Triveni Turbine Ltd	
No. of shares (m)	329.97
Mkt cap (Rs crs/$m)	4070/607.7
Current price (Rs/$)	123/1.8
Price target (Rs/$)	143/2.1
52 W H/L (Rs.)	136/89
Book Value (Rs/$)	11.5/.2
Beta	0.6
Daily volume (avg. monthly)	73950
P/BV (FY17e/18e)	10.9/8.6
EV/EBITDA (FY17e/18e)	19.3/16.0
P/E (FY17e/18e)	31.2/25.8
EPS growth (F17e/18e)	21.5/21.0
OPM (FY16/17e/18e)	21.6/23.8/24.5
ROE (FY16/17e/18e)	41.2/39.2/37.3
ROCE(FY16/17e/18e)	40.0/37.3/36.7
D/E ratio (FY16/17e/18e)	0.0/0.0/-
BSE Code	533655
NSE Code	TRITURBINE
Bloomberg	TRIV IN
Reuters	TRVT.BO

Shareholding pattern	%
Promoters	67.7
MFs / Banks / FIs/Others	6.2
FPIs	20.7
Govt. Holding	0.0
Public & Others	5.4
Total	**100.0**

As on Dec 31, 2016

Recommendation

ACCUMULATE

Analyst

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Company Brief

Triveni Turbine offers steam turbine solutions for industrial captive and renewable power from its plant in Bengaluru. It also provides aftermarket services to users of its own turbines as well as as turbine users of other manufacturers. GE Triveni, designs, supply and services steam turbines of over 30 MW and up to 100 MW.

Highlights

- To stay competitive, Triveni has carved out a niche in Indian capital goods space - up to 30 MW turbines - by purveying its wares to cogeneration based captive power plants, renewable based independent power plants, agro-based cogeneration units and renewable waste heat. In addition to stimulus provided by the 'National Capital Goods Policy' - shoring up domestic production; technology sharing; export promotion; easy finance availability, India's humongous renewable energy capacity addition plans (175GW by 2022 from some 50 GW installed now) bodes well for the capital goods industry. India is among a handful of developing economies (other being China, South Africa, Mexico, Chile) who have laid unprecedented thrust on clean energy. GOIs handing out generation-based incentives (GBIs), capital and interest subsidies, viability gap funding and fiscal incentives to renewable energy sector would spark capital investments.
- GE Triveni, a JV company of Triveni, gained prominence last fiscal post dispatch of a large sized turbine in Indonesia. Thence its revenues more than doubled and profits advanced by 12.7%. Commissioning of large sized turbines in South East Asia in the next few months would presumably vitalize order inflows.
- Alike other capital goods manufacturers, Triveni has over the years inexorably relied on the might of international business opportunity, particularly in Latin America, Africa, Europe and South East Asia. Setting up a couple of overseas subsidiaries in U.K and Dubai and service centers in Indonesia and South Africa would shore up its both products and aftermarket businesses.
- The stock currently trades at 31.2x FY17e EPS of Rs 3.95 and 25.8x FY18e EPS of Rs 4.78. Beset by subdued industrial capex, its domestic business has all but flat lined, whereas exports have assiduously grown. Its domestic market share (for up to 30MW) of nearly 60% symbolizes market depth and adept execution. Yet recent elongation of order finalization cycle in overseas market - due to Brexit, delays in financial closures - also stand worthy of scrutiny. On balance we assign an accumulate rating with target of Rs 143 based on 30x FY18e earnings (peg ratio: 1.4, ~average of past two years).

(Figures in Rs crs)	FY14	FY15	FY16	FY17e	FY18e
Income from operations	517.95	650.76	796.31	771.70	898.26
Other Income	8.23	33.49	12.68	24.68	30.98
EBITDA (other income included)	115.88	155.61	184.71	208.54	251.38
Profit after MI & JV profit	68.21	92.66	107.34	130.46	157.84
EPS (Rs)	2.07	2.81	3.25	3.95	4.78
EPS growth (%)	-34.8	35.8	15.9	21.5	21.0

Company Profile

Triveni Turbine is one of the world's largest manufacturers of steam turbines (up to 30 MW) for applications in a whole host of industries like sugar, steel, pulp & paper, textiles, chemical, palm oil, food processing, metals, cement, petrochemicals, fertilizers, etc. Its turbines find use in co-generation, combined heat & power generation, waste to energy, captive power generation and independent power generation. Its renewable power solutions include biomass, sugar & process co-generation, waste-to-energy and district heating. Demerged from Triveni Engineering & Industries Ltd - which now holds 21.8% equity - Triveni Turbine is now present in around 70 countries - including Europe, Africa, Central & Latin America, SE Asia and SAARC - and made installations of over 3000 turbines.

In addition to turbine manufacturing - done from its facility in Bengaluru - it also provides a range of aftermarket services both to its own customers as well as turbine users of other manufacturers. Not only is its manufacturing facility equipped to undertake all critical processes - manufacturing; assembly, testing; refurbishing - but also it handles in-house production of critical components such as casings, rotors, blades, labyrinth packing and oil seal holders.

To broaden its offering, it forged a JV with GE Oil & Gas to form GE Triveni Ltd (GETL) – 50% plus one share - which operates in a higher range (over 30MW and up to 100MW) of steam turbines globally. Produced at Triveni Turbine's Bengaluru plant using GE Oil & Gas technology and engineering design, these steam turbines - marketed under 'GE Triveni' brand - cater to the industrial power generation market globally.

