

Triveni Turbine

22 May 2019

Reuters: TRVT.BO; Bloomberg: TRIV IN

Revenues Broadly In Line; Weak Margins Not Structural In Nature

Triveni Turbine (TTL) reported 4QFY19 consolidated revenues of Rs2.4bn, down 2% YoY and marginally below our/consensus estimate of Rs2.5bn each. Turbine revenues were up 1% YoY at Rs1.9bn, while after-market services sales declined 13% YoY to Rs464mn. Raw material costs rose 17% YoY to Rs1.4bn owing to: (a) One-time costs towards new product development (Rs220mn spent in 2HFY19 for R&D, setting up a laboratory for product testing and value engineering for material cost reduction). (b) Increase in finished goods inventory owing to client-led delay in shipment. Consequently, EBITDA fell 33% YoY to Rs400mn, leading to a 770bps YoY decline in EBITDA margin to 16.7%. However, it was broadly similar to 3QFY19 margin of 17%. PAT fell 20% YoY to Rs283mn, below our/consensus estimate of Rs363mn/Rs347mn, respectively. 4QFY19 margins were also impacted by adverse revenue mix owing to lower contribution from high-margin exports (37% of total sales versus 46% YoY) and after-market services (19% of total sales versus 22% YoY). Order inflow in 4QFY19 stood at Rs2.1bn, similar to the past three years' average quarterly run-rate of Rs2bn. However, it was down 19% YoY on a high base of 4QFY18 (which had highest quarterly inflow of Rs2.5bn). Order backlog grew 2% YoY to Rs7.2bn, with the domestic:export mix at 50:50. We have cut our earnings estimates by 7%/8% for FY20/FY21, respectively, and retained Buy rating on TTL with a revised target price of Rs135 (from Rs147 earlier) based on 28x FY21E earnings.

Domestic market witnessing revival: The order inflow in domestic market grew 7% YoY to Rs4.4bn while revenues grew 8% YoY to Rs4.5bn in FY19. Sectors such as molasses-based distilleries, sugar co-generation, food, pharmaceutical, paper and waste-heat-recovery in cement industry are driving demand. The enquiry pipeline grew 8% and currently stands at 1GW. The domestic market size for 0-30MW steam turbines expanded to 740MW and is likely to further grow in mid-teens in FY20. TTL will be a big beneficiary of this growth owing to its dominant market share of ~60%.

Exports remain promising: Export revenues rose 17% YoY to Rs3.9bn in FY19, accounting for 47% of total sales in FY19 versus 45% YoY. Sectors such as renewable energy (biomass, waste-to-energy, sugar co-generation), palm oil, combined cycle power plants and process co-generation (WHR) are key drivers of turbine orders. TTL is ranked the second-largest steam turbine maker globally in 5MW-30MW range with a market share of 22% while it is the leader in renewable sector, which accounts for 90% of its international orders. Expenses incurred towards new product development are aimed at further strengthening TTL's product efficiency and testing capability in renewable sector. Export order backlog was up 7% YoY at Rs3.6bn and currently has healthy enquiries at 2.5GW. TTL has made further inroads in Africa, South East Asia and Middle East which has helped it tide over the weakness in its core markets of UK and Turkey (owing to political unrest).

After-market services update: After-market services revenues grew 7% YoY to Rs2.1bn in FY19, forming 24.5% of total sales in FY19 versus 25.7% YoY and aided overall margin of TTL as it is the most profitable segment. Order inflow grew 13% YoY to Rs2.3bn in FY19, aided by turbine refurbishment orders from international markets. Order book rose 28% YoY to Rs920mn. International orders accounted for 44% of the order inflow and 51% of the backlog in FY19.

GE-TTL joint venture (JV) update: GE-TTL JV's performance in FY19 was weak with 18% YoY decline in sales to Rs777mn owing to customer-led delay in dispatch of turbines. However, PAT was healthy at Rs90mn. Order inflow stood at Rs479mn while order book was down 17% YoY at Rs1.3bn.

Outlook: Healthy revenue/earnings CAGR of 14%/25%, respectively, over FY19-FY21E, healthy margin profile, return ratios and a lean working capital cycle will support TTL's valuation.

