



NOV 07 2008 VOLTAMP TRANSFORMER LTD CMP: 370

About the company :

Voltamp is a Vadodara based transformer unit managed by Mr. Lalitkumar Patel and his team of electrical engineers and professionals from other respective fields.

About the biz ..

The company is mainly engaged into manufacture Dry type Transformers, Oilfilled Power and Distribution Transformers. Its current core presence is in 50MVA/132KV class for power transformers, 5 MVA/33KV class for oil filled distribution transformers, dry type transformers 3MVA/11 KV class. In its dry type transformer segment it caters to the requirement of mega townships/complexes, malls, hospitals, private corporate in IT/ITES, etc. In its oil filled power and distribution transformers it caters to the needs of power giants viz.BHEL, L & T, Siemens, Jindal Power, Reliance Energy, ABB, North Delhi Power, etc. In this segment it also caters to the industrial segments in paper, automobiles, steel, mining,etc.

H1 FY09 FINANCIAL HIGHLIGHTS

Revenues grew by ~23% (yoy) from Rs.2773 mn to Rs.3401 mn mainly through volume growth. The net profit has grown by ~ 42% to Rs. 505mn from Rs. 355 mn yoy. Ebidta margins have improved by ~250 basis points to 21.27% from 18.60% yoy. PAT Margins have improved by 200 basis point 14.80% from 12.80%.



CAPACITY EXPANSION

Since the existing infrastructure was unable to cope up with the increase in production and considering the growth potential of the power sector, it has decided to shift its dry type transformer facility to another location within Vadodara. It also intends to increase its installed production capacity from existing 9000 MVA to 13000 MVA, involving a capex of Rs. 350 mn to be incurred in FY 09. The new facility is expected to be commissioned in Q1 Fy10. As the company has one of the most efficient cash flow management system in place it would be able to finance the entire capex in H2 Fy09 from its current fiscal revenues.

EXPLORING BUSINESS OPPORTUNITIES WITH SEB'S

Considering the recent mushroom growth in commercial and real estate development, the company earned substantial revenues with high margins in the dry type transformer segment. However in lieu of anticipated slowdown in realty segment and with construction and economic data registering a fall in their growth (yoy), the company has very prudently decided on a balance act, to make inroads into SEB's, who are not plagued with delays in releasing orders and also the ones having a clean track record in releasing timely payments. The company achieved a major break through when it procured a maiden order for supply of 220KV 100 MVA power transformers from Gujarat Electricity Board. In future it also intends to participate in tenders floated by MSEB and other SEB's of western region with a comparative clean track record on timely realizations.



DRIVERS OF GROWTH

Healthy order book . . .

The company order book position in July 08 stands ~ Rs.5000 mn and the order intake is growing at a healthy pace of ~ 15% qoq. With their recent entry into SEB business it has the capability to procure large size orders from some of the better managed and financially sound SEB's of the western region.

Biz with Power giants . . .

Q1 FY09 results of EPC players like L&T and Bhel have not shown evidence of any slowdown in their business. Considering the major investments in power sector the demand for power and distribution sector is going to remain high we visualize higher growth in projects business of these companies and that would eventually translate into higher revenues for Voltamp.

Surge in power sector capex to generate in SEB biz ...

In the quarter June 08, 43 projects compassing an investment of Rs.148,432 crs was eramas new investment.(source: CMIE).

Electricity: Investment in New Projects.

