



Powered by the Sharekhan 3R Research Philosophy

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	■	↔	■

Company details

Market cap:	Rs. 7,501 cr
52-week high/low:	Rs. 249/131
NSE volume: (No of shares)	7.1 lakh
BSE code:	533655
NSE code:	TRITURBINE
Free float: (No of shares)	10.4 cr

Shareholding (%)

Promoters	67.8
FII	17.0
DII	11.6
Others	3.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	32.7	51.4	15.4	73.1
Relative to Sensex	26.6	37.4	12.9	72.8

Sharekhan Research, Bloomberg

Triveni Turbine Ltd

Rotating in the right direction

Capital Goods	Sharekhan code: TRITURBINE		
Reco/View: Buy	↔	CMP: Rs. 232	Price Target: Rs. 280
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Our interaction with Triveni Turbine Limited (TTL) reaffirms our bullish stance on the company, given its foray into high-margin API turbines, scaling up of 30-100 MW segment, and renewable energy orders driving its core business.
- The company aims ~35% revenue growth for the next couple of years, led by strong order book of Rs. 1,070 crore and large enquiry pipeline in both India and international markets.
- TTL leads with a market share of 50-60% in the 0-30 MW segment in India with industry-leading margin. In the international addressable market, TTL has a share of ~20%. The addressable global market size for 0-30 MW is 1.5x Indian market.
- We retain Buy on TTL with a revised PT of Rs.280 (based on September FY2024E EPS), considering strong revenue guidance and promising future growth trajectory.

Triveni Turbine Limited (TTL) is well poised to expand its addressable market base through foray into energy-efficient API turbines for the oil and gas industry, pursuing 30-100 MW opportunities and leveraging its expertise in the growing renewable energy market. Management is confident of achieving strong order inflows in FY2023 and expects ~35% revenue growth in the next couple of years. The company is currently undertaking capacity expansion and gearing up supply chain to prepare for high growth over the next two years. TTL continues to be the leader in the 0-30 MW steam turbine market and garners industry-leading margins.

- API, replacement market could be key growth catalysts:** The company is bullish on the prospects of American Petroleum Institute (API) compliant steam turbines. This business segment has started gaining traction since FY2022, when the company supplied 20-22 API turbines. The turbines are up to 3 MW and the addressable market for these turbines is 1,000 turbines per annum and there are large players such as Siemens and Elliott Ebara operating in this space. The company makes healthy margins on these products and expects their share to increase in the total revenue going forward. The replacement market, which consists of spares, service, and refurbishment, currently contributes 20-22% to total sales. The company expects that with increased installed base and entry into new geographies, contribution of the replacement market in total revenue/order book should grow by 1% every year. Margins in the spares segment are the highest, followed by refurbishment and is the lowest in the services segment. In 30-100 MW, the current share is miniscule, but it could be a key growth driver in the medium term, as it is seeing long-term opportunities in process industries, co-generation, IPP, and waste management in domestic and international markets.
- Strong order book and promising enquiry pipeline:** Total consolidated outstanding order book stands at ~Rs. 1,070 crore (including Rs. 100 crore service contract in SADC region) and provides strong revenue visibility. Domestic outstanding order book stood at Rs. 630 crore, while export outstanding order book is Rs. 440 crore. During Q1FY2023, TTL won a significant order of Rs. 100 crore for servicing large utility steam turbines in the SADC region. While margins for this particular order are of lower magnitude, being a maintenance contract, this opens up the opportunity for TTL to garner more aftermarket business with customers such as spares and refurbishment and generate references for similar future opportunities in the aftermarket space for its utility turbines globally. Further, the enquiry pipeline is quite robust in distillery, process co-generation orders in steel, cement, and pharmaceuticals. Moreover, enquiry generation in the international side grew by 22% in the last quarter in export markets such as Southeast Asia, North America, and South America.
- Triveni Engineering stake sale positive for TTL:** Recently, Triveni Engineering and Industries Ltd. (TEI) sold 21.85% stake in TTL for ~Rs. 1,600 crore. TEI sold 11.85% stake through block deal on the stock exchanges and the remaining ~10% was bought by the other promoter – Ms. Rati Sawhney of TTL. With the exit of TEI, total promoters stake in TTL would stand at 55.9% vs. 67.8% earlier. The transaction does not impact the fundamentals of the company. Moreover, the decline in promoter stake would increase the free float and liquidity of shares. On the positive side, anticipation regarding the stake sale, which had been an overhang on the stock, has also been removed.

