

Triveni Turbine

16 June 2020

Reuters: TRVT.BO; Bloomberg: TRIV IN

Strong financials to help tide over COVID-19 crisis

Triveni Turbine (TTL) reported consolidated revenue of Rs1.5bn in 4QFY20, down 36% YoY and below our/consensus estimates of Rs2bn each. Decline in revenue was owing to deferment in deliveries to customers in the last 6 weeks of 4QFY20, leading to loss of sales of Rs500mn. Domestic sales fell by 61% YoY to Rs592mn while Export sales grew by 6% YoY to Rs946mn. Turbine revenue declined 38% YoY to Rs1.2bn while After-Market Services sales fell 25% YoY to Rs349mn. Gross margin jumped 580bps YoY to 45.8% due to low base effect (but was down 210bps QoQ). EBITDA fell 55% YoY to Rs179mn due to lack of operating leverage, leading to an operating margin of 11.6%, down 510bps YoY. PAT fell 51% YoY to Rs138mn, below our/consensus estimates of Rs283mn/Rs285mn. GE-Triveni JV reported a profit of Rs25mn in 4QFY20 (vs. Rs23mn YoY). Order inflow in 4QFY20 stood at Rs1.6bn, down 24% YoY, as order placement was deferred in the domestic and international markets due to COVID-19. Order backlog declined 3% YoY to Rs7bn, with the domestic:export mix standing at 58:42. While TTL aims to recoup deferred sales in 1HFY21 and protect margins through cost control and value engineering, it expects a worst-case impact of 10%-15% decline in revenue and 20% decline in PAT for FY21E. We have cut our earnings estimates and retained Buy rating on TTL with a revised target price of Rs88 (Rs95 earlier) based on 22x FY22E earnings.

Domestic market update: Domestic sales declined 61% YoY to Rs592mn (38% of total sales) in 4QFY20 and 5% YoY to Rs4.3bn in FY20 (52% of total sales). Order inflow fell 32% YoY to Rs755mn in 4QFY20 due to postponement of order finalization, but was up 8% YoY to Rs4.7bn in FY20. Domestic enquiries were healthy from co-generation (70% of total enquiries) and waste-heat recovery (20%) where TTL saw healthy traction from sugar distilleries, biomass, food processing and WHR. Domestic order book stood at Rs4.1bn in FY20, up 13% YoY. The domestic market size in 0-30MW rose to 1,000MW in FY20 vs. 740MW last year. TTL expects to improve its domestic market share in FY21E. TTL does not expect any order cancellation but some deliveries may be deferred to FY22E if customers' project sites are not ready.

Exports update: Export revenue grew 6% YoY to Rs946mn (62% of total sales) in 4QFY20 while it was flat YoY at Rs3.9bn in FY20 (48% of total sales). Order inflow fell 16%/23% YoY to Rs824mn/Rs3.2bn in 4Q/FY20. Order placement in exports was deferred due to COVID-19 impact in South East Asia/Europe from Feb/March 2020. Some turbines dispatched by TTL were stuck at the port and hence could not be billed as revenue. Exports order backlog fell by 20% YoY to Rs2.9bn (42% of total order book). TTL is the second-largest steam turbine maker globally in below 30MW range with a market share of 20% over the past five years. TTL is very strong globally in waste-to-energy business (municipal solid waste incineration). The enquiry pipeline is strong from sectors such as thermal renewables (42% of total enquiries) and process co-generation (32%) from industries like biomass, paper, co-gen, palm oil, WTE and CCPP.

After-Market Services update: After-Market Services revenue declined 25% YoY to Rs349mn (23% of total sales) in 4QFY20 and 10% YoY to Rs1.9bn (23% of total sales) in FY20. Order inflow was flat YoY at Rs520mn in 4QFY20 but was down 4% YoY to Rs2.1bn in FY20 (domestic-international mix of 60-40). Restriction on international travel led to 25% lower business in After-Market. Order backlog grew by 34% YoY to Rs1.2bn due to low base. TTL expects order inflow in FY21E to be higher than FY20 with larger contribution from refurbishment orders.

Outlook: COVID-19 challenges are likely to suppress revenue/earnings CAGR over FY20-FY22E to 4%/3%. TTL's strong margins, lean working capital, healthy cash flows & balance sheet and long term growth prospects (domestic revival & diversification in new types of turbines) will support its valuation.

