Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Triveni Turbine Ltd

Fully charged for remarkable growth

Capital Goods	Sharekhan code: TRITURBINE

Reco/View: Buy ↔	CMP: Rs. 377	Price Target: Rs. 435 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

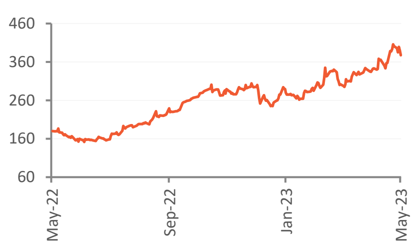
Company details

Market cap:	Rs. 11,998 cr
52-week high/low:	Rs. 423/147
NSE volume: (No of shares)	13.7 lakh
BSE code:	533655
NSE code:	TRITURBINE
Free float: (No of shares)	14.3 cr

Shareholding (%)

Promoters	55.8
FII	24.4
DII	15.1
Others	4.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.9	37.2	35.1	118.0
Relative to Sensex	14.0	36.5	35.5	104.7

Sharekhan Research, Bloomberg

Summary

- Q4FY2023 and FY2023 performance was excellent on all parameters, driven by exports and the aftermarket segment.
- Order booking reported a record high of Rs. 466 crore (up 65% y-o-y), with export orders increasing by 172% y-o-y to Rs. 201 crore. Order book is at Rs. 1,328 crore (up 37% y-o-y).
- The company has robust enquiry pipeline in international markets, including the aftermarket segment. In the domestic segment, inquiries have slowed down in the private sector, but prospects are good from the distillery, sugar, food, and pharmaceuticals industries.
- Given strong revenue visibility, margin tailwinds in terms of increasing share of exports and aftermarket, and broadening of its market reach, we retain our Buy recommendation on Triveni Turbine Limited (TTL) with a revised PT of Rs. 435.

Triveni Turbine Limited's (TTL) Q4FY2023 consolidated numbers exceeded our expectations on sales and net profit fronts, but OPM came below our estimates despite a strong increase in sales. Sales grew by 56% y-o-y to Rs. 370 crore (vs. our estimate of Rs. 349 crore). Operating profit grew by 58% y-o-y to Rs. 66 crore. OPM was up 22bps y-o-y to 17.9%, but lower than our estimate of 19.5% due to execution of large services contract in South African Development Community (SADC) region at lower margins. Adjusted net profit grew by ~68% y-o-y to Rs. 56 crore. The company achieved a total order booking of Rs. 1,605 crore (+36% y-o-y) in FY2023. Q4FY2023 had the highest-ever quarterly order booking of Rs. 466 crore (+65% y-o-y largely led by exports). The carry-forward order book stands at Rs. 1,328 crore at the end of the quarter (+37% y-o-y).

Key positives

- Strong revenue and profit growth was driven by healthy performance of exports and the aftermarket segment.
- The company reported the highest-ever order booking of Rs. 466 crore in a single quarter. Carry-forward order book is strong at Rs. 1,328 crore.
- Exports order booking jumped by 172% y-o-y to Rs. 201 crore during the quarter, while domestic order booking is up by 27% y-o-y to Rs. 266 crore.
- Export sales grew by 213% y-o-y to ~Rs. 191crore.

Key negatives

- OPM improved by mere 22 bps y-o-y to 17.9%, as maintenance and overhauling contracts for large utility turbines in the SADC region is a low-margin order.
- Domestic sales grew at a slower pace of 2% y-o-y.
- Domestic inquiries have dipped especially from the private sector.

Management Commentary

- The aftermarket business would go faster and would have a greater contribution to revenue in the coming years. This would also lead to higher margins. Aftermarket contributed to 40% of the total turnover in Q4FY2023 vs. 26% in Q4FY2022
- The company is seeing good demand in North America and Southeast Asia, driven not only by renewable energy but also by industrial capex. Moreover, 70% of the company's inquiry book is from the export market.
- Enquiry generation increased by 41% y-o-y in FY2023 in excess of 9 GW, led by an 82% increase in export enquiry book, while the domestic enquiry book declined by 15% y-o-y, largely due to slowdown in private orders.
- The domestic enquiry does not include tender-based government procurement, which according to the company remains robust.
- The company will be manufacturing over 200 turbines, which would be backed by sufficient subcontract capacity. Thus, the company will carry out only maintenance capex in FY2024.