(Rs. in crs)

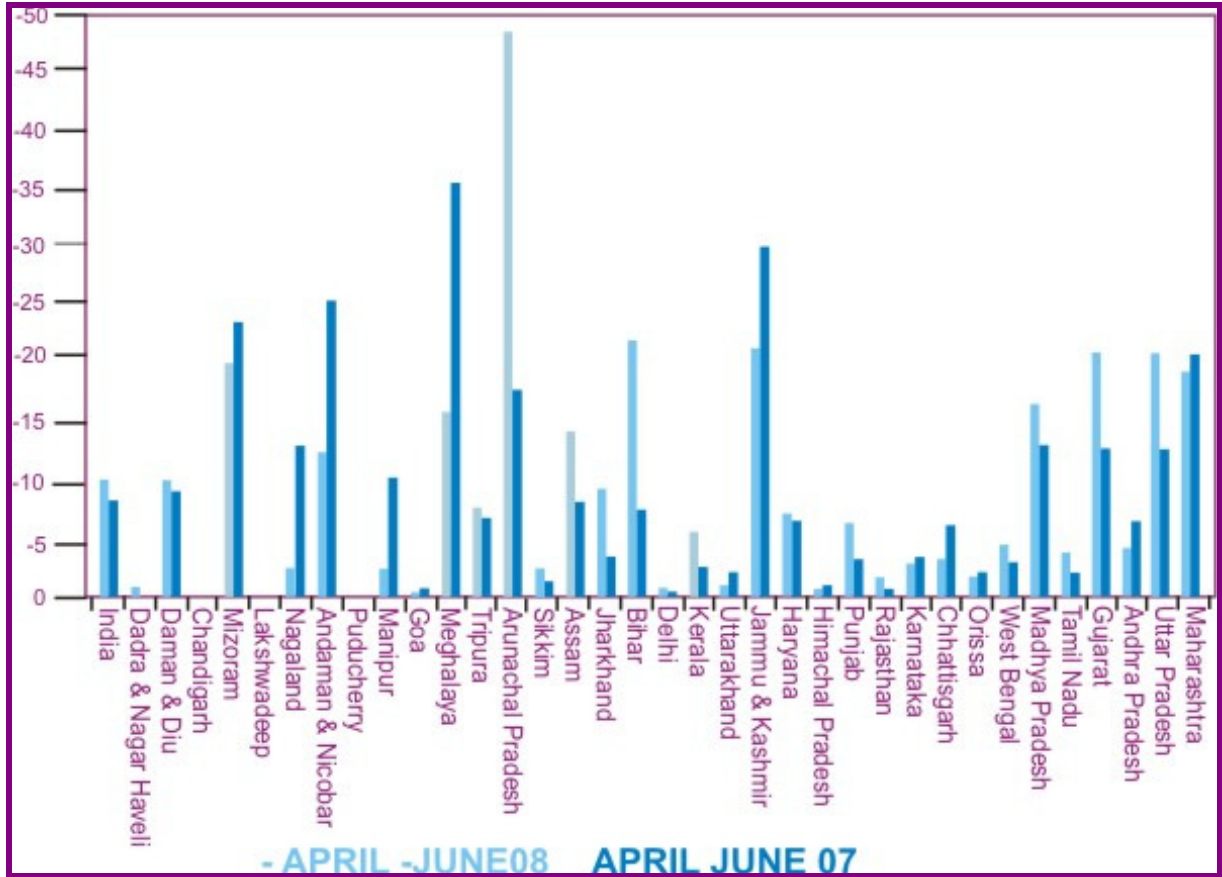
	New Projects Nos.	New Projects Investment
Sept. 2007	134	1,55,128
Dec. 2007	104	1,49,280
Mar. 2008	76	1,96,870
June 2008	43	1,48,432

(Source: CMIE & arm research)

Considering the kind of investment committed for new electricity generation projects we foresee a robust growth into transformers and switchgears business for at least another 3/4 years. However delays in project implementation cannot be ruled out due to bureaucratic functioning of SEB's, postponements of investment due to overshooting of capex budgets on account of inflationary pressures and high interest rate scenario prevailing in the country.



