Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Triveni Turbine Ltd

Rotating well for long-term growth

Capital Goods	Sharekhan code: TRITURBINE
Reco/View: Buy ↔	CMP: Rs. 391	Price Target: Rs. 455 ↔

↑ 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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 33.94

Updated Aug 08, 2023

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

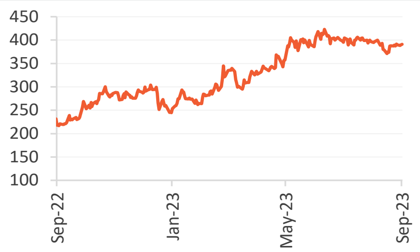
Company details

Market cap:	Rs. 12,633 cr
52-week high/low:	Rs. 430/182
NSE volume: (No of shares)	10.1 lakh
BSE code:	533655
NSE code:	TRITURBINE
Free float: (No of shares)	14.3 cr

Shareholding (%)

Promoters	55.8
FII	26.8
DII	12.6
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.5	-2.2	16.8	79.4
Relative to Sensex	-1.7	-7.1	7.4	68.1

Sharekhan Research, Bloomberg

Summary

- As per our interaction with Triveni Turbine Limited (TTL), the key levers for growth are the scaling up of exports and aftermarket business. In the aftermarket, the company is going beyond industrial steam turbines to other rotating equipments and value-added components.
- TTL has a robust enquiry pipeline in both domestic and international markets. In the domestic market, distillery, sugar, food, cement, and steel are leading the order intake, while international markets are driven by climate change requirements.
- The company has sufficient capacity to cater to 300 turbines and may not need a huge capex for the next few years. Despite the likely increase in its employee cost, margin tailwinds exist in terms of stabilisation of raw-material cost, scaling up of the aftermarket business, and overall operating leverage.
- Apart from strong business prospects, TTL has a lean working capital cycle and healthy cash of Rs. 747 crore. We build in a revenue/PAT CAGR of ~31%/32% (FY2023-FY2025E) and retain our Buy rating on TTL with an unchanged PT of Rs. 455.

Our interaction with Triveni Turbine Limited (TTL) reinstates our faith in its strong growth trajectory, driven by increasing industrial demand for energy-efficient turbines. Management is confident of achieving strong order inflows in FY2024 and expects ~35% revenue growth in the next couple of years. The company, with sufficient capacity expansion, is prepared for high growth in the coming years. The company aims PBT margin of ~20% conservatively. TTL continues to be the leader in the 0-30 MW steam turbine market and has industry-leading margins. TTL is currently focused on increasing its addressable overseas market where ample opportunities are emanating for its products as well as after-market business.

API and exports market are key focus areas

TTL is optimistic about the prospects of API-compliant turbines. The company is tapping not only the market for drive turbines, which have direct applications in terms of driving equipment, such as pumps, blowers, and compressors, but also the market for power solutions with API requirements. The company has a strong enquiry pipeline even on the power turbines side. The company is also focused on scaling up in the higher range of turbines and has a good enquiry pipeline from both domestic and overseas markets. TTL has a 20% share in the addressable overseas markets, excluding China and Japan. The company is enhancing its capabilities on the manpower side to grow its presence in overseas markets.

Broad-based capex revival in its key markets

Currently, in India, some industries are not undertaking major greenfield capex but enhancing efficiencies and capabilities through brownfield capex. For instance, cement plants are majorly adding waste heat recovery plants and most of the players are modifying the existing plants. Industries such as sugar and distilleries are adding minor capacities and replacing existing machines. In FY2023, ~80% of the company's order booking came from non-fossil or thermal renewable fuels. While industrial customers continued to contribute to the bulk of TTL's orders, it was the renewable energy (RE) independent power producers (IPP) segment in this space that led to a higher enquiry base. The majority of the order intake in the domestic market came from sugar, distillery, food processing, pulp and paper, chemicals, and waste heat recovery during the year.

