

Triveni Turbine

BSE SENSEX
73,745

S&P CNX
22,339

CMP: INR491

TP: INR570 (+16%)

Buy

Charged up



Bloomberg	TRIV IN
Equity Shares (m)	318
M.Cap.(INRb)/(USD\$)	156.2 / 1.9
52-Week Range (INR)	505 / 291
1, 6, 12 Rel. Per (%)	29/11/14
12M Avg Val (INR M)	458

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	16.5	21.8	28.8
EBITDA	3.2	4.2	5.6
PAT	2.6	3.4	4.5
EPS (INR)	8.1	10.6	14.2
GR. (%)	33.1	31.3	33.7
BV/Sh (INR)	29.7	37.3	47.5

Ratios

ROE (%)	30.1	31.6	33.3
RoCE (%)	30.2	31.7	33.5

Valuations

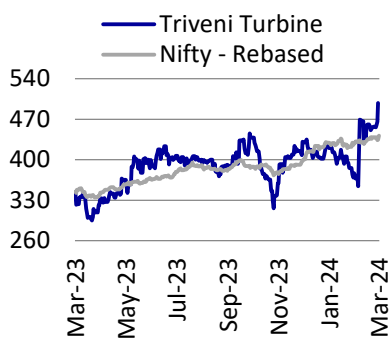
P/E (X)	61.0	46.4	34.7
P/BV (X)	16.5	13.2	10.3
EV/EBITDA (X)	48.5	36.1	26.9
Div Yield (%)	0.5	0.6	0.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	55.8	55.8	55.9
DII	12.5	11.7	15.5
FII	27.3	27.7	23.2
Others	4.4	4.8	5.4

FII Includes depository receipts

Stock performance (one-year)



We recently interacted with the management of Triveni Turbine (TRIV) to understand the market potential and growth strategy of the company. TRIV is ideally positioned to capture the upswing in private capex cycle as well as growth in the renewables space in international markets. The domestic market, though weak in the last quarter, is likely to start improving post-elections. Order inflows have been growing steadily in international markets for TRIV as well as for its competitors such as Siemens Energy, and Baker Hughes, indicating strong market potential. The company will continue to focus on increasing its share of exports and the aftermarket, while also concentrating on maintaining strong margins. We tweak our estimates by 2%/3% for FY25/26, and reiterate our BUY rating with a revised TP of INR570.

Ideally positioned to capture the upswing in private capex

We believe that TRIV is ideally positioned to capture growth in the turbine market, both domestically and internationally. The domestic turbine market stood at nearly 2GW in CY23, which is expected to grow 20% to 2.4GW in CY24. Within this market, TRIV has maintained its market share at 55-60% during the past decade. Though domestic order inflows were weak in 3QFY24, we expect the full-year domestic order inflows to report a 20% growth with an uptick likely from sectors such as cement, steel, fertilizers, etc. The global steam turbine market (below 100 MW) reached ~8.8 GW in CY22, where TRIV had a market share of 15-20% (ex-China and Japan where the company does not operate). Despite a declining market, the company was able to clock an order inflow CAGR of 58% over FY21-23, as it made significant progress in the aftermarket business. We expect the international inflows to post a much faster CAGR over FY23-26, due to the increasing focus on renewables and industrial applications.

Domestic inflows to improve from the key sectors in the next few quarters

TRIV has a broad presence in various industries including sugar, distilleries, steel, cement, textiles, chemicals, oil & gas, pulp & paper, petrochemicals, fertilizers, solvent extraction, metals, palm oil, food processing, et al. The company's domestic inflow growth in 3QFY24 was hit primarily by slower capex growth across sugar and distilleries and delays in finalizing orders from other industries. We, however, expect these inflows to ramp up in the coming quarters as capex increases across end-user industries. The company's enquiry pipeline is already up 14% YoY on the product side. Going forward, we expect TRIV's domestic inflows to clock a CAGR of ~21% over FY23-26.

International inflows are led by aftermarket and spending on renewables

TRIV intends to strengthen its aftermarket presence by expanding into additional geographies. In the last fiscal, the company entered the South African market and secured a service contract of 600MW of utility turbines. It has now forayed into the US market by incorporating a wholly owned subsidiary, which will open up vast opportunities in the US and adjacent geographies. The subsidiary will cater to the installed base of turbines, mainly focusing on the aftermarket segment. Consolidation in the steam turbine industry is also leading to underservicing of customers, which in turn presents faster scaling-up potential for refurbishment services.

Competitive intensity is manageable in the turbine space

TRIV has market leadership in the domestic market and competes with Siemens, which is the second-largest player. The Indian market is primarily focused on small turbines, typically in the range of 0-30 MW. This market size is relatively small, making it less attractive for other players to enter. TRIV thus enjoys a leadership position domestically. The international market demand is higher for the 0-100 MW range. TRIV competes with Siemens, GE, Baker Hughes, Mitsubishi, etc. in the international markets. It also competes with local unorganized players in the aftermarket, where it is gradually gaining market share.