Product & Service Profile

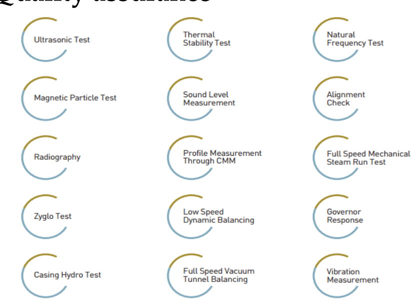
Triveni Turbine – together with GE Trveni - manufactures back pressure and condensing steam turbines up to 100 MW for a wide range of pressure and flow applications. Its up to 30 MW product range includes condensing steam turbines of four types - straight; extraction; bleed; injection - and back pressure steam turbines of three types - straight; extraction; bleed. It offers types of turbines (uncontrolled and controlled) in each category of above 30 MW and up to 100 MW product range. Its work scope mainly includes supply and commissioning of steam turbines, control oil system, condensing system, gear box, alternators and turbovisory system. Its manufacturing facility is equipped with precision equipments and advanced software to enable roll out of critical components. It includes five axis CNC machining center, five axis CNC mill turn center machine, large stock of four axis CNC machines, vacuum tunnel, integrated CAD/CAM, among others.

Apart from offering spares & service, it also refurbishes turbines up to 300 MW. Its refurbishment services include renovation & modernization, re-engineering, overhauling and efficiency restoration or improvement, retrofitting turbovisory systems, full speed vacuum balancing and turbine relocation. It also customizes and upgrades old turbines for both industrial and utility segments, besides undertaking full speed Schenck Rotec vacuum balancing tunnel for balancing turbines, compressors or alternators.

Steam turbines	30 MW	Above 30 MW - 100MW
Condensing	Straight condensing Extraction condensing Bleed condensing Injection Condensing	Uncontrolled extraction Controlled extraction
Back Pressure	Straight back pressure Extraction back pressure Bleed back pressure	Uncontrolled extraction Controlled extraction

Source: Triveni

Quality assurance



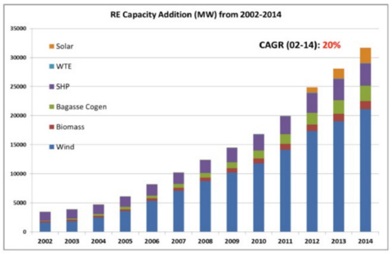
Source: Triveni

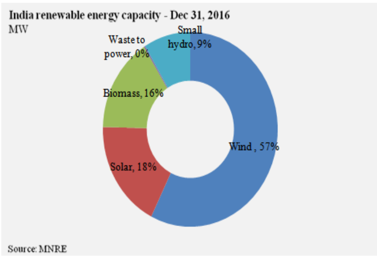
Investment Thesis

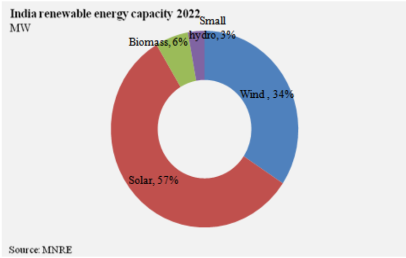
Renewable energy industry

In a major push to environmental protection, India's Union Ministry of New & Renewable Energy targets to have a renewable energy capacity of 175 GW by 2022 which includes 100GW from solar (57%), 60GW from wind (34%), 10GW from biomass (6%) and 5GW from small hydro power (3%). It would entail investments of Rs 10.68 lakh crores ($159.5 bn) over a period of seven years (ending 2022 at an average of Rs 1.53 lakh crore ($22.8 bn) a year. Over the last many years, India's renewable energy capacity has grown by leaps & bounds - 20% CAGR between 2002-2014 (see chart below).

India's renewable energy space is expected to undergo a sea change over the years with capacity share of solar power estimated to zoom to 57% by 2022 from just 18%, while the wind power share is projected to sharply decline to 34% from 57% now (see chart below). Yet capacity additions has dismally lagged the annual target so far this fiscal with installations of just 4241 MW in April -Dec 2016 period as against annual target of 16660MW (see table below), casting nagging doubts on capacity addition targets for next two years, let alone 2022. India's Renewable Energy Ministry plans to vigorously add solar power capacities over the next few years - 15000 MW in 2017-18 & 16000 MW in 2018-19 - followed by wind and biomass.







Source: indiaenergy.gov.in

The Indian government is promoting adoption of renewable energy sources by doling out various incentives such as generation-based incentives (GBIs), capital and interest subsidies, viability gap funding, concessional finance and fiscal incentives. Its National Solar Mission aims to reduce cost of solar power generation in India through a viable long term policy, aggressive R&D and domestic production of critical raw materials, components and products. The Mission also targets to make solar power effectively compete with other fossil based energy options. To achieve renewable energy target of 175GW by 2022, GOI has launched various scheme during the last two years including Solar Defence Scheme, setting up of solar parks, solar scheme for CPUs solar PV power plants on canal bank and canal tops, and solar pumps.