BUY

Sector: Capital Goods

CMP: Rs110

Target Price: Rs135

Upside: 23%

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Key Data

Current Shares O/S (mn)	323.3
Mkt Cap (Rsbn/US\$m)	35.5/509.6
52 Wk H / L (Rs)	136/94
Daily Vol. (3M NSE Avg.)	56,777

Price Performance (%)

	1 M	6 M	1 Yr
Triveni Turbine	2.5	(5.6)	11.1
Nifty Index	1.0	11.2	11.1

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net revenues	2,441	2,113	2,397	(1.8)	13.4	7,511	8,400	11.8
Raw material costs	1,224	1,210	1,438	17.5	18.8	3,853	4,691	21.8
Staff costs	229	256	253	10.6	(1.1)	881	991	12.6
Other expenses	394	289	305	(22.6)	5.8	1,200	1,205	0.5
Total expenditure	1,847	1,755	1,996	8.1	13.8	5,933	6,887	16.1
EBITDA	594	359	400	(32.7)	11.5	1,578	1,513	(4.2)
EBITDA margin (%)	24.3	17.0	16.7	-	-	21.0	18.0	-
Depreciation	53	53	53	(1.3)	(0.4)	191	201	5.2
Interest costs	-	3	7	-	-	5	11	111.3
Other income	35	18	55	58.0	200.5	81	162	98.9
Share of profit from JV	(33)	12	23	-	-	(25)	32	-
PBT	543	333	418	(23.0)	25.5	1,438	1,494	3.9
Tax	190	105	136	(28.4)	29.2	478	492	2.8
PAT	354	228	283	(20.1)	23.8	960	1,002	4.4
PAT margin (%)	14.5	10.8	11.8	-	-	12.8	11.9	-
EPS (Rs)	1.1	0.7	0.9	(18.4)	26.4	3.0	3.1	6.6

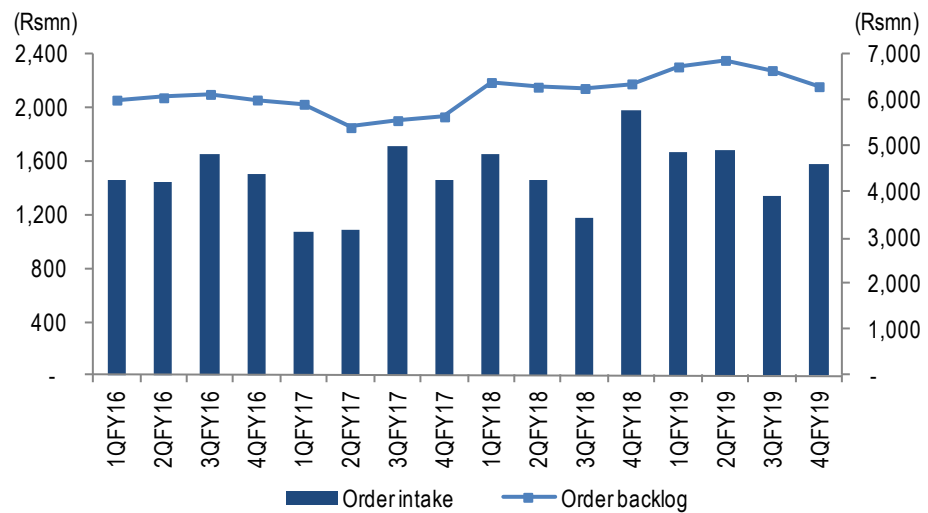
Source: Company, Nirmal Bang Institutional Equities Research