Sufficient capacity and scaling up of aftermarket biz would ensure healthy growth

TTL can cater to ~300 turbines per annum. The company has added one extra bay at its new facility at Sompura. Moreover, TTL has a flexible assembly capacity and there are other subcontractors and associates that have also augmented their capacity. Hence, the company does not require any major capex for at least four to five years. In the aftermarket, the company is going beyond industrial steam turbines to other rotating equipment and value-added components.

Revision in estimates – We have maintained our estimates for FY2024-FY2025E

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 455: As per our interaction with TTL and its annual report for FY2023, the inquiry pipeline is promising in both the 0-30 MW and 30-100 MW segments in the domestic and international markets, respectively. Further, the company is likely to gain a strong foothold in key export markets through its aftermarket business. The company has undertaken capital expansion and has strengthened its supply chain and sales network through employee additions to cater to the growing demand and tap new markets. The stock trades at ~38x its FY2025E EPS, which we believe offers room for an upside, considering a strong Revenue/PAT CAGR of ~31%/32% (FY2023-FY2025E) and robust ROE/ROCE ratios. Further, nil debt, a lean working capital cycle, and a healthy cash balance of Rs. 747 crore give us comfort. Hence, we retain our Buy rating on TTL with an unchanged price target (PT) of Rs. 455.

Key Risks

A 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	1,668	2,132
OPM (%)	19.1	18.7	18.8	19.1
Adjusted PAT	123	193	256	334
y-o-y growth (%)	1.9	56.2	33.1	30.5
Adj. EPS (Rs.)	3.8	6.0	7.9	10.3
P/E (x)	102.5	65.6	49.3	37.8
P/B (x)	14.7	16.3	12.6	9.7
EV/EBITDA (x)	61.9	42.5	31.3	24.2
RoNW (%)	16.5	23.8	29.4	29.5
ROCE (%)	23.0	31.7	39.8	39.9

Source: Company; Sharekhan estimates

Key takeaways from our interaction with the company and FY2023 annual report

Focused on scaling API drive turbines: The company is optimistic about the prospects of API-compliant turbines. The company is tapping not only the market for drive turbines, which have direct applications in terms of driving equipment such as pumps, blowers, and compressors, but also the market for power solutions with API requirements. TTL has a strong enquiry pipeline even on the power turbines side.

Good enquiry pipeline in the 30-100 MW range: The company is also focused on scaling up in the higher range of turbines and has a good enquiry pipeline from both domestic and overseas markets.

~20% share in the addressable overseas market: TTL has a 20% share in the addressable overseas markets, excluding China and Japan. The company is enhancing its capabilities on the manpower side to grow its presence in overseas markets.

Industrial capex is a mix of brownfield and greenfield expansion: Currently, in India, some industries are not undertaking major greenfield capex. For instance, cement plants are majorly adding waste heat recovery plants and most players are modifying existing plants. Industries such as sugar and distilleries are adding minor capacities and replacing existing machines.

Margins in exports are higher as compared to domestic markets: India is a price-sensitive market and the average customer size and scale are lower. Although competition is intense in overseas markets, most of the international bidders bake in the higher cost while bidding and, therefore, margins tend to be on the higher side generally in overseas markets.

SADC order is nearly complete: The Rs. 100 crore order for servicing utility turbines is nearing completion. The company has developed a reference point by taking up this large service order and would explore more opportunities to service utility turbines. Another such order in the SADC region is in the pipeline and the company is likely to bid for the same.

Order book is tilted towards renewable energy: In FY2023, ~80% of the company's order bookings came from non-fossil or thermal renewable fuels. While industrial customers continued to contribute to the bulk of TTL's orders, it was the RE independent power producers (IPP) segment in this space that led to a higher enquiry base. The majority of the order intake in the domestic market came from sugar, distillery, food processing, pulp and paper, chemicals, and waste heat recovery during the year.

