

January 29, 2024

RESULT REPORT Q3 FY24 | Sector: Capital Goods

Voltamp Transformers Ltd

Gross and EBITDA margin making new highs; significant positives captured in price; Downgrade to NEUTRAL

Our view

Voltamp Transformers' (VAMP) Q3FY24 print was way ahead of expectations on EBITDA and PAT front (revenue came in line with exp.) driven by skyrocketing gross margin of 33.4% on a revenue growth of ~14% YoY (+4% volume growth). Order Inflows for 9MFY24 stood at Rs13.85bn, 11,734MVA (+34%, +31% YoY). Since Raw material (r.m.) cost form 89% of the total operating cost, EBITDA margin is primarily driven by r.m. costs with a limited operating leverage benefit. Hence, gross margin expansion trickled down almost entirely to EBITDA margin which also expanded ~100bps YoY to 25.7%. A higher other income led to PAT growth of 86% YoY which came in at Rs946mn.

Looking forward

What we are witnessing in the transformer industry is something unprecedented, particularly on the margin front where strong players are entering uncharted territories of gross and EBITDA margin (last two quarter gross margin of VAMP has been at a decadal high). Realization growth has outpaced volume growth in the last 5 years with 10% realization CAGR over FY18-23 against a volume CAGR of 5%. Incrementally, while we expect volume growth may sustain at ~10% in the next two years driven by capacity creation across its major end-user sectors (petrochemical, steel, construction & buildings, cement, data center etc.), the pace of realization growth could see normalization with the increased capacities coming in FY25-26 and increasing competitive intensity from regional players. Therefore, gross margin could see moderation starting FY26. We are rolling over to FY26 and building in a 24% EPS CAGR over FY23-26E. We are increasing our FY24E/FY25E EPS estimates by 38%/25% respectively mainly surprised by the margin performance of the company which remains unprecedented and increase our target price to Rs8,300 based on 22x FY26 EPS. Downgrade to Neutral as current price factors in both strong volume growth (~2x of last decadal average) and never-seen-before EBITDA margin of ~19-20%.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	4,085	4,184	NA	-2.4		Strong surprise on EBITDA led by all time high gross margin of 33.4%
EBITDA	1,048	690	NA	52.0		
EBITDA margin %	25.7	16.8	NA	883 bps		
Adj. Pat	946	591	NA	60.2		

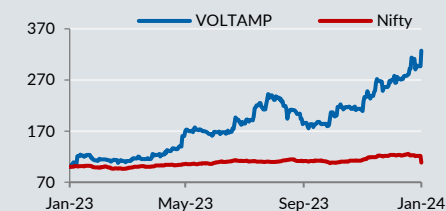
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 7,910
Target Price	: Rs 8,300
Potential Return	: +5%

Stock data (as on Jan 29, 2024)

Nifty	21,738
52 Week h/l (Rs)	8580 / 2377
Market cap (Rs/USD mn)	72644 / 874
Outstanding Shares (mn)	10
6m Avg t/o (Rs mn):	216
Div yield (%):	0.9
Bloomberg code:	VAMP IN
NSE code:	VOLTAMP

Stock performance



	1M	3M	1Y
Absolute return	21.3%	58.5%	227.3%

Shareholding pattern (As of Sep'23 end)

Promoter	38.0%
FII+DII	50.8%
Others	11.2%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	BUY
Target Price	8,300	5,836

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	363.4	377.4
EPS (Old)	291.8	NA
% change	25	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenues	16,665	19,752	22,781
YoY growth (%)	20.3	18.5	15.3
OPM (%)	20.7	20.5	18.5
EPS (Rs)	318.9	363.4	377.4
EPS growth (%)	61.4	13.9	3.9
P/E (x)	24.8	21.8	21.0
EV/EBITDA (x)	22.8	19.2	18.2
Debt/Equity (x)	-	-	-
RoE (%)	18.9	18.1	16.0
RoCE (%)	18.9	18.1	16.0

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Double digit realization growth amid a stable R.M Cost environment leading to scintillating gross and EBITDA margin performance

While both volume growth and realization growth have remained strong in 9MFY24 (~9% each), realization growth has surpassed volume growth by a factor of 2x over FY18-23 (realization growth of 10% vs volume growth of 5%). While this was also a function of pass through of increased input costs in FY22-23, incrementally, the company has been able to increase the gross margin by being selective in choosing high bid margin orders amid a situation of under capacity in the industry. Voltamp is a preferred supplier to large industrial companies in sectors such as steel, refinery & petrochemical, pharmaceutical, cement and counts large players like Siemens, L&T, ABB, Hitachi, Adani, Reliance as its key customers. Therefore, the possibility of elevated gross margin performance could unfold for the next few quarters.