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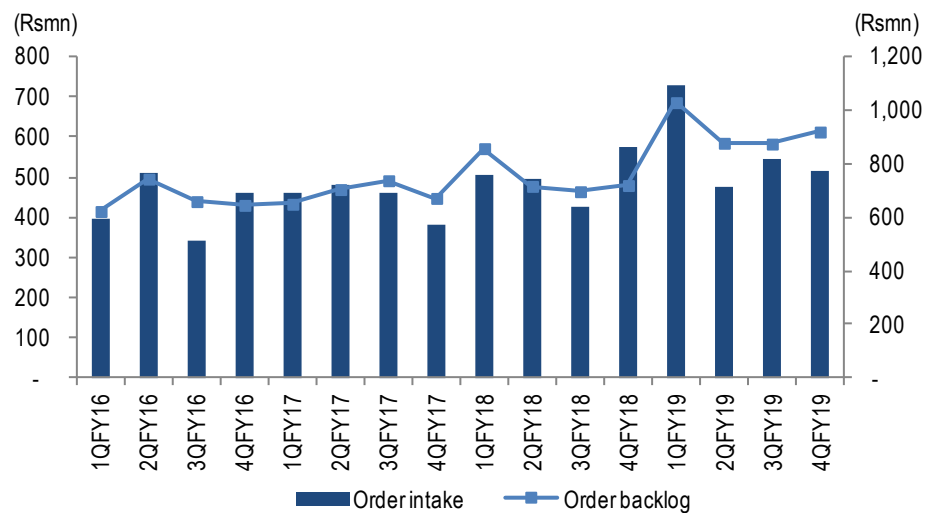
Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	7,446	7,511	8,400	9,615	10,928
EBITDA	1,664	1,578	1,513	1,904	2,251
Net profit	1,236	960	1,002	1,301	1,563
EPS (Rs)	3.8	3.0	3.1	4.0	4.8
EPS growth (%)	9.4	(22.3)	4.4	29.8	20.1
EBITDA margin (%)	22.3	21.0	18.0	19.8	20.6
P/E (x)	28.8	37.1	35.5	27.3	22.8
P/BV (x)	8.8	7.9	8.2	5.6	4.9
EV/EBITDA (x)	21.3	22.5	23.3	18.1	15.0
Dividend yield (%)	1.1	0.9	0.0	1.1	1.4
RoCE (%)	36.6	30.2	29.3	26.0	27.2
RoE (%)	30.6	21.2	23.1	20.5	21.3

Source: Company, Nirmal Bang Institutional Equities Research

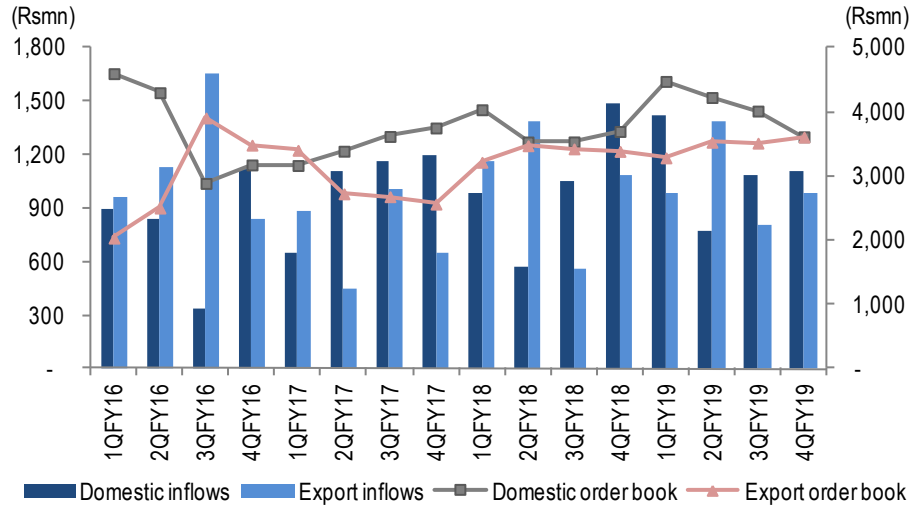
Exhibit 2: Turbine order book position (consolidated)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: After-market services order book position (consolidated)


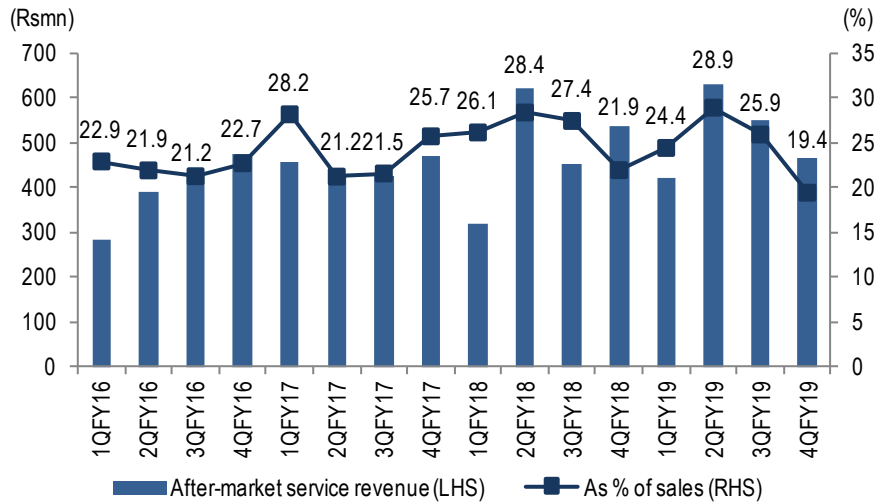
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Domestic and export order book status