Revision in estimates – We have introduced FY2025E estimates and rolled forward our price target (PT) to September 2024E EPS.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 280: TTL is well poised for a high-growth trajectory, led by strong order inflows and promising inquiry pipeline in both 0-30 MW and 30-100 MW segments in domestic and international markets. The company's entry into the high-margin API segment, higher share of export orders, and aftermarket segment orders would aid in margin improvement. The company is currently undertaking capital expansion and gearing up its supply chain and sales network to drive future growth. The stock is trading at ~28x its September FY2024E EPS, which we believe offers room for an upside, considering strong Revenue/PAT CAGR of ~29%/34% over FY2022-FY2025E. Further, nil debt, healthy cash balance, and strong return ratios give us comfort. Hence, we retain our Buy rating on TTL with a revised price target (PT) of Rs. 280.

Key Risks

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

Valuation (Consolidated)

Particulars	Rs cr			
	FY22	FY23E	FY24E	FY25E
Revenue	852	1,147	1,482	1,843
OPM (%)	19.1	19.3	19.8	20.0
Adjusted PAT	123	175	235	297
y-o-y growth (%)	1.9	41.8	34.3	26.5
Adj. EPS (Rs.)	3.8	5.4	7.3	9.2
P/E (x)	60.8	42.9	32.0	25.3
P/B (x)	8.8	7.5	6.2	5.0
EV/EBITDA (x)	35.1	25.7	18.8	17.7
RoNW(%)	16.5	18.8	21.3	22.0
ROCE (%)	23.0	25.2	28.5	29.3

Source: Company; Sharekhan estimates

Strong order book and promising enquiry pipeline

Total consolidated outstanding order book stands at ~Rs. 1,070 crore (including Rs. 100 crore service contract in SADC region) and provides strong revenue visibility. Domestic outstanding order book stood at Rs. 630 crore, while export outstanding order book has grown more than 100% y-o-y to Rs. 440 crore. During the quarter, TTL won a significant order of Rs. 100 crore for servicing large utility steam turbines in the SADC region. While margins for this particular order are of lower magnitude, being a maintenance contract, this opens up the opportunity for TTL to garner more aftermarket business with customers such as spares and refurbishment and generate references for similar future opportunities in the aftermarket space for its utility turbines globally. Further, the enquiry pipeline is quite robust in distillery, process co-generation orders in steel, cement, and pharmaceuticals. Moreover, enquiry generation in the international side grew by 22% in the last quarter in export markets such as Southeast Asia, North America, and South America.