Increased competitive intensity a real possibility with announcements of capacity increase, sharp jump in industry RoCEs, revival of sick units

A significant number of transformer manufacturers have announced capacity increases which is expected to get commissioned by FY26, the pricing environment could see deterioration. This could mean moderation in gross margin from FY24 levels of an expected 30%. Also, the company has highlighted the possibility of increased competitive intensity from regional players as well as revived sick companies. RoCE for Voltamp has improved substantially from ~20% in FY19 to 46% in FY23 making the industry an attractive investment destination. We are building in realization growth to moderate to 5% in FY26 from 10% in FY24 while volume growth is expected to remain ~10% over the next two years provided the company puts up capacity. It is evaluating land for the new facility and the expansion plan will be finalized after the conclusion of the general assembly elections.

Voltamp's low-cost structure with significantly lower other expenses as % of sales

Voltamp has been able to reduce its other expense to ~6% of sales in FY23 from ~8-10% over FY12-21. This is much lower compared to ~8-10% for some of its competitors. This has translated into superior EBITDA margin performance and low operational cost structure. Employee costs for a range of transformer companies remain in the range of 3-5%. Voltamp's EBITDA Margin jumped ~1000bps YoY to 25.7% in Q3FY24 which has few one-offs in other expense related to provision write-backs. However, even adjusted to that, the company commands industry leading EBITDA margins.

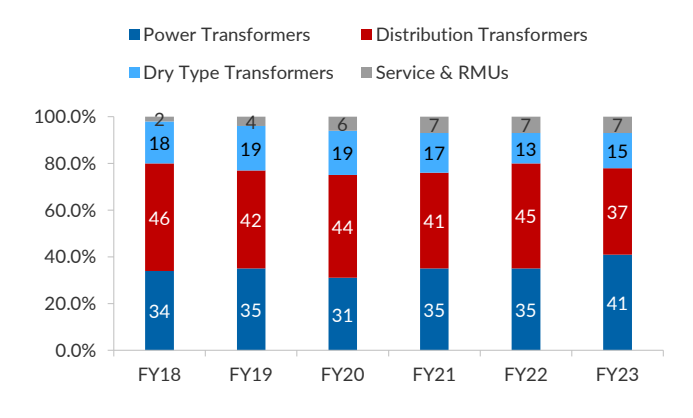
Result Highlights

- Sales grew by 14.3% YoY to ~Rs4.1bn (YSLe: Rs4.2bn). Volume grew 4% YoY to 3,278MVA with majority of the growth coming in through price increases. The order inflow for 9MFY24 stood at Rs13.85bn (+34% YoY in value, +31% YoY in volume) indicating near term growth to be driven more by volume.
- The company has an orderbook of Rs8.76bn (8.629mva) at the end of Q3FY24.
- Gross margin came in at 33.4% (+950bps YoY, +410bps QoQ). The current quarter saw a strong derived price growth of ~10% YoY leading to a sharper expansion in gross margin.
- EBITDA margin expanded by 1020bps YoY to 25.7% led by strong gross margin expansion.
- PAT came in at Rs946mn (+86% YoY) helped by strong operating performance and higher other income.