BUY
Sector: Capital Goods

CMP: Rs68

Target Price: Rs88

Upside: 29%

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Key Data

Current Shares O/S (mn)	323.3
Mkt Cap (Rsbn/US\$m)	22/290
52 Wk H / L (Rs)	115/46
Daily Vol. (3M NSE Avg.)	58,284

Price Performance (%)

	1 M	6 M	1 Yr
Triveni Turbine	4.9	(26.4)	(38.5)
Nifty Index	7.4	(18.8)	(17.0)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net revenues	2,397	2,030	1,539	(35.8)	(24.2)	8,400	8,179	(2.6)
Raw material costs	1,438	1,057	835	(41.9)	(21.0)	4,691	4,411	(6.0)
Staff costs	253	250	253	0.0	1.6	991	1,016	2.5
Other expenses	305	311	272	(10.8)	(12.6)	1,205	1,195	(0.8)
Total expenditure	1,996	1,618	1,360	(31.9)	(15.9)	6,887	6,622	(3.9)
EBITDA	400	412	179	(55.3)	(56.6)	1,513	1,557	2.9
EBITDA margin (%)	16.7	20.3	11.6	-	-	18.0	19.0	-
Depreciation	53	50	49	(6.1)	(2.0)	201	201	(0.0)
Interest costs	7	7	8	9.5	19.1	11	33	197.3
Other income	55	29	34	(39.1)	17.4	162	146	(9.9)
Share of profit from JV	23	(12)	25	9.1	NA	32	91	187.1
PBT	418	372	180	(56.9)	(51.6)	1,494	1,560	4.4
Tax	136	101	42	(68.8)	(58.1)	492	342	(30.5)
PAT	283	271	138	(51.3)	(49.1)	1,002	1,218	21.5
PAT margin (%)	11.8	13.3	9.0	-	-	11.9	14.9	-
EPS (Rs)	0.9	0.8	0.4	(51.3)	(49.1)	3.1	3.8	21.5

Source: Company, Nirmal Bang Institutional Equities Research

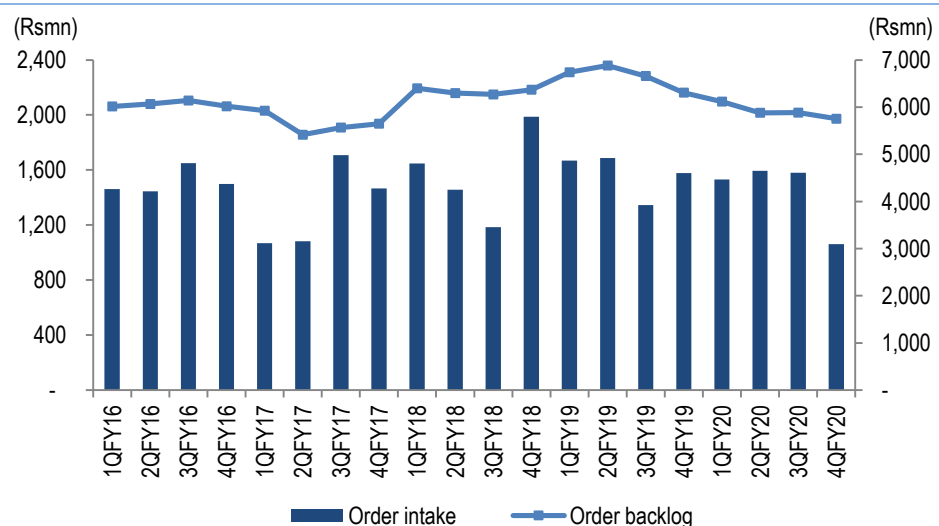
Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	7,511	8,400	8,179	7,454	8,762
EBITDA	1,578	1,513	1,557	1,386	1,735
Net profit	960	1,002	1,218	1,024	1,289
EPS (Rs)	3.0	3.1	3.8	3.2	4.0
EPS growth (%)	(22.3)	4.4	21.5	(15.9)	25.8
EBITDA margin (%)	21.0	18.0	19.0	18.6	19.8
P/E (x)	22.9	21.9	18.1	21.5	17.1
P/BV (x)	4.9	5.1	4.1	3.7	3.2
EV/EBITDA (x)	13.9	14.4	13.7	15.4	11.8
Dividend yield (%)	1.5	0.0	0.7	1.5	1.8
RoCE (%)	30.2	29.3	25.2	19.4	21.7
RoE (%)	21.2	23.1	23.0	17.1	18.7

