Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Triveni Turbine Limited

Weak Q3, outlook positive

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. 87**	
Price Target: **Rs. 105**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

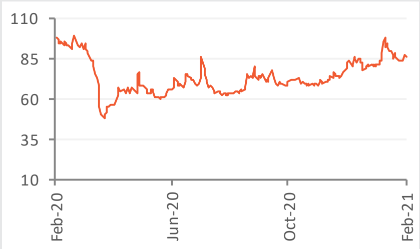
Company details

Market cap:	Rs. 2,822 cr
52-week high/low:	Rs. 103/46
NSE volume: (No of shares)	1.0 lakh
BSE code:	533655
NSE code:	TRITURBINE
Free float: (No of shares)	10 cr

Shareholding (%)

Promoters	67.8
FII	12.4
DII	15.2
Others	4.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.7	22.2	36.5	-12.0
Relative to Sensex	2.7	-1.5	1.7	-24.4

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Triveni Turbine Limited (TT) with a revised PT of Rs.105, rolling forward our valuation multiples to FY2023E
- Q3FY21 results lagged estimates wherein revenues declined due to order deferrals and an almost flat OPM led to muted PAT.
- The management largely maintained its earlier stance the company is likely to see a decline in revenue by 10% to 15%, margins of 20-22%. Expect better revenues from FY2022 as large order deliveries expected.
- Balance sheet remains strong with strong cash position and current order book remain healthy providing revenue visibility of 1x its TTM consolidated revenue.

Triveni Turbine Ltd (TRIV) reported lower-than-estimated results on the back of deferrals of order deliveries and lower export revenues due to travelling restriction. Consolidated revenues declined by 14.5% y-o-y (below estimates) to Rs. 174 crore due to certain deferrals of deliveries wherein domestic revenues declined by 10% y-o-y and exports declined by 20% y-o-y. Higher gross margins (up 223 bps y-o-y) along with a fall in employees costs offset lower revenue growth leading to almost flat OPM y-o-y of 20% (lower than estimates). Accordingly, EBITDA came at Rs. 35 crore (down 15.8% y-o-y). Higher other income (up 88% y-o-y), and a lower effective tax rate (of 24.6% versus 26.4% in Q3FY20) led to 1.7% y-o-y growth in net profit to Rs. 28 crore. Order intake declined 26% y-o-y to Rs. 156 crore wherein domestic order intake improved 3% y-o-y to Rs. 110 crore while exports order intake declined 55% y-o-y due to weakness in the Europe, South and Central America. The management indicated that enquiry levels remained healthy both in domestic and exports market. Within exports markets, demand is expected to be driven by renewable sector mainly from the Biomass and Waste-to-Energy projects. Within exports markets, demand is expected to be driven by renewable sector mainly from biomass and waste-to energy projects. In the domestic market, good traction has been witnessed from sugar co-generation including distillery, Biomass IPP, food processing, steel, cement and waste-heat recovery segments including enquiries from the API space where management sees a good short-term opportunity. Newer opportunities in the oil & gas is gaining momentum however gestation period remains high considering approvals. Further, the company is eyeing newer opportunities in Drive turbine (~Rs. 200 crore market size) and combined cycle turbine (with a market size of one-third of the total global power generation market). Overall, the situation is improving on the enquiry front with opportunities in the refurbishments and aftermarket (spares and services) segments both in exports and domestic markets. The order book remains healthy, providing 1.0x TTM consolidated revenues visibility. The management has largely maintained its earlier stance the company is likely to see a decline in revenue by 10% to 15%, margins in the range of 20-22%. However, management expects better revenues with big order deliveries during FY2022 and easing of travelling restrictions should further help company negotiate deals and bag export orders. A strong margin profile, lean working capital, healthy cash flows, robust balance sheet and long-term growth prospects (~diversification in new types of turbines) will support valuations. We have fine-tuned our earnings estimates for FY2021-FY2022 and rolled forward our valuation multiple to FY2023E. The stock is currently trading at 22.1x/19.2x FY22E/FY23E which is at a discount to its long-term historical average and we retain buy on Triveni Turbine Limited (TT) with a revised PT of Rs. 105 considering improving business environment and valuation comfortable.

Key positives

- Domestic order book improved 20% y-o-y
- Cash position remains strong.
- Enquiry pipeline witnessing good traction from sugar co-generation including distillery, Biomass IPP, food processing, steel, cement and waste heat recovery segments

Key negatives

- Order inflow declined by 26% y-o-y

Our Call

Valuation–Retain Buy with revised PT of Rs. 105: The management has largely maintained its earlier stance of revenue de-growth of 10-15%, margins of 20-22% for FY2021. However, the management expects better revenues with big orders deliveries during FY2022 and an easing of travelling restrictions should further help company in deal negotiations and bagging export orders. A strong margin profile, lean working capital, healthy cash flows & balance sheet and long term growth prospects (~diversification in new types of turbines) along with healthy enquiry pipeline in both domestic and exports provides confidence. We have fine-tuned our earnings estimates for FY2021-FY2022 and rolled forward our valuation multiple to FY2023E. The stock is currently trading at 22.1x/19.2x FY22E/FY23E which is at a discount to its long-term historical average and we retain buy on Triveni Turbine Limited (TT) with a revised PT of Rs. 105 considering improving business environment and valuation comfort.