Source	Total installed capacity (MW)	2022 target MW
Wind power	28700	60000
Solar power	9013	100000
Biomass power	7857	10000*
Waste to power	114	
Small hydro power	4334	5000
total	**50018**	**175000**

Source: MNRE

Source	Target 2016-17 (MW)	Achieved Apr-Dec 16 (MW)
Wind	4000	1923
Solar	12000	2150
Biopower	400	101
Waste to power	10	8
Small hydro	250	60
total	**16660**	**4241**

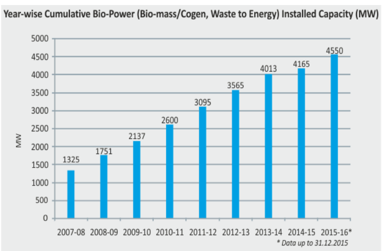
Source: MNRE

Capacity addition targets (MW)			
Source	2016-17	2017-18	2018-19
Wind	4000	4600	5200
Solar	12000	15000	16000
Biomass	500	750	850
SHP	225	100	100
Total	**16725**	**20450**	**22150**

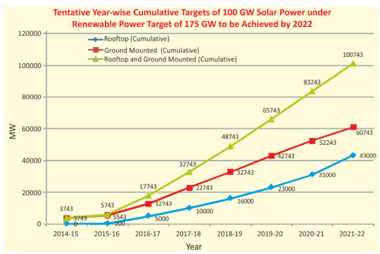
Source: MNRE

Other initiatives to foster renewable energy cult in India include suitable amendments to the Electricity Act and Tariff Policy for strong enforcement of renewable purchase obligation (RPO) and for providing renewable generation obligation (RGO); development of power transmission network through Green Energy Corridor project; provision of roof top solar and 10 percent renewable energy as mandatory under guidelines for development of smart cities; infrastructure status for solar projects; making roof top solar as a part of housing loan by banks/ NHB; providing long term financial support to solar power projects.

During the year 2015-16, India added 3.42 GW of wind power, the highest ever wind power capacity addition in the country during a single year; capacity wise, India ranks fourth globally just behind China, USA and Germany. During 2016-17, 51 MW installations of biomass power plants has been achieved (target: 400 MW) making a cumulative achievement to 4882.33 MW.



Source: MNRE



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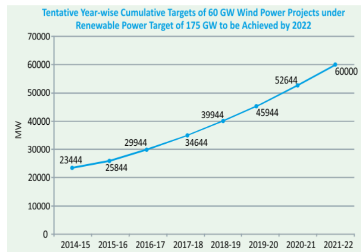
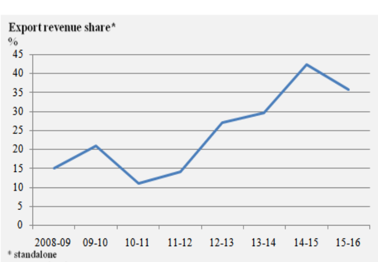


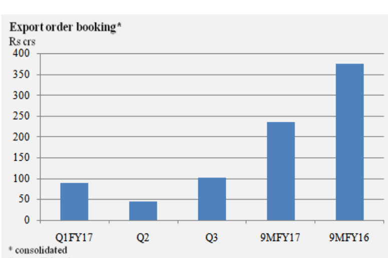
Source: MNRE

Exports

To diffuse its business activity, Triveni has over the years doggedly expanded its overseas presence in thriving economies of Latin America, Africa, Europe and South East Asia. Pace and scale of its reach can be gauged no better than the number of nations it caters: exports to over 70 countries and enquiries from some 135 now as compared to nearly 40 countries it did in FY14. Geographical diversification helps too: to counter torpidity in Europe in FY15 it rallied on emerging markets - such as South East Asia, Africa, East Europe and Central America - to post 75% growth in export revenues (standalone). Setting up a couple of overseas subsidiaries in U.K and Dubai and service centers in Indonesia and South Africa would boost its both products and aftermarket businesses.

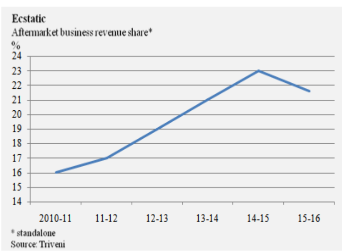
Underpinned by focus on renewable sector, including waste to energy, district heating, sugar and process cogeneration, export order booking (standalone) saw sharp increases - 39% in FY12; 100% in FY15; 52.5% in FY16. Yet consolidated order booking has precariously slowed in last few quarters - down 37.3% in 9MFY17 - thanks to Brexit and teething problems in Europe namely, delays in financial closure and environmental clearances. Trends in consolidated export revenues - up 139.4% in 9MFY17 - however, badly fail to reflect these macro economic challenges not least due to lag effect in order execution; current revenue booking largely mirror rapturous order booking of previous years. To further fortify its global presence, Triveni plans to foray in newer markets in Latin America, Africa, CIS and West Africa, besides bolstering market showing in Philippines, Thailand and Korea.

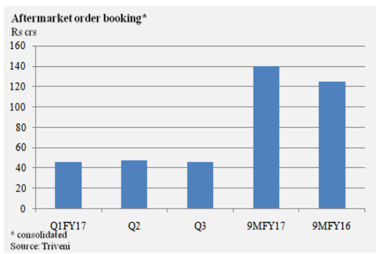




Aftermarket

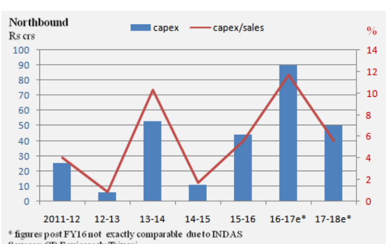
After foraying in the export market in FY14, Trivieni's aftermarket business has seen a transformation of sorts as its revenue share has gradually crept up over the years - 23.3% in 9M FY17 Vs 22.1% in FY15 (non -INDAS compliant). Export markets accounted for bulk of the gains for the company has set up two international subsidiaries in UK and Middle East and started two service stations in South East Asia & Africa, providing fillip to its aftermarket exports - share of domestic aftermarket sales declined to 61% in FY16 from 63% a year ago. With plans to further augment service center base in other international locations, its aftermarket business could sustain its growth (19% in 9MFY17). Sustenance of aftermarket business has relied on varied strategies over the course of last few years. For instance, focus on refurbishment of large size turbines and spares for efficiency improvement packages propelled revenue recognition in four years ending FY14, before export market took off.

