5,345	6,333
Margin (%)	25.4	30.1	27.8	27.8
Employee Cost	401	539	586	672
Other Expenses	368	431	461	524
EBITDA	2,309	3,223	3,586	4,333
YoY gr. (%)	66.1	39.6	11.2	20.8
Margin (%)	16.7	19.9	18.7	19.0
Depreciation and Amortization	97	114	130	195
EBIT	2,212	3,110	3,455	4,138
Margin (%)	16.0	19.2	18.0	18.2
Net Interest	9	21	12	15
Other Income	401	890	769	843
Profit Before Tax	2,604	3,979	4,212	4,966
Margin (%)	18.8	24.6	21.9	21.8
Total Tax	604	905	1,011	1,192
Effective tax rate (%)	23.2	22.7	24.0	24.0
Profit after tax	1,999	3,074	3,201	3,774
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,999	3,074	3,201	3,774
YoY gr. (%)	50.5	53.7	4.2	17.9
Margin (%)	14.4	19.0	16.6	16.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,999	3,074	3,201	3,774
YoY gr. (%)	50.5	53.7	4.2	17.9
Margin (%)	14.4	19.0	16.6	16.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,999	3,074	3,201	3,774
Equity Shares O/s (m)	10	10	10	10
EPS (Rs)	197.6	303.8	316.4	373.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	1,131	1,323	1,449	2,788
Tangibles	1,131	1,323	1,449	2,788
Intangibles	-	-	-	-
Acc: Dep / Amortization	461	561	691	886
Tangibles	461	561	691	886
Intangibles	-	-	-	-
Net fixed assets	670	762	758	1,902
Tangibles	670	762	758	1,902
Intangibles	-	-	-	-
Capital Work In Progress	6	11	485	346
Goodwill	-	-	-	-
Non-Current Investments	6,513	8,921	9,895	10,870
Net Deferred tax assets	(17)	(57)	(57)	(57)
Other Non-Current Assets	38	56	67	80
Current Assets				
Investments	672	313	313	313
Inventories	1,748	2,262	2,687	3,152
Trade receivables	2,264	2,388	2,766	3,183
Cash & Bank Balance	179	294	441	588
Other Current Assets	70	93	96	114
Total Assets	12,225	15,211	17,607	20,655
Equity				
Equity Share Capital	101	101	101	101
Other Equity	10,971	13,435	15,726	18,540
Total Network	11,072	13,536	15,827	18,641
Non-Current Liabilities				
Long Term borrowings	-	17	17	17
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	16	16	16
Trade payables	30	85	79	94
Other current liabilities	1,107	1,501	1,612	1,832
Total Equity & Liabilities	12,225	15,211	17,607	20,655

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	2,604	3,979	4,212	4,966
Add. Depreciation	97	114	130	195
Add. Interest	9	21	12	15
Less Financial Other Income	401	890	769	843
Add. Other	(347)	(849)	(769)	(843)
Op. profit before WC changes	2,363	3,264	3,586	4,333
Net Changes-WC	(68)	(237)	(701)	(689)
Direct tax	616	865	1,011	1,192
Net cash from Op. activities	1,679	2,163	1,874	2,452
Capital expenditures	(74)	(177)	(600)	(1,200)
Interest / Dividend Income	157	170	769	843
Others	(1,355)	(1,408)	(973)	(972)
Net Cash from Inv. activities	(1,272)	(1,414)	(804)	(1,329)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	(9)	-	-
Dividend paid	(354)	(607)	(911)	(960)
Interest paid	(9)	(18)	(12)	(15)
Others	-	-	-	-
Net cash from Fin. activities	(363)	(633)	(923)	(975)
Net change in cash	44	115	147	147
Free Cash Flow	1,687	2,179	1,874	2,452