Source: Company, Nirmal Bang Institutional Equities Research

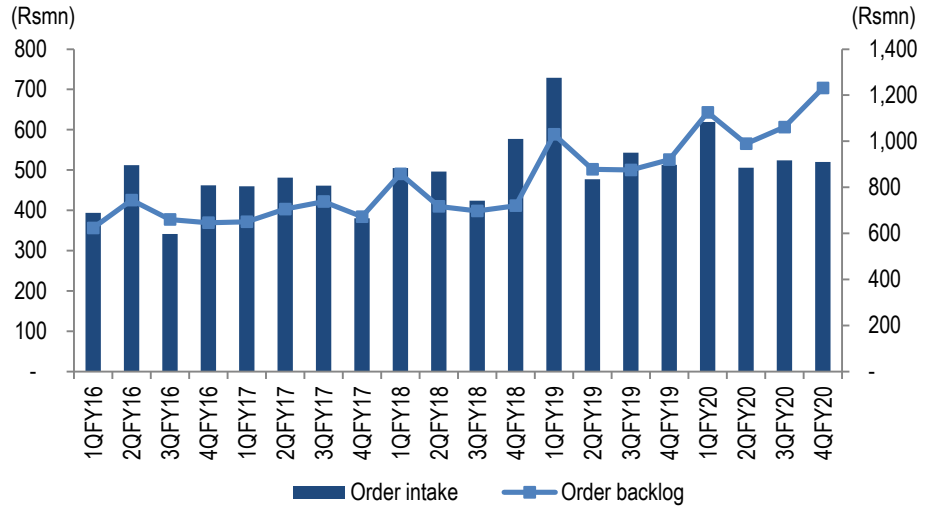
Other updates:

- (1) In FY20, GE-TTL JV reported sales of Rs1.3bn, PAT of Rs131mn and order inflow of Rs861mn. TTL has filed a petition against GE before the NCLT for misconduct in the GE-TTL venture.
- (2) Manufacturing operations were allowed to commence from 3rd week of April. TTL was able to bring design and engineering to the cloud, continued its R&D activities and also virtually commissioned turbines through tools such as augmented reality.
- (3) TTL had 20% global market share in turbine size of 5-30 MW range over 2015-19 and is the second largest player after Siemens. Turbine market has been largely flat for 0-30 MW range (3% CAGR over past five years) and is largely dominated by thermal renewables sector (65% of total market) where TTL has significant market share.
- (4) Enquiries from international markets (largely Middle East) doubled for drive turbines used in Oil and Gas sector in FY20. TTL now has a larger base of customers and consultants after achieving wider qualification criteria as it is mostly a consultant driven business. Some drive turbine orders are expected in 1HFY21.
- (5) TTL feels that the current steam turbine used in condensing style of power generation will see technology disruption. It will be replaced by supercritical carbon-dioxide turbines on which TTL is aggressively doing R&D. The application of these turbines is across industries and will open up new as well as existing customers for TTL. After market opportunities are also very large for carbon-dioxide turbines. The board has approved 50%-80% rise in R&D expenses to tap these opportunities.
- (6) TTL's total engineering strength is at 70, which is quite large if compared to workmen strength of 100. Of the engineering team, core R&D comprises 25-30 employees for the new product and the balance is for engineering and after-market.
- (7) At the project site, TTL only conducts supervision work for turbines and spares installation, while the EPC/civil job is undertaken by customers or local contractors appointed through agents.
- (8) Inventories were lower in FY20 YoY due to (1) cost efficiency measures and standardization process (to reduce the number of SKUs) and (2) moderation in operation of manufacturing plants due to COVID-19.
- (9) TTL doesn't compromise on payment terms and doesn't deliver a turbine until 100% payment is received from customer.

Exhibit 2: Turbine order book position (consolidated)


