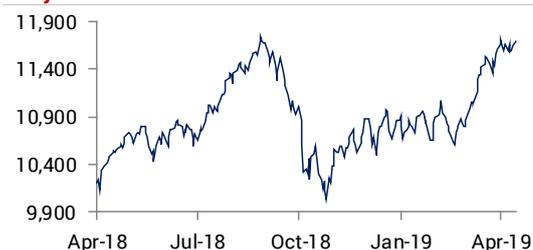


APRIL 16, 2019

	15-Apr	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,906	0.4	2.3	7.1	
NIFTY Index	11,690	0.4	2.3	7.4	
NSEBANK Index	30,104	0.6	2.5	9.9	
NIFTY 500 Index	9,717	0.4	2.3	6.1	
CNXMcap Index	18,254	0.5	2.2	3.1	
BSESMCAP Index	15,115	0.6	1.9	3.3	
World Indices					
Dow Jones	26,385	(0.1)	2.1	9.0	
Nasdaq	7,976	(0.1)	3.7	13.4	
FTSE	7,437	(0.0)	2.9	8.4	
NIKKEI	22,169	1.4	3.5	8.6	
Hangseng	29,811	(0.3)	3.0	11.1	
Shanghai	3,178	(0.3)	5.4	23.9	
Value traded (Rs cr)					
	15-Apr	% Chg Day			
Cash BSE	2,599	18.4			
Cash NSE	30,341	5.5			
Derivatives	640,560	9.9			
Net inflows (Rs cr)					
	12-Apr	MTD	YTD		
FII	606	4,363	61,854		
Mutual Fund	164	(1,936)	(267)		
Nifty Gainers & Losers					
	15-Apr	Price (Rs)	Chg (%)	Vol (mn)	
Gainers					
Tata Motors		232	7.3	57.3	
TCS		2,113	4.9	9.2	
Coal India Ltd		250	3.8	15.7	
Losers					
Infosys Ltd		728	(2.7)	31.6	
Bharti Infra		308	(2.0)	1.5	
Sun Pharma		459	(1.4)	3.8	
Advances / Declines (BSE)					
15-Apr	A	B	T	Total	% total
Advances	296	555	52	903	100
Declines	161	412	54	627	69
Unchanged	4	51	10	65	7
Commodity					
	15-Apr	1 Day	1 Mth	3 Mths	% Chg
Crude (US\$/BBL)	71.0	(0.3)	5.6	15.7	
Gold (US\$/OZ)	1,287.9	(0.2)	(1.3)	(0.6)	
Silver (US\$/OZ)	15.0	0.1	(2.2)	(4.1)	
Debt / Forex Market					
	15-Apr	1 Day	1 Mth	3 Mths	% Chg
10 yr G-Sec yield %	7.4	7.4	7.3	7.3	
Re/US\$	69.4	69.2	69.1	71.0	