Our EBITDA margin estimates bake in the net impact of a higher share of exports and increased costs

TRIV generates nearly 2x margins in exports as compared to the domestic market. The margins are much higher in the aftermarket (highest in spares, mid-range in refurbishment, and low-range in services). We expect TRIV's EBITDA margin to be 19.4%/19.6% for FY25/26, despite the higher share of exports. This takes into account the incremental costs related to the US market entry as well as a slightly lower margin on the service contracts of SADC. TRIV will incur both opex and capex for its entry into the US market, with more clarity expected by 4QFY24. The company's margin is still lower than its peak levels of 23-24% in FY12 and FY13, as employee costs, travel costs, and localization costs have increased more than gross margin improvement during the same period.

We expect a strong 32% PAT CAGR during FY23-26

We expect TRIV's revenue/EBITDA/PAT to clock a CAGR of 32%/34%/32% over FY23-26. Backed by a comfortable negative working capital cycle, strong margins, and low capex requirements, we expect its OCF and FCF to report a CAGR of 40% and 47% over the same period, respectively.

Valuation and view

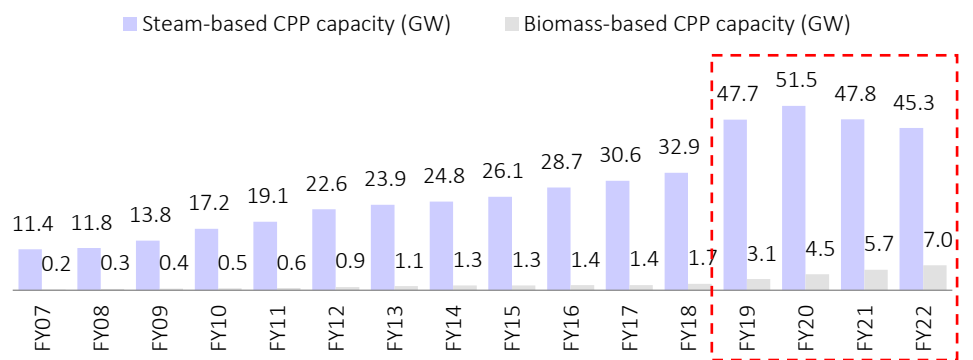
The stock is currently trading at 46x/35x FY25E/26E P/E. We maintain our **BUY** rating on TRIV with a revised TP of INR570. We slightly tweak our estimates to reflect the improvement in domestic ordering activity, led by the expected revival of private capex. Key risks to our recommendation would arise from the slower-than-expected order inflow growth, lower-than-expected margins, and a slowdown in global geographies.

TRIV’s addressable market has seen a healthy expansion, led by a rise in captive power capacity and focus towards renewables

The domestic turbine market stood at nearly 2 GW in CY23, which is expected to grow 20% to 2.4 GW in CY24. This market is driven by the increasing demand for captive power plants as well as renewable-based captive power plants across industries. Within this market, TRIV has maintained its market share at 55-60% during the past decade. The global steam turbine market (below 100 MW) reached ~8.8 GW in CY22, where TRIV had a market share of 15-20% (ex-China and Japan where the company does not operate). The global market is driven by demand from renewables as well as industrial uses. Despite a decline in the overall global market size, the company has gained share in exports and aftermarket.

Domestic steam-based captive power capacity (CPP) quadrupled by FY22 vs. FY07 level, which also resulted in higher demand for turbines in GW.

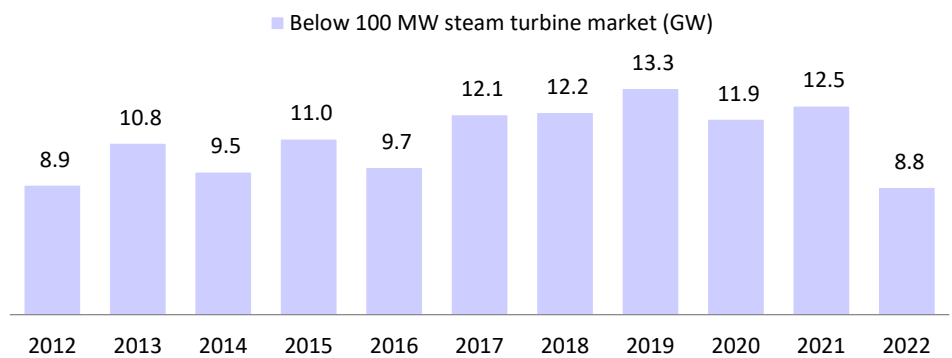
Exhibit 1: Domestic installed captive power capacity (GW)



Source: CEA, MOFSL

The global demand in below-100 MW steam turbine market is driven by the focus on renewables and industrial uses. The decline in the market was due to a dip witnessed in China and Japan in GW terms.

