

CAPITAL GOODS

Q3FY24 Review

22 February 2024

Momentum continues

- Q3 revenue for our capital goods coverage grew 18% YoY (+15% ex-LT) on strong execution; EBITDA margin slipped 40bps (20bps ex-LT)
- Management commentaries across the board point to a strong ordering environment for capital goods companies
- We maintain our positive sector view; prefer LT, KKC and SIEM

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LT leads order inflows, as always: Capital goods players under our coverage displayed impressive project execution in Q3FY24, which underpinned revenue growth of 18% YoY (15% ex-LT). Aggregate order inflows surged 21% YoY, albeit dominated by LT which attracted flows of Rs 760bn (+25% YoY). Excluding LT, order inflow for the rest of our coverage increased 3.5% YoY. Margins softened off a high base. Ex-EPC (engineering, procurement, and construction) players, gross margin contracted 50bps YoY in Q3. The aggregate EBITDA margin contracted 40bps YoY (-80bps ex-EPC).

Order outlook remains strong: Management commentaries across the board point to a strong ordering environment. LT raised its FY24 order inflow and revenue growth guidance to 20% (vs. 10-12%) and the high teens (vs. 12-15%) respectively. LT's addressable pipeline for Q4FY24 stands at Rs 6.3tn despite the approaching 2024 elections, driven by infrastructure (Rs 4.1tn) and hydrocarbon (Rs 1.7tn) projects. KECI retained its FY24 revenue guidance of Rs 200bn but believes it could fall slightly short of its initial order flow estimate of Rs 250bn. TMX has also turned positive and expects large orders to come in from the power and petrochemical sectors in FY25.

Mixed bag for product companies: KKC saw faster adoption of the newer CPCB-IV products than anticipated and pointed to a strong outlook going forward. Similarly, ABB and SIEM posted healthy quarters on the back of higher order flows and revenues. However, AIAE expects volumes of ~300,000t for FY24 vs. 310,000t guided earlier on account of delayed order decisions by clients. Hitachi has maintained its target of double-digit operating margins by the end of FY25.

Positive sector view: We remain positive on the capital goods sector given the government's capex thrust. We anticipate sustained structural demand tailwinds in the areas of automation, digitalisation and electrification, and retain our bullish view on LT (BUY, TP Rs 4,200), KKC (BUY, TP Rs 2,900), and SIEM (BUY, TP Rs 4,900).

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	4,985	5,000	HOLD
AIAE IN	3,798	4,000	HOLD
KECI IN	655	700	HOLD
KKC IN	2,608	2,900	BUY
LT IN	3,296	4,200	BUY
POWERIND IN	5,857	4,200	SELL
SIEM IN	4,440	4,900	BUY
TMX IN	3,544	3,300	HOLD

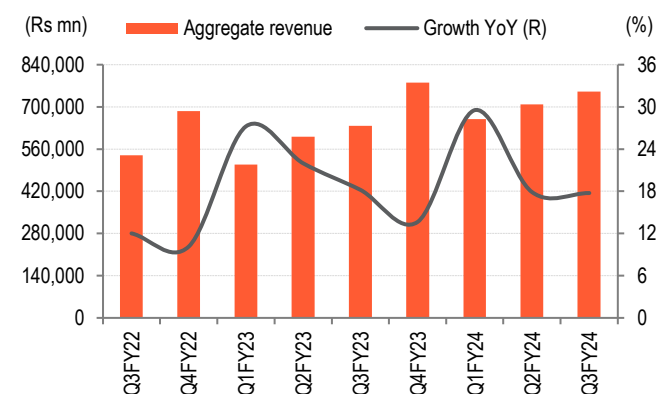
Price & Target in Rupees | Price as of 21 Feb 2024 | POWERIND = Hitachi

