

Triveni Turbine

26 February 2020

Reuters: TRVT.BO; Bloomberg: TRIV IN

Domestic resurgence; Margin profile & exports to stay healthy

We had a meeting with the management of Triveni Turbine Ltd (TTL) to get the latest business updates. Domestic market is seeing resurrection with sectors such as process co-gen and sugar & distilleries driving demand while healthy enquiries have also started from municipal solid waste and cement (WHR plants) sectors. While exports market was tepid in 9MFY20, the outlook remains healthy due to large enquiry pipeline of 2.5GW mainly from South East Asia (sustaining strong momentum) and Europe (revival likely). Under after-market services segment, TTL expects decent growth in spares and services income while refurbishment of old turbines provides promising opportunities. We have a Buy rating on the stock with a target price of Rs130 based on 25x September 2021E earnings as TTL exhibits healthy financial profile and long-term growth prospects.

Key takeaways are summarized below:

Domestic market update:

- Domestic market revenue grew by 24% YoY to Rs3.7bn (55% of total sales) in 9MFY20. Order inflow for 9MFY20 grew by 21% YoY to Rs3.9bn, forming 62% of total intake. Domestic order book as on 9MFY20, stood at Rs3.9bn, down 2% YoY, accounting for 56% of total order backlog vs. 53% YoY.
- Domestic turbine market (in 0-30MW range) is witnessing a revival since past three years from a suppressed base. In FY18, the domestic turbine market size was at 640MW, which rose to 740MW in FY19. For FY20E, management expects the domestic market size to rise to 850MW. At its peak ten years ago, the industry size was 1.7GW.
- 60% of the domestic orders are contributed by the process co-generation sector, which includes textiles, paper, chemicals, pharmaceuticals and agro-based industries. The remaining 40% of the orders are majorly contributed by sugar and distilleries sector. Municipal solid waste plants have also recently started witnessing traction.
- Cement and metal (steel) sectors have higher dependence on captive power plants and require large sized turbines. Both these sectors were witnessing subdued demand since past few years. However, cement sector is showing early signs of revival as there are healthy enquiries for WHR plants.

BUY

Sector: Capital Goods

CMP: Rs93

Target Price: Rs130

Upside: 40%

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Key Data

Current Shares O/S (mn)	323.3
Mkt Cap (Rsbn/US\$mn)	30/418.9
52 Wk H / L (Rs)	123/81
Daily Vol. (3M NSE Avg.)	127,054

Price Performance (%)

	1 M	6 M	1 Yr
Triveni Turbine	(4.9)	(7.4)	(8.4)
Nifty Index	(3.9)	6.4	8.6

Source: Bloomberg

Y/E March (Rsmn) (consolidated)	FY18	FY19	FY20E	FY21E	FY22E
Net revenues	7,511	8,400	9,312	10,406	11,679
EBITDA	1,578	1,513	1,909	2,144	2,429
Net Profit	960	1,002	1,400	1,605	1,816
EPS (Rs)	3.0	3.1	4.3	5.0	5.6
EPS growth (%)	(22.3)	4.4	39.7	14.7	13.1
EBITDA margin (%)	21.0	18.0	20.5	20.6	20.8
P/E (x)	31.3	30.0	21.5	18.7	16.6
P/BV (x)	6.7	6.9	5.7	4.8	4.0
EV/EBITDA (x)	19.0	19.7	15.7	13.6	11.6
Dividend yield (%)	1.1	0.0	1.3	1.6	1.8
RoCE (%)	30.2	29.3	31.4	29.6	28.5
RoE (%)	21.2	23.1	26.6	25.5	24.4

Source: Company, Nirmal Bang Institutional Equities Research

- The domestic enquiry pipeline stands at 1.2 - 1.3 GW. While competitive intensity remains high, TTL has maintained its leading market share (50%-60%) as well as margin profile through price hikes and cost-control measures. For TTL, Siemens is the largest competitor as the domestic 0-30MW industry is largely a duopoly with both firms having a collective market share of 90%-95%.