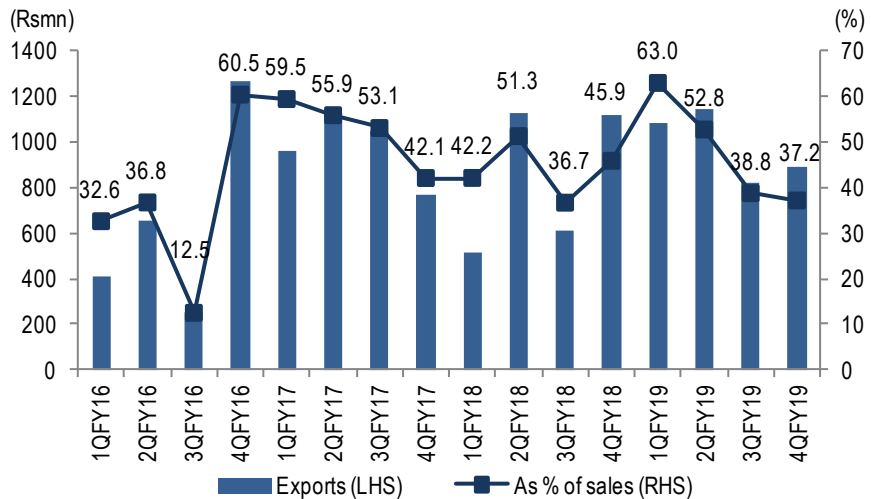
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Trend in after-market service revenues



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Trend in export revenues



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

4QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	2,397	2,502	(4.2)	2,542	(5.7)
EBITDA	400	535	(25.2)	546	(26.7)
PAT	283	363	(22.1)	347	(18.5)

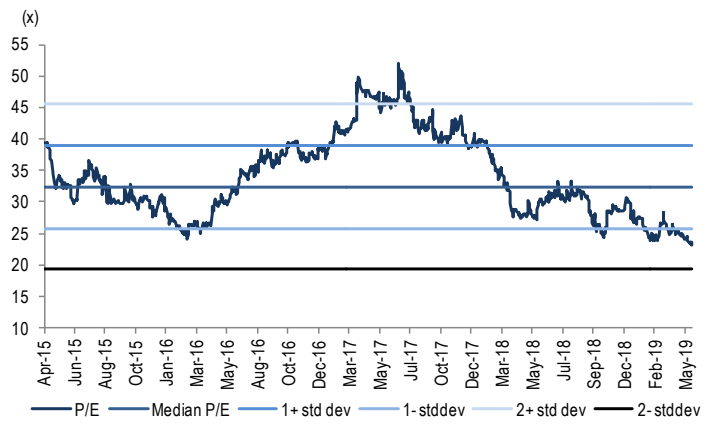
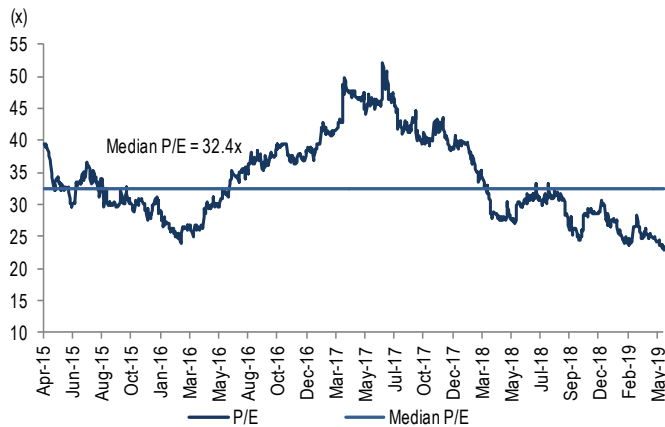
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenues	10,022	11,570	9,615	10,928	(4.1)	(5.5)
EBITDA	2,065	2,430	1,904	2,251	(7.8)	(7.3)
PAT	1,396	1,695	1,301	1,563	(6.8)	(7.8)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: P/E trend