Capital goods: Q3 result reviews

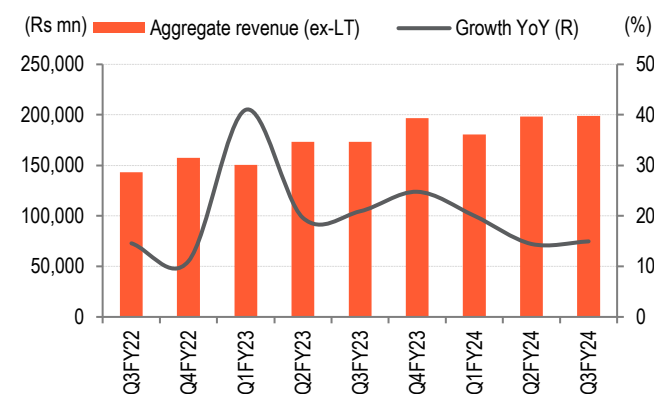
Company	Result review link
ABB IN	Ends the year on a high note
AIAE IN	Soft quarter, volume growth uncertain; cut to HOLD
KECI IN	Pipeline robust, margin improvement delayed
KKC IN	Powering ahead; maintain BUY
LT IN	Order inflow guidance raised; maintain BUY
POWERIND IN	In-line quarter but valuations overdone; cut to SELL
SIEM IN	Strong topline, margins waver
TMX IN	Improving order outlook; maintain HOLD

Source: BOBCAPS Research

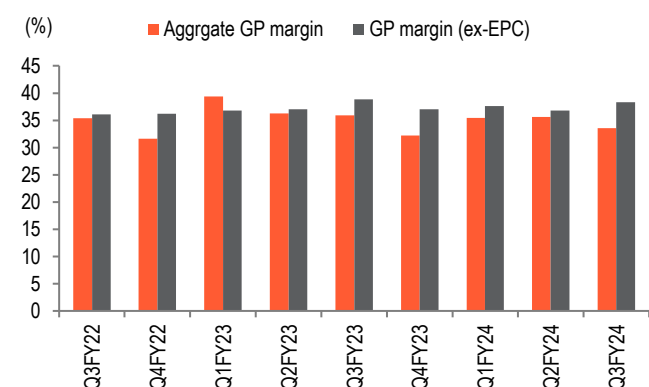


Fig 1 – Aggregate revenue trend

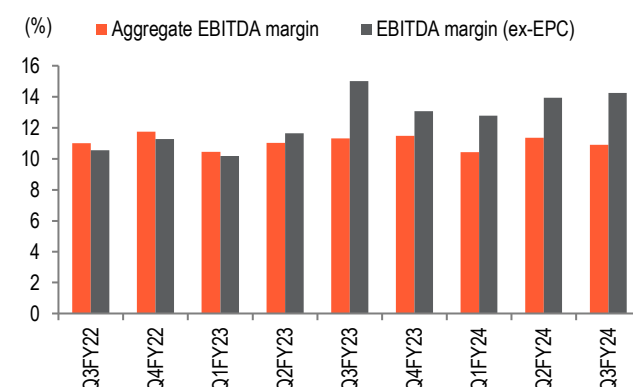
Source: Company, BOBCAPS Research

Fig 2 – Aggregate revenue trend (ex-LT)