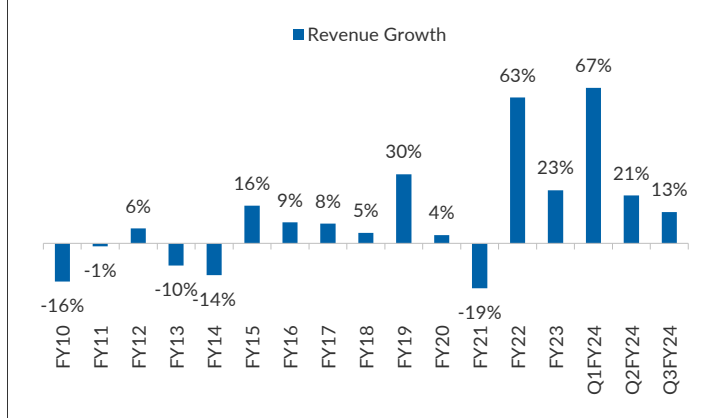
STORY IN CHARTS

Exhibit 2: Power transformers have gained share in revenue mix over FY18-23

Exhibit 3: Revenue growth has moderated and is limited also by a capacity constraint

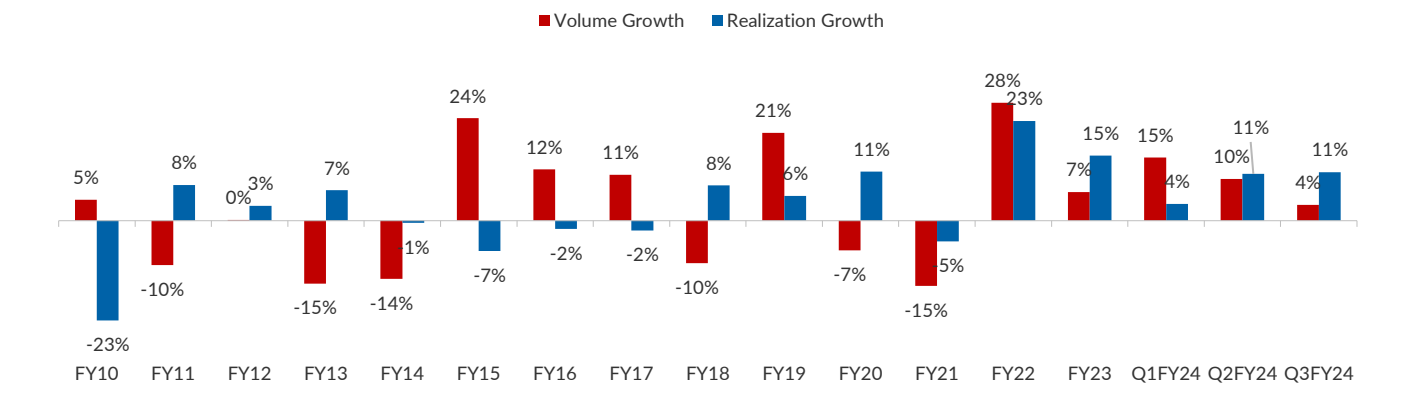


Source: Company, YES Sec



