Sharekhan by BNP PARIBAS

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Stock Update

Triveni Turbine Limited

Steady Q4, aftermarket business outperforms

Capital Goods	Sharekhan code: TRITURBINE	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 124**	
Price Target: **Rs. 144**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

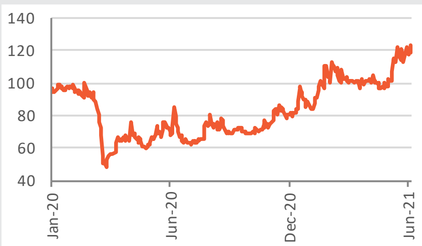
Company details

Market cap:	Rs. 3,993 cr
52-week high/low:	Rs. 127 / 61
NSE volume: (No of shares)	4.2 lakh
BSE code:	533655
NSE code:	TRITURBINE
Free float: (No of shares)	10.4 cr

Shareholding (%)

Promoters	67.8
FII	13.1
DII	14.5
Others	4.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	22.1	20.9	51.2	79.9
Relative to Sensex	3.2	6.5	10.2	50.8

Sharekhan Research, Bloomberg

Summary

- We retain a Buy rating on Triveni Turbine Limited (TRIV) with a revised PT of Rs. 144, considering healthy enquiry pipeline in both domestic and export markets, besides improving global economic scenario, which helped demand improve.
- Triveni turbine reported revenue/ EBITDA/ PAT of Rs. 179 crore/ Rs. 25 crore/ Rs. 23 crore (up 16% y-o-y/ up 38%/ up 69%), respectively. OPM expansion was driven by increased contribution by aftermarket sales in overall sales mix.
- The management expects both domestic and global market share to improve in the short to medium term, driven by resurgence in global activity *after* the pandemic-led lull, supported by a strong order enquiry in domestic and international markets.
- Balance sheet remains strong with strong cash position and current order book remaining healthy at 0.9x its FY2021 consolidated revenue.

Triveni Turbine Limited (TRIV) reported revenue/EBITDA/PAT below our estimates at Rs. 179 crore/ Rs. 25 crore/Rs. 23 crore (+16% y-o-y/+38%/+69%), respectively. Performance can be attributed to lockdown in India and other countries, which has resulted in considerable loss of opportunities for order booking in FY2021, both in domestic and international markets. Furthermore, owing to restrictions due to continued impact of COVID-19 across many countries, the decline in export order booking during the year was more pronounced than the domestic market. The quarter saw gross profit margin decline by of 37 bps y-o-y to 45.4% due to a 10% y-o-y increase in raw-material costs. During the quarter, operating profit margin (OPM) improved by 222 bps to 14% because of favourable raw-material cost and lower employee cost (manpower rationalisation) as well as lower administration expenses primarily driven by lower travelling expenses resulting in reduced other expenses. Order booking declined by 19% y-o-y, wherein exports order booking declined by 37% y-o-y and domestic declined by 5% y-o-y. Total order book declined marginally (down 9% y-o-y). Management mentioned that in 2020, the global market has shrunk by 40% and domestic market by 52% (MW terms); however, TRIV continues to maintain its leadership position in the domestic as well as international markets. The mix of domestic and export sales stands at 54:46 in FY2021. During FY2021, the aftermarket segment reported a 7% decline in order booking; however, the mix of aftermarket business in total sales improved by 400 bps y-o-y. Despite the slowdown, TRIV was able to secure orders both from India and from major international markets during the year. Management is confident of revival in domestic and global markets and is confident of TRIV's performance in FY2022 due to strong order enquiry in both these markets. However, management expects to face few execution issues till H1FY2022. We have tweaked our estimates for FY2022-FY2023 and have introduces FY2024E estimates, factoring near-term uncertainties in terms of execution and order inflow. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 144.

Key positives

- Order book remains healthy (0.9x FY2021 sales) despite uncertainties and lower order inflow.
- Cash position of the company remains strong.
- Significant reduction in manufacturing cost on account of cost reduction and value engineering undertaken in manufacturing processes.
- Strong enquiry generation in domestic and international markets.

Key negatives

- Order inflow declined sharply by 19% y-o-y (exports and domestic order inflow declined by 37% and 5% y-o-y).