Statewise power deficit (Apr – Jun Fy08 vs. Apr. – Jun. Fy07)



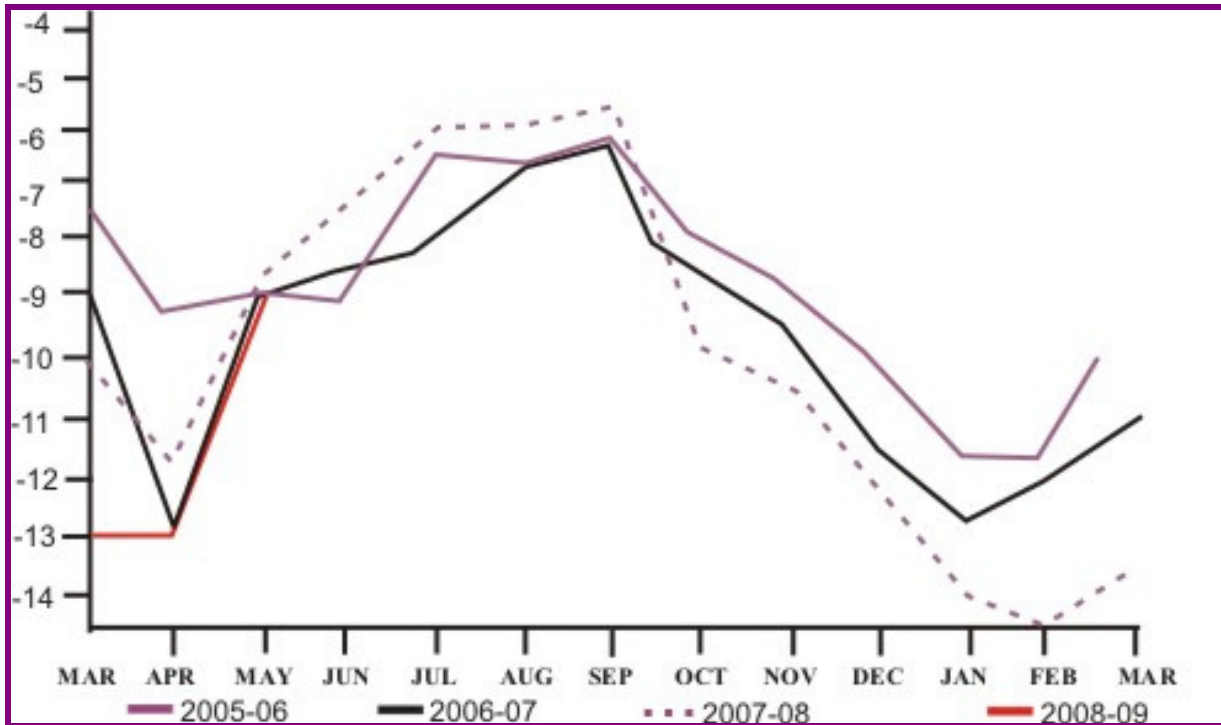
**ELECTRICITY: DEMAND-SUPPLY (APRIL-JUNE 2008)**

Sr.No.		Average Surplus/ Deficit (-) (%)	
		Apr-Jun 08	Apr-Jun 07
1	Maharashtra	-17.98	-19.81
2	Uttar Pradesh	-19.83	-11.54
3	Andhra Pradesh	-4.74	-6.18
4	Gujarat	-16.96	-14.92
5	Tamil Nadu	-3.84	-1.93
6	Madhya Pradesh	-16.86	-13.22
7	West Bengal	-3.83	-2.96
8	Orissa	-1.69	-1.77
9	Chhattisgarh	-2.93	-6.45
10	Karnataka	-2.67	-2.92
11	Rajasthan	-1.89	-0.46
12	Punjab	-7.68	-3.33
13	Himachal Pradesh	0.14	-0.78
14	Haryana	-9.18	-7.53
15	Jammu & Kashmir	-20.71	-28.85
16	Uttarakhand	-0.33	-1.98
17	Kerala	-5.29	-2.56
18	Delhi	-0.72	-0.24
19	Bihar	-21.38	-7.66
20	Jharkhand	-9.90	-4.24
21	Assam	-13.77	-8.09
22	Sikkim	-2.53	-1.59
23	Arunachal Pradesh	-47.76	-17.39
24	Tripura	-7.81	-7.47
25	Meghalaya	-15.28	-35.53
26	Goa	-0.98	-1.13
27	Manipur	-2.80	-10.68
28	Puducherry	0.00	0.00
29	Andaman & Nicobar	-12.50	-25.00
30	Nagaland	-2.97	-13.57
31	Lakshwadeep	0.00	0.00
32	Mizoram	-18.75	-23.19
33	Chandigarh	0.00	0.00
34	Daman & Diu	-11.58	-9.33
35	Dadra & Nagar Haveli	-1.04	0.00
	India	-10.07	-8.75