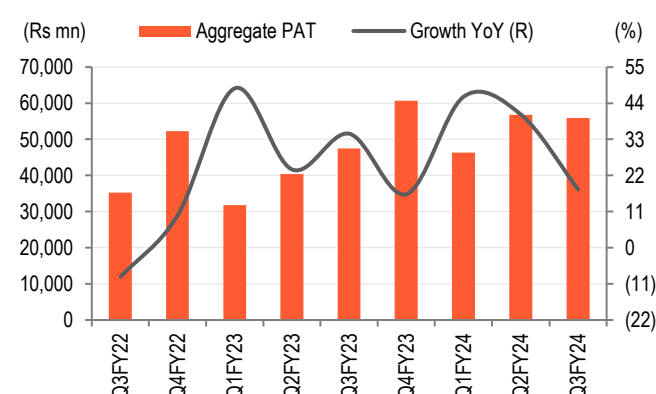
Source: Company, BOBCAPS Research

Fig 3 – Aggregate gross profit (GP) margin trend

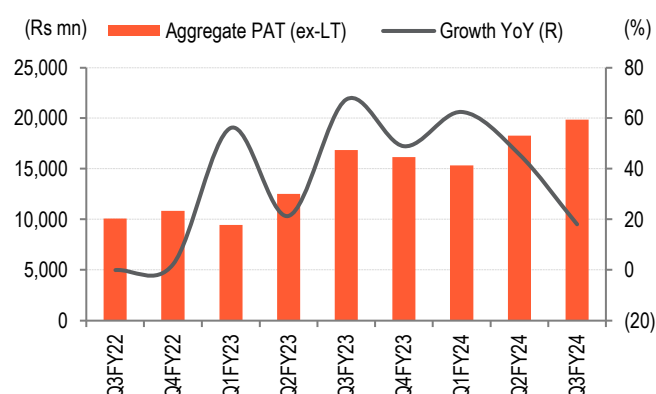
Source: Company, BOBCAPS Research

Fig 4 – Aggregate EBITDA margin trend

Source: Company, BOBCAPS Research

Fig 5 – Aggregate PAT trend

Source: Company, BOBCAPS Research

Fig 6 – Aggregate 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	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	CAGR (%)
AIAE	HOLD	4,000	5	49,088	52,304	54,177	56,282	5	12,406	14,005	14,466	14,990	7
TMX	HOLD	3,300	(7)	80,898	90,597	1,09,735	1,24,849	16	5,976	7,318	9,886	11,711	25
KKC	BUY	2,900	11	77,721	91,010	1,05,479	1,21,303	16	12,477	16,826	18,502	21,846	21
ABB*	HOLD	5,000	0	85,675	1,04,465	1,30,241	1,39,540	18	9,619	14,898	18,038	18,658	25
SIEM**	BUY	4,900	10	1,95,538	2,32,804	2,81,775	-	20	24,872	31,635	39,042	-	25
POWERIND	SELL	4,200	(28)	44,685	51,160	61,520	69,949	16	2,359	3,029	5,487	6,504	40
KECI	HOLD	700	7	1,72,817	2,02,357	2,36,340	2,76,515	17	8,297	13,411	18,598	24,044	43
LT	BUY	4,200	27	18,33,407	21,52,627	25,67,897	28,76,296	16	2,07,533	2,47,196	3,33,401	3,88,293	23

Source: Company, BOBCAPS Research | *CY22, CY23, CY24E, CY25E; **SY23, SY24E, SY25E, SY26E

Fig 8 – Valuation snapshot

Companies	EBITDA Margin (%)				PAT (Rs mn)					ROE (%)				P/E (x)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
AIAE	25.3	26.8	26.7	26.6	10,559	11,534	11,960	12,528	6	20.2	18.7	16.8	15.4	34	31	30	29
TMX	7.4	8.1	9.0	9.4	4,507	5,259	8,385	10,169	31	12.2	12.9	18.5	19.8	94	80	50	42
KKC	16.1	18.5	17.5	18.0	12,425	16,230	18,093	21,135	19	22.8	26.5	26.2	27.2	58	45	40	34
ABB*	11.2	14.3	13.8	13.4	6,864	12,482	14,547	15,064	30	15.3	22.9	22.0	19.0	154	85	73	70
SIEM**	12.7	13.6	13.9	-	19,619	25,598	31,484	-	27	15.9	18.1	19.1	-	81	62	50	-
POWERIND	5.3	5.9	8.9	9.3	939	1,370	3,138	3,903	61	8.0	10.7	21.1	21.4	264	181	79	64
KECI	4.8	6.6	7.9	8.7	1,760	4,306	8,767	12,308	91	4.8	11.0	19.6	22.8	96	39	19	14
LT	11.3	11.5	13.0	13.5	1,03,347	1,35,253	1,97,056	2,35,244	32	12.0	14.4	18.6	19.5	45	33	23	19

Source: Company, BOBCAPS Research | *CY22, CY23, CY24E, CY25E; **SY23, SY24E, SY25E, SY26E

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Note: Recommendation structure changed with effect from 21 June 2021

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