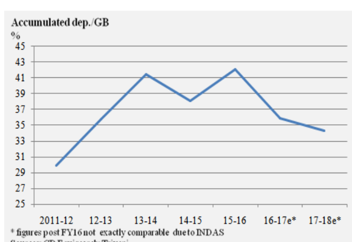




Capex

To keep abreast of latest technological advances and increase turbine capacity, Triveni embarked on an expansion plan in FY15 by acquiring land in Karnataka Industrial Areas Development Board (KIADB) Industrial Area, Somapura, near Bangalore. Set up with an initial investment of Rs 100 crs ($14.9m), this facility - which is currently under test trials - would commence assembly operations in the current quarter. Not only will this facility more than double its annual turbine capacity to 350 but would also lift testing levels to one of the best in world in terms of boiler pressure and vacuum tunnels; not to mention the mammoth assembly space it would impart. Pertinently, its also equipped with a modern shop floor, R&D facility and learning center. To avoid build up of over capacity, Triveni plans to increase capacities in a phased manner - Rs 40-50 crs ($6.0-7.5m) capex planned in both H2FY17 and FY18.

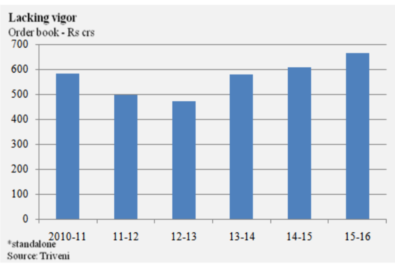


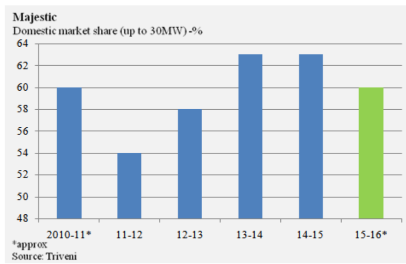


Financials & Valuation

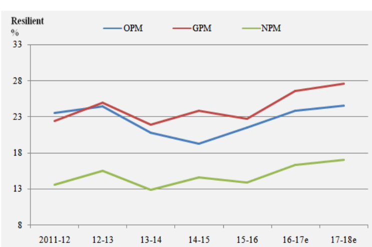
Any flutter in order booking undoubtedly jangle nerves for Triveni's outstanding order book seldom distinctly exceeds more than a year of order billing - book to bill:1.2x and 1.0x in FY15 & FY16 respectively. Thanks to ebbing economic activity, consolidated order book has all but flat lined in last few years - FY16's barely a seventh larger than that of FY14's. Digging deeper to gauge the strength of core business activity - by discerning trends in standalone order book - has failed to throw up surprises for it has grown at a distressing 2.7% in last five years to FY16. Yet GE Triveni has molded differently after a gap of two years as its order booking this fiscal is all set to nearly surpass combined order booking of last two years. Execution and commissioning of some large sized turbines overseas would help finalize more such orders.

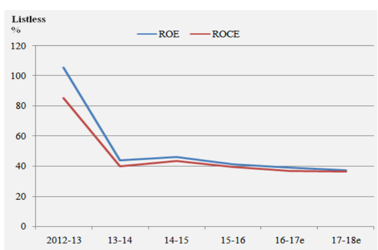
Despite wobbly domestic capital goods market, Triveni has strengthened its reach in up to 30 MW market by consistently maintaining a market share in excess of 60%. Indeed it published smart gains in market share in two years ending FY14 - 4% & 5% in FY13 & FY14 respectively, a testimony of its alliance with globally renowned turbo-machinery design houses and highly efficient product line - high efficiency blades developed by Concepts NREC, USA; high speed vacuum balancing machines for balancing motors, to name a few. IP filings, both locally and globally , has more doubled in less than four years from 80 in FY13 to over 180 now with patent applications and design registrations in India, Europe, South East Asia and Europe.

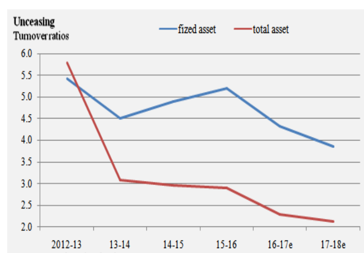




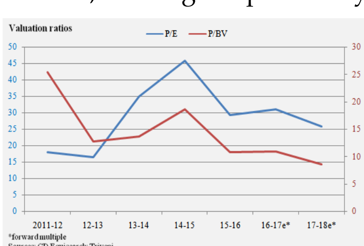
Amplified by a robust export market, where renewable energy sector is making striking advances, Triveni's revenues would grown in mid teens next fiscal and margins would be justly higher. Biomass and waste to energy projects have taken off as demand from the sugar sector has remained buoyant. Enquiries from the domestic sugar sector has picked up of late, though it would not be without great risk to extrapolate a brawny jump (41.1%) in domestic order booking - which has been attributed to nothing but base effect - so far this fiscal. Given herculean challenges in marketing turbines in newer overseas geographies, refurbishment of other manufacturers' turbines has been hailed as a biggish growth area. Pending resilience in domestic capital goods industry, nudging up return on capital beyond historically trodden 40% would be no less onerous.