(Source: CMIE)



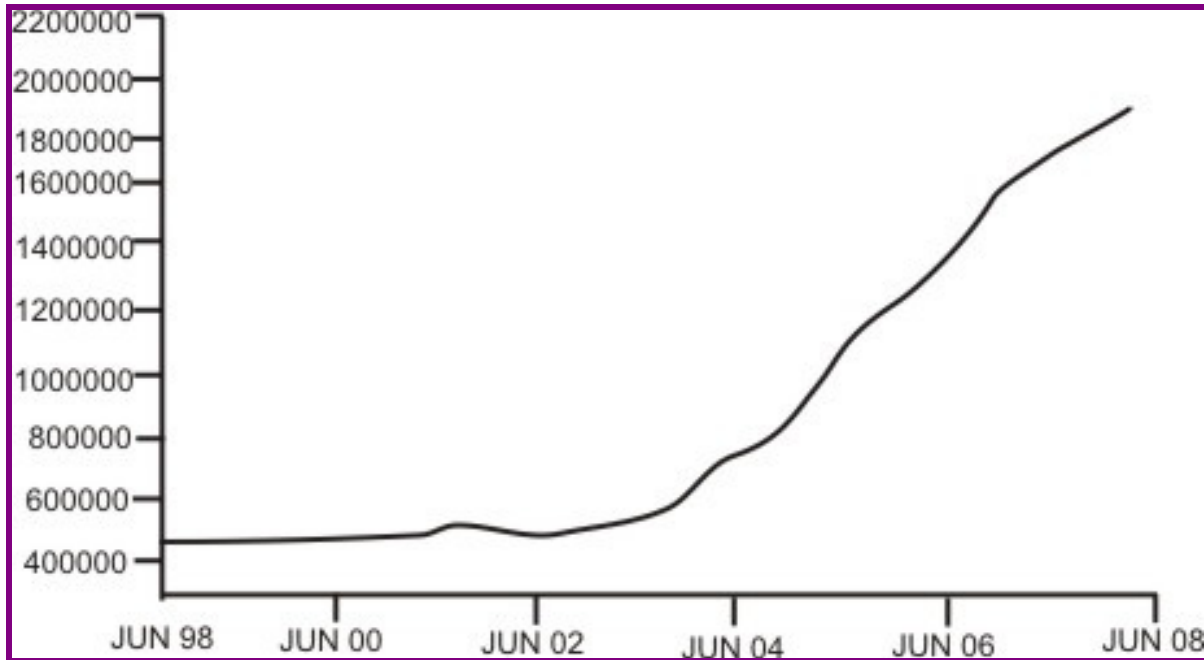
AVERAGE POWER DEFICIT IN INDIA (%)



From the above table it is quite evident that India is going to remain a power deficient country for atleast another 8-10 years. To bridge this demand supply gap the country will require investements of billions of rupees in many more UMPP's in times ahead which will in turn create demand for transformers and switchgears. By then Voltamp would be well positioned to manufacture high voltage transformers and secure its position as one of the prominent supplier to SEB's in this segment.