Exhibit 2: Global <100MW steam turbine market (GW)



Source: Company, MOFSL

TRIV has benefitted from the capex activity in its key end-user industries

The domestic demand for turbines is generated mainly from the following sectors: steel, cement, chemicals, pharma, distilleries, paper & pulp etc., all of which are witnessing capex improvements.

Capex trend across the key BSE-500 end-user industries for TRIV indicates that sugar, cement, and chemicals have continued with a healthy capex momentum followed by paper, and pharmaceuticals.

Exhibit 3: Capex trend across key end-user industries across BSE-500 index (INR b)

Sector	2017	2018	2019	2020	2021	2022	2023	FY21-23 CAGR
Cement	318.1	240.6	328.6	140.3	156.3	242.1	256.7	28.1
Chemicals	60.6	68.6	102.0	111.5	166.0	198.3	262.4	25.7
Fertilizers	2.2	45.5	56.3	-0.6	-3.7	61.4	3.2	NA
FMCG	82.2	49.7	103.2	77.7	50.0	87.1	84.1	29.7
Non-Ferrous Metals	61.8	68.3	73.7	85.2	84.1	115.8	79.1	-3.0
Paper	3.1	1.8	-24.5	14.4	15.3	18.9	21.6	18.6
Pharmaceuticals	258.3	263.2	291.1	177.0	236.3	243.4	307.8	14.1
Steel	221.1	195.3	256.3	349.2	430.4	516.1	512.6	9.1
Sugar	4.4	-12.4	13.9	-1.0	7.9	22.0	33.3	104.9

Source: Capitaline, MOFSL

We expect capex across the key sectors under our coverage to remain healthy at ~INR4t for FY25/FY26, despite a decline seen from the oil & gas sector. The capex remained broadly flat during FY19-22 at ~INR3t.

Exhibit 4: Capex trend across key sectors under our coverage (INR b)

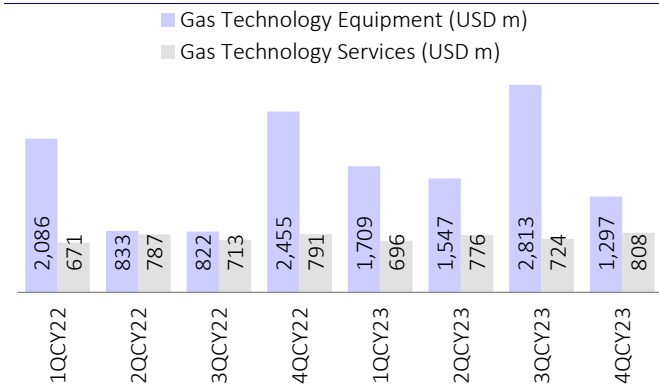
Sector	FY23	FY24E	FY25E	FY26E
Automobile	449	611	648	661
Cement	247	313	332	273
Chemical	28	32	34	27
Metals and mining	839	1,031	996	989
Oil and Gas	2,058	2,246	1,943	1,943
Pharmaceuticals	223	183	144	127
FMCG	44	126	97	60
Total across these key sectors	3,887	4,541	4,193	4,080

Source: MOFSL

Well positioned across markets

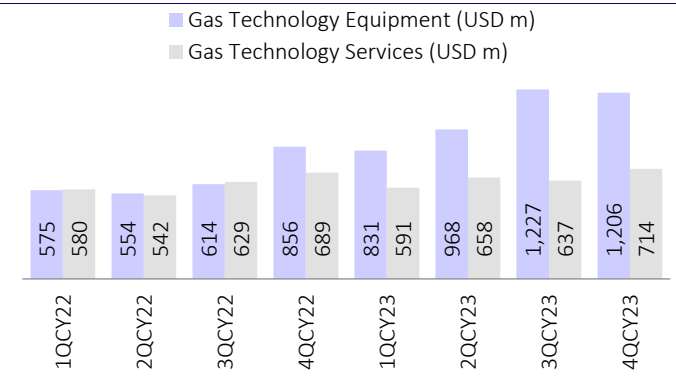
The company competes with industry giants such as Baker Hughes, Shin Nippon, Siemens Energy, etc. in the global markets, even though these companies are significantly larger and offer a diverse range of segments and products. We compare the relevant segments of Baker Hughes and Siemens Energy with TRIV. Baker Hughes reports its product and aftermarket division under the Gas Technology Equipment and Gas Technology Services. Siemens Energy AG reports its turbine business under the category of Industrial Steam Turbines. For both these companies, an increase in inflow indicates a strong potential in the global markets, where these companies operate. TRIV had around 15% market share in its target geographies and had been able to grow its exports to 45% of sales by FY23.