Capex for FY2024 and beyond: TTL can cater to ~300 turbines per annum. The company has added one extra bay at its new facility at Sompura. Moreover, the company has a flexible assembly capacity and there are other subcontractors and associates that have also augmented their capacity. Hence, the company does not require any major capex for at least five years.

Aftermarket share would continue to rise: In the aftermarket segment, the company is going beyond industrial steam turbines to other rotating equipments and value-added components as well.

Domestic steam turbine market review

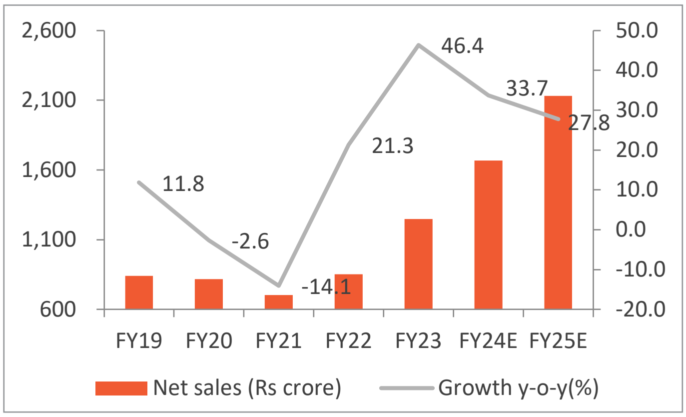
As per the company's annual report, in 2022, the Indian steam turbine market for sub-100 MW range grew by 15% (in MW terms) over 2021, whereas the sub-30 MW range grew by 22% (in MW terms) over 2021. Demand for heat and power from the industrial segment was the key factor contributing to the rebound in the steam turbine market to 2019 levels. With the manufacturing sector on a growth trajectory, demand for steam turbines is expected to remain robust in the future, owing to investments for increasing production capacities among industries such as sugar, distillery, steel, cement, pulp and paper, food processing and chemicals, among others.

Robust enquiry generation would lead to strong order inflows

Overall enquiry generation increased by 41% y-o-y in FY2023. In terms of segments, sugar and distillery contributed the most to the enquiry base, followed by process industries comprising food processing, pulp and paper, and chemicals, among others, followed by steel, cement, IPPs, and oil and gas (API – drive turbines). International enquiry generation increased by 82% y-o-y as compared to FY2022. Europe generated more enquiries, followed by Southeast Asia and Turkey. Among segments, IPP was the biggest contributor to the enquiry base, followed by process industries, steel, and oil and gas segment (API – drive turbines). Enquiry generation reflects the orders for which the company is engaging with the clients and it may not reflect the total market size at a given point in time.

