

Momentum to continue

- Investments resilient led by traction in private capex; manufacturing sector continues to dominate new project announcements
- Order momentum seen in H1 expected to continue in Q3 as well; operating margins to sustain
- Expect aggregate revenue/earnings growth of 11%/19% YoY. LT, SIEM, POWERIND and AIAE remain top picks

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Investments remain resilient: New project announcements in India soared 45% YoY to Rs 6.1tn in Q3FY23, including private capex of Rs 5.6tn, per CMIE. Private sector investments have continued to pour in since Q2FY23, as evidenced by LT's order mix (29% from the private sector in Q3 vs. 18-20% historically). Further, CMIE indicated that fixed asset utilisation has spiked to 2.4x as of Sep'22 compared to an average of 1.9x since Mar'10, implying imminent capex.

Order momentum to continue: We expect the order momentum seen in H1FY23 to continue in Q3 as well. LT has a robust order pipeline of Rs 6.3tn for H2FY23, and KECI's stands at a healthy Rs 1.2tn. As for product-based players, SIEM and ABB remain positive on capex programmes marked by a focus on digitalisation, decarbonisation and energy efficiency solutions. LT has announced orders in the range of Rs 185bn-395bn for the December quarter. Assuming a 50% disclosure rate, this implies potential order inflow of Rs 550bn+.

Margins to remain stable: We pencil in revenue growth of 11% YoY for our capital goods coverage on the back of strong execution and sustained order inflows over the last year and a half. We expect a flat EBITDA margin YoY and QoQ at 11.1% as supply chain constraints linger. Working capital is likely to remain stretched as commodity prices haven't eased as much as expected, pushing up inventory levels. Higher interest cost is also likely to hurt EPC players.

Exports the weak link: Given the global slowdown, we expect exports to have weakened in the December quarter. KKC (export revenue share of ~25%) is likely to be impacted. ABB and SIEM would be relatively shielded due to their lower export mix and could indeed benefit from increased outsourcing to India as customers seek to optimise costs. Meanwhile, LT's hydrocarbon business remains strong in the Middle East, accounting for 22% of its order inflows in H1FY23.

Picks: LT, SIEM, POWERIND, and AIAE remain our top picks in the sector. For details, please refer to our initiation report of 21 Nov 2022, [On the cusp of a capex supercycle](#), and also our latest update on [SIEM](#).

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	2,689	3,100	HOLD
AIAE IN	2,600	3,100	BUY
KECI IN	474	500	BUY
KKC IN	1,396	1,300	HOLD
LT IN	2,089	2,390	BUY
POWERIND IN	3,372	3,600	BUY
SIEM IN	2,837	3,500	BUY
TMX IN	1,956	2,100	HOLD

Price & Target in Rupees | Price as of 3 Jan 2023



Q3FY23 preview

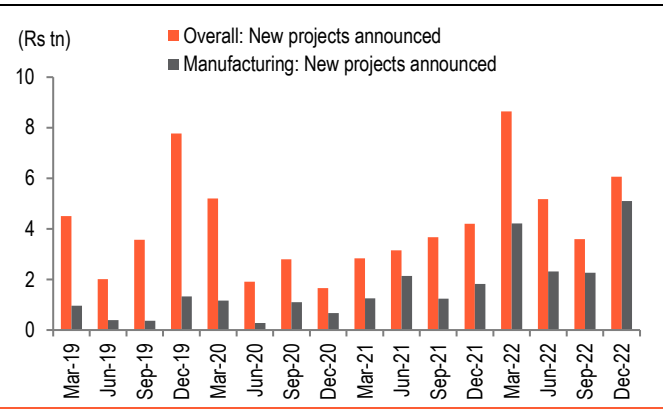
Fig 1 – BOBCAPS Capital Goods Universe: Q3FY23E snapshot