Exports update:

- Exports market revenue fell by 2% YoY to Rs2.9bn (45% of total sales) in 9MFY20. Order inflow for 9MFY20 declined by 25% YoY to Rs2.4bn (38% of total intake). Order book as on 9MFY20 stood at Rs3bn, down 14% YoY, accounting for 44% of the total order backlog vs. 47% YoY.
- However, enquiry pipeline continues to be robust from regions of South-East Asia (42% of total enquiries) and Europe (25% of the total enquiries). In South East Asia, healthy enquiries are coming from Indonesia, Vietnam, Thailand, Philippines and Korea. But, TTL continued to face slowdown in Turkey, Pakistan, the Middle East and Nigeria.
- Within Europe, order booking was impacted from Turkey (due to geo-political factors) and the UK (due to Brexit). However, a revival is likely because these two countries are now forming 30%-35% of the total Europe enquires.
- Sectors such as sugar co-generation, paper, palm oil, biomass, process co-generation and municipal solid waste based IPPs are driving international orders.
- While 9MFY20 inflow was down 25% YoY to Rs2.4bn, the management is hopeful of FY20E inflow at similar or better level compared to FY19 as they have a large enquiry pipeline of 2.5GW.
- TTL is the second-largest steam turbine maker globally in below 30MW range with a market share of 19% over the past five years.
- TTL received another break-through order for drive turbines from oil & gas sector in the Middle East in January 2020. TTL aims to leverage on the huge market potential of API drive turbines and thus wants to keep a high focus on this segment.

After-market services update:

- After-market service revenue declined by 5% YoY to Rs1.5bn (23% of total sales) in 9MFY20, while order inflow fell by 6% YoY to Rs1.6bn (26% of total intake). Order book as on 9MFY20 grew by 21% YoY to Rs1.1bn, accounting for 15% of the total order backlog versus 12% YoY.
- Under this segment, TTL undertakes activities such as supply of spares, annual maintenance contracts as well as refurbishments and retro-fittings of old turbines.
- TTL expects spares and service income from its own installed turbine base to grow by 7%-10%.
- However, refurbishment of other brands' turbines is a large and profitable opportunity in the international market, which it is actively pursuing. However, this opportunity is lumpy in nature. In 9MFY20, refurbishment revenue contribution stood at 21% of total after-market sales versus 30% YoY.

GE-Triveni JV update:

- TTL had entered in to a 50:50 JV with GE Oil & Gas to explore global opportunities in steam turbines in the range of 30-100MW. The total capital committed by both the partners in the JV is Rs80mn each.
- In 9MFY20, GE-TTL JV reported sales of Rs1.2bn, PAT of Rs158mn and order inflow of Rs829mn.
- Because of the global restructuring of GE's businesses couple of years back, GE's stake in the GE-TTL JV was transferred from GE Oil & Gas to Baker Hughes General Electric (BHGE) where GE held 60% stake.

- TTL has filed a petition against GE before the NCLT for misconduct in the GE-TTL venture. TTL has claimed that GE and its group companies have acted in a manner which is against the interest of GE-TTL JV by failing to promote the JV's business globally, leading to suppression in enquiries and sales. The matter is sub judice, but in the interim, the JV is likely to continue to scout for more orders.
- TTL possesses suitable technologies and capabilities to take turbine orders above 30MW on its own.
- Order inflow for the JV has remained subdued for the last few years and is unlikely to grow materially considering the weak capex activity in the above 30MW range of turbines globally.