Exhibit 5: Baker Hughes' order inflows for both product and aftermarket divisions rose in the last two years (USD m)



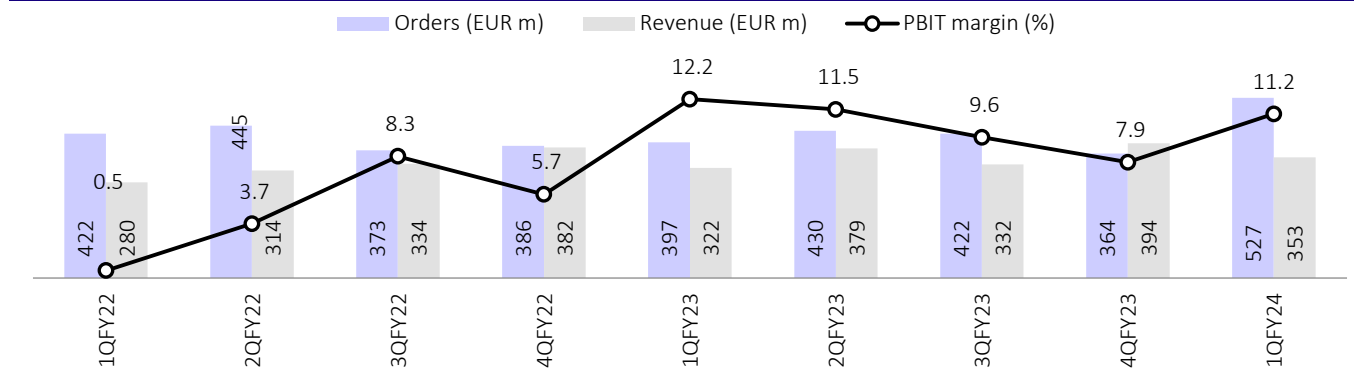
Source: Company, MOFSL

Exhibit 6: Strong inflow growth resulted in revenue becoming >2x in product and 1.2x in aftermarket (USD m)



Source: Company, MOFSL

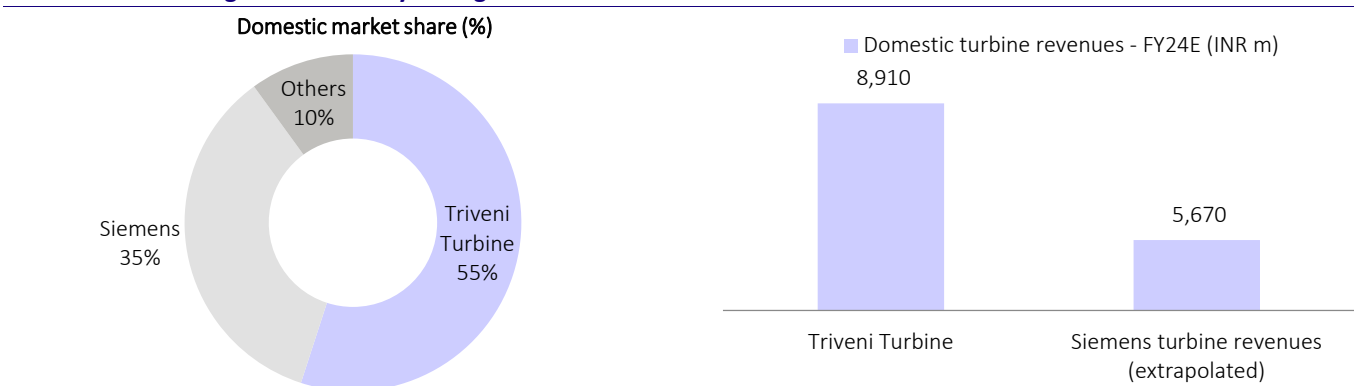
Exhibit 7: Siemens Energy AG's Industrial Steam Turbines trend (EUR m)



Source: Company, MOFSL

TRIV competes with Siemens India in the domestic market, where TRIV has around 55-60% market share and Siemens has around 30-35% market share.

Exhibit 8: Positioning of TRIV is fairly strong in the domestic market

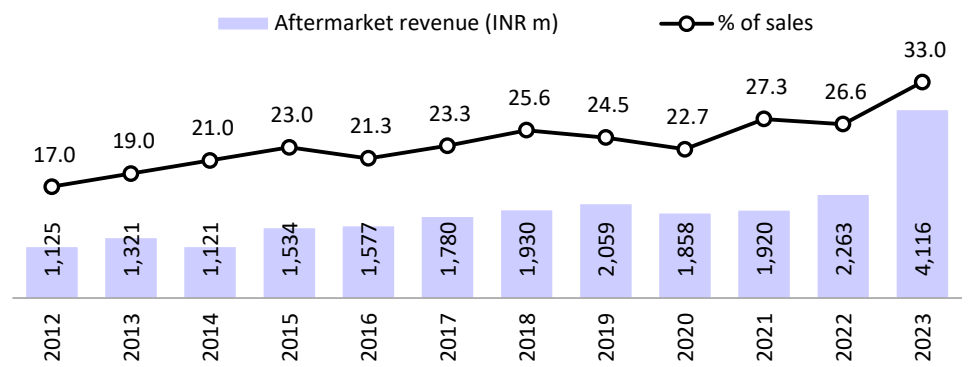


Source: Company, MOFSL

TRIV is benefitting from the international opportunities through higher share of exports and aftermarket