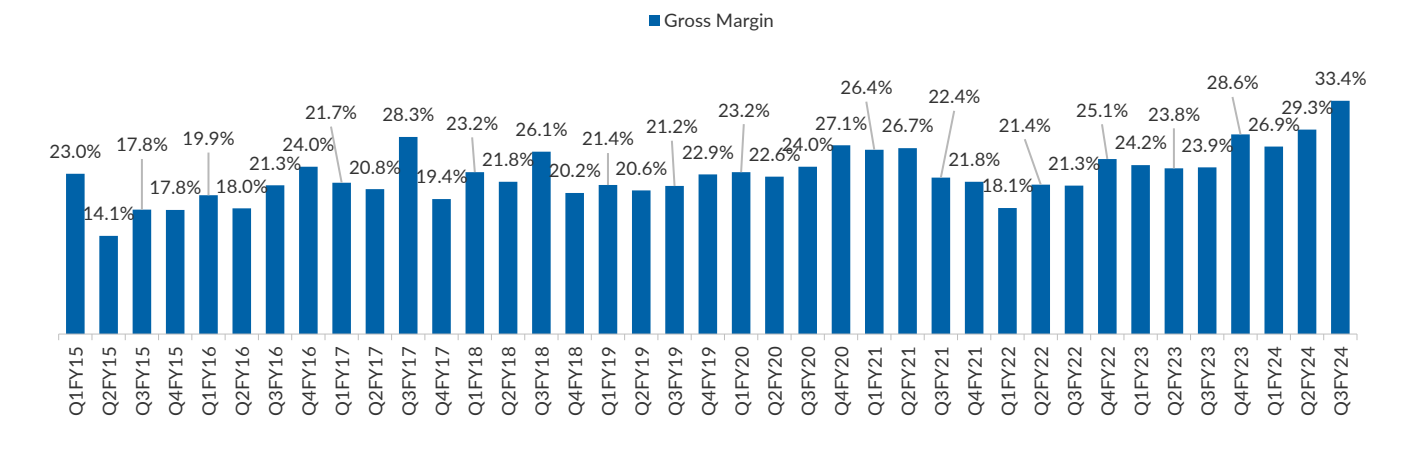
Source: Company, YES Sec

Exhibit 4: Realization growth has surpassed volume growth over FY18-23



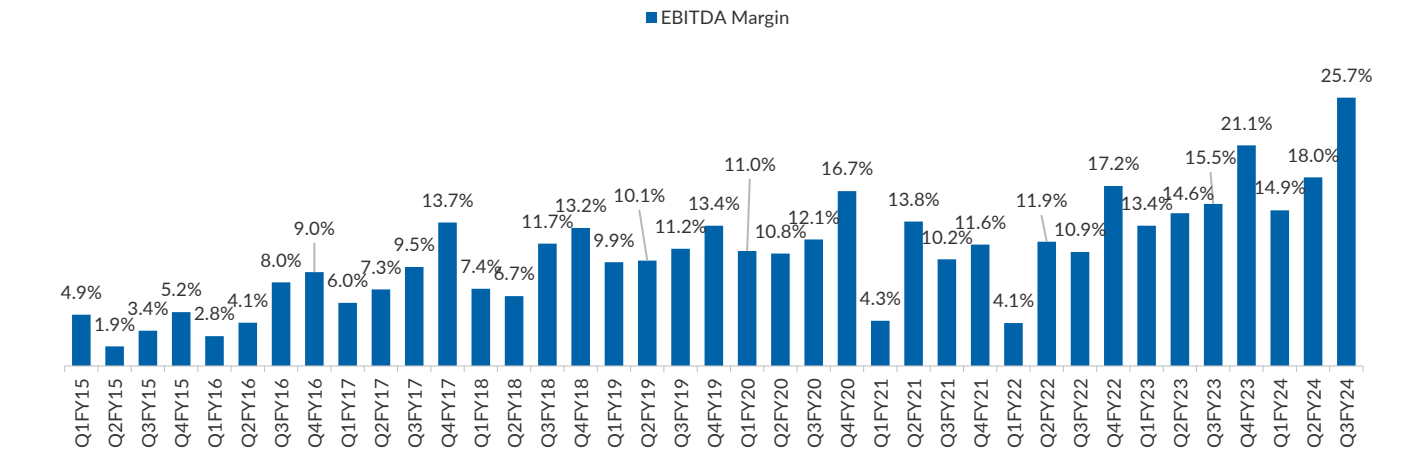
Source: Company, YES Sec

Exhibit 5: Gross margin making new highs led by strong pricing environment and under-capacity situation