Outlook and valuation:

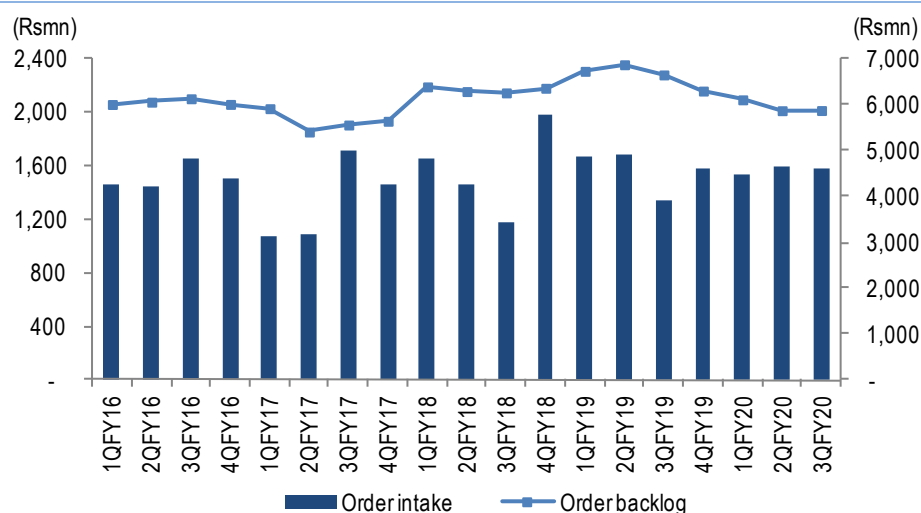
We have a Buy rating on TTL with a target price of Rs130 based on 25x September 2021E earnings. TTL continues to exhibit healthy financial credentials with revenue/earnings CAGR of 12%/14% over FY20E-FY22E, strong margin profile (Gross/EBITDA/PAT margin of 46%/20%/15%), healthy return ratios (RoCE/RoE of 31%/27% in FY20E) and positive free cash flows (Rs4.2bn over FY20E-FY22E) despite challenging times faced by the capital goods sector currently.

Exhibit 1: 3Q / 9M FY20 financial snapshot

Y/E March (Rsmn)	3QFY19	2QFY20	3QFY20	YoY (%)	QoQ (%)	9MFY19	9MFY20	YoY (%)
Net revenues	2,113	2,473	2,030	(3.9)	(17.9)	6,003	6,640	10.6
Raw material costs	1,210	1,310	1,057	(12.6)	(19.3)	3,253	3,576	9.9
Staff costs	256	268	250	(2.6)	(6.8)	738	762	3.3
Other expenses	289	367	311	7.9	(15.1)	900	923	2.6
Total expenditure	1,755	1,944	1,618	(7.8)	(16.8)	4,891	5,261	7.6
EBITDA	359	529	412	14.8	(22.1)	1,113	1,378	23.9
EBITDA margin (%)	17.0	21.4	20.3	-	-	18.5	20.8	-
Depreciation	53	51	50	(4.5)	(1.9)	149	152	2.1
Interest costs	3	9	7	106.1	(22.7)	4	25	563.2
Other income	18	53	29	56.0	(45.3)	107	112	5.2
Share of profit from JV	12	42	(12)	NA	NA	9	66	657.5
PBT	333	563	372	11.6	(33.9)	1,075	1,379	28.3
Tax	105	61	101	(3.5)	66.6	356	299	(15.9)
PAT	228	502	271	18.6	(46.1)	720	1,080	50.1
PAT margin (%)	10.8	20.3	13.3	-	-	12.0	16.3	-
EPS (Rs)	0.7	1.6	0.8	21.0	(46.1)	2.2	3.3	53.2