Nifty



Source: Bloomberg

News Highlights

- ▶ The country will experience near normal monsoon in the June-September period this year, the India Meteorological Department (IMD) forecast. This, coupled with the prediction that rain during the monsoon season would be well distributed throughout the country, raised hopes for high production during the Kharif season, which could lift overall economic growth. (BS)
- ▶ Wholesale price-based inflation rose for the second consecutive month to 3.18 per cent in March on costlier food and fuel. The Wholesale Price Index (WPI) based inflation was at 2.93 per cent in February. It was 2.74 per cent in March 2018.(BS)
- ▶ Despite exports and imports growing at the same rate of 9 per cent, India's trade deficit reached a record high of US\$176 bn in 2018-19. (BS)
- ▶ **Infosys** will roll out an incentive scheme this year for employees equipped with digital skills and will aggressively re-deploy staff on projects offering opportunities to work on new technologies as it looks to stem rising attrition in the face of stricter visa rules, a top executive has said. (BS)
- ▶ **Nestle India** has dropped a controversial proposal to pay royalty in perpetuity to its Swiss parent after minority shareholders and proxy advisory firms said the move was against good corporate governance norms. (BS)
- ▶ **Dr Reddy's** is expanding its product basket for the US market which is expected to derisk its current focus on complex product portfolio. In line with this strategy the company is adding volume driven products such as the recent acquisition of 42 abbreviated new drug application (ANDAs) for an unspecified valuation. (BS)
- ▶ **Jet Airways** is headed towards a total grounding and a decision could be taken as early as Tuesday after a meeting of its board of directors. Left with no cash, a seven-plane fleet and fuel to run operations only till Tuesday afternoon, the end is imminent, said sources close to the development. (BS)
- ▶ After outbidding **Mahindra & Mahindra** in government tenders for electric vehicles, **Tata Motors** now plans to expand its offering in the passenger vehicle space with the widest portfolio. (ET)
- ▶ **Tata Power** is confident of getting regulatory approvals for higher tariff for its loss-making Mundra ultra mega power project after the Central Electricity Regulatory Commission (CERC) has set a precedent by allowing Adani Power's plant in Mundra to pass through imported coal cost to power consumers, a top executive of Tata Power told. (ET)
- ▶ Liberty House Group has failed to pay the Rs4.10 bn offer money for stressed steel company **Adhunik Metaliks** within the deadline set by the bankruptcy court. (ET)

What's Inside

- ▶ **Company Update:** Voltamp Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

VOLTAMP LTD

Stock Details

Market cap (Rs mn)	:	11351
52-wk Hi/Lo (Rs)	:	1280 / 731
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	5,269
Shares o/s (mn)	:	10

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	6,390	8,100	8,910
Growth (%)	4.6	26.8	10.0
EBITDA	661	894	998
EBITDA margin (%)	10.3	11.0	11.2
PAT	735	790	938
EPS	72.8	78.3	92.8
EPS Growth (%)	1.9	7.5	18.6
BV (Rs/share)	614.0	674.7	750.0
Dividend/share (Rs)	15.0	15.0	15.0
ROE (%)	12.4	12.1	13.0
ROCE (%)	12.4	12.2	13.0
P/E (x)	15.1	14.1	11.8
EV/EBITDA (x)	11.2	8.0	6.7
P/BV (x)	1.8	1.7	1.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	48.4	47.5	47.5
FII	15.6	15.6	15.6
DII	19.4	19.8	20.1
Others	16.6	17.0	16.8

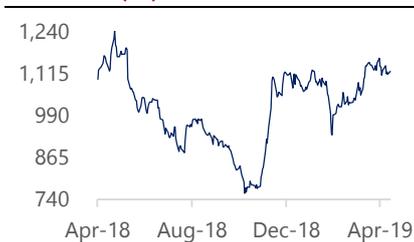
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Voltamp Ltd	(1.4)	3.1	44.6
Nifty	2.3	7.4	11.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.1116

TARGET RS.1320

BUY

We recently interacted with the management of Voltamp Transformers. We note that the company should end FY19 on a good note. Order book also provides comfort on revenue visibility for H1 FY20E.

Key Highlights

- Order book at the end of FY19 is up ~ 10% over the same period of previous fiscal. The company is witnessing good orders from the Solar Power sector.
- However, in recent weeks there has been some delay/deferrals of orders due to the ongoing General Elections. This situation may continue till the end of Q1FY20E, the management believes.
- Strong balance sheet – Zero debt and Cash and treasury investments worth Rs 4.5 bn (FY20E)

Valuation and Outlook

Voltamp is currently trading at 14.1x and 11.8x FY19E and FY20E earnings respectively. Valuations are attractive compared to peers and more so considering that management remains prudent and has been able to preserve quality of balance sheet even through years of industry distress. Voltamp remains one of the best stocks to play future upturn in industrial demand. Maintain BUY with unchanged target price of Rs 1320, valuing the core EPS (Rs 61 per share) of the stock at 14x FY20E and adding value of the treasury and investments (Rs 4.5 bn in FY20E).

