

CAPITAL GOODS

Q1FY24 Review

18 August 2023

Robust execution continues

- Our capital goods coverage grew 30% YoY in Q1 on strong execution (+20% ex-LT); EBITDA margin stayed flat (+260bps ex-LT)
- Order inflows swelled 40% YoY (flat ex-LT); FY24 outlook upbeat with structural tailwinds from rail, power and digitalisation segments
- We continue to prefer LT, KKC and AIAE in the sector

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Growth momentum robust: Capital goods players under our coverage displayed impressive project execution in Q1FY24, which underpinned revenue growth of 30% YoY (20% ex-LT). Aggregate order inflow surged 40% YoY, albeit propelled mainly by LT which attracted flows of Rs 655bn (+57% YoY). Excluding LT, order inflow for the rest of our coverage was flat.

Margins buoyant: Our capital goods universe demonstrated operating leverage on the back of improved project execution. Ex-EPC (engineering, procurement, and construction) players, gross margin expanded by 83bps YoY in Q1. The aggregate EBITDA margin was flat YoY while the ex-EPC margin increased 260bps YoY.

Strong FY24 outlook: Most management commentaries pointed to a strong ordering environment for capital goods companies. LT has retained its guidance of revenue and order inflow growth of 12-15% YoY and 10-12% YoY respectively for FY24 despite it being the run-up to election year. In fact, LT's addressable pipeline has swelled 34% YoY to Rs 10tn, above the prospective level of Rs 9.7tn at end-FY23, driven by demand for hydrocarbons. Similarly, other players such as KECI and AIAE retained the FY24 guidance given at the beginning of the fiscal. TMX too indicated a much stronger-than-usual pipeline.

New emission norms deferred: From KKC's perspective, the government recently extended implementation of the new CPCB-IV emission norms for power generation engines by a year to Jun'24. Thus, for this duration, both existing CPCB-II and newer CPCB-IV products can simultaneously be sold by KKC.

Retain positive sector stance: The capital goods sector has strong growth visibility considering the government's capex thrust and carries scope for gradual margin improvement as supply bottlenecks ease. We anticipate structural demand tailwinds in the areas of automation, digitalisation and electrification, and retain our bullish view on key players LT (BUY, TP Rs 3,000), KKC (BUY, TP Rs 2,110), and AIAE (BUY, TP Rs 4,000).

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	4,314	4,400	HOLD
AIAE IN	3,534	4,000	BUY
KECI IN	638	630	HOLD
KKC IN	1,744	2,110	BUY
LT IN	2,653	3,000	BUY
POWERIND IN	4,328	4,400	HOLD
SIEM IN	3,576	3,900	HOLD
TMX IN	2,579	2,600	HOLD

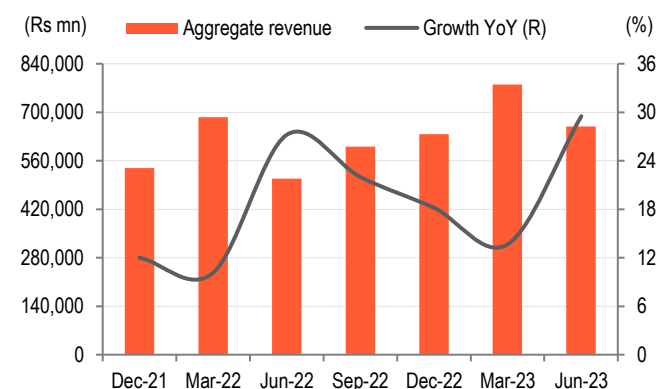
Price & Target in Rupees | Price as of 17 Aug 2023

Capital goods: Result reviews

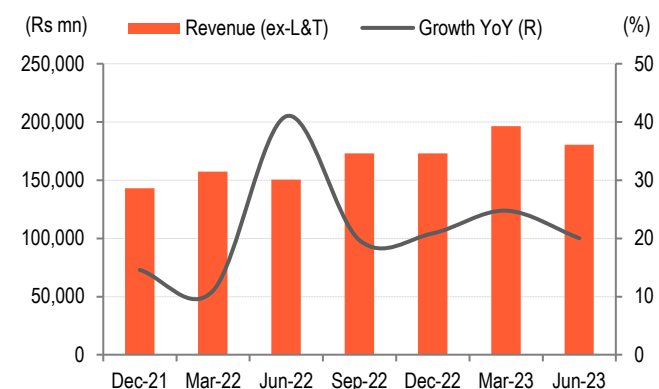
Company	Result review link (Apr-Jun'23)
ABB IN	Strong quarter, margins shine
AIAE IN	Strong quarter, guidance maintained.
KECI IN	Healthy inflows, margin improvement ahead
KKC IN	Strong quarter; primed for rating transition
LT IN	Stellar quarter; solid outlook
POWERIND IN	Supply side constraints persist; cut to HOLD
SIEM IN	All-round growth; clarity awaited on LV motors hive-off
TMX IN	Good quarter, healthy order flows