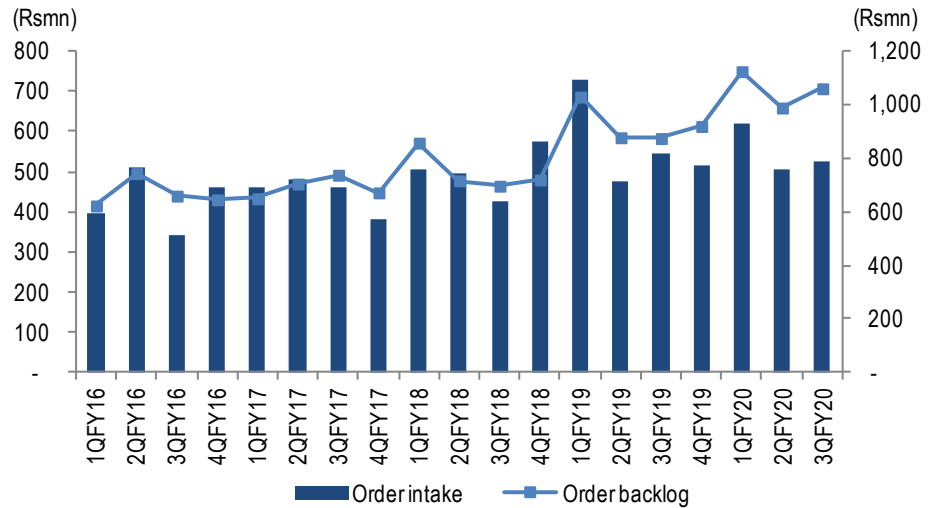
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Turbine order book position (consolidated)



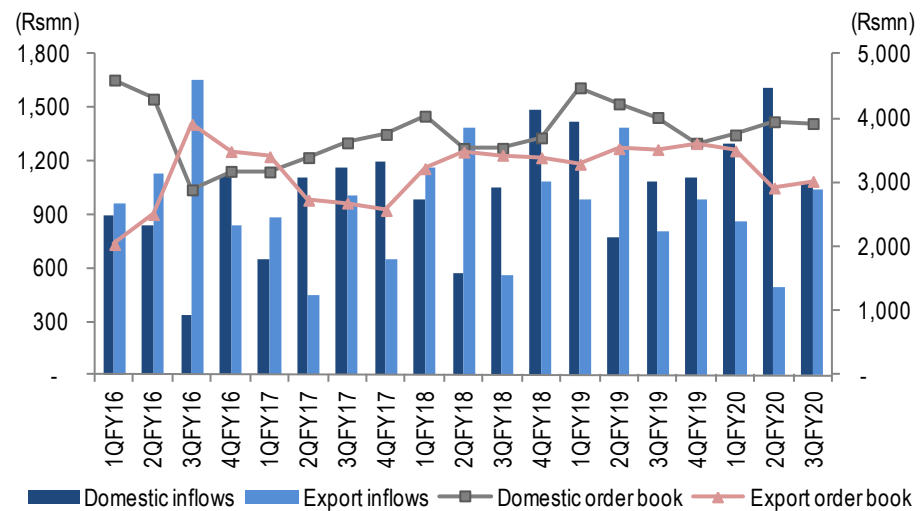
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: After-market services order book position (consolidated)



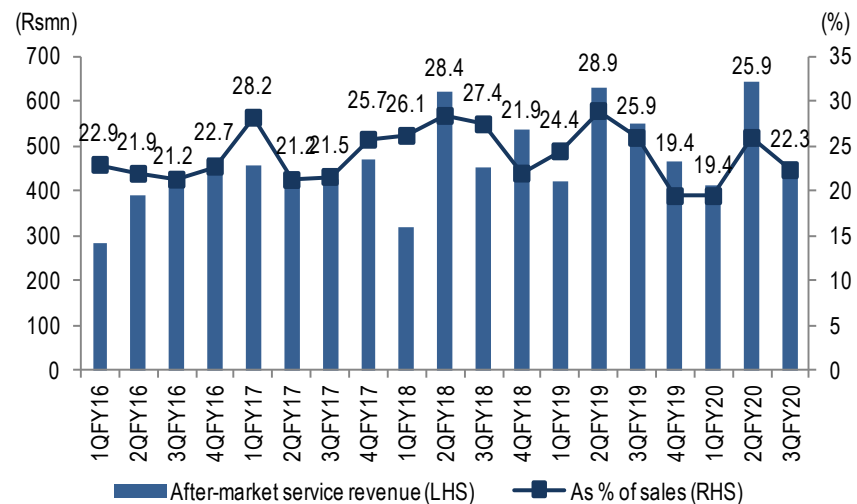
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Domestic and export order book status