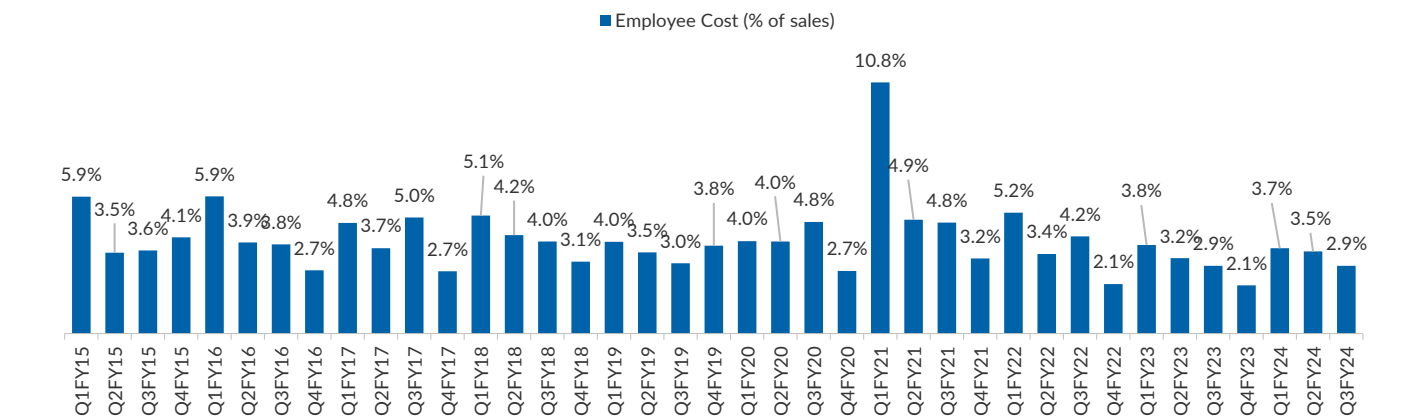
Source: Company, YES Sec

Exhibit 6: EBITDA margin also peaking although Q3FY24 had few one-off related to provision write-backs



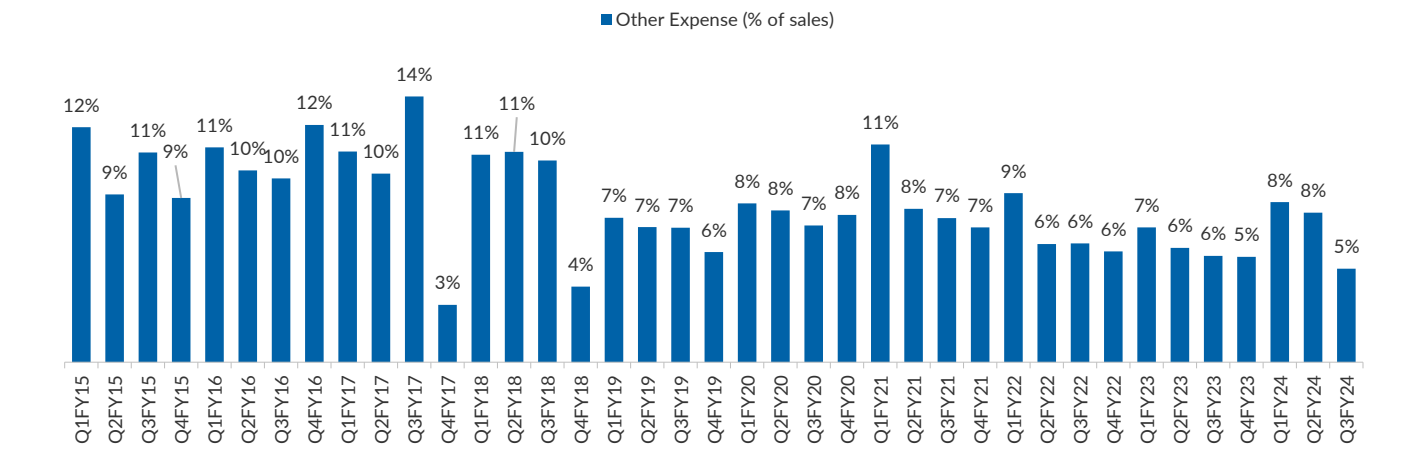
Source: Company, YES Sec

Exhibit 7: Employee cost has hovered in the range of 3-5% (of revenue)