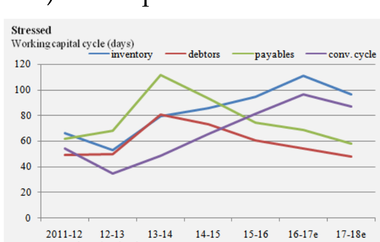






The stock currently trades at 31.2x FY17e EPS of Rs 3.95 and 25.8x FY18e EPS of Rs 4.78. Its seemingly high valuation partially reflects soundness of its export business - to strenuously tap the high margin yielding aftermarket business. Carnage in domestic order booking quelled last fiscal when severe drought in major sugar producing states like Maharashtra & Karnataka precipitated a 36% drop in industry wide order booking. Enquiries have gained traction with nearly 9.5GW of potential orders. Yet further slowdown in export order booking - already down over a third so far this fiscal - would chip away dominance of the overseas market. On balance we recommend accumulating the stock with price target of Rs 143 based on 30x FY18e earnings (peg ratio: 1.4, ~average of past two years) over a period of 9-12 months.





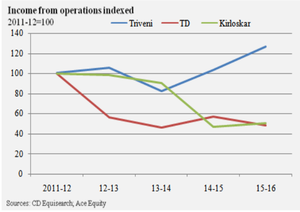
Cross Sectional Analysis

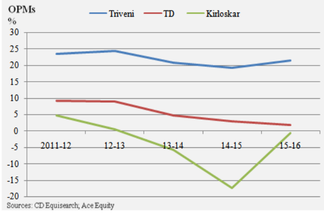
Company	Equity	CMP	Mcap	Sales*	Profit*	OPM (%)	NPM (%)	Int. Cov.	ROE (%)	DER	Mcap / sales	P/BV	P/E
Triveni	33	123	4070	855	127	23.0	15.0	55.4	37.3	0.0	4.8	10.7	31.9
Kirloskar Elect.	66	39	261	591	-20	3.4	-3.4	0.5	-	5.2	0.4	8.8	-
TD Power	33	162	538	370	-12	-0.2	-3.4	-1.2	-	0.1	1.5	1.2	-

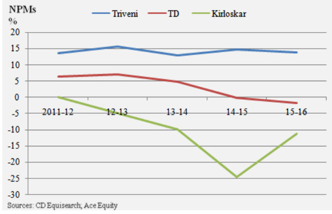
*figures in crores; calculations on ttm basis
Book value adjusted for goodwill and revaluation reserves where applicable
Debt – equity approximately calculatedbased on half yearly data

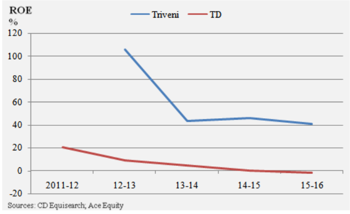
Mirroring trends in Triveni Turbines lackluster domestic dispatches, TD Power too has demonstrated stress in all its businesses - generator manufacturing; project; EPC. Its revenues have grown a seventh lower in last three years ending FY16 and profits have fully obliterated- reported loss of Rs 9.19 crs ($1.4m)last fiscal. To counter tepidity in domestic capital goods sector, it forcefully boosted its exports - thanks to its technical tie ups with world majors which enabled it to increase supplies to global OEMs. Wherefore its share of exports and deemed exports zoomed to 66.5% of manufacturing turnover by FY15 from 38% in FY13 before dropping to 56% last fiscal. It also strengthened its USA, Europe and Japan by setting up sales offices and explored other key markets. Over the years it has augmented sales of gas application generators, which accounted for 13% of manufacturing turnover last fiscal compared to a puny 2.5% in FY13.

Kirloskar Electric too has suffered due to excess industrial capacity resulting in subdued realizations. Despite its efforts to make breakthroughs in newer exports markets like Thailand, Indonesia, Korea, Turkey, UK and other Asian countries , its transformer business revenues have failed to reverse course. Over the years its generator and motor manufacturing business faced onslaught of both domestic and international competitors, which impinged margins. Ballooning losses at Lloyd Dynamowerke GmbH, Germany, an erstwhile step down subsidiary, compelled it to apply for insolvency in 2014 and thence Kirloskar decided against fresh investments. Pending full blown resurrection in domestic capital goods industry, a turnaround is still out of sight for it posted a loss of Rs 23.32 crs ($3.5m) in first nine months of current fiscal.









Risk & Concerns

Domestic slowdown

Domestic market for under 30MW turbines has been in an unrelenting decline for the order booking has fallen from over 1400 MW in FY11 to 670 MW in FY13 to nearly 550 MW now. Drought in major sugar producing States in Maharashtra and Karnataka led to 36% lower order booking in the sugar sector last fiscal. Consequently, Triveni's order booking (standalone) declined by 19% last fiscal. Entrenched slowdown in the capital goods sector has further stymied order booking and enquiries in the first nine months of the current fiscal, thus impacting revenue recognition.

Increased competition

With vigorous advances in export market in last few years - 56% revenue share in 9MFY17 compared to 26% in 9MFY16 - Triveni has doubtlessly been exposed to higher competition in global markets. Its sub-optimal product range (relative to competition) could trigger price war and thus impact margins.