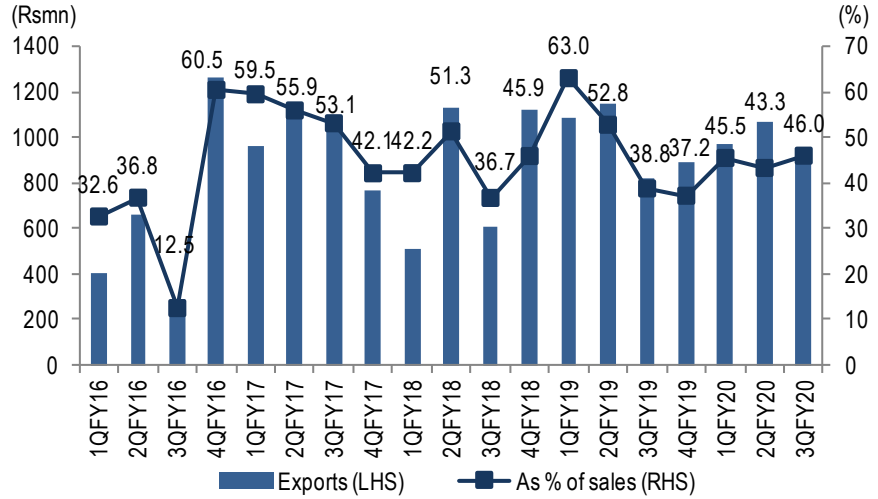
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Trend in after-market service revenue



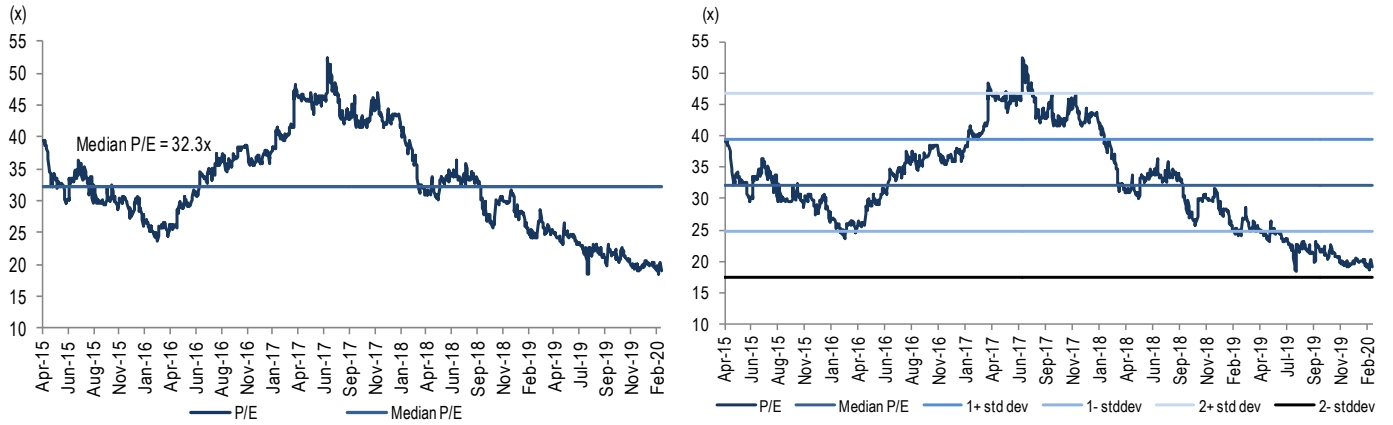
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Trend in export revenue