TRIV clocked a ~15% CAGR in aftermarket solutions over FY16-23 vs. 6% CAGR for the product business. Aftermarket accounted for 33% of its FY23 revenue as against 22% in FY16. To penetrate further into the aftermarket in new geographies, such as North America, TRIV has incorporated an entity in the US, which will necessitate upfront costs and resources for building a base in the country.

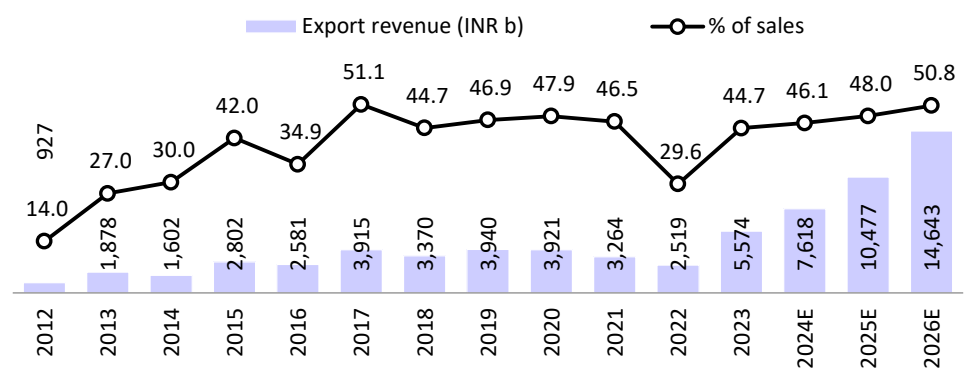
Exhibit 9: Aftermarket has seen a steady rise in contribution to overall revenue



Source: Company, MOFSL

TRIV is continuously expanding its geographical presence and it is now present in 80 countries for exports. The export share stood at 46% of sales in 9MFY24 vs. 42% in 9MFY23. Barring East Asia, which is currently muted, the other international geographies such as MENA, Turkey, SE Asia, Europe, etc. are witnessing a robust traction from industrial, renewable, API turbine, and aftermarket domains.

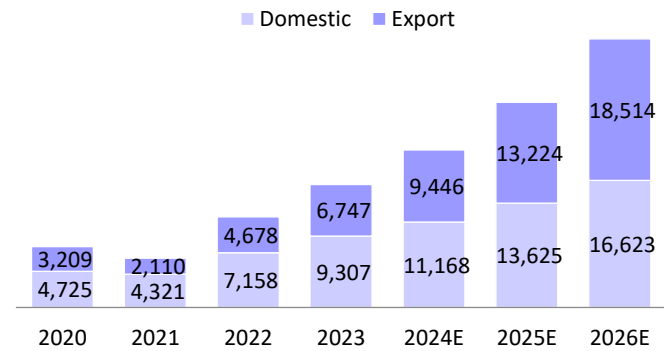
Exhibit 10: We expect the share of exports to go up to 51% by FY26



Source: Company, MOFSL

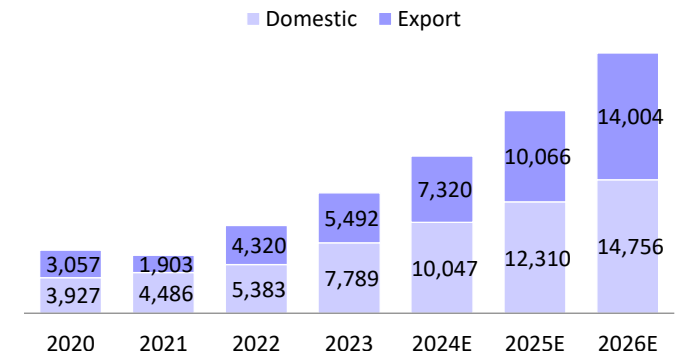
Financial outlook

Exhibit 11: We expect the order inflow momentum to be maintained (INR m)



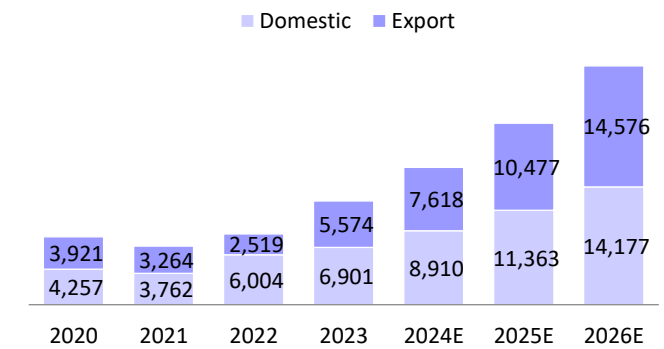
Source: Company, MOFSL

Exhibit 12: Order book on a strong footing led by healthy inquiry levels and a foray into newer markets (INR m)