Financials

Quarterly Results

Figures in Rs crs

	Q3FY17	Q3FY16	% chg.	9MFY17	9MFY16	% chg.
Income from operations	**198.23**	**200.06**	**-0.9**	**561.73**	**503.20**	**11.6**
Other Income	4.79	6.95	-31.1	19.42	19.98	-2.8
Total Income	**203.02**	**207.01**	**-1.9**	**581.15**	**523.18**	**11.1**
Total Expenditure	145.58	157.69	-7.7	432.81	399.19	8.4
EBIDTA (other income incl.)	**57.44**	**49.32**	**16.5**	**148.34**	**123.99**	**19.6**
Interest	0.15	0.08	87.5	0.18	0.32	-43.8
Depreciation	3.68	3.81	-3.4	10.64	11.45	-7.1
PBT	**53.61**	**45.43**	**18.0**	**137.52**	**112.22**	**22.5**
Tax	17.87	14.70	21.6	44.93	37.06	21.2
Net Profit	**35.74**	**30.73**	**16.3**	**92.59**	**75.16**	**23.2**
Share of JV profit	0.08	0.49	-83.7	4.34	1.66	161.4
Consolidated profit	**35.82**	**31.22**	**14.7**	**96.93**	**76.82**	**26.2**
Extraordinary Item	0.00	0.00	-	0.00	0.00	-
Adjusted Net Profit	**35.82**	**31.22**	**14.7**	**96.93**	**76.82**	**26.2**
EPS	1.09	0.95	14.7	2.94	2.33	26.2

Consolidated Income Statement

Figures in Rs crs

	FY14	FY15	FY16	FY17e	FY18e
Income from operations	**517.95**	**650.76**	**796.31**	**771.70**	**898.26**
Growth (%)	-22.2	25.6	22.4	-3.1	16.4
Other Income	8.23	33.49	12.68	24.68	30.98
Total Income	**526.18**	**684.25**	**808.99**	**796.38**	**929.24**
Total Expenditure	410.30	528.64	624.28	587.83	677.86
EBIDTA (other income incl.)	**115.88**	**155.61**	**184.71**	**208.54**	**251.38**
Interest	2.66	3.51	3.63	3.36	3.64
EBDT	**113.22**	**152.09**	**181.08**	**205.18**	**247.74**
Depreciation	13.54	15.78	16.12	16.74	20.74
Tax	32.91	43.09	54.32	62.19	73.77
Net Profit	**66.77**	**93.22**	**110.64**	**126.26**	**153.22**
Share of JV profit	0.00	0.00	0.00	4.20	4.62
Minority interest	-1.18	2.69	3.04	0.00	0.00
Consolidated profit	**67.96**	**90.53**	**107.60**	**130.46**	**157.84**
Extraordinary Item	-0.25	-2.12	0.26	0.00	0.00
Adjusted Net Profit	**68.21**	**92.66**	**107.34**	**130.46**	**157.84**
EPS (Rs)	2.07	2.81	3.25	3.95	4.78
Equity capital	32.99	33.00	33.00	33.00	33.00

FY17& FY18 estimates not truly comparable with other past data due to treatment of GETL as a JV now (under Ind AS); earlier it was considered a subsidiary

Consolidated Balance Sheet

Figures in Rs crs

	FY14	FY15	FY16	FY17e	FY18e
SOURCES OF FUNDS					
Share Capital	32.99	33.00	33.00	33.00	33.00
Reserves	141.77	195.64	259.62	340.43	440.68
Total Shareholders Funds	**174.76**	**228.64**	**292.62**	**373.42**	**473.68**
Minority interest	4.05	6.75	9.78	-	-
Long term debt	11.87	12.27	0.42	0.30	0.00
Total Liabilities	**190.67**	**247.65**	**302.81**	**373.72**	**473.68**
APPLICATION OF FUNDS					
Gross Block	190.10	250.34	260.73	321.73	396.73
Less: Accumulated Depreciation	78.87	95.27	109.68	115.42	136.16
Net Block	**111.24**	**155.07**	**151.05**	**206.31**	**260.57**
Capital Work in Progress	19.21	6.10	32.88	35.00	10.00
Investments	0.00	22.90	38.54	52.20	116.82
Current Assets, Loans & Advances					
Inventory	111.62	134.89	187.98	169.18	189.48
Sundry Debtors	112.59	148.26	117.90	112.01	125.45
Cash and Bank	9.22	10.81	31.99	32.35	38.71
Loans and Advances	68.86	69.10	59.10	54.39	62.60
Total CA & LA	**302.29**	**363.06**	**396.97**	**367.93**	**416.25**
Current Liabilities	251.05	274.63	327.05	265.84	306.15
Provisions	40.09	40.73	16.61	46.91	53.22
Total Current Liabilities	**291.15**	**315.36**	**343.66**	**312.75**	**359.37**
Net Current Assets	11.14	47.70	53.31	55.17	56.87
Net Deferred Tax	-9.64	-7.74	-9.67	-10.57	-11.07
Other Assets (Net Of Liabilities)	58.73	23.60	36.69	35.61	40.48
Total Assets	**190.67**	**247.65**	**302.81**	**373.72**	**473.68**

FY17& FY18 estimates not truly comparable with other past data due to treatment of GETL as a JV now (under Ind AS); earlier it was considered a subsidiary