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: P/E trend



Source: Bombay Stock Exchange, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)
Exhibit 8: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	7,511	8,400	9,312	10,406	11,679
% growth	0.9	11.8	10.9	11.7	12.2
Raw material costs	3,853	4,691	5,066	5,630	6,295
Staff costs	881	991	1,080	1,165	1,308
Other overheads	1,200	1,205	1,257	1,467	1,647
Total expenditure	5,933	6,887	7,403	8,262	9,250
EBITDA	1,578	1,513	1,909	2,144	2,429
% growth	(5.2)	(4.2)	26.2	12.3	13.3
EBITDA margin (%)	21.0	18.0	20.5	20.6	20.8
Other income	81	162	168	187	210
Interest costs	5	11	45	40	36
Depreciation	191	201	211	239	264
Profit before tax	1,463	1,462	1,821	2,051	2,339
Tax	478	492	482	516	589
Share of profit from JVs	(25)	32	62	71	66
PAT	960	1,002	1,400	1,605	1,816
PAT margin (%)	12.8	11.9	15.0	15.4	15.6
EPS (Rs)	3.0	3.1	4.3	5.0	5.6
% growth	(22.3)	4.4	39.7	14.7	13.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	330	323	323	323	323
Reserves	4,191	4,011	4,945	5,968	7,125
Net worth	4,521	4,334	5,268	6,292	7,448
Total loans	1	-	-	-	-
Deferred tax liability	78	141	141	141	141
Total liabilities	4,599	4,475	5,409	6,433	7,589
Net block	2,257	2,552	2,573	2,533	2,469
Capital work-in-progress	385	43	-	-	-
Investments	197	188	970	970	970
Inventories	1,807	2,168	2,296	2,537	2,816
Debtors	2,090	1,762	1,990	2,252	2,560
Cash	126	272	171	983	1,911
Other current assets	665	424	521	583	654
Total current assets	4,688	4,626	4,979	6,356	7,941
Creditors	1,465	1,166	1,235	1,357	1,501
Other current liabilities & provisions	1,464	1,768	1,877	2,069	2,290
Total current liabilities	2,928	2,934	3,112	3,426	3,791
Net current assets	1,760	1,692	1,866	2,929	4,150
Total assets	4,599	4,475	5,409	6,433	7,589

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	1,387	1,311	1,698	1,904	2,165
(Inc.)/dec. in working capital	(260)	214	(276)	(251)	(293)
Cash flow from operations	1,127	1,526	1,422	1,653	1,872
Other income	81	162	168	187	210
Depreciation	191	201	211	239	264
Tax paid (-)	(509)	(428)	(482)	(516)	(589)
Share of profit from JVs	(25)	32	62	71	66
Net cash from operations	865	1,492	1,380	1,634	1,824
Capital expenditure (-)	(411)	(154)	(189)	(200)	(200)
Net cash after capex	454	1,338	1,191	1,434	1,624
Interest paid (-)	(5)	(11)	(45)	(40)	(36)
Dividends paid (-)	(396)	-	(466)	(582)	(660)
Inc./(dec.) in total borrowings	(2)	(1)	-	-	-
Inc./(dec.) in investments	(26)	9	(782)	-	-
Equity issue/(buyback)	-	(7)	-	-	-
Cash from financial activities	(429)	(10)	(1,292)	(622)	(696)
Others	(77)	(1,183)	-	-	-
Opening cash balance	178	126	272	171	983
Closing cash balance	126	272	171	983	1,911
Change in cash balance	(52)	145	(101)	812	928