Key Positives

Improving Capacity Utilisation data signaling selective investment revival for Capital Goods

During 2013-16, domestic macro indicators were impacted by factors like stressed balance sheets of infrastructure developers and high interest rates. Subsequently, factors like demonetization and GST implementation were additional hiccups that impacted industrial growth.

However, macro indicators have started to improve steadily as seen by the IIP and Capital Goods Index, which after remaining weak/negative between FY12 to FY16 have remained positive since FY17.

Another positive is that the aggregate capacity utilisation in various sectors is also showing signs of improvement. The aggregate capacity utilization for companies compiled by the RBI is at the highest level since Q1FY14, thus signalling selective investment revival, which currently is mainly concentrated in the consumption-led industries like Tyres, Food Processing, Sponge Iron, Specialty Chemicals and Paper.

However, going ahead, we believe even the core sector (Steel, Power and O&G) investment revival should start responding positively. This is because plants in Power and Steel take anywhere between 3 to 5 years to complete, the industry needs to start planning fresh investment in capacity building or else the economy will be deficit in commodities like Steel and Power, three-four years down the line.

Most major Capital goods companies (except BHEL) have registered healthy growth in order intake during YTD FY19. We believe that while industries are not

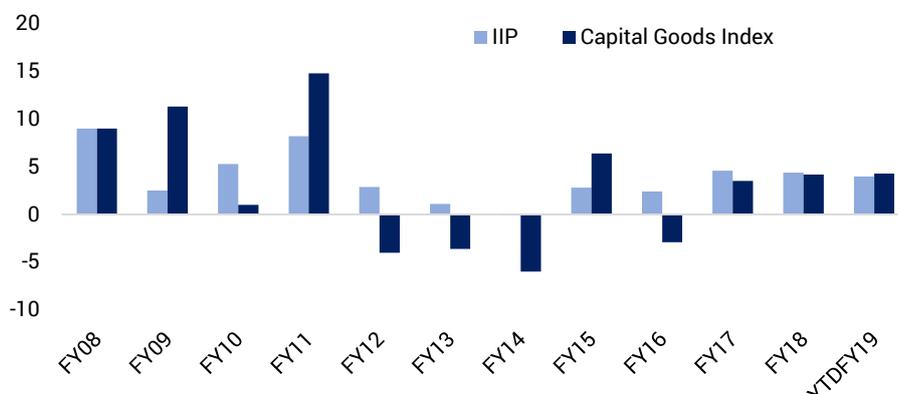
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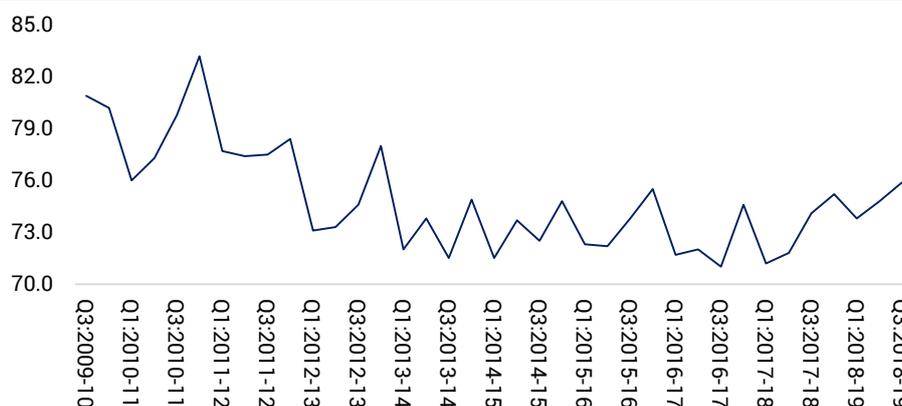
announcing major greenfield capacity plans, they have started to invest in debottlenecking and efficiency improvement related capex, which is resulting in steady flow of standard (smaller size) orders for companies.