Key risk

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

Valuations (Consolidated) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	818	724	825	930
OPM (%)	19.0	20.9	21.0	21.3
Adjusted PAT	122	114	127	147
% YoY growth	21.5	(6.8)	12.1	15.2
Adjusted EPS (Rs.)	3.8	3.5	3.9	4.5
P/E (x)	23.1	24.8	22.1	19.2
P/B (x)	5.3	3.9	3.6	3.3
EV/EBITDA (x)	15.3	14.4	12.4	10.5
RoNW (%)	25.3	18.1	17.0	18.0
RoCE (%)	31.1	23.1	22.2	23.5

Source: Company; Sharekhan estimates

Weak performance: Consolidated revenues declined by 14.5% y-o-y (below estimates) to Rs. 174 crore due to certain deferrals of deliveries wherein domestic revenues declined 10% y-o-y and exports declined by 20% y-o-y. Higher gross margins (up 223 bps y-o-y) and a decline in employees cost offset lower revenues growth leading to almost flat OPM y-o-y to 20%(lower than estimates). Accordingly, EBITDA came at Rs. 35 crore (down 15.8% y-o-y). Higher other income (up 88% y-o-y), and a lower effective tax rate (at 24.6% versus 26.4% in Q3FY20) led to a 1.7% y-o-y growth in net profit to Rs. 28 crore. Management has largely maintained its earlier stance the company is likely to see a 10-15% decline in revenue, margins of 20-22%. However, management expects better revenues with big orders deliveries during FY2022 and easing of travelling restrictions should further help company in deal negotiations and bagging orders in the export markets

Order book healthy, enquiry pipeline remains healthy: Order intake declined 26% y-o-y to Rs. 156 crore wherein domestic order intake improved 3% y-o-y to Rs. 110 crore while exports order intake declined 55% y-o-y due to weakness in the Europe, South and Central America. The management indicated that enquiry levels remained healthy both in domestic and exports market. Within exports markets, demand is expected to be driven by renewable sector mainly from the Biomass and Waste-to-Energy projects. Within exports markets, demand is expected to be driven by renewable sector mainly from biomass and waste-to energy projects. In the domestic market, good traction has been witnessed from sugar co-generation including distillery, Biomass IPP, food processing, steel, cement and waste-heat recovery segments including enquiries from the API space where management sees a good short-term opportunity. Newer opportunities in the oil & gas is gaining momentum however gestation period remains high considering approvals. Further, the company is eyeing newer opportunities in Drive turbine (~Rs. 200 crore market size) and combined cycle turbine (with a market size of one-third of the total global power generation market). Overall, the situation is improving on the enquiry front with opportunities in the refurbishments and aftermarket (spares and services) segments both in exports and domestic markets. The order book remains healthy, providing 1.0x TTM consolidated revenues.

Key Conference call takeaways

- **Revenues:** Revenues declined due to order deferrals. Management expects better Q4 compared to last year.
- **Order inflow:** Order intake in Q3FY21 declined 26% y-o-y to Rs. 156 crore wherein domestic order intake improved 3% y-o-y to Rs. 110 crore while exports order intake declined 55% y-o-y due to weakness in Europe, South and Central America.
- **Order book:** Order book declined 6% y-o-y to Rs. 652 crore however domestic order book improved 20% y-o-y
- **Domestic enquiry pipeline:** Enquiry pipeline remains strong in sugar co-generation including distillery, Biomass IPP, food processing, Steel, cement and waste heat recovery including pharma (APIs).
- **Export markets enquiry pipeline:** Within exports markets, demand is expected to be driven by the renewable sector mainly from the Biomass and Waste-to Energy projects
- **Refurbishments and Aftermarkets:** Opportunities in the refurbishments and aftermarkets (spares and services) remain strong for the company both in exports and domestic markets. Aftermarket sales improved 25% y-o-y
- **New Opportunities ahead:** The company is eyeing newer opportunities in drive turbines (~Rs. 200 crore market size) and combine cycle turbine (market size one-third of total power generation market globally).
- **Guidance:** The management has largely maintained its earlier stance the company is likely to see a decline in revenue by 10% to 15%, margins in the range of 20-22%. However, management expects better revenues with big orders deliveries during FY2022 coupled with ease in travelling restrictions should further help company in deal negotiations and bagging orders in the export markets.

