

CAPITAL GOODS

Q4FY23 Preview

06 April 2023

Impetus to continue

- EPC players likely to maintain execution momentum in Q4 while product companies could see weaker topline as they battle chip shortages
- Order booking expected to be strong across companies, barring TMX, with LT projected to exceed guided inflows
- Expect a stable sequential EBITDA margin for our coverage on strong EPC project execution. LT and SIEM remain our top picks

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EPC players to maintain momentum, product companies to slow: We expect EPC players under our coverage to maintain their strong project execution momentum in Q4FY23, aiding estimated revenue growth of 19% QoQ. LT is likely to surpass its topline growth guidance of 12-15% for FY23. Conversely, product-based companies such as KKC, SIEM and ABB typically experience a seasonal slowdown during the fourth quarter – we thus expect a 1% QoQ decline in their aggregate topline. Overall, our coverage universe is expected to achieve substantial sequential revenue growth of 16% QoQ and respectable YoY growth of 7%.

Order inflows to gain pace: We expect the vigorous order momentum seen in 9MFY23 to continue into Q4. LT has an impressive order pipeline of Rs 4.9tn for the rest of FY23, and the announcement of orders in the range of Rs 270bn-Rs 465bn for the March quarter hints at potential inflow of Rs 700bn+ assuming a 50% disclosure rate. On the other hand, we expect order inflows for TMX to moderate compared to H1FY23 given the company's shift in focus to smaller projects. Meanwhile, SIEM and ABB are continuing with large programmes focused on digitalisation, decarbonisation and energy efficiency solutions.

Margins to sustain: We anticipate a stable EBITDA margin QoQ of 11.1% for our capital goods universe. For EPC players, projects booked during the inflationary period over the past 12-15 months will now be executed. Pertinently, we remain cautious on LT's operating margin. Product-based companies are still grappling with supply chain constraints and chip shortages despite efforts to localise production. We expect a 250bps QoQ contraction for these players (partly due to normalisation of margins). Hitachi Energy could face a persistent chip shortage in Q1FY24 as well.

Top picks: We believe LT will exceed its guidance of 12-15% growth in order inflow and revenue for FY23, though its margin is expected to remain under pressure. SIEM, ABB, TMX and KKC are likely to see a soft quarter for their product-based businesses, whereas KECI could deliver a positive surprise in terms of working capital with subsidiary SAE Brazil also expected to perform well. LT (BUY, TP Rs 2,440) and SIEM (BUY, TP Rs 3,800) remain our top picks.

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	3,374	3,220	HOLD
AIAE IN	2,966	3,300	BUY
KECI IN	455	500	HOLD
KKC IN	1,569	1,600	HOLD
LT IN	2,258	2,440	BUY
POWERIND IN	3,224	3,500	BUY
SIEM IN	3,351	3,800	BUY
TMX IN	2,324	2,200	HOLD