Our Call

Valuation - Retain Buy with a revised PT of Rs. 144: Management has mentioned that, in Q4FY2021, management saw positive changes in demand in the domestic and global markets and overall shrinkage in demand reduced to only 9%. TRIV was able to secure orders both from India and from major international markets such as Central America, South America, North America, Turkey, South East Asia, Europe, Middle East, and North Africa, together with the domestic market during the year. Management also mentioned that enquiry levels remained healthy both in domestic and exports markets. In the product segment, TRIV will achieve full-year product order booking reported for FY2021 by H1FY2022. We have tweaked our estimates for FY2022-FY2023 and have introduced FY2024E estimates, factoring near-term uncertainties in terms of execution and order inflow. The stock is currently trading at 31.7x/30.1x its FY2022E/FY2023E EPS, which is at a discount to its long-term historical average. We retain our Buy rating on TRIV with a revised PT of Rs. 144, considering improving business environment and valuation comfort.

Key Risks

Slowdown in the domestic macroeconomic environment or weakness in international markets can affect business outlook and earnings growth.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	703	753	809	880
OPM (%)	21%	23%	23%	23%
Adjusted PAT	102	126	133	142
% YoY growth	*-16%*	*23%*	*5%*	*7%*
Adjusted EPS (Rs.)	3.2	3.9	4.1	4.4
P/E (x)	39.0	31.7	30.1	28.2
P/B (x)	6.1	5.4	4.8	4.3
EV/EBITDA (x)	23.1	20.9	19.3	17.7
RoNW (%)	16	18	17	16
RoCE (%)	23	23	22	21

Source: Company; Sharekhan estimates

Q4FY2021 performance provides hopes of revival: In Q4FY2021, TRIV reported revenue/EBITDA/PAT below our estimates at Rs. 179 crore/Rs. 25 crore/Rs. 23 crore (+16% y-o-y/+38%/+69%), respectively. Performance can be attributed to lockdown in India and other countries, which has resulted in considerable loss of opportunities for order booking in FY2021, both in domestic and international markets. Furthermore, owing to restrictions due to continued impact of COVID-19 across many countries, the decline in export order booking during the year was more pronounced than the domestic market. The quarter saw gross profit margin decline by 37 bps y-o-y to 45.4% due to 10% y-o-y increase in raw-material costs. During the quarter, OPM improved by 222 bps to 14% because of favourable raw-material cost and lower employee cost (manpower rationalisation), as well as lower administration expenses primarily driven by lower travelling expenses resulting in lower other expenses.

Decline in order booking impacts overall order book, however TRIV saw strong enquiry generation: In 2020-2021, the global market experienced a significant shrinkage of 32%. However, in Q4FY2021, the shrinkage in market size moderated to 9%. The domestic market has also shrunk by about 43% y-o-y. Order booking declined by 19% y-o-y, wherein exports order booking declined by 37% y-o-y and domestic declined by 5% y-o-y. Total order book declined marginally (down 9% y-o-y) amounting to 0.9x of FY2021 revenue. Export order was due to slowdown in order finalisation in the international market, while domestic order booking declined due to the deferment of order finalisation and restrictions due to continued impact of COVID-19. However, the quarter saw strong enquiry generation, which is a positive for order booking in the coming quarters. Enquiry generation in the domestic market grew by 35% y-o-y; and in the international segment, major enquiries were for thermal renewable based IPP power plant and process co-generation.

Key Conference Takeaways

- Export order was due to slowdown in order finalisation in the international market while domestic order booking declined due to the deferment of order finalisation and restrictions due to continued impact of COVID-19.
- **Aftermarket segment:** The mix of aftermarket business in total sales improved by 400 bps at 27% during FY2021. TRIV is improving its reach and coverage in international markets in this segment and targets this segment to contribute 30% of FY2022 revenue.
- **Order book:** Order booking declined by 19% y-o-y, wherein exports order booking declined by 37% y-o-y and domestic declined by 5% y-o-y. Total order book declined marginally (down 9% y-o-y) amounting to 0.9x of FY2021 revenue.
- **Digitisation:** The company has been focusing on digitisation and has been connecting with its customers in a better way both in domestic and international markets and providing assistance.
- **Domestic market enquiry:** During FY2021, enquiry generation in the domestic market grew by 35% y-o-y. These have been driven by process co-generation and waste-to-heat recovery segments that contribute approximately 60% and 25%, respectively, to overall domestic enquiries.
- **Export market enquiry:** In the international segment, enquiry generation was dominated by thermal renewable based IPP power plant and process co-generation contributing to 43% and 30% of total export enquiry in FY2021, respectively.
- Management mentioned that TRIV will achieve full-year product order booking reported for FY2021 by H1FY2022.