Source: Bombay Stock Exchange, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)
Exhibit 10: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	7,446	7,511	8,400	9,615	10,928
% growth	4.4	0.9	11.8	14.5	13.7
Raw material costs	3,898	3,853	4,691	5,212	5,912
Staff costs	809	881	991	1,135	1,224
Other overheads	1,075	1,200	1,205	1,365	1,541
Total expenditure	5,782	5,933	6,887	7,712	8,677
EBITDA	1,664	1,578	1,513	1,904	2,251
% growth	5.5	(5.2)	(4.2)	25.9	18.2
EBITDA margin (%)	22.3	21.0	18.0	19.8	20.6
Other income	290	81	162	173	208
Interest costs	3	5	11	8	5
Depreciation	148	191	201	213	218
Profit before tax	1,803	1,463	1,462	1,856	2,236
Tax	611	478	492	613	738
Share of profit from JVs	44	(25)	32	58	65
PAT	1,236	960	1,002	1,301	1,563
PAT margin (%)	16.6	12.8	11.9	13.5	14.3
EPS (Rs)	3.8	3.0	3.1	4.0	4.8
% growth	9.4	(22.3)	4.4	29.8	20.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	330	330	323	323	323
Reserves	3,705	4,191	4,011	6,029	7,010
Net worth	4,035	4,521	4,334	6,352	7,333
Total loans	2	1	-	-	-
Deferred tax liability	109	78	141	141	141
Total liabilities	4,146	4,599	4,475	6,493	7,474
Net block	2,319	2,257	2,552	2,421	2,253
Capital work-in-progress	103	385	43	-	-
Investments	172	197	188	188	188
Inventories	1,459	1,807	2,168	2,503	2,755
Debtors	1,520	2,090	1,762	2,371	2,635
Cash	178	126	272	1,052	1,779
Other current assets	688	665	424	865	984
Total current assets	3,845	4,688	4,626	6,791	8,152
Creditors	944	1,465	1,166	1,285	1,425
Other current liabilities & provisions	1,349	1,464	1,768	1,622	1,694
Total current liabilities	2,293	2,928	2,934	2,907	3,119
Net current assets	1,552	1,760	1,692	3,884	5,033
Total assets	4,146	4,599	4,475	6,493	7,474

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	1,516	1,387	1,311	1,691	2,034
(Inc.)/dec. in working capital	(415)	(260)	214	(1,412)	(422)
Cash flow from operations	1,101	1,127	1,526	279	1,612
Other income	290	81	162	173	208
Depreciation	148	191	201	213	218
Tax paid (-)	(598)	(509)	(428)	(613)	(738)
Share of profit from JVs	44	(25)	32	58	65
Net cash from operations	985	865	1,492	110	1,364
Capital expenditure (-)	(925)	(411)	(154)	(39)	(50)
Net cash after capex	60	454	1,338	71	1,314
Interest paid (-)	(3)	(5)	(11)	(8)	(5)
Dividends paid (-)	(396)	(396)	-	(466)	(582)
Inc./(dec.) in total borrowings	(2)	(2)	(1)	-	-
Inc./(dec.) in investments	28	(26)	9	-	-
Equity issue/(buyback)	-	-	(7)	-	-
Cash from financial activities	(373)	(429)	(10)	(473)	(587)
Others	201	(77)	(1,183)	1,183	-
Opening cash balance	291	178	126	272	1,052
Closing cash balance	178	126	272	1,052	1,779
Change in cash balance	(112)	(52)	145	780	727