IIP and Capital goods index



Source: MOSPI

Aggregate Capacity Utilisation for manufacturing companies



Source: RBI

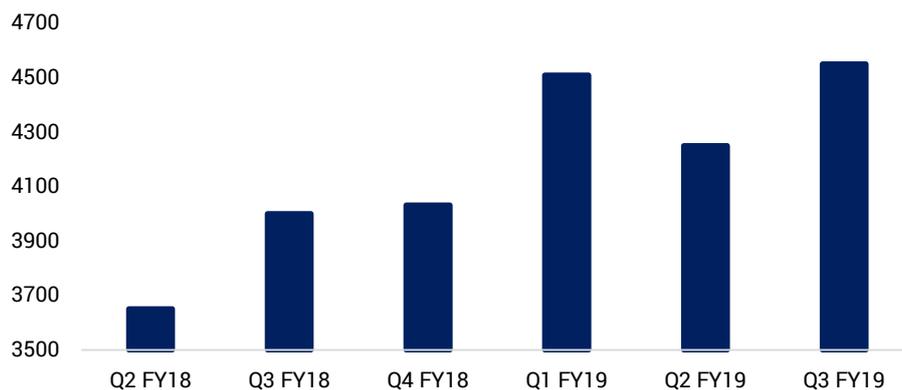
Order book is healthy providing adequate comfort for FY20E earnings

Order book at the end of January 2019 stood at ~ Rs 4.55 bn. The management sounded comfortable on the level of order book, which gives it a good revenue visibility for H1FY20E.

From our discussion with the management, we understand that order book remains robust. Further, the company has ended FY19 with order book position that is up by ~ 10% on a y-o-y basis, the management informed. In recent weeks, it has also started to see demand coming back for transformers from the Solar Power sector and expects the sector to be a key demand driver current fiscal.

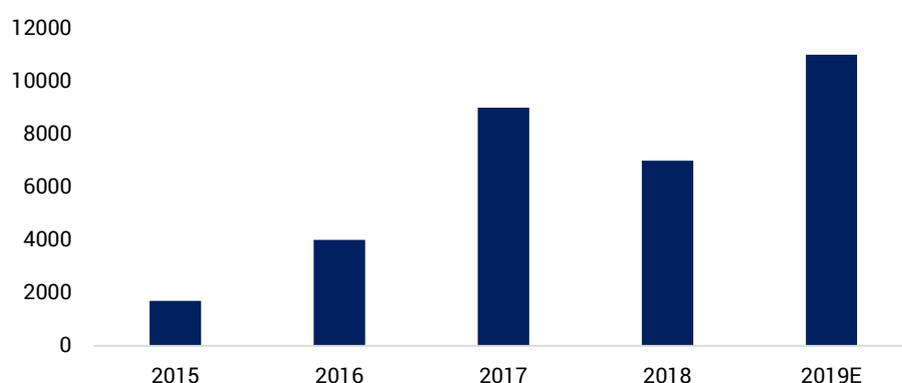
While the company has won good orders in Q4FY19, including a major order of Rs 250 mn from GETCO, it has started to see some order deferral from the clients in view of the ongoing General Elections. The management expects the situation to prevail till the end of the first quarter of current fiscal.

Order book (Rs mn)