Cash Flow Statement Figures in Rs crs

	FY14	FY15	FY16
Net Income **(a)**	66.77	93.22	110.64
Non cash exp. & others (b)	**14.32**	**12.18**	**15.40**
Depreciation	13.54	15.78	16.12
Deferred tax	1.86	-1.35	1.93
Interest income	-0.31	-1.01	-0.29
Loss on sale of assets	0.37	0.12	0.07
Profit on sale of investments	-1.14	-1.35	-2.49
Exchange diff. translation reserve	0.00	0.00	0.06
(Increase) / decrease in NWC & others (c)	**-44.22**	**-35.56**	**19.76**
Inventory	-45.11	-23.27	-53.09
Change in trade receivables	-0.51	-41.13	27.22
Other current assets	-30.85	31.97	-5.73
Other assets (net of liabilities)	32.25	-3.13	51.35
Operating cash flow (a+b+c)	**36.88**	**69.85**	**145.79**
Purchase of fixed assets	-53.22	-11.28	-44.30
sale of fixed assets	0.03	0.20	0.06
Sale of investments	6.14	-21.54	-13.15
Interest received	0.37	0.97	0.33
Bank deposits	2.01	-2.69	2.56
Investing cash flow (d)	**-44.68**	**-34.33**	**-54.50**
Net borrowings	18.71	-5.89	-0.06
Dividends paid (including CDT)	-29.25	-30.88	-67.51
Redemption of preference capital	-2.80	0.00	0.00
Equity capital issuance	0.33	0.15	0.00
Financing cash flow (e)	**-13.01**	**-36.63**	**-67.57**
Net change (a+b+c+d+e)	**-20.81**	**-1.11**	**23.72**

Key Financial Ratios

	FY14	FY15	FY16	FY17e	FY18e
Growth Ratios (%)					
Revenue	-22.2	25.6	22.4	-3.1	16.4
EBIDTA (other income included)	-31.9	36.5	16.1	13.1	20.5
Net Profit	-34.8	35.8	15.9	21.5	21.0
EPS	-34.8	35.8	15.9	21.5	21.0
Margins (%)					
Operating Profit Margin	20.9	19.2	21.6	23.8	24.5
Gross Profit Margin	21.9	23.8	22.7	26.6	27.6
Net Profit Margin	12.9	14.7	13.9	16.4	17.1
Return (%)					
ROCE	40.2	43.8	40.0	37.3	36.7
ROE	43.9	45.9	41.2	39.2	37.3
Valuations					
Market Cap / Sales	4.6	6.5	4.0	5.3	4.5
EV/EBIDTA	20.7	26.7	16.8	19.3	16.0
P/E	35.1	45.9	29.4	31.2	25.8
P/BV	13.7	18.6	10.8	10.9	8.6
Other Ratios					
Interest Coverage	38.6	40.7	46.3	57.0	63.4
Debt-Equity Ratio	0.1	0.1	0.0	0.0	0.0
Current Ratio[a]	1.0	1.2	1.3	1.3	1.4
Turnover Ratios					
Fixed Asset Turnover	4.5	4.9	5.2	4.3	3.8
Total Asset Turnover	3.1	3.0	2.9	2.3	2.1
Debtors Turnover	4.5	5.0	6.0	6.7	7.6
Inventory Turnover	4.6	4.3	3.9	3.3	3.8
Creditors Turnover	3.3	3.9	4.9	5.3	6.3
WC Ratios					
Debtor days	81.0	73.2	61.0	54.4	48.2
Inventory days	79.3	85.6	94.3	110.9	96.6
Creditor days	111.7	93.1	74.3	68.9	57.9
Cash conversion cycle	48.6	65.6	81.0	96.4	86.9
Cash Flows					
Operating cash flow	36.9	69.8	145.8		
FCFE	6.1	32.3	88.7		
FCFF	-10.8	40.6	91.2		

a Calculation include short term debt

FY17& FY18 ratios not truly comparable with other past data due to treatment of GETL as a JV now (under Ind AS); earlier it was considered a subsidiary

Cumulative Financial Data

	FY13-14	FY15-16	FY17-18
Income from operations	1183	1447	1670
Operating profit	271	297	404
EBIT	261	311	422
PBT	254	304	415
PAT after MI & JV profit	173	200	288
Dividends	60	77	107
OPM (%)	22.9	20.5	24.2
NPM (%)	14.4	14.2	16.7
Interest coverage	37.4	43.6	60.3
ROE (%)	72.9	42.8	37.6
ROCE (%)	57.8	41.0	36.0
Fixed asset turnover	5.0	5.5	4.1
Debtors turnover	6.7	6.3	6.9
Inventory turnover	4.8	3.8	3.4
Creditors turnover	4.4	4.5	5.3
Debtors days	54.7	58.1	53.2
Inventory days	76.3	95.1	108.9
Creditor days	83.3	81.8	68.3
Cash conversion cycle	47.6	71.4	93.7
Dividend payout ratio (%)	34.7	38.9	38.4

FY13-14 implies two years ending fiscal 14

Languidness in domestic business for last many years has been best countered by increased vitality in exports for the latter has grown threefold (standalone) in last four years ending FY16, bestowing much need stability. Increased aftermarket opportunities coupled with refurbishment of turbines of other makes would help prop up overseas revenues - 20% growth estimated for FY18.OPMs would surge to 24.2% in FY17-18 period (20.5% in FY15-16 period) not least due to its fancy for expanding overseas presence, either by opening more service centers or by exploiting the international marketing might of General Electric to commission turbines - by the end of current fiscal GETL would have started turbines in Philippines, Vietnam and Indonesia. Scores of intellectual property fillings both in India and abroad (in Europe, USA and South East Asia) has not only helped in moat widening but bag newer projects - recently bagged order for API turbines in Middle East a case in point.

