

# Pick of the week



## Voltamp Transformer Ltd

### Recommendation

Buy

### Time Period

12 Months

### Current Price

₹ 1052

### Target Price

₹ 1,622

### Potential Upside

54.2%

### Investment Argument

- 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.
- Net sales for Q2FY20 rose 3.1% y-o-y to Rs 1.9 bn. Heavy rain / flood in Baroda during July, 2019 impacted normal working at Voltamp's factories and vendors works, resulting in production loss of about 7 days. EBITDA margins expanded to 10.8%, gain of 70 bps on a y-o-y basis. Margin gains were mainly driven by 200 bps gain in gross margins.
- Order book at the end of Q2FY20 stands at ~ Rs 4.8 bn. The management is fairly positive on the level of order book, which gives it a good revenue visibility for the remainder of the fiscal. In the current fiscal, the company is witnessing good demand from Chemicals, O&G and Auto ancillaries sectors.
- Treasury investments and cash at the end of Q2FY20 stood at Rs 4.3 bn (Rs 3.8 bn in FY19). Cash flow from operations stood at Rs 678 mn in H1FY20.
- 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. Reiterate BUY with unchanged target price of Rs 1622, valuing the core EPS (Rs 80.3 per share) of the stock at 14x FY21E and adding value of the treasury and investments (Rs 499 per share in FY21E).