	Revenue					EBITDA					EBITDA margin (%)			PAT (Rs mn)				
	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	3Y CAGR (%)	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	3Y CAGR (%)	Q3FY23E	Q3FY22	Q2FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	3Y CAGR (%)
LT	4,31,235	3,95,629	4,27,626	9.0	6.0	50,023	45,304	48,994	10.4	6.7	11.6	11.5	11.5	24,785	20,547	22,290	20.6	4.7
SIEM	39,331	35,504	46,571	10.8	15.7	4,208	3,646	5,159	15.4	9.1	10.7	10.3	11.1	3,152	2,508	3,817	25.7	6.9
ABB	23,469	21,015	21,197	11.7	6.3	2,370	1,852	2,110	28.0	19.6	10.1	8.8	10.0	1,819	1,594	1,566	14.1	10.6
POWERIND	12,907	11,226	11,146	15.0	4.8	916	618	758	48.4	(4.8)	7.1	5.5	6.8	469	351	372	33.4	(14.3)
TMX	18,610	16,147	20,753	15.3	9.7	1,321	1,131	1,406	16.8	5.3	7.1	7.0	6.8	1,018	795	1,091	28.1	6.2
KKC	21,102	17,437	19,573	21.0	13.2	3,060	2,725	2,898	12.3	12.2	14.5	15.6	14.8	2,846	2,495	2,673	14.1	9.6
KECI	40,464	33,400	40,640	21.1	9.6	2,104	2,390	1,780	(12.0)	(12.9)	5.2	7.2	4.4	364	936	552	(61.2)	(36.9)
AIAE	11,208	8,481	13,287	32.2	17.3	2,679	1,612	3,120	66.2	15.7	23.9	19.0	23.5	2,058	1,382	2,448	48.9	9.6
Total	5,98,326	5,38,839	6,00,793	11.0	-	66,682	59,278	66,223	12.5	-	11.1	11.0	11.0	36,510	30,608	34,809	19.3	-
Total (ex-LT)	1,67,091	1,43,210	1,73,166	16.7	-	16,659	13,974	17,229	19.2	-	10.0	9.8	9.9	11,725	10,061	12,520	16.5	-

Source: Company, BOBCAPS Research | Note: For ABB: Q4CY22, Q4CY21, Q3CY22. For SIEM: Q1SY23, Q1SY22, Q4SY22

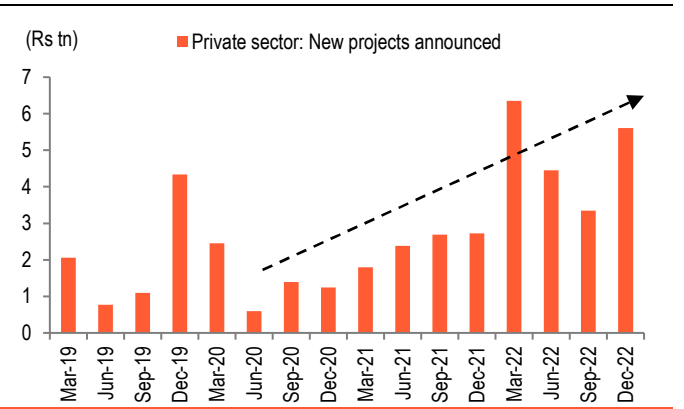
Story in charts

Fig 2 – Manufacturing sector largely dominates the new investments...