Key takeaways from the management call

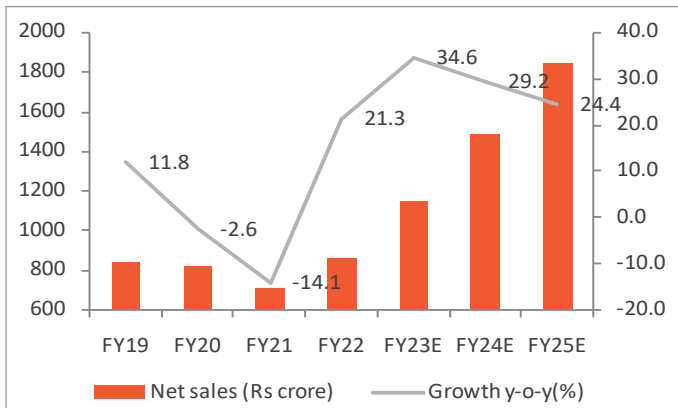
- ◆ **API could be a key growth driver:** The company is bullish on the prospects of API-compliant steam turbines. This business segment has started gaining traction since FY2022, when the company supplied 20-22 API turbines. The turbines are up to 3 MW and the addressable market for these turbines is 1,000 turbines per annum and there are large players like Siemens and Elliott Ebara operating in this space. The company is pursuing opportunities in Middle East, India, and USA. The company makes healthy margins on these products and expects their share to increase in the total revenue going forward.
- ◆ **Replacement market contribution to grow each year:** The replacement market, which consists of spares, service, and refurbishment, currently contributes 20-22% to total sales. The company expects that with increased in installed base and entry into new geographies, contribution of the replacement market in total revenue/order book should grow by 1% every year. Margins in spares are the highest, followed by refurbishment and are the lowest in services.
- ◆ **Core business update:** Distilleries have been the biggest segment in the past couple of years and would continue to be so for the next few years as ethanol blending is gaining momentum in India. Steel and cement are leading waste heat recovery orders. Further, demand is encouraging from chemicals, cement and pharmaceuticals. From the end-use perspective, waste heat recovery, power generation, and municipal waste to energy are the main segments.
- ◆ **Market share:** In India, TTL leads with a market share of 50-60% and Siemens is the second largest player in the 0-30 MW segment. The company has industry-leading margin in the 0-30 MW segment. In the international addressable market, Siemens is the leader with 35-37% market share, and TTL has a share of ~20%. The addressable global market size for 0-30 MW is 1.5x than the Indian market.
- ◆ **Future outlook:** The company expects FY2023 performance to be good, as higher share of export orders and aftermarket sales would aid in revenue growth and margin improvement. Further, management expects ~35% revenue growth in the next couple of years.
- ◆ **30-100 MW market:** The current market share in this segment is miniscule, but it could be a next growth catalyst as TTL is seeing long-term opportunities in process industries, co-generation, IPP, and waste management in domestic and international markets.
- ◆ **Capacity expansion:** TTL's annual capacity would expand to 220-250 units by Q3/Q4FY2023. This should enable the company to cater to higher 30-100 MW and above 100 MW refurbishment orders as well.

TEI's stake sale positive for TTL

Recently, TEI sold 21.85% stake in TTL for Rs 1,600 crore. TEI sold 11.85% stake through block deal on the stock exchanges and the remaining ~10% was bought by the other promoter – Ms. Rati Sawhney of TTE. With the exit of TEI, total promoters stake in TTL would stand at 55.9% vs. 67.8% earlier. The transaction does not impact the company's fundamentals. Moreover, the decline in promoter stake would increase the free float and liquidity of shares. On the positive side, anticipation regarding the stake sale, which had been an overhang on the stock, has also been removed.