Revision in estimates – We have marginally tweaked our estimates for FY2023-FY2025E to build in higher revenue growth but have moderated margin projections.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 435: TTL's FY2023 performance has been commendable on all fronts with a strong order book and healthy enquiry generation. Thus, it is well poised for a high-growth trajectory, led by strong order inflows and a promising inquiry pipeline in both 0-30 MW and 30-100 MW segments in the domestic and international markets, respectively. The company's entry into the high-margin API segment, increased share of export orders, and scalability in the 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 cater to growing demand and increase its market share. The stock trades at ~36x its FY2025E EPS, which we believe offers room for an upside, considering strong Revenue/PAT CAGR of ~33%/32% over FY2023-FY2025E and strong ROE/ROCE ratios. Further, nil debt, lean working capital cycle, and healthy cash balance give us comfort. Hence, we retain our Buy rating on TTL with a revised price target (PT) of Rs. 435.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	852	1,248	1,659	2,190
OPM (%)	19.1	18.7	18.8	19.1
Adjusted PAT	123	193	247	336
y-o-y growth (%)	*1.9*	*56.2*	*28.5*	*35.8*
Adj. EPS (Rs.)	3.8	6.0	7.7	10.4
P/E (x)	98.9	63.3	49.3	36.3
P/B (x)	14.2	15.8	12.3	9.4
EV/EBITDA (x)	59.5	41.0	30.4	26.4
RoNW (%)	16.5	23.8	28.5	29.8
ROCE (%)	23.0	31.7	38.6	40.3

Source: Company; Sharekhan estimates

Robust performance backed by exports and after market

TTL's Q4FY2023 consolidated numbers exceeded our expectations on sales and net profit fronts, but OPM came below our estimates despite a strong increase in sales. Sales grew by 56% y-o-y to Rs. 370 crore (vs. our estimate of Rs. 349 crore). Operating profit grew by 58% y-o-y to Rs. 66 crore. OPM was up 22bps y-o-y to 17.9%, but lower than our estimate of 19.5% due to the execution of a large services contract in South African Development Community (SADC) region at lower margins. Adjusted net profit grew by ~68% y-o-y to Rs. 56 crore. The company achieved a total order booking of Rs. 1,605 crore (+36% y-o-y) in FY2023. Q4FY2023 had the highest-ever quarterly order booking of Rs. 466 crore (+65% y-o-y largely led by exports). The carry-forward order book stands at Rs. 1,328 crore at the end of the quarter (+37% y-o-y).

Key conference call and investor update takeaways

- **Increasing share of the aftermarket in total revenue:** The aftermarket business would go faster and would have a greater contribution to revenue in the coming years. This would also lead to higher margins. The aftermarket segment registered order booking of Rs. 462 crore during the year, growing by 88% y-o-y. The aftermarket segment registered order booking of Rs. 157 crore during the quarter, growing significantly by 146% y-o-y. The aftermarket turnover was Rs. 148 crore during the quarter, 139% y-o-y growth. Aftermarket contributed to 40% of the total turnover in Q4FY2023 vs. 26% in Q4FY2022.
- **Strong order book:** Total consolidated outstanding order book stood at Rs. 1,328 crore, which is higher by 37% y-o-y. The domestic outstanding order book stood at Rs. 779 crore, up 45% y-o-y. The export outstanding order book stood at Rs. 549 crore, up 27% y-o-y, and contributed to 41% to the closing order book.
- **Exports to grow at a fast pace:** The company is seeing good demand in North America and Southeast Asia, driven not only by renewable energy but also by industrial capex. In exports, the company has good orders on the refurbishment and aftermarket side as well and it is confident of good margins in this current financial year. Moreover, 70% of the company's inquiry book is from the export market.
- **Domestic inquiries are expected to pick up in the coming quarters:** Inquiry generation increased 41% y-o-y in FY2023 in excess of 9 GW, led by an 82% increase in the export enquiry book, while the domestic inquiry book declined by 15% y-o-y, largely due to slowdown in private orders. Domestic inquiry does not include tender-based government procurement, which according to the company remains robust. Further, industrial capex growth in India is expected to continue and decline in a domestic enquiry base should be overturned in the coming quarters. Inquiries from sectors such as sugar, distillery, food processing, pulp and paper, chemicals, and waste heat recovery are expected to be high.
- **Capex update:** The company will be manufacturing over 200 turbines, which would be backed by sufficient subcontract capacity. Thus, the company will carry out only maintenance capex in FY2024.
- **Gaining ground in API turbines:** API turbines are used in power generation and as a drive turbine in fans, blowers, pumps, and compressors. Demand is healthy from sectors such as fertilizer, petrochemicals, and EPC players. The company's share in the international API market is in low single digits; however, the inquiry book is strong. The company is in the approved vendor list in major OEMs and EPCs.

Quarterly Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Net Sales	**370**	**237**	**56.3**	**326**	**370**
Operating Profit	**66**	**42**	**58.3**	**63**	**66**
Other Income	12	8	61.0	12	12
Interest	0.5	0.5	0.0	0.1	0.5
Depreciation	5	5	-2.5	5	5
PBT	**73**	**44**	**66.5**	**70**	**73**
Tax	18	11	60.6	17	18
Reported PAT	56	33	68.2	53	5.6
Adjusted PAT	**56**	**33**	**68.2**	**53**	**5.6**
Adj. EPS (Rs.)	1.7	1.0	68.2	1.6	5.6
Margin (%)			**BPS**		**BPS**
OPM	17.9	17.7	*22*	19.4	*(143)*
NPM	15.0	14.0	*106*	16.1	*(112)*
Tax rate	24.2	25.0	*(89)*	24.9	*(75)*

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Steam turbine markets see strong growth visibility**

In 2021, the Indian steam turbine market (>30 MW) range grew by 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 such as sugar, distillery, steel, cement, pulp and paper, and chemicals expected to increase production, demand for steam turbines is expected to remain robust in the future.