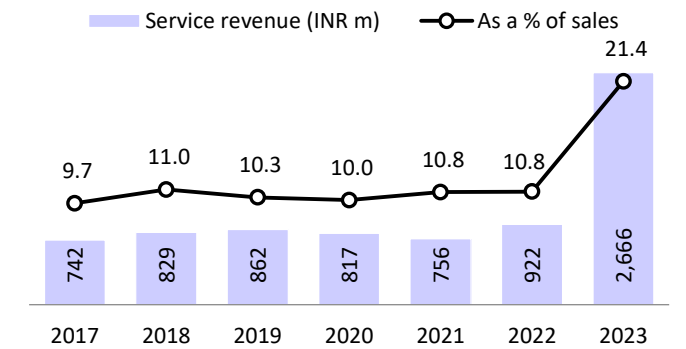
Source: Company, MOFSL

Exhibit 13: Overall revenue to post a CAGR of 32% (INR m)



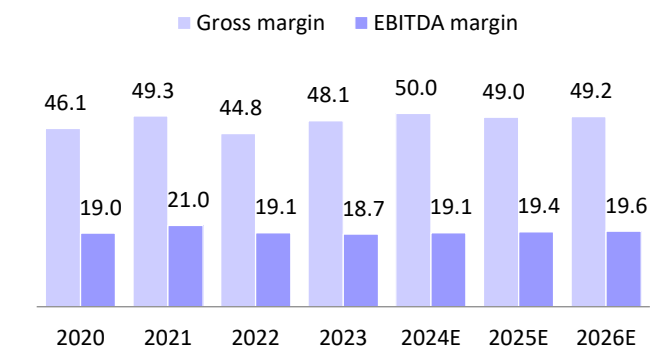
Source: Company, MOFSL

Exhibit 14: TRIV has made a healthy foray into Service



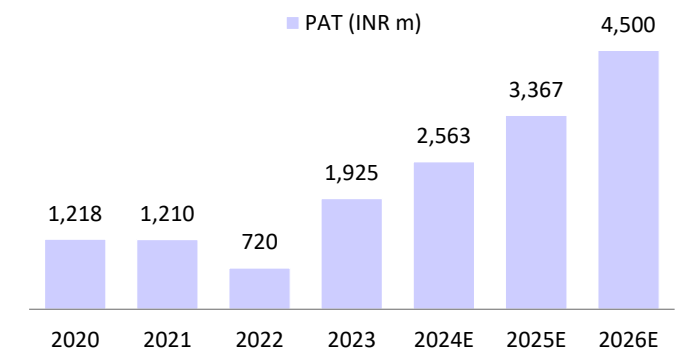
Source: Company, MOFSL

Exhibit 15: We expect EBITDA margin at around 20% (%)



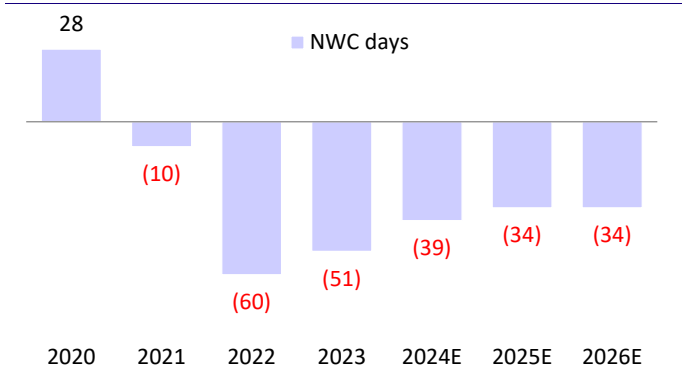
Source: Company, MOFSL

Exhibit 16: PAT to post a robust CAGR of 32% (INR m)



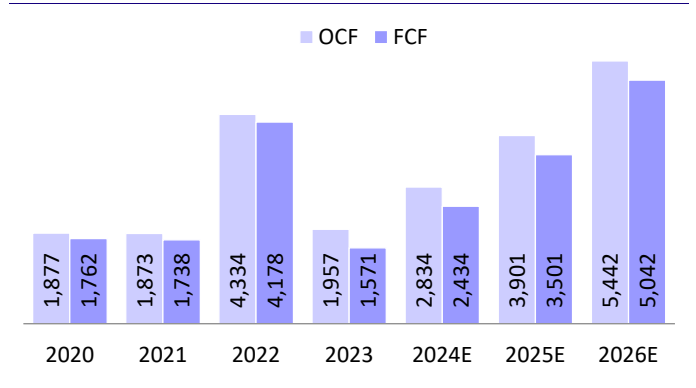
Source: Company, MOFSL

Exhibit 17: NWC days had declined continuously and we expect it to be at comfortable levels