Source: Company Data, PL Research

Key Financial Metrics

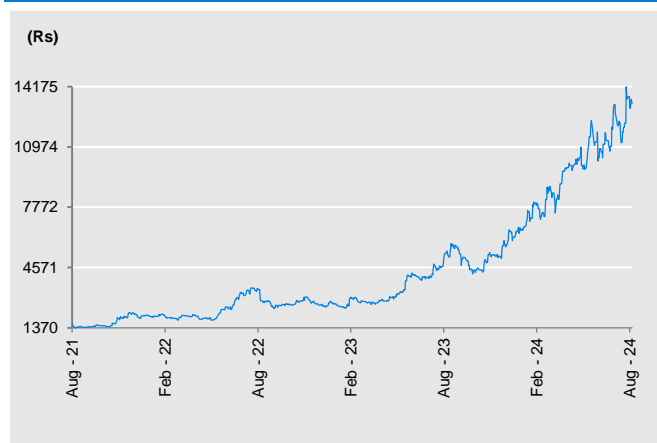
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	197.6	303.8	316.4	373.1
CEPS	207.2	315.0	329.3	392.3
BVPS	1,094.4	1,337.9	1,564.4	1,842.5
FCF	166.8	215.4	185.2	242.4
DPS	60.0	90.0	94.9	111.9
Return Ratio(%)				
RoCE	21.6	25.2	23.5	24.0
ROIC	18.1	20.5	18.8	19.2
RoE	19.5	25.0	21.8	21.9
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	105	103	102	100
Valuation(x)				
PER	66.7	43.4	41.6	35.3
P/B	12.0	9.8	8.4	7.2
P/CEPS	63.6	41.8	40.0	33.6
EV/EBITDA	57.4	41.2	37.0	30.6
EV/Sales	9.6	8.2	6.9	5.8
Dividend Yield (%)	0.5	0.7	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	3,814	4,085	5,042	4,282
YoY gr. (%)	20.1	14.3	14.6	32.9
Raw Material Expenses	2,696	2,719	3,532	3,128
Gross Profit	1,118	1,366	1,509	1,154
Margin (%)	29.3	33.4	29.9	26.9
EBITDA	688	1,048	1,007	758
YoY gr. (%)	48.3	89.2	8.5	57.9
Margin (%)	18.0	25.7	20.0	17.7
Depreciation / Depletion	27	30	33	30
EBIT	660	1,019	974	728
Margin (%)	17.3	24.9	19.3	17.0
Net Interest	3	3	13	3
Other Income	179	248	232	288
Profit before Tax	836	1,264	1,194	1,013
Margin (%)	21.9	30.9	23.7	23.7
Total Tax	152	318	259	218
Effective tax rate (%)	18.2	25.1	21.7	21.6
Profit after Tax	684	946	935	794
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	684	946	935	794
YoY gr. (%)	49.0	86.4	22.2	56.5
Margin (%)	17.9	23.2	18.6	18.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	684	946	935	794
YoY gr. (%)	49.0	86.4	22.2	56.5
Margin (%)	17.9	23.2	18.6	18.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	684	946	935	794
Avg. Shares O/s (m)	10	10	10	10
EPS (Rs)	67.8	93.7	92.6	78.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	30-Jul-24	Accumulate	14,922	14,174
2	08-Jul-24	Hold	10,041	13,220
3	06-May-24	Hold	10,018	9,985
4	12-Apr-24	UR	-	10,000
5	30-Jan-24	Hold	7,619	7,910
6	09-Jan-24	Hold	5,079	6,538
7	28-Oct-23	Hold	5,079	4,989
8	05-Oct-23	Hold	4,611	4,413

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,833	7,972
2	Apar Industries	Accumulate	10,399	9,110
3	BEML	Accumulate	4,484	3,914
4	Bharat Electronics	Accumulate	341	321
5	BHEL	Reduce	264	309
6	Carborundum Universal	Hold	1,650	1,719
7	Cummins India	Accumulate	4,081	3,749
8	Engineers India	Accumulate	250	227
9	GE T&D India	Hold	1,601	1,585
10	Grindwell Norton	Accumulate	2,749	2,650
11	Harsha Engineers International	Hold	565	571
12	Hindustan Aeronautics	Hold	4,515	5,552
13	Kalpataru Projects International	Accumulate	1,413	1,327
14	KEC International	Hold	880	874
15	Larsen & Toubro	BUY	4,130	3,519
16	Praj Industries	BUY	804	700
17	Siemens	Accumulate	7,362	6,890
18	Thermax	Reduce	4,237	4,984
19	Triveni Turbine	BUY	719	619
20	Voltamp Transformers	Accumulate	14,922	14,174

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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