Sub- optimal utilization of capacity would depress turnover ratios and return on capital with ROE projected to decline to 37.6% in FY17-18 period from 42.8% in the preceding two year period. Though domestic order booking has gathered steam in last few quarters (+41.1% in 9MFY17), it is no true barometer of potential inflows. Domestic industrial capex has abysmally floundered for last many quarters making order finalization no less precarious, persuading Triveni's rank and file to throng foreign shores. Profit growth of some 44% in FY17-18 period (though not exactly comparable due to new accounting adjustments) risks relegation to continued inertness in domestic economy and elongation of order finalization cycle in global markets.

Financial Summary – US dollar denominated

million $	FY14	FY15	FY16	FY17e	FY18e
Equity capital	5.5	5.3	5.0	4.9	4.9
Equity shareholders' funds	29.1	36.5	44.1	55.8	70.7
Total debt	3.2	2.1	2.0	0.0	0.0
Net fixed assets (incl CWIP)	21.7	25.7	27.7	36.0	40.4
Investments	0.0	3.7	5.8	7.8	17.4
Net current assets	1.9	7.6	8.0	8.2	8.5
Total assets	31.7	39.6	45.6	55.8	70.7
Revenues	85.6	106.4	121.6	115.2	134.1
EBITDA	19.2	26.0	28.2	31.1	37.5
EBDT	18.8	25.4	27.6	30.6	37.0
PBT	16.5	22.8	25.1	28.1	33.9
Consolidated profit	11.3	15.2	16.4	19.5	23.6
EPS($)	0.03	0.05	0.05	0.06	0.07
Book value ($)	0.09	0.11	0.13	0.17	0.21
Operating cash flow	6.1	11.2	22.0		
Investing cash flow	-7.4	-5.5	-8.2		
Financing cash flow	-2.2	-5.9	-10.2		

Historical income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (Rs 66.98/$)

Recommendation

GOI aspires to dramatically transform the Indian capital goods sector for its newly unveiled 'National Capital Goods Policy' - a first ever policy of this sector - targets to increase domestic production of capital goods to Rs 7.5 lakh crs ($112bn)by 2025 from ~Rs 2.3 lakh crs ($36.7bn) in 2014-15. The policy envisages boosting exports from the current 27% to 40% of production while increasing share of domestic production in India's demand from 60% to 80%. Besides making India a net exporter of capital goods, the policy aims to foster innovation and technology, improve availability of raw materials and augment capacity building of MSMEs. Further GOI's mammoth renewable energy capacity building plans (175 GW by 2022 from ~50GW now) would pave way for unrivalled investments - $ 160bn over a period of seven years ending 2022 - in solar, wind, small hydro and biomass projects. Globally, investments in renewable sector are driving demand for the biomass and waste to energy projects, a propitious development for steam turbines manufacturers.

Sublimity in Triveni's exports has helped overcome entrenched slowdown in domestic capital goods industry - steam turbines market for up to 30MW has shrunk some 60% in last five years - for its revenue share (standalone) has jumped to 36% in FY16 from a worrying 15% in FY09. Resolute focus on the renewable energy space - including waste to energy, district heating, sugar and process cogeneration- precipitated swell in order booking. Waste to energy projects influenced its order booking in Europe, while sugar, paper and other renewable projects steadied dispatches in Africa, Latin America and South East Asia. Contrary to expectations, domestic sugar co-generation projects have failed to invigorate order booking so far this fiscal.

Capex at its newly commissioned plant at Somapura, near Bangalore is aimed at subtlety of turbine manufacturing and testing. Not only this Rs 150 crs ($22.4m) plant equipped with world class testing facilities but houses huge assembly space. To avoid idle plant capacity, Triveni intends to gradually augment capacities.

Stunning progress of Triveni's aftermarket business over the years owes much to its relentless focus on refurbishing large sized turbines, introducing spares for efficiency improvement packages and foraying in utility segment. Aftermarket exports would gain traction with setting up of subsidiaries in UK and Middle East and service centers in South East Asia and Africa. More new service centers are planned in diverse locations to buoy aftermarket revenues share - 23.3% in 9MFY17 compared to 21.9% in the same period a year ago.

The stock currently trades at 31.2x FY17e EPS of Rs 3.95 and 25.8x FY18e EPS of Rs 4.78. Owing to lackadaisical domestic steam turbine market valuation metrics have not totally toed past trends - P/E shrunk to 29.4x by end of FY16 from 45.9x a year back to reflect temperance in earnings growth (15.9% Vs 35.8%). But now with domestic markets on the mend and exports looking up with GETL's commissioning of large sized turbines internationally and remarkable focus on aftermarket, earnings growth would gradually rise. Enquiries have gained traction with nearly 9.5GW of potential orders. Its domestic market share (for up to 30MW) of nearly 60% symbolizes market depth and adept execution. On balance we assign an accumulate rating on the stock with target of Rs 143 based on 30x FY18e earnings (peg ratio: 1.4, ~average of past two years) over a period of 9-12 months.

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Exchange Rates Used- Indicative

Rs/$	FY13	FY14	FY15	FY16
Average	54.45	60.50	61.15	65.46
Year end	54.39	60.10	62.59	66.33

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.