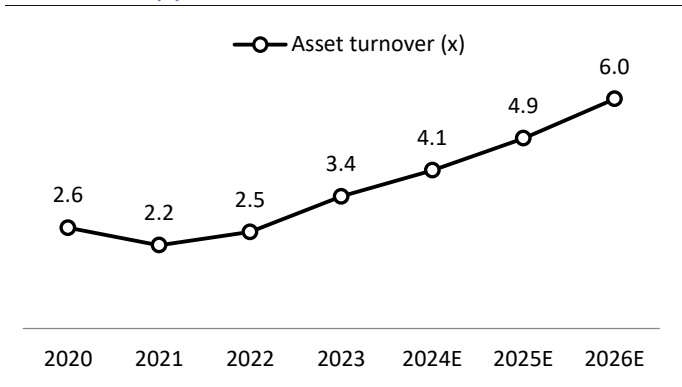
Source: Company, MOFSL

Exhibit 18: OCF & FCF to remain healthy on negative working capital and low capex (INR m)



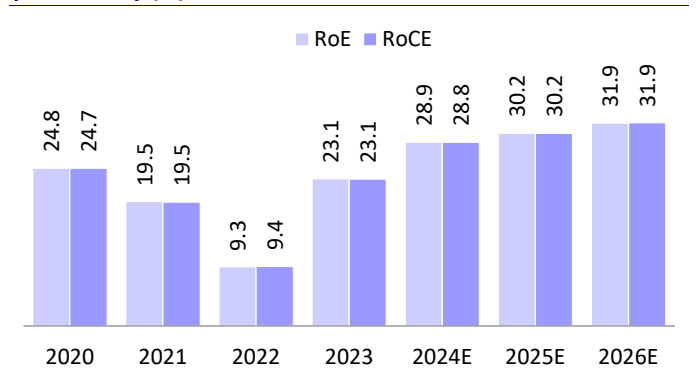
Source: Company, MOFSL

Exhibit 19: Asset turnover to inch up on higher aftermarket contribution (x)



Source: Company, MOFSL

Exhibit 20: Return ratios to remain strong on healthy profitability (%)



Source: Company, MOFSL

Financials and valuations

Consolidated – Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	8,179	7,026	8,522	12,476	16,528	21,840	28,753
Change (%)	-2.6	-14.1	21.3	46.4	32.5	32.1	31.7
Employees Cost	1,016	870	1,029	1,285	1,735	2,293	3,019
Other Expenses	1,195	1,118	1,164	2,381	3,372	4,182	5,506
Total Expenditure	6,622	5,550	6,896	10,138	13,371	17,614	23,132
% of Sales	81.0	79.0	80.9	81.3	80.9	80.7	80.5
EBITDA	1,557	1,476	1,626	2,338	3,157	4,226	5,621
Margin (%)	19.0	21.0	19.1	18.7	19.1	19.4	19.6
Depreciation	201	202	203	199	232	254	276
EBIT	1,356	1,274	1,424	2,139	2,925	3,972	5,345
Int. and Finance Charges	33	11	10	10	17	22	29
Other Income	237	244	253	426	516	547	695
PBT bef. EO Exp.	1,559	1,506	1,666	2,555	3,424	4,497	6,011
EO Items	0	-185	1,982	0	0	0	0
PBT after EO Exp.	1,559	1,321	3,648	2,555	3,424	4,497	6,011
Total Tax	342	296	946	626	861	1,131	1,511
Tax Rate (%)	21.9	22.4	25.9	24.5	25.1	25.1	25.1
Minority Interest	0	0	0	3	0	0	0
Reported PAT	1,218	1,025	2,702	1,925	2,563	3,367	4,500
Adjusted PAT	1,218	1,168	1,234	1,925	2,563	3,367	4,500
Change (%)	21.5	-4.1	5.6	56.1	33.1	31.3	33.7
Margin (%)	14.9	16.6	14.5	15.4	15.5	15.4	15.7