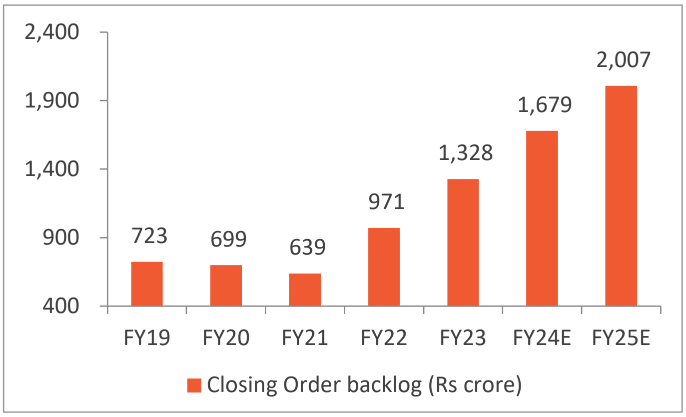
Financials in charts

Net sales growth trend



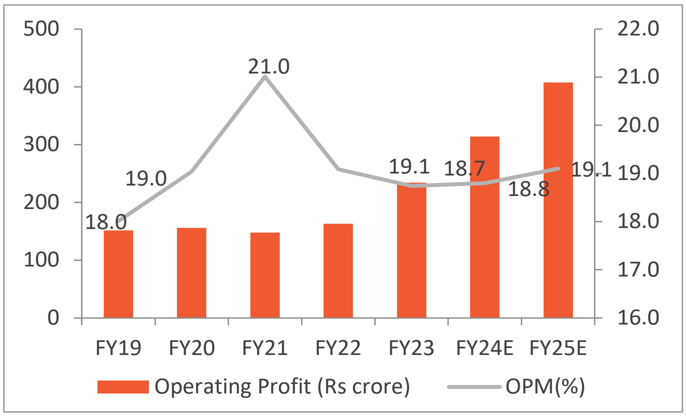
Source: Company, Sharekhan Research

Order Backlog



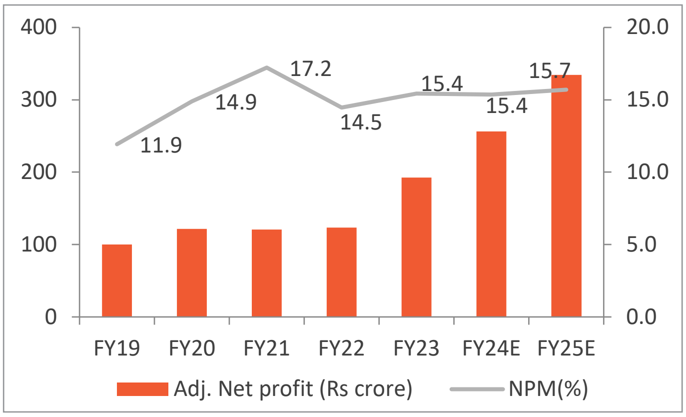
Source: Company, Sharekhan Research

Operating profit and margin trend



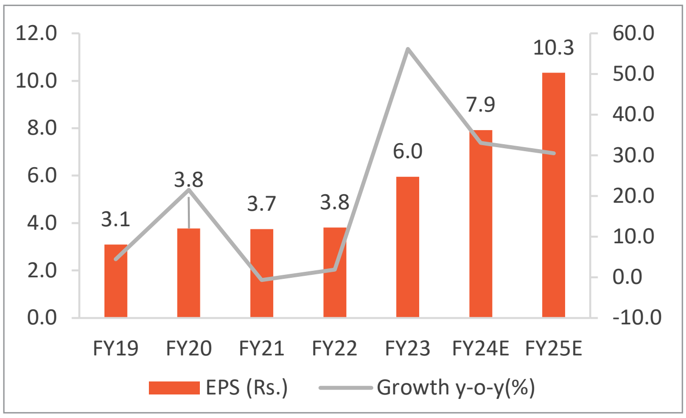
Source: Company, Sharekhan Research

Net profit and margin trend



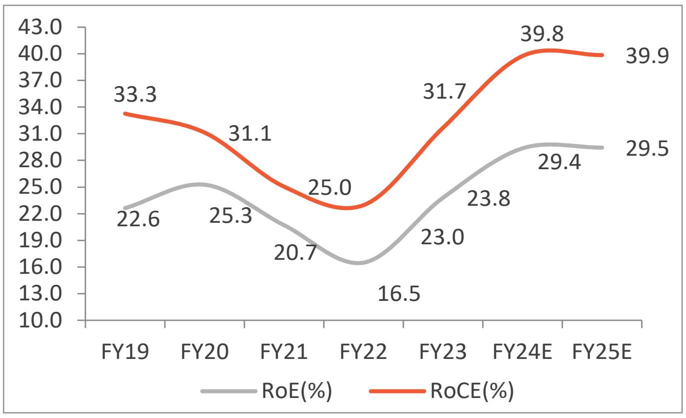
Source: Company, Sharekhan Research

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 (>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.