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

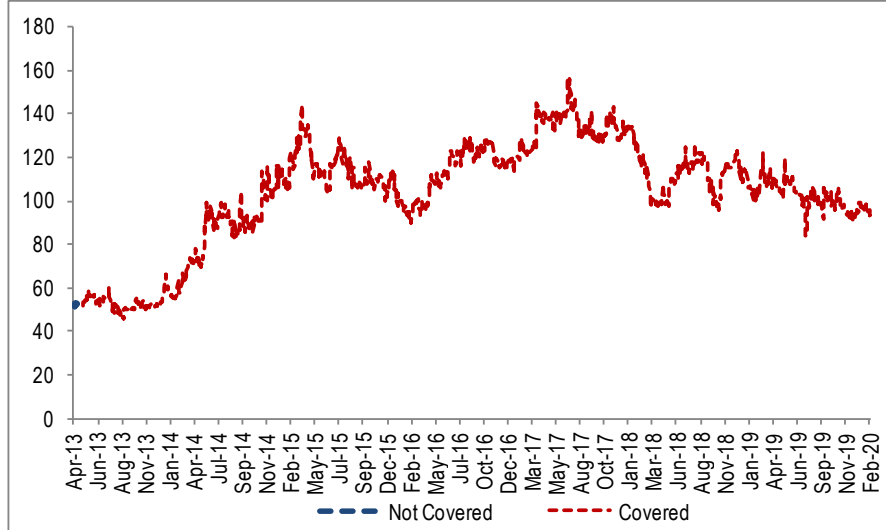
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
EPS	3.0	3.1	4.3	5.0	5.6
Book value	14.0	13.4	16.3	19.5	23.0
Valuation (x)					
P/E	31.3	30.0	21.5	18.7	16.6
P/BV	6.7	6.9	5.7	4.8	4.0
EV/EBITDA	19.0	19.7	15.7	13.6	11.6
EV/sales	4.0	3.5	3.2	2.8	2.4
Return ratios (%)					
RoCE	30.2	29.3	31.4	29.6	28.5
RoE	21.2	23.1	26.6	25.5	24.4
RoIC	32.4	32.7	39.8	42.5	46.0
Profitability ratios (%)					
EBITDA margin	21.0	18.0	20.5	20.6	20.8
EBIT margin	18.5	15.6	18.2	18.3	18.5
PAT margin	12.8	11.9	15.0	15.4	15.6
Turnover ratios					
Total asset turnover ratio (x)	1.7	1.9	1.9	1.8	1.7
Debtor days	102	77	78	79	80
Inventory days	88	94	90	89	88
Creditor days	139	91	89	88	87

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
30 April 2013	Buy	52	68
24 May 2013	Buy	56	68
19 June 2013	Buy	55	68
9 July 2013	Buy	55	68
30 July 2013	Buy	54	66
5 September 2013	Buy	46	66
7 October 2013	Buy	50	66
11 November 2013	Buy	51	64
7 January 2014	Buy	55	64
24 January 2014	Buy	58	79
10 March 2014	Buy	63	79
30 May 2014	Buy	91	110
4 June 2014	Buy	94	110
10 July 2014	Buy	95	110
12 August 2014	Buy	88	110
11 September 2014	Buy	101	118
9 October 2014	Buy	90	118
14 November 2014	Buy	109	134
9 January 2015	Buy	116	134
12 February 2015	Buy	106	145
15 April 2015	Buy	131	145
8 May 2015	Buy	116	140
8 July 2015	Buy	118	140
17 August 2015	Buy	110	140
12 October 2015	Buy	109	140
18 November 2015	Buy	108	140
29 December 2015	Buy	112	140
8 January 2016	Buy	105	140
21 January 2016	Buy	99	145
12 April 2016	Buy	99	145
12 May 2016	Buy	108	140
12 July 2016	Buy	119	140
8 August 2016	Buy	121	140
13 October 2016	Buy	122	140
16 November 2016	Buy	120	140
10 January 2017	Buy	119	140
13 February 2017	Buy	125	150
7 April 2017	Buy	139	150
22 May 2017	Buy	133	155
6 July 2017	Buy	155	155
11 August 2017	Buy	129	150
9 October 2017	Buy	126	150
10 November 2017	Buy	133	155
9 January 2018	Buy	131	155
14 February 2018	Buy	123	145
6 April 2018	Buy	100	145
24 May 2018	Buy	104	135
10 July 2018	Buy	117	135
2 August 2018	Buy	117	135
9 October 2018	Buy	101	135
2 November 2018	Buy	112	138
9 January 2019	Buy	109	138
12 February 2019	Buy	102	135
9 April 2019	Buy	109	147
22 May 2019	Buy	110	135
9 July 2019	Buy	103	135
5 August 2019	Buy	103	135
23 September 2019	Buy	107	135
7 October 2019	Buy	102	135
7 November 2019	Buy	103	135
9 January 2020	Buy	95	135
4 February 2020	Buy	99	130
26 February 2020	Buy	93	130

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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