ELECTRICITY : TREND IN INVESTMENT (Rs. CRORE)



Falling Raw Material Prices Will Partially Mitigate Pricing Pressures

Recently the base metal prices have registered a sharp slowdown and copper constituted ~ 35% of the raw material cost in FY09. Copper prices along with other base metals registering a sharp fall in prices in recent months is likely to bring down the cost of raw materials and it will call for lower working capital requirement. However due to cooling of the Indian economy and the subsequent fall in the growth rate within all the major sectors of the economy coupled with high inflation, pricing pressures are building and margins are likely to shrink by 100 – 200 basis points. Therefore the fall in raw material prices will partially mitigate the pricing pressures and will to a limited extent prevent drastic fall in margins.

**INVESTMENT RATIONALE ...****Efficient working capital requirement:**

Company has been successful in reducing its receivables from 70 days in FY 05 to 39 days in FY08. With a very negligible debt of Rs.10 mn in FY08 and with its handsome cash flows quite capable of financing capex of Rs.350 mn in FY09 we do not see any increased interest burden in the present high interest rate scenario to adversely effect the working capital. With ~ Rs.625 mn in cash & cash equivalents it can meet easily finance any working capital and capex requirements from its investments in the years ahead.

No dependence on concentrated clientele :

Since majority of its revenues come from Dry type transformers it caters to a basket of clients across various sectors viz: IT/ITES, real estate , commercial establishments, hospitals, hotels, etc. therefore there are no risk associated with dependence on few large SEB's or major players in projects and EPC segments.

The management does not believe in the policy of maintaining a bulky order book at the cost of margins and efficient working capital requirements. It is extremely sensitive in doing business with SEB's and transacts business with only those who have a track record of clearing payments within the normal debtor cycle of the company i.e. ~ 39 days.



Profit and Loss A/c

(Rs. in mn.)	FY 08	FY 09 E	FY 10 E
Net Sales	5553.45	6329.40	6519.28
Expenses:			
Raw materials consumed	3913.68	4459.06	4628.69
<i>(% of sales)</i>	<i>70.47</i>	<i>70.45</i>	<i>71.00</i>
Manufacturing Expenses	186.87	253.18	260.77
<i>(% of sales)</i>	<i>3.36</i>	<i>4.00</i>	<i>4.00</i>
Employee Cost	168.33	260.91	365.28
<i>(% of sales)</i>	<i>3.03</i>	<i>4.12</i>	<i>5.60</i>
Administrative & selling expenses	105.97	120.26	127.13
<i>(% of sales)</i>	<i>1.91</i>	<i>1.90</i>	<i>1.95</i>
EBIDTA	1,178.60	1,235.99	1,137.42
Depreciation	31.33	35.00	55.00
Other Income	107.57	110.00	122.00
PBIT	1,254.84	1,310.99	1,204.42
Interest	5.03	5.20	0.00
Profit Before Tax	1,249.81	1,305.79	1,204.42
Taxation			
Deferred tax	7.36	8.00	10.00
Current Tax	440.00	457.03	421.55
Fringe Benefit Tax	3.40	5.10	7.50
Profit after Tax	799.05	835.66	765.37
Equity	101.17	101.17	101.17
EPS	78.98	82.60	75.65

**Balance Sheet**

(Rs. in mn)	FY08	FY09 E	FY10 E
Liabilities			
Equity	101.17	101.17	101.17
Reserves	1545.50	2,232.71	2,860.14
Secured Loans	10.42	10.42	0.00
TOTAL	1657.09	2344.30	2961.31
Assets			
Fixed Assets	324.53	611.46	741.46
Less : Depreciation	146.96	187.94	242.94
Net Fixed Assets	177.57	423.52	498.52
CWIP	16.93	60.00	20.25
Investments	581.05	750.51	1130.51
Current Assets			
Inventories	806.53	917.76	977.89
Sundry Debtors	826.1	981.06	1238.66
Cash & Bank balance	46.10	144.03	75.35
Loans & Advances	94.21	113.05	127.75
	1772.94	2155.90	2419.65
Less : Current Liabilities			
Current Liabilities	646.08	783.95	838.95
Provisions	247.84	261.68	268.68
	893.92	1045.63	1107.63
Net Current Assets	879.02	1110.27	1312.03
Differed Tax Asset	2.52	0.00	0.00
TOTAL	1657.09	2344.30	2961.31