Source: Company

Solar Capacity addition in India MW

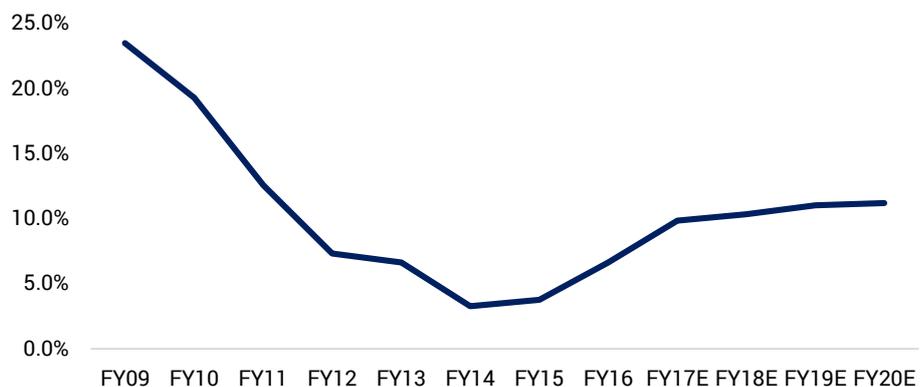


Source: Bridge to India

EBITDA margins to remain stable

- EBITDA margins for the company is a function of prevailing competitive intensity and commodity prices.
- The management has opined that the competitive intensity continues to remain high due to weak demand for transformers from the Power sector coupled with excess capacity in the transformer manufacturing industry. In this scenario, the company is very selective in picking orders but expects to keep EBITDA margins steady going into FY20E.

EBITDA margins (%)



Sourced: Company, Kotak Securities – Private Client Research

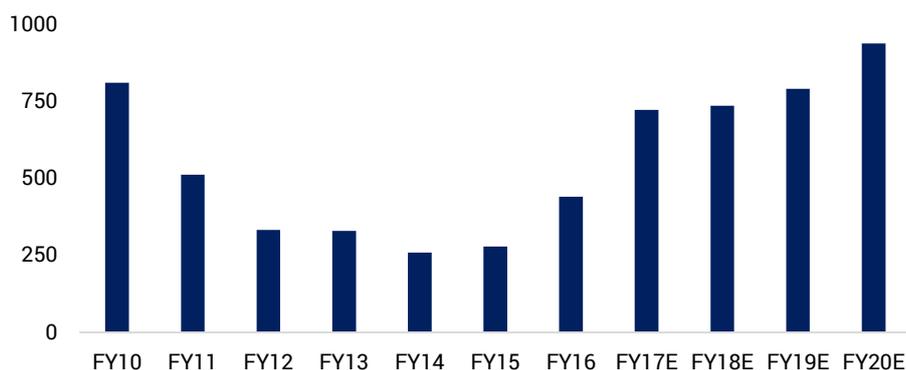
Transformer Industry – Plagued by overcapacity

- India’s domestic transformer market is valued at Rs 140 bn in which power transformers account for 45% while distribution transformers make up the remaining share of 55%.
- The transformer industry which had more than doubled its capacity over the past years anticipating huge domestic and overseas demand is witnessing the situation of overcapacity.
- Given the slowdown in investment in Power generating projects and hence in inter-state power transmission lines, the Indian transformer industry has been stagnant over the past 1-2 years.

Valuation and Outlook

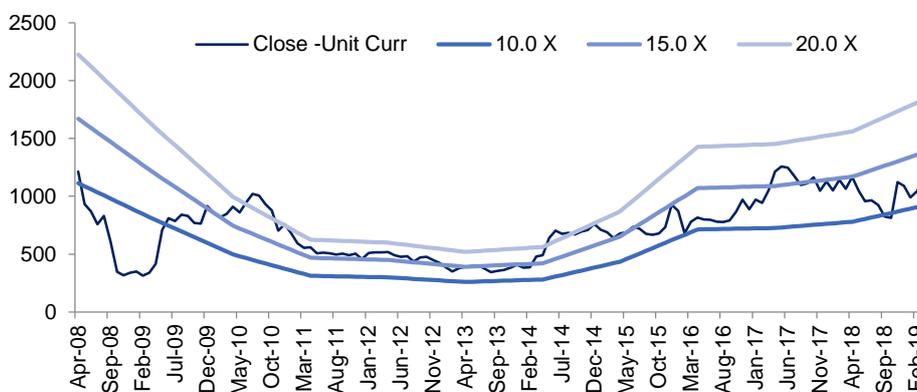
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PAT (Rs mn)