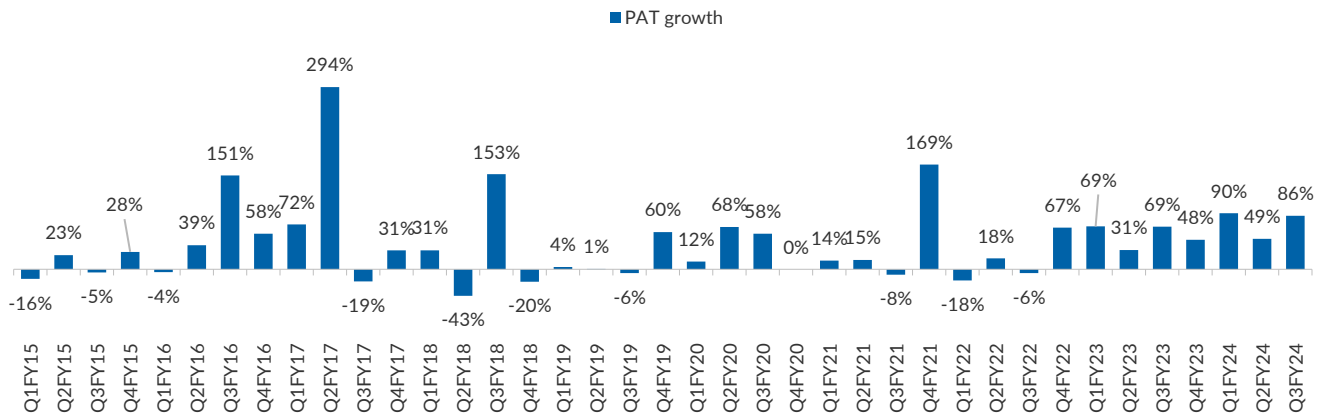
Source: Company, YES Sec

Exhibit 8: VAMP has been able to significantly trim down its other expenses as % of revenue to ~6%



Source: Company, YES Sec

Exhibit 9: PAT growth remains supernormal helped by margin expansion and higher other income



Source: Company, YES Sec

Exhibit 10: Quarterly snapshot (Standalone)

Rs mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Revenue	3,575	4,399	3,222	3,814	4,085	14.3	7.1	13,851	11,272	22.9
Total Revenues	3,575	4,399	3,222	3,814	4,085	14.3	7.1	13,851	11,272	22.9
Consumption of RM	2,719	3,139	2,356	2,696	2,719	(0.0)	0.9	10,327	8,773	17.7
as % of sales	76.1	71.4	73.1	70.7	66.6			74.6	77.8	
Gross Profit	855	1,260	866	1,118	1,366	59.7	22.2	3,524	2,499	41.0
Gross margins%	23.9	28.6	26.9	29.3	33.4			25.4	22.2	
Employee Cost	104	91	118	135	119	14.2	(11.6)	401	389	3.2
as % of sales	2.9	2.1	3.7	3.5	2.9			2.9	3.4	
Other expenditure	197	240	268	296	198	0.7	(32.9)	814	720	13.0
as % of sales	5.5	5.5	8.3	7.8	4.9			5.9	6.4	
EBITDA	554	928	480	688	1,048	89.2	52.4	2,309	1,390	66.1
Depreciation	25	26	23	27	30	18.2	8.1	97	79	22.1
EBIT	529	902	457	660	1,019	92.6	54.3	2,212	1,311	68.8
Other Income	137	108	230	179	248	80.6	38.4	401	430	(6.7)
Interest	2	2	2	3	3	27.8	(7.5)	9	8	11.7
PBT	664	1,008	685	836	1,264	90.3	51.1	2,604	1,732	50.3
Total Tax	157	243	177	152	318	103.0	109.1	604	404	49.7
Adjusted PAT	508	766	508	684	946	86.4	38.2	1,999	1,328	50.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	508	766	508	684	946	86.4	38.2	1,999	1,328	50.5
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	508	766	508	684	946	86.4	38.2	1,999	1,328	50.5
Adjusted EPS	50.2	75.7	50.2	67.6	93.5	86.4	38.2	198	131	50.5
Margins (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	bps	bps	FY23	FY22	bps
EBIDTA	15.5	21.1	14.9	18.0	25.7	1,017	763	16.7	12.3	434
EBIT	14.8	20.5	14.2	17.3	24.9	1,014	763	16.0	11.6	434
EBT	18.6	22.9	21.2	21.9	30.9	1,236	901	18.8	15.4	343
PAT	14.2	17.4	15.8	17.9	23.2	896	522	14.4	11.8	265
Effective Tax rate	23.6	24.1	25.8	18.2	25.1	157	697	23.2	23.3	(10)