Price & Target in Rupees | Price as of 5 Apr 2023



Fig 1 – BOBCAPS Capital Goods Universe: Q4FY23E preview

Company	Revenue (Rs mn)					EBITDA (Rs mn)					EBITDA margin (%)			PAT (Rs mn)				
	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Q4FY23E	Q4FY22	Q3FY23	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
LT	5,54,932	5,28,507	4,63,897	5.0	19.6	63,388	65,205	50,730	(2.8)	25.0	11.4	12.3	10.9	35,298	36,207	24,169	(2.5)	46.0
SIEM	45,231	38,011	40,151	19.0	12.7	5,428	4,694	5,992	15.6	(9.4)	12.0	12.3	14.9	4,225	3,298	4,627	28.1	(8.7)
ABB	22,756	19,684	24,269	15.6	(6.2)	2,503	1,879	3,643	33.2	(31.3)	11.0	9.5	15.0	1,972	1,491	3,059	32.2	(35.5)
POWERIND	12,019	11,135	10,339	7.9	16.3	557	663	395	(16.0)	41.3	4.6	6.0	3.8	237	517	46	(54.2)	417.1
TMX	22,952	19,919	20,493	15.2	12.0	1,813	1,352	1,611	34.1	12.6	7.9	6.8	7.9	1,339	1,025	1,264	30.6	6.0
KKC	18,777	15,021	21,850	25.0	(14.1)	3,061	2,082	4,131	47.0	(25.9)	16.3	13.9	18.9	2,994	2,163	4,138	38.4	(27.6)
KECI	48,359	42,748	43,746	13.1	10.5	2,515	2,517	1,999	(0.1)	25.8	5.2	5.9	4.6	578	1,120	176	(48.4)	228.5
AIAE	12,232	10,933	12,269	11.9	(0.3)	2,933	2,259	3,657	29.8	(19.8)	24.0	20.7	29.8	2,336	1,946	3,525	20.0	(33.7)
Total	7,37,257	6,85,957	6,37,014	7.5	-	82,197	80,651	72,158	1.9	-	11.1	11.8	11.3	48,979	47,768	41,004	2.5	-
Total (ex-LT)	1,82,325	1,57,451	1,73,117	15.8	-	18,809	15,446	21,427	21.8	-	-	-	-	13,681	11,561	16,835	18.3	-

Source: Company, BOBCAPS Research

Fig 2 – Valuation matrix

Company	Rating	Target	Upside (%)	Revenue (Rs bn)				EBITDA (Rs bn)			
				FY23E	FY24E	FY25E	CAGR (%) (FY23E-FY25E)	FY23E	FY24E	FY25E	CAGR (%) (FY23E-FY25E)
AIAE	BUY	3,300	13	48,584	51,725	50,180	1.6	12,181	11,777	11,710	(2.0)
TMX	HOLD	2,200	(6)	75,317	88,633	1,01,102	15.9	5,264	6,695	9,042	31.1
KKC	HOLD	1,600	0	72,950	81,549	91,080	11.7	11,408	11,611	13,268	7.8
ABB*	HOLD	3,220	(4)	85,675	1,02,044	1,23,098	19.9	9,619	10,423	13,379	17.9
SIEM**	BUY	3,800	14	1,96,656	2,33,094	2,83,697	20.1	23,402	28,965	37,245	26.2
POWERIND	BUY	3,500	5	43,364	56,577	61,349	18.9	1,908	4,624	5,861	75.3
KECI	HOLD	500	10	1,65,926	1,97,516	2,33,275	18.6	8,229	13,302	18,554	50.2
LT	BUY	2,440	13	17,52,555	21,38,981	23,67,795	16.2	1,96,691	2,55,255	2,93,677	22.2

Company	EBITDA Margin (%)			PAT (Rs bn)				ROE (%)			PE (x)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	CAGR (%) (FY23E-FY25E)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
AIAE	25.1	22.8	23.3	10,224	9,804	9,797	(2.1)	19.8	16.6	14.8	26.9	28.0	28.0
TMX	7.0	7.6	8.9	4,141	5,160	7,163	31.5	11.4	13.1	16.5	67.0	53.8	38.7
KKC	15.6	14.2	14.6	10,690	11,347	13,065	10.6	19.9	19.3	20.3	41.5	39.1	34.0
ABB*	11.2	10.2	10.9	6,864	8,267	10,513	23.8	15.3	15.6	17.3	103.6	86.0	67.7
SIEM**	11.9	12.4	13.1	17,228	21,853	28,619	28.9	14.1	16.1	18.6	68.7	54.2	41.4
POWERIND	4.4	8.2	9.6	605	2,574	3,490	140.3	5.2	19.8	22.0	234.1	55.0	40.6
KECI	5.0	6.7	8.0	1,503	5,450	9,409	150.2	4.1	14.0	20.9	77.7	21.4	12.4
LT	11.2	11.9	12.4	1,00,705	1,42,114	1,68,290	29.3	11.7	15.0	16.0	30.1	21.4	18.0

Source: Company, BOBCAPS Research | *CY22E, CY23E, CY24E; **SY23, SY24, SY25

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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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