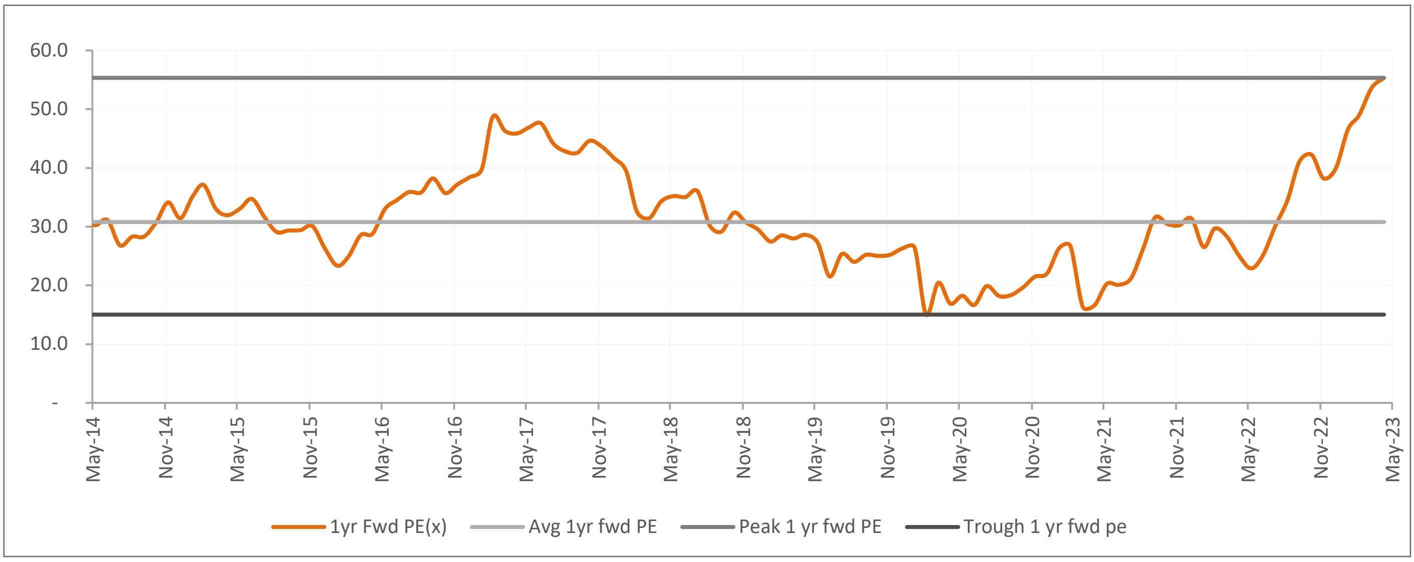
■ **Company Outlook – Ample growth opportunities over the next two years**

TTL is the market leader in steam turbines of 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. 435**

TTL's FY2023 performance has been commendable on all fronts with a strong order book and healthy enquiry generation. Thus, it is well poised for a high-growth trajectory, led by strong order inflows and a promising inquiry pipeline in both 0-30 MW and 30-100 MW segments in the domestic and international markets, respectively. The company's entry into the high-margin API segment, increased share of export orders, and scalability in the 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 cater to growing demand and increase its market share. The stock trades at ~36x its FY2025E EPS, which we believe offers room for an upside, considering strong Revenue/PAT CAGR of ~33%/32% over FY2023-FY2025E and strong ROE/ROCE ratios. Further, nil debt, lean working capital cycle, and healthy cash balance give us comfort. Hence, we retain our Buy rating on TTL with a revised PT of Rs. 435.

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 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 pick-up. The company has also formed a JV with GE for 30 MW-100 MW range steam turbines, 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

Dhruv M. Sawhney	Chairman and Managing Director
Nikhil Sawhney	Vice Chairman and Managing Director
Arun Mote	Executive Director
Shailendra Bhandari	Independent Non-Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd.	8.78
2	Invesco Ltd.	3.27
3	Nippon Life India Asset Management	2.51
4	Aditya Birla Sun Life Asset Management Co. Ltd.	1.47
5	Sundaram Asset Management Co. Ltd.	1.40
6	Invesco Asset Management India Pvt. Ltd.	1.00
7	Dimensional Fund Advisors	0.27
8	ICICI Prudential Asset Management	0.22
9	Jupiter Fund Management Plc	0.17
10	Blackrock Inc.	0.09

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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