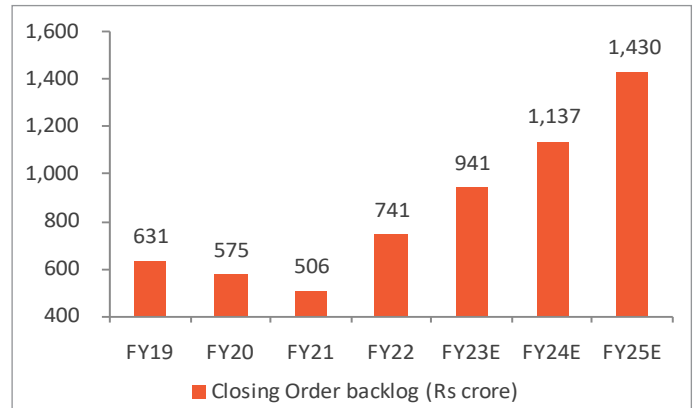
Financials in charts

Net sales growth trend



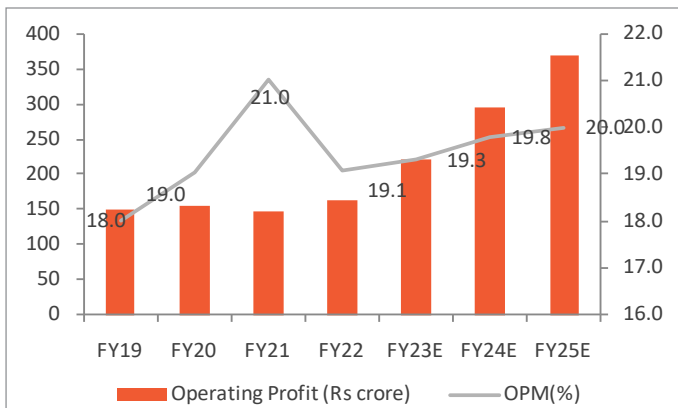
Source: Company, Sharekhan Research

Order Backlog



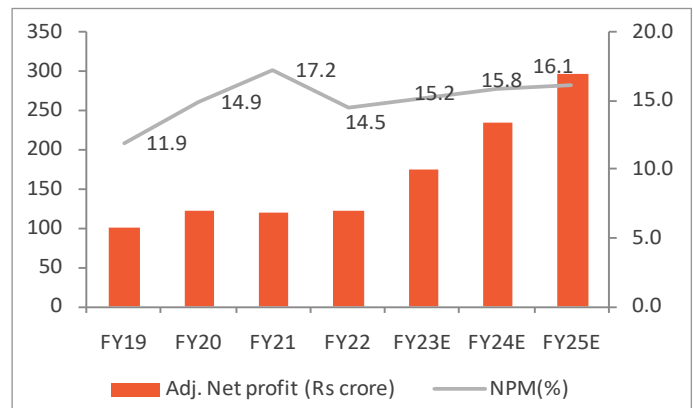
Source: Company, Sharekhan Research

Operating profit and margin trend



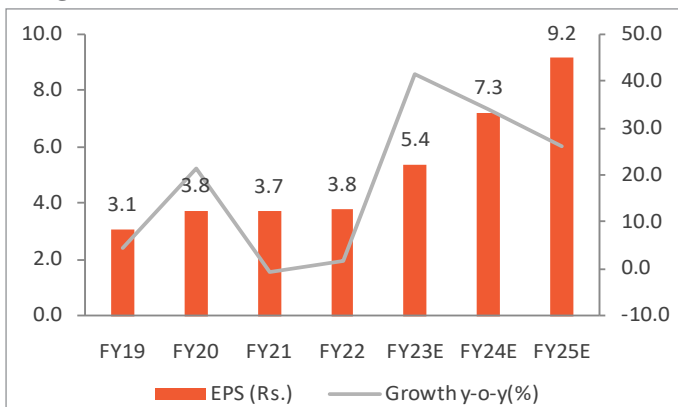
Source: Company, Sharekhan Research

Net profit and margin trend



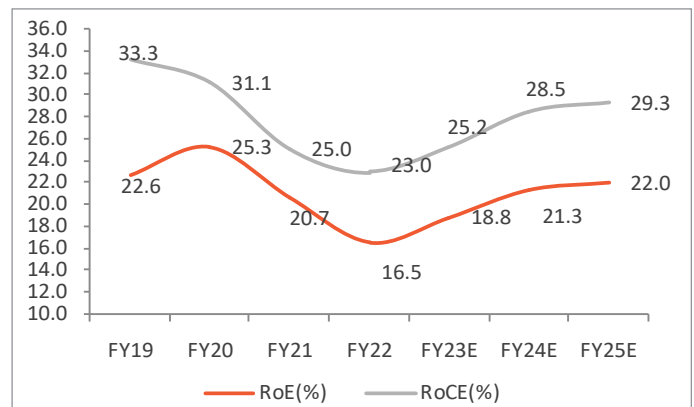
Source: Company, Sharekhan Research

EPS growth trend



Source: Company, Sharekhan Research

Return ratios trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Steam turbine markets see strong growth visibility

In 2021, the Indian steam turbine market for more than 30 MW range grew 137% (in MW) over 2020. Demand for heat and power from the industrial segment was the key factor contributing to the rebound in the steam turbine market to 2019 levels. With the manufacturing sector on a growth trajectory, and industries like sugar, distillery, steel, cement, pulp and paper, and chemicals expected to increase production, demand for steam turbines is expected to remain robust in future.