Result (Consolidated) Rs cr

Particulars	Q4 FY21	Q4 FY20	Y-o-Y %	Q3 FY21	Q-o-Q %
Total Income	178.5	153.9	16%	173.6	3%
Operating Profit	24.7	17.9	38%	34.7	-29%
Other Income	4.2	3.4	26%	5.4	-22%
Interest	0.4	0.8	-56%	0.3	33%
Depreciation	5.0	4.9	1%	5.0	-1%
PBT	27.8	18.0	54%	36.1	-23%
Tax	4.8	3.4	41%	9.0	-46%
Reported PAT	23.3	13.8	69%	27.5	-15%
Adjusted PAT	23.3	13.8	69%	27.5	-15%
Adjusted EPS	0.7	0.4	69%	0.9	-15%
Margin			**BPS**		**BPS**
EBITDA Margin	14%	12%	221.7	20%	-614.1
PAT Margin	13%	9%	408.7	16%	-282.8
Tax Rate	16%	24%	-736.1	24%	-754.3

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – AatmaNirbhar Bharat initiative to boost defence manufacturing in India

The government is emphasising on creating an environment so as to boost the AatmaNirbhar Bharat programme in the defence sector and create a level playing field for private players, including MSME. To open up the defence sector further, the government is also planning to corporatise ordinance factory boards shortly. Completion of defence projects takes longer than envisaged earlier and, hence, the government is planning to incorporate cost escalation clauses and provide incentives to vendors based on enhanced productivity and performance. Further, a hike in FDI to 74% through the automatic route would boost investments in the sector. This is likely to boost investments in the space as foreign players in the defence sector would look at setting up joint ventures to establish defence manufacturing bases in India, considering the large opportunity under play with the opening up of the defence sector. The government is looking at creating a strategic partnership model and hopes that the same will be started for submarines this year, while for naval utility, a helicopter has been taken up for consideration.

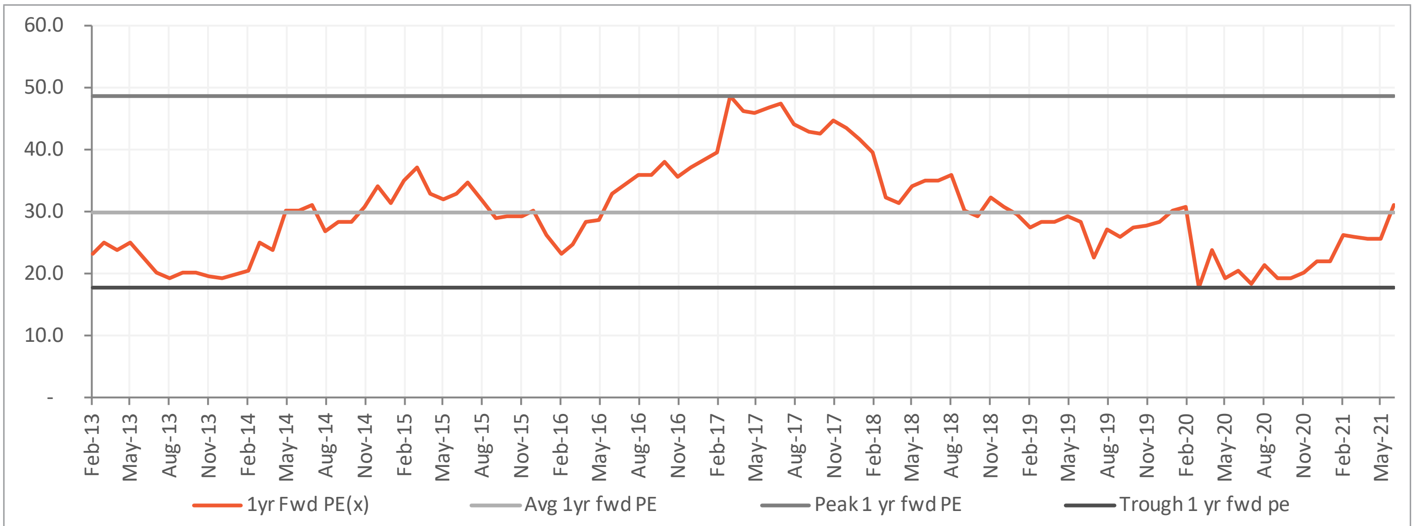
■ Company outlook – Management expects FY2022 to be better: Improving demand scenario both in domestic and international markets