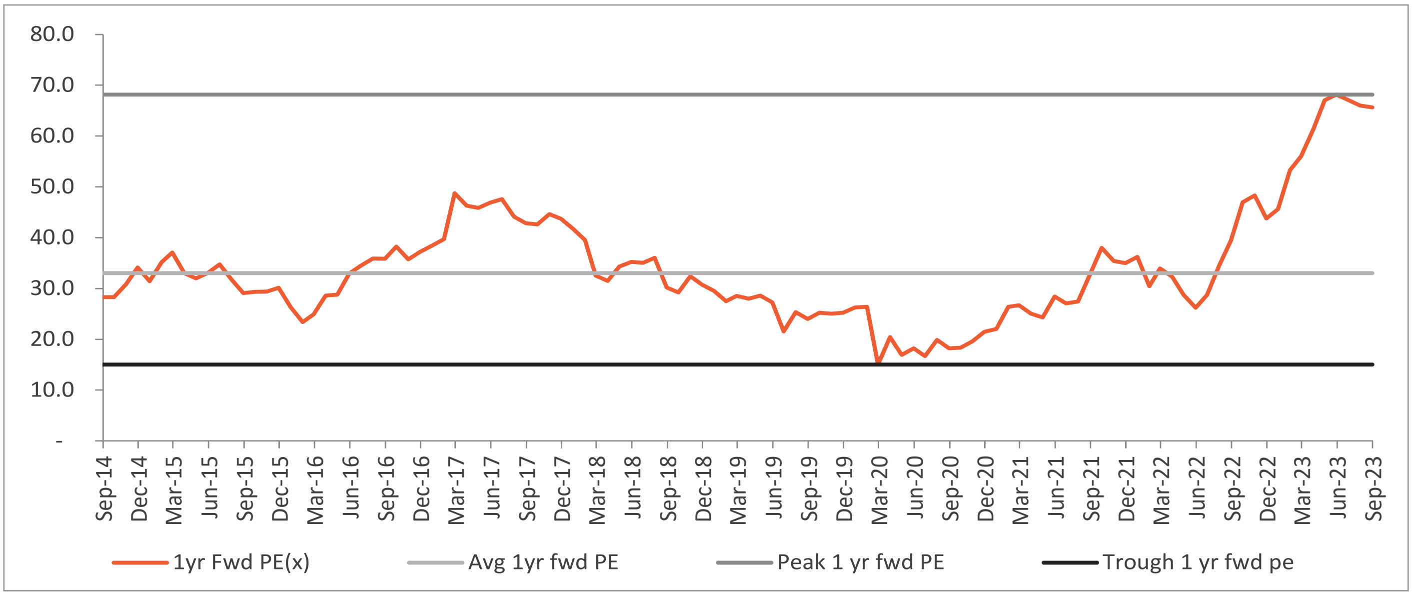
■ Company outlook - Ample growth opportunities over the next two years

TTL is the market leader in steam turbines (of up to 30 MW). Post its exit from the 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 expansions, gearing up its export sales team, and increasing its supply chain capacities to drive 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 an unchanged PT of Rs. 455

As per our interaction with TTL and its annual report for FY2023, the inquiry pipeline is promising in both the 0-30 MW and 30-100 MW segments in the domestic and international markets, respectively. Further, the company is likely to gain a strong foothold in key export markets through its aftermarket business. The company has undertaken capital expansion and has strengthened its supply chain and sales network through employee additions to cater to the growing demand and tap new markets. The stock trades at ~38x its FY2025E EPS, which we believe offers room for an upside, considering a strong Revenue/PAT CAGR of ~31%/32% (FY2023-FY2025E) and robust ROE/ROCE ratios. Further, nil debt, a lean working capital cycle, and a healthy cash balance of Rs. 747 crore give us comfort. Hence, we retain our Buy rating on TTL with an unchanged price target (PT) of Rs. 455.

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, chemicals, 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 significantly 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
Lalit Kumar Agarwal	Vice President & CFO
Shailendra Bhandari	Independent Non-Executive Director

Source: Company

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 (old data)

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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