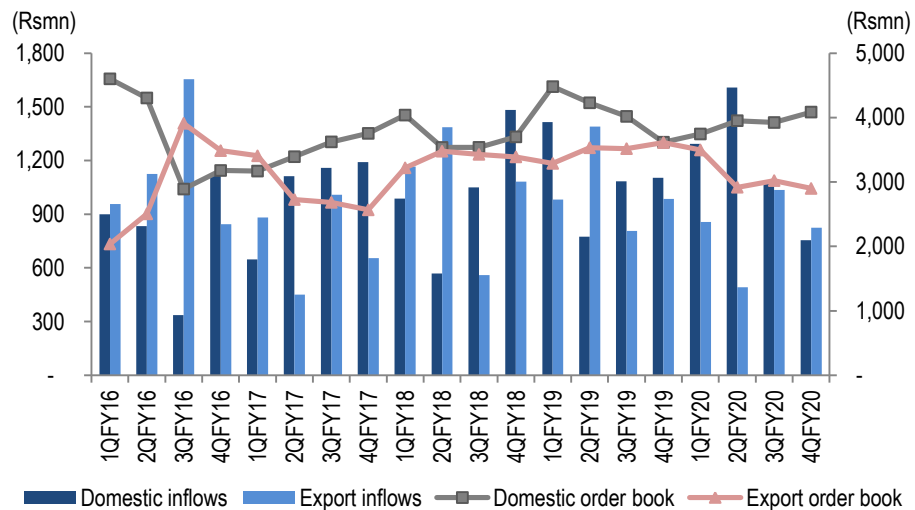
Source: Company, Nirmal Bang Institutional Equities Research

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



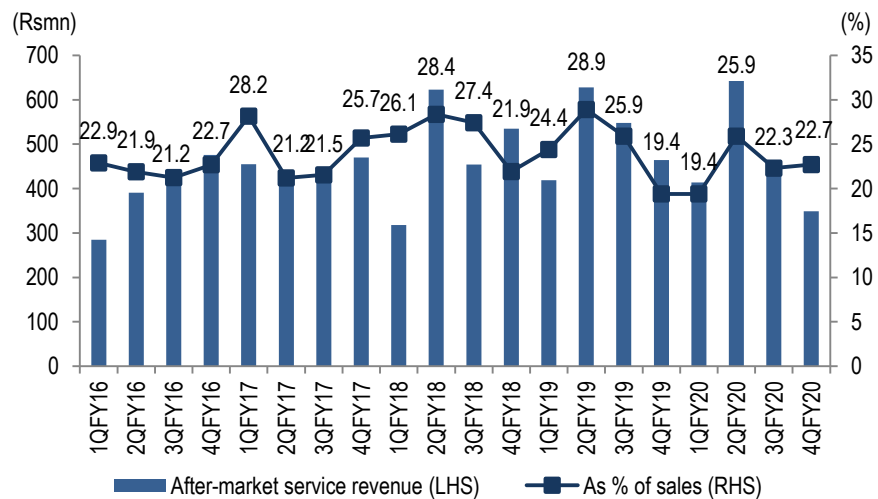
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Domestic and export order book status