The steam energy market in India grew 1% in 2019 and the market held steady supported by fossil-fuel fired power plants, followed by Thermal Renewable based power plants (including Biomass, Waste Heat, and Waste to Energy). Majority of the steam turbines' requirement in 2019 was in captive power generation and energy-intensive segments such as steel and process cogeneration segments such as cement, pulp and paper, chemicals and fertilisers, etc. With the manufacturing sector on the growth trajectory and industries such as sugar, steel, cement, and pulp and paper segment expected to increase production, demand for steam turbines should remain robust in future. While the global steam turbines market broadly divided into 50-30 MW, 30-100 MW and greater than 100 MW and in terms of MW sold for the past five years, the global steam turbines market has seen the sharpest decline in the >100 MW range, where the compounded average decline was to the extent of 30%. In case of <30 MW and >30 – 100 MW range, the market has been steady and has registered a CAGR of 3% and 2%, respectively.

■ Valuation – Retain Buy with a revised PT of Rs. 144

During Q4FY2021, management saw positive changes in demand in domestic and global markets and overall shrinkage in demand reduced to only 9%. TRIV was able to secure orders both from India and from major international markets such as Central America, South America, North America, Turkey, South East Asia, Europe, Middle East, and North Africa, together with the domestic market during the year. Management also mentioned that enquiry levels remained healthy both in domestic and exports market. In the product segment, TRIV will achieve full-year product order booking reported for FY2021 by H1FY2022. We have tweaked our estimates for FY2022-FY2023 and have introduced FY2024E estimates, factoring near-term uncertainties in terms of execution and order inflow. The stock is currently trading at 31.7x/30.1x its FY2022E/FY2023E EPS, which is at a discount to its long-term historical average. We retain our Buy rating on TRIV with a revised PT of Rs. 144, considering improving business environment and valuation comfort.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

TRIV is the largest manufacturer of industrial steam turbines in the >5 to 30 MW range globally. The company designs and manufactures steam turbines up to 100 MW and delivers robust, reliable, and efficient end-to-end solutions. The larger end of the range – above 30 MW to 100 MW, is addressed through GETL, a majority held globally exclusive JV with Baker Hughes General Electric, a GE company. The company provides renewable power solutions specifically for biomass, independent power producers, sugar and process co-generation, waste-to-energy, and district heating. The company's steam turbines are used in diverse industries, ranging from sugar, steel, textiles, chemical, pulp and paper, petrochemicals, fertilisers, solvent extraction, metals, palm oil to food processing and more. Apart from manufacturing, the company provides a wide range of aftermarket services to its own fleet of turbines as well as turbines of other makes supported by its team of highly experienced and qualified service engineers that operate through a network of service centres.

Investment theme

TRIV is a market leader in the up to 30 MW steam turbine segment. The company has a strong aftermarket segment and overseas business, while the domestic market is showing distinct signs of pickup. The company has also formed a JV with GE for steam turbines of the 30 MW-100 MW range, which is likely to grow in the ensuing years. TTL is a virtually debt-free company with a limited capex requirement and an efficient working capital cycle, reflected in very healthy return ratios.

Key Risks

- Slower-than-expected project execution in domestic and international markets due to various reasons such as pending approvals and clearances.
- Weakness in domestic investment could affect growth and award of projects, posing a downside risk.
- Unexpected political changes in some of the developed countries, trade barriers, and conflict in the Middle East are some risks that can affect the company's performance.

Additional Data

Key management personnel

Mr. Dhruv M. Sawhney	Chairman and managing director
Mr. Nikhil Sawhney	Vice chairman & managing director
Mr. Arun Mote	Executive director
Mr. Shailendra Bhandari	Independent non-executive director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Gupta Anil Rai	15.23
2	PROJECTION FIN AND MANAGEM	8.79
3	PROJECTION FIN & MGMT CON	8.79
4	Franklin Resources Inc	5.31
5	HDFC Asset Management Co Ltd	4.98
6	SHUBH LAXMI MOTELS & INNS.	3.87
7	Subhlaxmi Motels & Inns Pvt Ltd	3.87
8	DSP Investment Managers Pvt Ltd	3.69
9	Soubhagya Agency Pvt Ltd	3.48
10	Massachusetts Institute of Technology	2.17

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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