

Triveni Turbines (Buy@Rs.55, Target Rs.80)

Industry	Power Equipment
Company P/E	15xFY'13-14E
Market Cap. (Rs)	1847crs
Dividend	65%

BSE/NSE Code	533655 / TRITURBINE
52 Week H/L (Rs)	57 / 30
Promoter Holding	75%
Face Value (Rs)	1

The story so far

One of the best things Dhruv Sawhney –CMD of Triveni Engineering did was to de-merge the highly profitable steam turbine business into Triveni Turbines Ltd - TTL and we like the highly capital efficient business model of the company because TTL would be a debt-free company this fiscal with negative working capital and can generate an ROI of 70% which would be the highest among its peer group.

The Rs6.5bn TTL is one of the country's leading industrial steam turbine manufacturer which retained its dominant market share of 54% even during FY'12, a year when its domestic market shrunk by more than 40% and we believe that this business has a sustainable gross margin of 25% and a net margin of 15% going forward.

The story ahead

With an outstanding order book of Rs5bn and order in-take of Rs2.5bn during H1FY'13, TTL is quite clearly the market leader in the steam turbine segment up to 30mw and with a present capacity utilization of 55%, we believe that TTL would benefit from operating leverage as the investment cycle in the domestic market picks up.

TTL has used the lull in the domestic market to grow its international business this fiscal as there is a robust demand across South East Asian and other markets for its turbines in bio-mass and renewable energy projects. Its share of international business during H1FY'13 rose to 27% and the higher margin profile of that business together with the after market business would enable TTL to post a net profit of Rs1bn this fiscal.

GE Triveni Ltd – GETL the equal JV with General Electric is a subsidiary of TTL and would manufacture and sell steam turbines in the range above 30-100mw and this JV would use TTL's Bengaluru facility to manufacture turbines and we expect the JV to witness substantial traction next fiscal as there exists enough enquires for this range of steam turbines.

A technology driven business with a very superior capital efficiency makes TTL a strong case for a re-rating in our opinion and it does not surprise us that institutional investors have mopped up 20% of the company thereby leaving a public float of only 5%. **We recommend a BUY on TTL trading at 15xFY'13-14E earnings with a one-year price target of Rs80.**

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