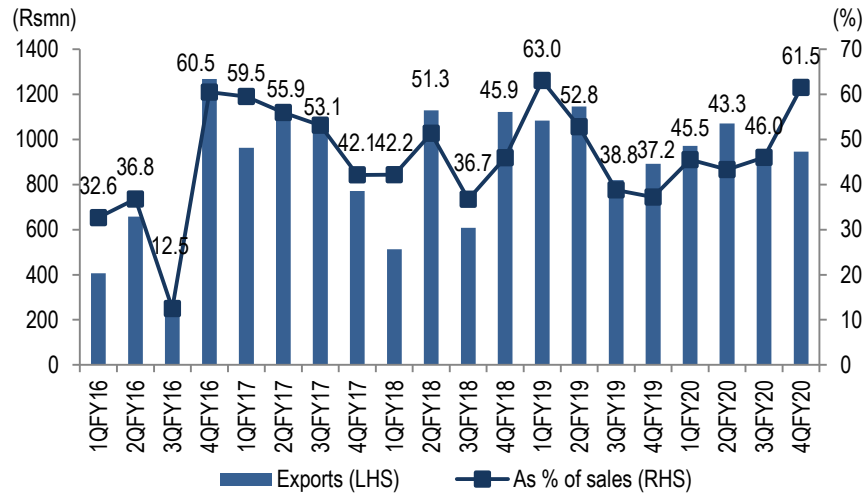


Source: Company, Nirmal Bang Institutional Equities Research

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

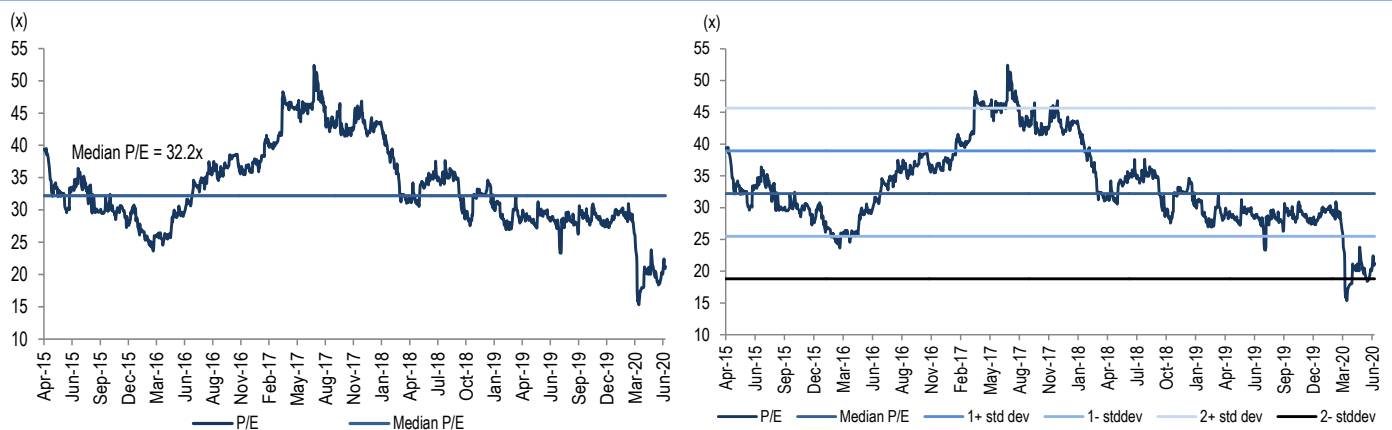
4QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	1,539	2,072	(25.7)	2,157	(28.6)
EBITDA	179	417	(57.1)	419	(57.3)
PAT	138	283	(51.3)	285	(51.6)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	9,940	11,212	7,454	8,762	(25.0)	(21.9)
EBITDA	2,018	2,310	1,386	1,735	(31.3)	(24.9)
PAT	1,505	1,721	1,024	1,289	(31.9)	(25.1)

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)	FY18	FY19	FY20	FY21E	FY22E
Revenues	7,511	8,400	8,179	7,454	8,762
% growth	0.9	11.8	(2.6)	(8.9)	17.5
Raw material costs	3,853	4,691	4,411	3,951	4,661
Staff costs	881	991	1,016	1,021	1,139
Other overheads	1,200	1,205	1,195	1,096	1,227
Total expenditure	5,933	6,887	6,622	6,068	7,027
EBITDA	1,578	1,513	1,557	1,386	1,735
% growth	(5.2)	(4.2)	2.9	(11.0)	25.1
EBITDA margin (%)	21.0	18.0	19.0	18.6	19.8
Other income	81	162	146	149	166
Interest costs	5	11	33	30	27
Depreciation	191	201	201	208	219
Profit before tax	1,463	1,462	1,469	1,297	1,655
Tax	478	492	342	327	417
Share of profit from JVs	(25)	32	91	54	50
PAT	960	1,002	1,218	1,024	1,289
PAT margin (%)	12.8	11.9	14.9	13.7	14.7
EPS (Rs)	3.0	3.1	3.8	3.2	4.0
% growth	(22.3)	4.4	21.5	(15.9)	25.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	330	323	323	323	323
Reserves	4,191	4,011	4,979	5,680	6,581
Net worth	4,521	4,334	5,302	6,003	6,904
Total loans	1	-	10	-	-
Deferred tax liability	78	141	72	72	72
Total liabilities	4,599	4,475	5,383	6,075	6,976
Net block	2,257	2,552	2,474	2,479	2,410
Capital work-in-progress	385	43	64	-	-
Investments	197	188	1,524	1,524	1,524
Inventories	1,807	2,168	1,728	1,838	2,112
Debtors	2,090	1,762	1,254	1,634	1,872
Cash	126	272	684	623	1,504
Other current assets	665	424	495	410	482
Total current assets	4,688	4,626	4,160	4,505	5,970
Creditors	1,465	1,166	617	920	1,149
Other current liabilities & provisions	1,464	1,768	2,222	1,514	1,779
Total current liabilities	2,928	2,934	2,839	2,434	2,929
Net current assets	1,760	1,692	1,322	2,071	3,042
Total assets	4,599	4,475	5,383	6,075	6,976