Source: Company and Kotak Securities – Private Client Research

Forward PE band



Source: Kotak Securities – Private Client Research

Company Background

Voltamp Transformers Ltd was established in the year 1963 by Mr. Lalitkumar H. Patel along with Mr. Babubhai H. Patel and Mr. Navinchandra R. Patel to manufacture transformers in Baroda city. The main promoter is, Mr Kunjalbhai Patel (VC and MD) and is a technocrat. Voltamp has a manufacturing capacity of 13000 MVA capable of making transformers upto 160 MVA, 220 KV, class for many applications covering most segments of users including industrial, utility and buildings. The company caters to cater to a wide spectrum of transformer users in various industries like: petrochemical, oil refining, cement, paper and pulp, pharmaceuticals, automobiles, steel, power plant, building, metro rail applications, mining and minerals and many others.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	6,109	6,390	8,100	8,910
% change yoy	8.5	4.6	26.8	10.0
EBITDA	602	661	894	998
% change yoy	60.8	9.8	35.2	11.7
Depreciation	58.1	60.0	66.4	75.0
EBIT	933	1,008	1,146	1,273
% change yoy	56.2	7.9	13.8	11.1
Net Interest	5.1	5.6	6.9	5.0
Earnings Before Tax	928	1,002	1,140	1,268
% change yoy	56.5	7.9	13.7	11.3
Provisions and amortisations	-	-	-	-
Tax	206	267	349	331
as % of EBT	22.2	26.6	30.6	26.1
Net Income adj	722	735	790	938
% change yoy	64.1	1.9	7.5	18.6
Preference dividend	0.0	0.0	0.0	0.0
Adj Net income for equityholders	722	735	790	938
Shares outstanding (m)	10.1	10.1	10.1	10.1
EPS (Rs)	71.5	72.8	78.3	92.8
DPS (Rs)	15.0	15.0	15.0	15.0
CEPS	77.2	78.8	84.8	100.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	602	661	894	998
Tax and adjustments	237	(276)	(349)	(331)
Cash flow from operations	839	385	544	668
Net Change in Working Capital	91	(31)	(324)	(256)
Net Cash from Operations	930	354	221	412
Capital Expenditure	(58)	(126)	(100)	(100)
Cash from investing	(661)	6	319	350
Net Cash from Investing	(718)	(120)	219	250
Interest paid	(5)	(6)	(7)	(5)
Issue of Shares	-	-	-	-
Dividends Paid	(152)	(182)	(177)	(177)
Debt Raised	-	-	-	-
Net cash from financing	(157)	(188)	(184)	(182)
Net change in cash	55	46	256	480
Free cash flow	873	228	121	312
cash at end	36	77	333	813

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	36	77	333	813
Accounts receivable	1,538	1,446	1,553	1,709
Stocks	825	970	1,176	1,294
Loans and Advances	80	95	112	132
Others	-	-	-	-
Current Assets	2,480	2,588	3,175	3,948
LT investments	3,246	3,647	3,647	3,647
Net fixed assets	372	421	455	480
Deferred tax assets	-	-	-	-
CWIP	22	38	38	38
Total Assets	6,120	6,694	7,315	8,113
Payables	330	349	344	369
Others	109	121	133	147
Current liabilities	438	470	477	515
LT debt	-	-	-	-
Other liabilities				
(defrd tax+minority int)	1	6	6	6
Equity & reserves	5,650	6,201	6,814	7,575
Total Liabilities	6,120	6,694	7,315	8,113
BVPS (Rs)	559.4	614.0	674.7	750.0

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.9	10.3	11.0	11.2
EBIT margin (%)	15.3	15.8	14.2	14.3
Net profit margin (%)	11.8	11.5	9.8	10.5
Adjusted EPS growth (%)	64.1	1.9	7.5	18.6
Receivables (days)	91.9	82.6	70.0	70.0
Inventory (days)	51.1	57.3	53.0	53.0
Sales / Net Fixed Assets (x)	16.4	15.2	17.8	18.6
ROE (%)	14.0	12.4	12.1	13.0
ROCE (%)	13.9	12.4	12.2	13.0
EV/ Sales	1.3	1.2	0.9	0.7
EV/EBITDA	13.0	11.2	8.0	6.7
Price to earnings (P/E)	15.4	15.1	14.1	11.8
Price to book value (P/B)	2.0	1.8	1.7	1.5
Price to cash earnings	14.2	14.0	13.0	11.0

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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