Cash flow

	FY08	FY09 E	FY10 E
Net Profit	1249.57	1305.79	1204.42
Adj;			
interest paid	5.03	5.20	0.00
Interest recd.	-4.10	-5.00	-6.50
Dividend recd	-37.63	-46.62	-60.00
Depreciation	31.33	35.00	55.00
Operating Profit before WCC	1244.2	1294.37	1192.92
Adj for WCC			
Trade & other receivables	-428.32	-173.80	-272.30
Inventories	-54.42	-111.23	-60.13
Trade Payables	142.32	151.71	62.00
Cash from operations	903.78	1161.05	922.49
less: Income Tax paid	-447.69	-462.13	-429.05
Net Cash Flow from operations	456.09	698.92	493.44
Cash flow from Investments			
Purchase/sale of Fixed assets	-99.44	-330.00	-90.25
Purchase/sale of investments	-348.73	-169.46	-380
Interest Recd	4.10	5.00	6.50
Dividend Recd	37.63	46.62	60.00
Net Cash Flow from investments	-406.44	-447.84	-403.75
Cash flow from Financing			
Proceeds/Repayment of Borrowing	1.46	0.00	-10.42
Interest paid	-5.03	-5.20	0.00
Dividend (incl. of div.dist.tax)	-94.69	-147.95	-147.95
Net Cash flow from financing	-98.26	-153.15	-158.37
Total	-48.61	97.93	-68.68
Cash & cash equivalents at the beginning of the year	94.71	46.10	144.03
Cash & cash equivalents at the end of the year	46.10	144.03	75.35
	-48.61	97.93	-68.68



Ratio

	FY 08	FY 09 E	FY 10 E
Turnover Ratios (x)			
Inventory	7.13	7.34	6.88
Debtors	9.23	7.00	5.87
Interest Cover Ratio	234.31	237.69	-
Profitability Ratios (%)			
EBIDTA (excl oth inc)	21.22	19.53	17.45
PBIDT	22.72	20.90	18.96
PBIT	22.17	20.36	18.14
PAT	14.11	12.98	11.52
(%)			
ROE	48.53	35.81	25.85
ROCE	75.73	55.92	40.67



RISK & CONCERNS

Biz with SEB ...

Considering the overall slowdown in economic activity it may have to look towards SEB's for maintaining its topline and in the bargain would have to compromise on its existing healthy working capital management. Orders from SEB's are often prone to delays and that would affect the efficiencies in production cycles.

Margin may take a near term hit ...

Company's was so far able to earn handsome margins in its dry type transformer segment. However with signs of a deepening slowdown clearly visible in realty, malls and downsizing/withholding of expansion plans by business houses across all sectors due to high inflation and interest rates, pricing pressures would become more apparent in FY10 and this could have some impact on the profitability.

VALUATIONS

At current market price of Rs.370/- it is traded at 4.47x and 4.89x FY09E and FY10E respectively. After factoring the expected slowdown which might cloud the company's revenues & impact margins in FY10, we feel that the stock is fairly priced as of now. However after factoring the sectoral growth in transformer and switchgears for another five years we recommend investors to accumulate shares in small lots on sharp corrections with a 24 – 30 months horizon. The company is extremely well managed with a thorough business and market understanding and is also one of the few companies with excellent working capital management capabilities in the industry.



Contact us : arm research pvt. ltd.

Email : research@armresearch.in

Disclaimer :

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients and Associates of arm research It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither arm research, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without arm research's prior written consent.