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

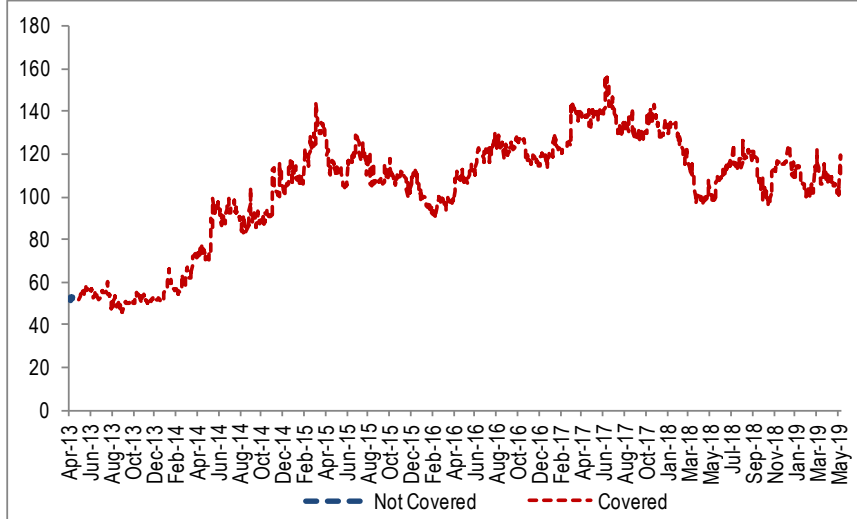
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	3.8	3.0	3.1	4.0	4.8
Book value	12.5	14.0	13.4	19.6	22.7
Valuation (x)					
P/E	28.8	37.1	35.5	27.3	22.8
P/BV	8.8	7.9	8.2	5.6	4.9
EV/EBITDA	21.3	22.5	23.3	18.1	15.0
EV/sales	4.8	4.7	4.2	3.6	3.1
Return ratios (%)					
RoCE	36.6	30.2	29.3	26.0	27.2
RoE	30.6	21.2	23.1	20.5	21.3
RoIC	39.9	32.4	32.7	32.2	36.9
Profitability ratios (%)					
EBITDA margin	22.3	21.0	18.0	19.8	20.6
EBIT margin	20.4	18.5	15.6	17.6	18.6
PAT margin	16.6	12.8	11.9	13.5	14.3
Turnover ratios					
Total asset turnover ratio (x)	2.1	1.7	1.9	1.8	1.6
Debtor days	74	102	77	90	88
Inventory days	72	88	94	95	92
Creditor days	88	139	91	90	88

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
30 April 2013	Buy	52	68
24 May 2013	Buy	56	68
19 June 2013	Buy	55	68
9 July 2013	Buy	55	68
30 July 2013	Buy	54	66
5 September 2013	Buy	46	66
7 October 2013	Buy	50	66
11 November 2013	Buy	51	64
7 January 2014	Buy	55	64
24 January 2014	Buy	58	79
10 March 2014	Buy	63	79
30 May 2014	Buy	91	110
4 June 2014	Buy	94	110
10 July 2014	Buy	95	110
12 August 2014	Buy	88	110
11 September 2014	Buy	101	118
9 October 2014	Buy	90	118
14 November 2014	Buy	109	134
9 January 2015	Buy	116	134
12 February 2015	Buy	106	145
15 April 2015	Buy	131	145
8 May 2015	Buy	116	140
8 July 2015	Buy	118	140
17 August 2015	Buy	110	140
12 October 2015	Buy	109	140
18 November 2015	Buy	108	140
29 December 2015	Buy	112	140
8 January 2016	Buy	105	140
21 January 2016	Buy	99	145
12 April 2016	Buy	99	145
12 May 2016	Buy	108	140
12 July 2016	Buy	119	140
8 August 2016	Buy	121	140
13 October 2016	Buy	122	140
16 November 2016	Buy	120	140
10 January 2017	Buy	119	140
13 February 2017	Buy	125	150
7 April 2017	Buy	139	150
22 May 2017	Buy	133	155
6 July 2017	Buy	155	155
11 August 2017	Buy	129	150
9 October 2017	Buy	126	150
10 November 2017	Buy	133	155
9 January 2018	Buy	131	155
14 February 2018	Buy	123	145
6 April 2018	Buy	100	145
24 May 2018	Buy	104	135
10 July 2018	Buy	117	135
2 August 2018	Buy	117	135
9 October 2018	Buy	101	135
2 November 2018	Buy	112	138
9 January 2019	Buy	109	138
12 February 2019	Buy	102	135
9 April 2019	Buy	109	147
22 May 2019	Buy	110	135

Rating track graph



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