Consolidated – Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	323	323	323	318	318	318	318
Total Reserves	4,978	6,052	8,242	7,286	9,131	11,555	14,795
Net Worth	5,302	6,376	8,566	7,604	9,449	11,873	15,113
Minority Interest	0	0	8	10	10	10	10
Total Loans	10	0	2	0	0	0	0
Deferred Tax Liabilities	72	51	35	44	44	44	44
Capital Employed	5,383	6,427	8,610	7,657	9,503	11,927	15,167
Gross Block	3,153	3,342	3,449	3,820	4,220	4,620	5,020
Less: Accum. Deprn.	727	903	1,071	1,214	1,446	1,700	1,976
Net Fixed Assets	2,426	2,440	2,378	2,606	2,774	2,919	3,043
Capital WIP	64	0	33	54	54	54	54
Total Investments	1,571	3,010	4,866	3,880	5,380	7,380	9,880
Curr. Assets, Loans&Adv.	4,160	3,969	6,072	6,859	8,636	11,274	14,961
Inventory	1,727	1,596	1,617	2,000	2,717	3,590	4,727
Account Receivables	1,253	771	1,015	1,293	1,811	2,393	3,151
Cash and Bank Balance	684	1,164	2,731	2,849	3,049	3,585	4,838
Loans and Advances	2	0	0	0	0	0	0
Other Current Assets	493	437	709	716	1,059	1,706	2,245
Curr. Liability & Prov.	2,839	2,992	4,738	5,742	7,341	9,701	12,771
Account Payables	617	745	1,091	1,143	1,494	1,975	2,600
Other Current Liabilities	1,995	2,076	3,403	4,260	5,434	7,180	9,453
Provisions	227	171	245	339	413	546	719
Net Current Assets	1,322	977	1,333	1,117	1,295	1,573	2,189
Appl. of Funds	5,383	6,427	8,610	7,657	9,503	11,927	15,167

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	3.8	3.7	3.9	6.1	8.1	10.6	14.2
Cash EPS	4.5	4.3	4.5	6.7	8.8	11.4	15.0
BV/Share	16.7	20.1	26.9	23.9	29.7	37.3	47.5
DPS	0.5	2.2	1.6	1.6	2.3	3.0	4.0
Payout (%)	16.1	69.4	18.5	26.0	28.0	28.0	28.0
Valuation (x)							
P/E	128.3	133.8	126.7	81.2	61.0	46.4	34.7
Cash P/E	110.1	114.0	108.8	73.6	55.9	43.2	32.7
P/BV	29.5	24.5	18.2	20.6	16.5	13.2	10.3
EV/Sales	19.0	22.1	18.0	12.3	9.3	7.0	5.3
EV/EBITDA	99.9	105.1	94.4	65.6	48.5	36.1	26.9
Dividend Yield (%)	0.1	0.5	0.3	0.3	0.5	0.6	0.8
FCF per share	5.5	5.5	13.2	4.9	7.7	11.0	15.9
Return Ratios (%)							
RoE	25.3	20.0	16.5	23.8	30.1	31.6	33.3
RoCE	25.8	20.1	16.6	23.9	30.2	31.7	33.5
RoIC	30.3	37.2	65.2	174.1	231.3	308.5	614.3
Working Capital Ratios							
Fixed Asset Turnover (x)	2.6	2.1	2.5	3.3	3.9	4.7	5.7
Asset Turnover (x)	1.5	1.1	1.0	1.6	1.7	1.8	1.9
Inventory (Days)	77	83	69	59	60	60	60
Debtor (Days)	56	40	43	38	40	40	40
Creditor (Days)	28	39	47	33	33	33	33
Leverage Ratio (x)							
Current Ratio	1.5	1.3	1.3	1.2	1.2	1.2	1.2
Interest Cover Ratio	40.7	112.1	139.6	215.0	177.0	181.9	185.9
Net Debt/Equity	-0.4	-0.7	-0.9	-0.9	-0.9	-0.9	-1.0

Consolidated – Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	1,559	1,321	3,648	2,555	3,424	4,497	6,011
Depreciation	201	202	203	199	232	254	276
Interest & Finance Charges	33	11	10	10	17	22	29
Direct Taxes Paid	-414	-323	-902	-628	-861	-1,131	-1,511
(Inc)/Dec in WC	594	796	1,570	230	22	258	637
CF from Operations	1,974	2,007	4,529	2,366	2,834	3,901	5,442
Others	-97	-134	-195	-409	0	0	0
CF from Operating incl EO	1,877	1,873	4,334	1,957	2,834	3,901	5,442
(Inc)/Dec in FA	-115	-132	-148	-384	-400	-400	-400
Free Cash Flow	1,762	1,740	4,187	1,573	2,434	3,501	5,042
(Pur)/Sale of Investments	-1,178	-2,026	-3,617	1,111	-1,500	-2,000	-2,500
Others	4	13	-98	136	0	0	0
CF from Investments	-1,288	-2,144	-3,862	862	-1,900	-2,400	-2,900
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	11	-2	-20	-1	0	0	0
Interest Paid	-33	-11	-10	-10	-17	-22	-29
Dividend Paid	-162	0	-711	-501	-718	-943	-1,260
Others	-17	-2	1	-2,335	0	0	0
CF from Fin. Activity	-201	-16	-740	-2,847	-734	-965	-1,289
Inc/Dec of Cash	388	-288	-268	-28	199	536	1,253
Opening Balance	296	1,452	2,998	2,878	2,849	3,049	3,585
Closing Balance	684	1,164	2,731	2,849	3,049	3,585	4,838

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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