Source: BOBCAPS Research

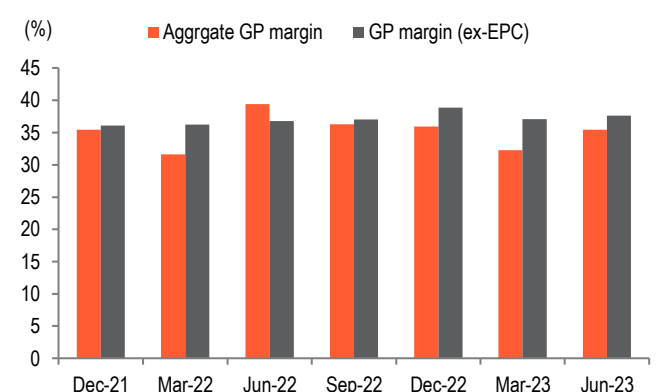


Fig 1 – Aggregate revenue trend

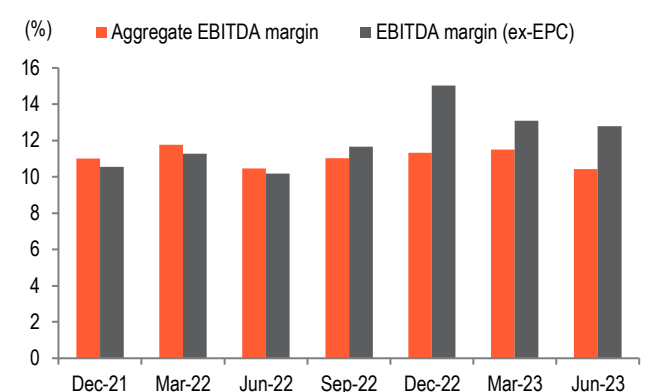
Source: Company, BOBCAPS Research

Fig 2 – Aggregate revenue trend (ex-LT)

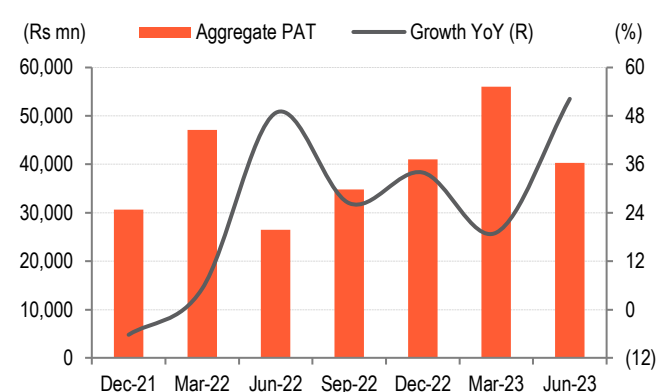
Source: Company, BOBCAPS Research

Fig 3 – Aggregate gross profit (GP) margin trend

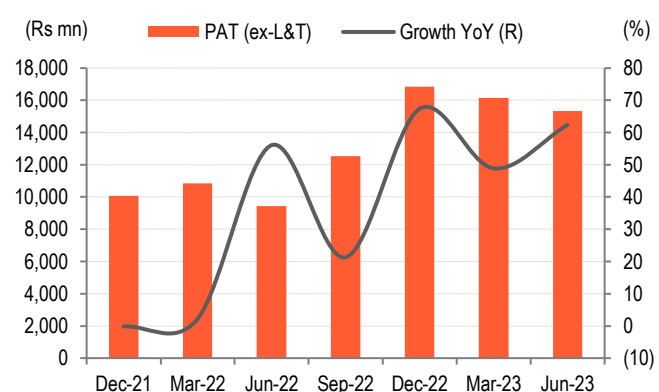
Source: Company, BOBCAPS Research

Fig 4 – Aggregate EBITDA margin trend

Source: Company, BOBCAPS Research

Fig 5 – Aggregate PAT trend

Source: Company, BOBCAPS Research

Fig 6 – PAT (ex-LT) trend

Source: Company, BOBCAPS Research

Fig 7 – Valuation snapshot

Companies	Rating	Target	Upside (%)	Revenue (Rs mn)				EBITDA (Rs mn)			
				FY23	FY24E	FY25E	CAGR (%)	FY23	FY24E	FY25E	CAGR (%)
AIAE	Buy	4,000	13	49,088	55,246	57,099	8	12,406	14,261	14,713	9
TMX	Hold	2,600	1	80,898	95,857	1,09,346	16	5,976	6,758	8,684	21
KKC	Buy	2,110	21	77,721	87,152	97,675	12	12,477	13,299	15,245	11
ABB*	Hold	4,400	2	85,675	1,04,522	1,27,355	22	9,619	13,457	16,650	32
SIEM**	Hold	3,900	9	1,92,754	2,28,441	2,78,014	20	24,085	30,236	36,573	23
POWERIND	Hold	4,400	2	44,685	56,851	66,149	22	2,359	4,525	6,628	68
KECI	Hold	630	(1)	1,72,817	2,02,357	2,36,340	17	8,297	14,423	19,543	53
LT	Buy	3,000	13	18,33,407	21,32,402	24,04,205	15	207,533	255,954	308,008	22

Companies	EBITDA Margin (%)			PAT (Rs mn)				ROE (%)			PE (x)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	CAGR (%)	FY23	FY24E	FY25E	FY23	FY24E	FY25E
AIAE	25.3	25.8	25.8	10,559	11,774	12,173	7	20.2	19.3	17.5	32	28	27
TMX	7.4	7.1	7.9	4,507	5,334	7,135	26	12.2	13.3	16.2	68	58	43
KKC	16.1	15.3	15.6	12,425	13,815	16,001	13	22.8	22.8	23.7	39	35	30
ABB*	11.2	12.9	13.1	6,864	10,671	13,100	38	15.3	20.0	20.6	133	86	70
SIEM**	12.5	13.2	13.2	17,740	22,803	28,117	26	14.4	16.5	17.8	72	56	45
POWERIND	5.3	8.0	10.0	939	2,477	4,036	107	8.0	18.6	24.6	195	74	45
KECI	4.8	7.1	8.3	1,760	6,153	10,049	139	4.8	15.3	21.3	93	27	16
LT	11.3	12.0	12.8	103,347	139,039	175,195	30	12.0	14.8	16.7	36	27	21

Source: Company, BOBCAPS Research | *CY22, CY23E, CY24E; **SY22, SY23E, SY24E

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Note: Recommendation structure changed with effect from 21 June 2021

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