Source: Company, YES Sec

FINANCIALS

Exhibit 11: Balance Sheet (Standalone)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Equity capital	101	101	101	101	101
Reserves	9,320	10,971	13,391	16,148	19,011
Non Minority Controlling Int.	0	0	0	0	0
Net worth	9,421	11,072	13,492	16,249	19,112
Debt	0	0	0	0	0
Deferred tax liab (net)	21	17	17	17	17
Total liabilities	9,442	11,089	13,508	16,265	19,129
Application of Funds					
Gross Block	979	1,131	1,231	1,381	1,531
Depreciation	368	461	566	683	813
Fixed Asset	615	673	669	701	721
CWIP	78	2	2	2	2
Investments	5,613	7,176	7,999	9,283	10,707
Net Working Capital	3,136	3,237	4,838	6,278	7,698
Inventories	2,094	1,748	2,192	2,435	2,809
Sundry debtors	1,904	2,264	2,588	3,075	3,552
Cash & equivalents	135	179	1,455	2,449	3,313
Loans & Advances	90	74	158	188	216
Other Current Asset	84	108	133	158	182
Sundry creditors	20	30	91	108	125
Provisions	207	204	246	291	336
Other current liabilities	944	902	1,351	1,627	1,913
Total Assets	9,442	11,089	13,508	16,265	19,129

Source: Company, YES Sec

Exhibit 12: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	11,272	13,851	16,665	19,752	22,781
% Change YoY	62.8	22.9	20.3	18.5	15.3
Operating profit	1,390	2,309	3,449	4,049	4,215
EBITDA margins	12.3	16.7	20.7	20.5	18.5
% Change YoY	79.5	66.1	49.4	17.4	4.1
Depreciation	79	97	105	117	130
EBIT	1,311	2,212	3,345	3,932	4,084
EBIT margins	11.6	16.0	20.1	19.9	17.9
Interest expense	8	9	9	10	11
Other income	430	401	900	988	1,025
Profit before tax	1,732	2,604	4,235	4,909	5,099
Taxes	404	604	1,009	1,233	1,281
Effective tax rate (%)	23.3	23.2	23.8	25.1	25.1
Net profit	1,328	1,999	3,226	3,676	3,818
Minorities and other	0	0	0	0	0
Net profit after minorities	1,328	1,999	3,226	3,676	3,818
Exceptional items	0	0	0	0	0
Net profit	1,328	1,999	3,226	3,676	3,818
% Change YoY	18.4	50.5	61.4	13.9	3.9
EPS (Rs)	131.3	197.6	318.9	363.4	377.4

Source: Company, YES Sec

Exhibit 13: Cash flow statement (Standalone)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before Tax	1,732	2,604	4,235	4,909	5,099
Interest	8	9	9	10	11
Depreciation	79	97	105	117	130
Other Items	(408)	(376)	(900)	(988)	(1,025)
(Inc)/Dec in WC	(368)	(38)	(326)	(446)	(556)
Direct Taxes Paid	388	616	1,009	1,233	1,281
CF from Oper. Activity	656	1,680	2,114	2,370	2,378
Inc/(Dec) in FA	186	(8)	100	150	150
Free Cash Flow	469	1,687	2,014	2,220	2,228
(Pur)/Sale of Invest.	(650)	(1,265)	(123)	(597)	(699)
CF from Inv. Activity	(463)	(1,273)	(23)	(447)	(549)
Change in Networkth	-	-	-	-	-
Inc/(Dec) in Debt	-	-	-	-	-
Interest Paid	(8)	(9)	(9)	(10)	(11)
Dividends Paid	(253)	(354)	(807)	(919)	(955)
Others	-	-	0	(0)	(0)
CF from Fin. Activity	(261)	(363)	(816)	(929)	(965)
Inc/(Dec) in Cash	(68)	44	1,275	994	864
Opening cash Balance	201	133	177	1,453	2,447
Others	-	-	-	-	-
Closing cash Balance	133	177	1,453	2,447	3,311