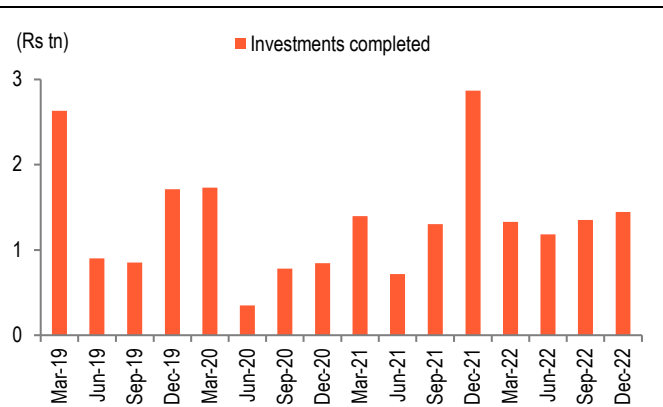
Source: CMIE, BOBCAPS Research

Fig 3 – ... with buoyancy in private investments



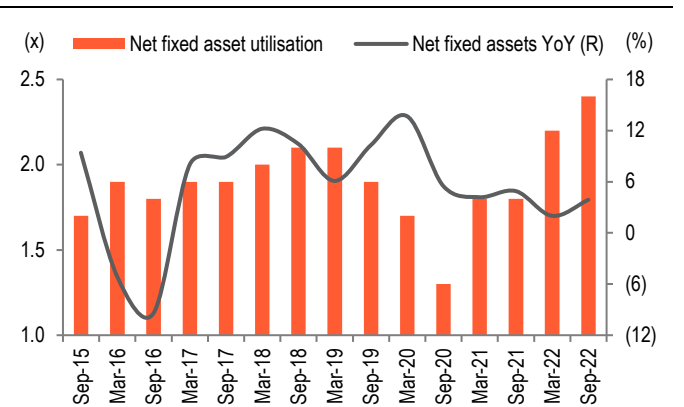
Source: CMIE, BOBCAPS Research

Fig 4 – Investment completions stabilising



Source: CMIE, BOBCAPS Research

Fig 5 – Spike in asset utilisation implies imminent capex



Source: CMIE, BOBCAPS Research

Valuation snapshot

Fig 6 – Capital Goods: Valuation matrix

Company	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)		
	FY23E	FY24E	FY25E	CAGR (%)	FY23E	FY24E	FY25E	CAGR (%)	FY23E	FY24E	FY25E
AIAE	45,823	48,388	50,839	5	10,395	11,312	12,176	8	22.7	23.4	23.9
TMX	75,317	88,633	1,01,102	16	5,530	6,739	9,091	28	7.3	7.6	9.0
KKC	72,950	81,549	91,080	12	10,141	11,425	13,063	13	13.9	14.0	14.3
ABB	83,222	1,02,044	1,23,098	22	8,210	10,422	13,378	28	9.9	10.2	10.9
SIEM	1,61,378	1,96,656	2,32,550	20	17,354	21,472	26,076	23	10.8	10.9	11.2
POWERIND	45,292	55,045	60,551	16	2,895	4,610	5,900	43	6.4	8.4	9.7
KECI	1,62,403	1,86,662	2,10,824	14	11,272	15,888	19,281	31	6.9	8.5	9.1
LT	17,61,180	20,46,693	22,97,649	14	2,10,870	2,47,810	2,81,000	15	12.0	12.1	12.2

Company	PAT (Rs bn)				ROE (%)			P/E (x)		
	FY23E	FY24E	FY25E	CAGR (%)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
AIAE	7,877	8,642	9,432	9	15.5	15.2	14.9	31	28	26
TMX	4,187	5,207	7,211	31	11.5	13.2	16.6	56	45	32
KKC	9,563	10,898	12,571	15	17.8	18.7	19.8	40	36	31
ABB	6,471	8,287	10,557	28	15.0	16.8	18.4	88	69	54
SIEM	12,011	15,419	19,241	27	11.2	13.1	14.9	84	66	52
POWERIND	1,622	2,893	3,850	54	13.4	20.4	22.1	88	49	37
KECI	3,858	7,580	10,289	63	10.3	17.9	20.6	33	17	12
LT	1,14,838	1,40,250	1,62,698	19	13.3	14.7	15.4	26	21	18

Source: Company, BOBCAPS Research | Note: For ABB: CY22E, CY23E, CY24E. For SIEM: SY22A, SY23E, SY24E

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HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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