Results (Consolidated) **Rs cr**

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	174	203	-14.5%	185	-6.3%
Operating profit	35	41	-15.8%	50	-30.0%
Other Income	5	3	88.5%	5	13.4%
Interest	0	1		0	
Depreciation	5	5	-0.8%	5	-3.3%
PBT	35	38	-9.2%	49	-28.9%
Tax	9	10	-15.5%	7	16.9%
EO	-	-		19	
Reported PAT	28	27	1.7%	43	-35.8%
Adj. PAT	28	27	1.7%	24	12.9%
Adj.EPS	0.9	0.8	1.7%	0.8	12.9%
Margin			**BPS**		**BPS**
OPM (%)	20.0	20.3	(31)	26.7	(676)
NPM (%)	15.9	13.3	253	13.2	271
Tax rate	24.6	26.4	-	15.0	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – 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 like Steel and Process Cogeneration segments like Cement, Pulp and Paper, Chemicals and Fertilisers, etc. With the manufacturing sector on the growth trajectory and industries like Sugar, Steel, Cement and Pulp and Paper segment expected to increase production, the demand for steam turbines should remain robust in the 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 the case of < 30 MW and > 30 – 100 MW range, the market has been steady and has registered a CAGR of 3% and 2% respectively.

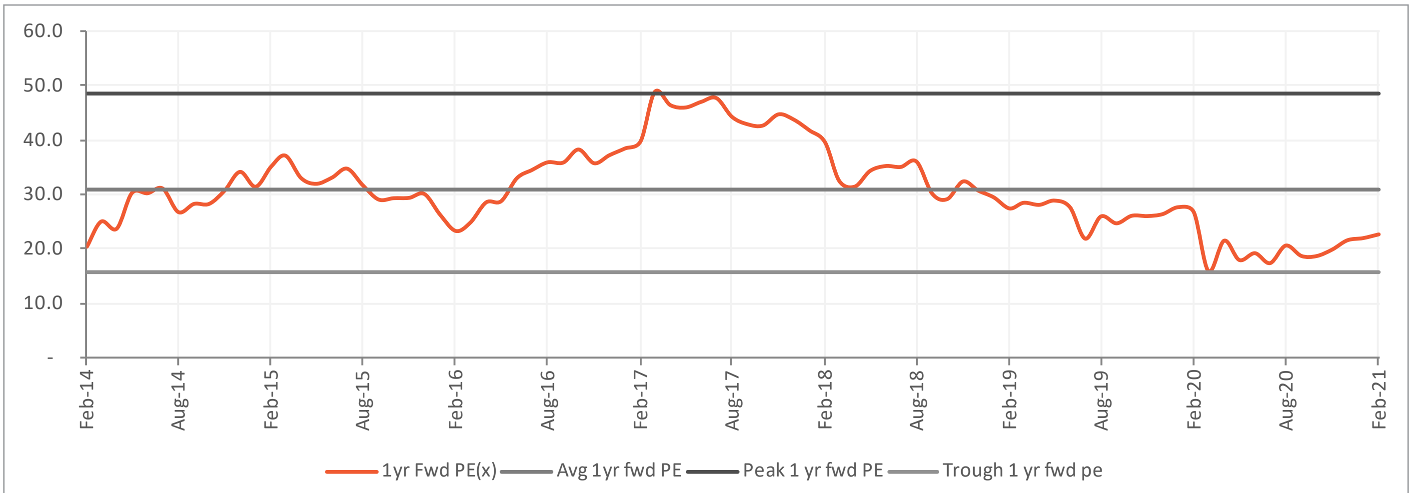
■ Company Outlook – Management expects FY2022 to be better

The management indicated that enquiry levels remained healthy both in domestic and exports market. Within domestic markets renewable, waste to heat recovery and process co-generation segments witnessed strong enquiry levels. In exports market, renewable sector from the Biomass and Waste-to-Energy projects, paper, process, sugar co-gen and palm oil would be key demand drivers. Newer opportunities in the oil & gas is gaining momentum. Further, the company is also seeing opportunities in combined cycle (uses to make power from gas) orders in the 30 MW category. Overall, the situation is improving on the enquiry front with opportunities in the refurbishments and aftermarkets for the company both in exports and domestic markets. The management has largely maintained its earlier stance the company is likely to see a decline in revenue by 10% to 15%, margins of 20-22%. However, the management expects better revenues with big orders deliveries during FY2022 coupled with ease in travelling restrictions should further help company in deal negotiations and bagging orders in the export markets.

■ Valuation – Valuation–Retain Buy with revised PT of Rs. 105

The management has largely maintained its earlier stance of revenue de-growth of 10-15%, margins of 20-22% and PBT similar to that of FY2020 for FY2021. However, the management expects better revenues with big orders deliveries during FY2022 and an easing of travelling restrictions should further help company in deal negotiations and bagging export orders. A strong margin profile, lean working capital, healthy cash flows & balance sheet and long term growth prospects (~diversification in new types of turbines) along with healthy enquiry pipeline in both domestic and exports provides confidence. We have fine-tuned our earnings estimates for FY2021-FY2022 and rolled forward our valuation multiple to FY2023E. The stock is currently trading at 22.1x/19.2x FY22E/FY23E which is at a discount to its long-term historical average and we retain buy on Triveni Turbine Limited (TT) with a revised PT of Rs. 105 considering improving business environment and valuation comfort.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

TTL 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

TTL 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 Technol	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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;