Source: Company, YES Sec

Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	2.5	2.8	2.5	2.4	2.4
Interest burden (x)	0.3	0.3	0.3	0.3	0.3
EBIT margin (x)	0.1	0.2	0.2	0.2	0.2
Asset turnover (x)	1.2	1.2	1.2	1.2	1.2
Financial leverage (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	10.7%	15.3%	18.9%	18.1%	16.0%

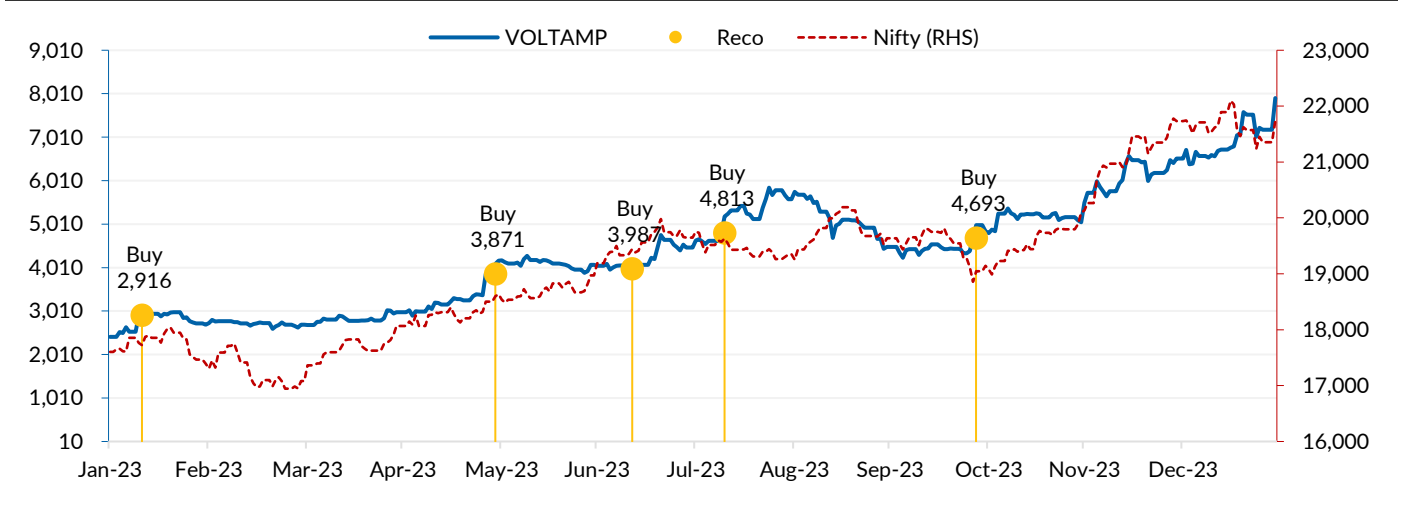
Source: Company, YES Sec

Exhibit 15: Ratio Analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Basic (Rs)					
EPS	131.3	197.6	318.9	363.4	377.4
Dividend per share	35.0	60.0	79.7	90.8	94.3
Cash EPS	139.2	207.2	329.2	375.0	390.3
Book value per share	931.2	1,094.4	1,333.6	1,606.1	1,889.1
Div. payout (%)	26.7	30.4	25.0	25.0	25.0
Valuation ratios (x)					
P/E	60.2	40.0	24.8	21.8	21.0
P/CEPS	56.8	38.2	24.0	21.1	20.3
P/B	8.5	7.2	5.9	4.9	4.2
EV/EBIDTA	57.5	34.6	22.8	19.2	18.2
Dividend yield (%)	0.4	0.8	1.0	1.1	1.2
Profitability Ratios (%)					
RoIC	13.3	18.5	24.8	23.8	21.0
RoE	10.7	15.3	18.9	18.1	16.0
RoCE	10.6	15.3	18.9	18.1	16.0
Liquidity ratios					
Debtor (days)	62	60	57	57	57
Inventory (days)	68	46	48	45	45
Creditor (days)	1	1	2	2	2
Net working Capital (days)	97	81	74	71	70
Asset Turnover (x)	1.2	1.2	1.2	1.2	1.2

Source: Company, YES Sec

Recommendation Tracker



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Name of the Research Analyst : Abhijeet Singh

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

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