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	1,387	1,311	1,356	1,178	1,516
(Inc./dec.) in working capital	(260)	214	782	(810)	(90)
Cash flow from operations	1,127	1,526	2,138	368	1,426
Other income	81	162	146	149	166
Depreciation	191	201	201	208	219
Tax paid (-)	(509)	(428)	(411)	(327)	(417)
Share of profit from JVs	(25)	32	91	54	50
Net cash from operations	865	1,492	2,165	453	1,445
Capital expenditure (-)	(411)	(154)	(144)	(150)	(150)
Net cash after capex	454	1,338	2,021	303	1,295
Interest paid (-)	(5)	(11)	(33)	(30)	(27)
Dividends paid (-)	(396)	-	(182)	(323)	(388)
Inc./(dec.) in total borrowings	(2)	(1)	10	(10)	-
Inc./(dec.) in investments	(26)	9	(1,336)	-	-
Equity issue/(buyback)	-	(7)	-	-	-
Cash from financial activities	(429)	(10)	(1,541)	(363)	(415)
Others	(77)	(1,183)	(68)	-	-
Opening cash balance	178	126	272	684	623
Closing cash balance	126	272	684	623	1,504
Change in cash balance	(52)	145	412	(60)	880

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Per share (Rs)					
EPS	3.0	3.1	3.8	3.2	4.0
Book value	14.0	13.4	16.4	18.6	21.4
Valuation (x)					
P/E	22.9	21.9	18.1	21.5	17.1
P/BV	4.9	5.1	4.1	3.7	3.2
EV/EBITDA	13.9	14.4	13.7	15.4	11.8
EV/sales	2.9	2.6	2.6	2.9	2.3
Return ratios (%)					
RoCE	30.2	29.3	25.2	19.4	21.7
RoE	21.2	23.1	23.0	17.1	18.7
RoIC	32.4	32.7	42.7	30.0	38.4
Profitability ratios (%)					
EBITDA margin	21.0	18.0	19.0	18.6	19.8
EBIT margin	18.5	15.6	16.6	15.8	17.3
PAT margin	12.8	11.9	14.9	13.7	14.7
Turnover ratios					
Total asset turnover ratio (x)	1.7	1.9	1.7	1.3	1.3
Debtor days	102	77	56	80	78
Inventory days	88	94	77	90	88
Creditor days	139	91	51	85	90

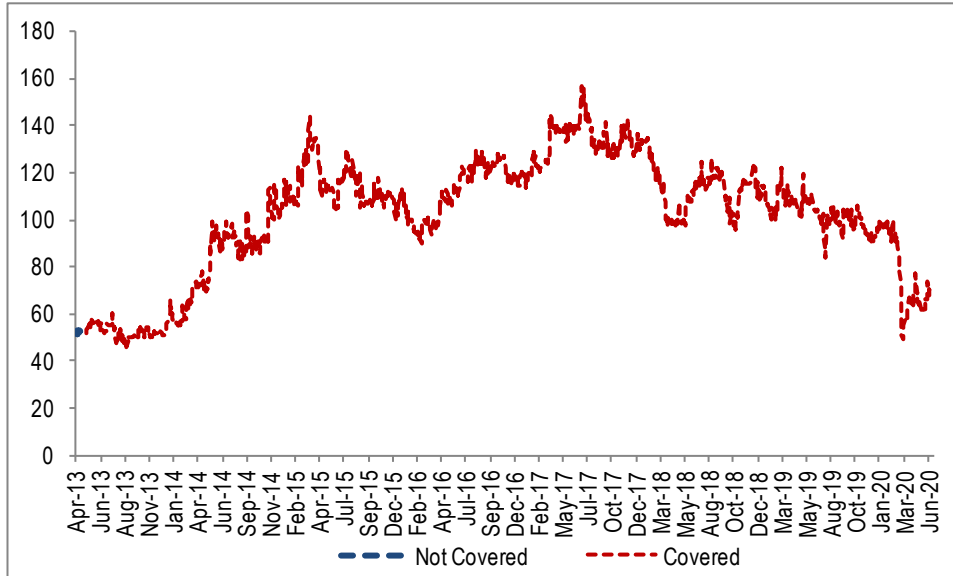
Source: Company, Nirmal Bang Institutional Equities Research

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
9 July 2019	Buy	103	135
5 August 2019	Buy	103	135
23 September 2019	Buy	107	135
7 October 2019	Buy	102	135
7 November 2019	Buy	103	135
9 January 2020	Buy	95	135
4 February 2020	Buy	99	130

26 February 2020	Buy	93	130
26 March 2020	Buy	52	95
9 April 2020	Buy	67	95
16 June 2020	Buy	68	88

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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