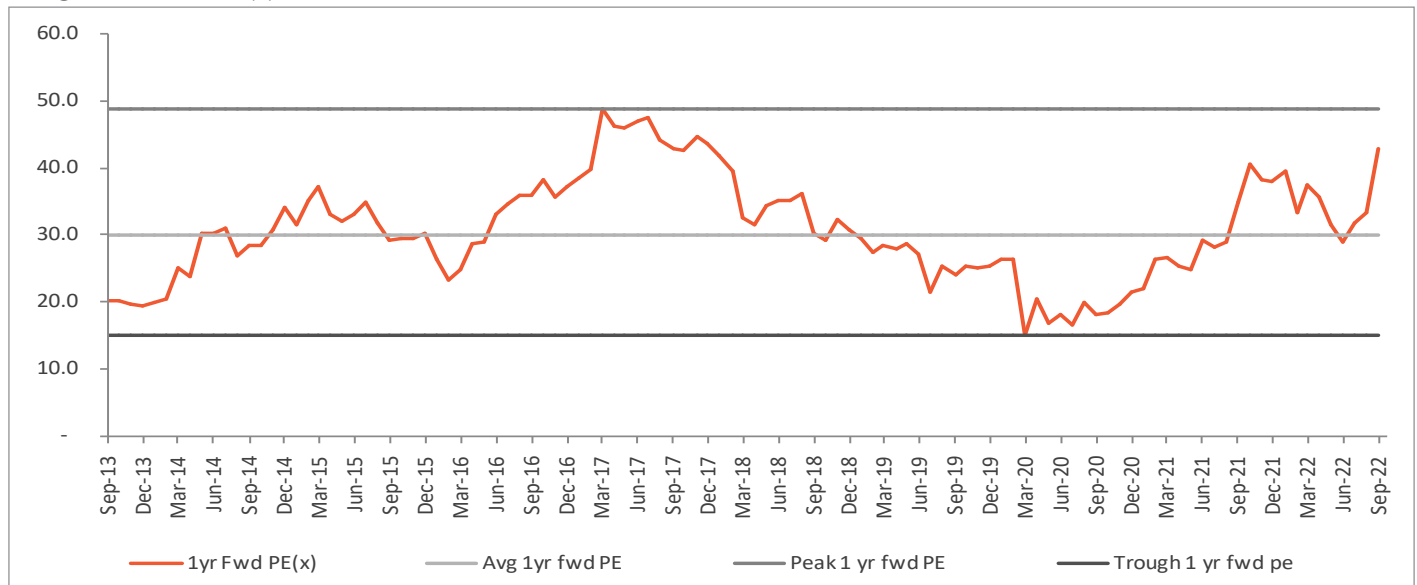
■ Company outlook - Ample growth opportunities over the next two years

TTL is the market leader in steam turbines up to 30 MW. Post its exit from JV with GE, the company is focusing on increasing its market share in the high-margin 30-100 MW export market directly. The company is venturing into the API market, which along with its focus on exports and aftermarket segments is expected to lead to strong order booking with better margins going ahead. The company is undertaking capacity expansion, gearing up its export sales team, and increasing its supply chain capacities to drive on a high-growth trajectory in the coming years. The company sees strong growth opportunities in sectors such as cement, pharma, steel, and distillery in domestic markets and internationally in sectors such as steel, waste to energy, distillery, food processing, and cement WHRS.

■ Valuation - Retain Buy with a revised PT of Rs. 280

TTL is well poised for a high-growth trajectory, led by strong order inflows and promising inquiry pipeline in both 0-30 MW and 30-100 MW segments in domestic and international markets. The company's venture into the high-margin API segment, higher share of export orders, and aftermarket segment orders would aid in margin improvement. The company is currently undertaking capital expansion and gearing up its supply chain and sales network to drive future growth. The stock is trading at ~28x its September FY2024E EPS, which we believe offers room for an upside, considering strong Revenue/PAT CAGR of ~29%/34% over FY2022-FY2025E. Further, nil debt, healthy cash balance, and strong return ratios give us comfort. Hence, we retain our Buy rating on TTL with a revised PT of Rs. 280.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

TTL is the largest manufacturer of industrial steam turbines in the >5 MW 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 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 and Managing Director
Mr. Arun Mote	Executive Director
Mr. Shailendra Bhandari	Independent Non-Executive Director

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Mutual Fund	6.24
2	Nalanda India Fund Limited	5.62
3	Nippon Life India Trustee Limited	4.92
4	Nalanda India Equity Fund Limited	4.37
5	Invesco International Small-Mid Company Fund	3.72
6	Dimensional Fund Advisors	0.36
7	ICICI Prudential Asset Management	0.23
8	Jupiter Fund Management	0.17
9	Samsung Life Insurance Co.	0.12
10	Axis Asset Management Co.	0.12

Source: Bloomberg (old data)

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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 deteriorating 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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