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CAPITAL GOODS | Q4FY23 Review | 01 June 2023

Strong end to FY23; outlook robust

- **Strong execution aided 14% YoY revenue growth for our capital goods coverage in Q4FY23 (25% ex-LT); gross and EBITDA margins robust**
- **FY24 outlook upbeat with structural tailwinds from the rail and power sectors given a focus on automation and digitalisation**
- **We continue to prefer LT, KKC, Hitachi and AIAE**

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Growth momentum continues: Capital goods players under our coverage displayed impressive project execution in Q4FY23, which underpinned revenue growth of 14% YoY (25% ex-LT). Aggregate order inflow was robust, growing 36% YoY. LT's intake stood out at Rs 761bn.

Margins resilient: Our capital goods universe has demonstrated operating leverage on the back of improved project execution. Ex-EPC (engineering, procurement, and construction) players, gross margin expanded by 83bps YoY in Q4. Aggregate EBITDA margin was flat YoY while the ex-EPC margin increased 180bps YoY.

Supply chain constraints easing: Companies such as Hitachi Energy (Hitachi) and KKC, which had complained of supply shortages earlier, navigated the bottlenecks better in Q4 and delivered sequential margin improvement. KKC expects the supply shortages, especially for chips, to end next year, whereas Hitachi was more sanguine, indicating an easing in H2FY24.

Expect a strong FY24: We expect a strong year ahead with robust order flows. LT has guided for revenue and order inflow growth of 12-15% YoY and 10-12% YoY respectively for FY24 despite being the run-up to election year. Contrary to expectations, exports are performing well, particularly from KKC's perspective. Also, supply constraints are likely to moderate, as per earnings commentary from Hitachi and KKC as well as global players such as Siemens.

Retain positive sector outlook: The capital goods sector has strong growth visibility considering the government's capex thrust, with 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 2,630), KKC (BUY, TP Rs 2,000), Hitachi (BUY, TP Rs 4,400) and AIAE (BUY, Rs 3,500).

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	4,126	3,700	HOLD
AIAE IN	3,065	3,500	BUY
KECI IN	523	500	HOLD
KKC IN	1,760	2,000	BUY
LT IN	2,206	2,630	BUY
POWERIND IN	3,846	4,400	BUY
SIEM IN	3,552	3,700	HOLD
TMX IN	2,335	2,400	HOLD

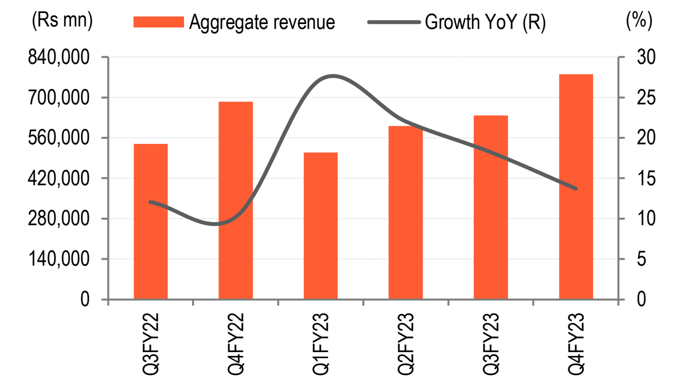
Price & Target in Rupees | Price as of 31 May 2023

Capital Goods: Q4 result reviews

Company	Result review link
ABB IN	Strong showing but priced in
AIAE IN	Robust performance
KECI IN	Standalone margin remains weak
KKC IN	From strength to strength; upgrade to BUY
LT IN	Strong finish; robust outlook for FY24
POWERIND IN	Improving outlook
SIEM IN	Strong momentum continues
TMX IN	Cautious outlook continues

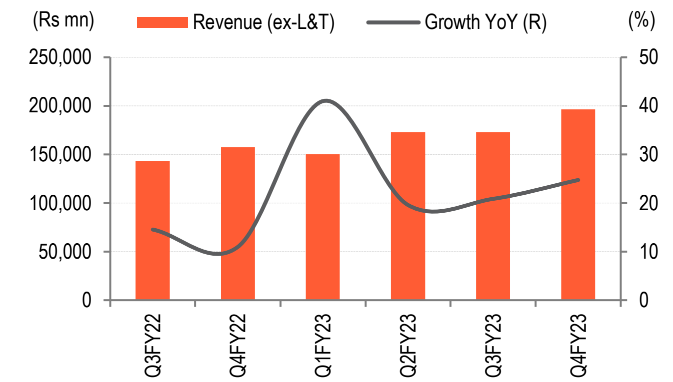
Source: BOBCAPS Research

Fig 1 – Aggregate revenue trend



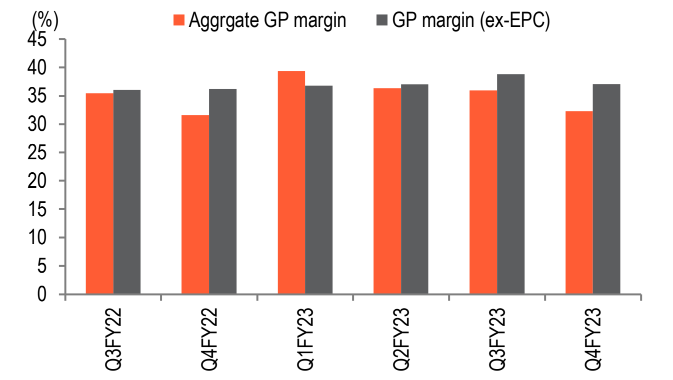
Source: Company, BOBCAPS Research

Fig 2 – Revenue (ex-LT) trend



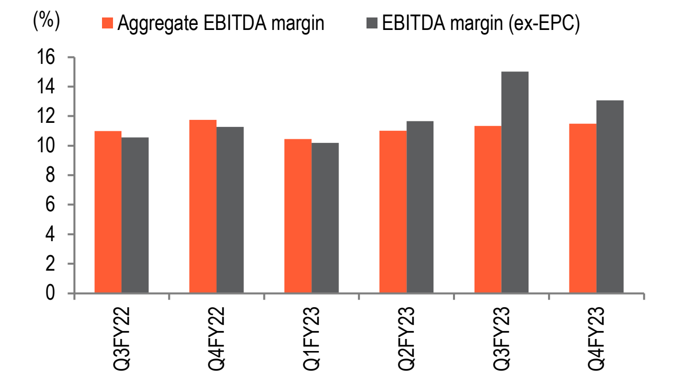
Source: Company, BOBCAPS Research

Fig 3 – Aggregate gross profit (GP) margin trend



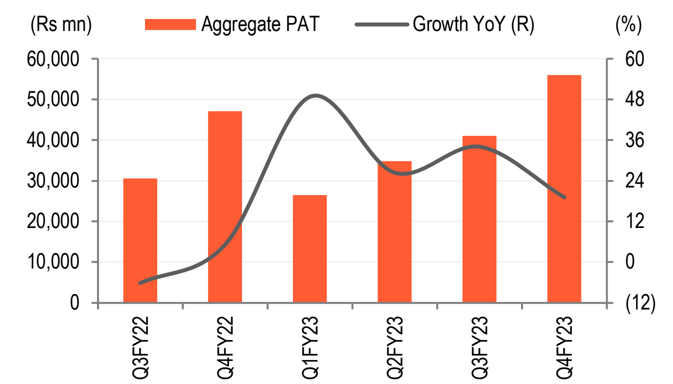
Source: Company, BOBCAPS Research

Fig 4 – Aggregate EBITDA margin trend



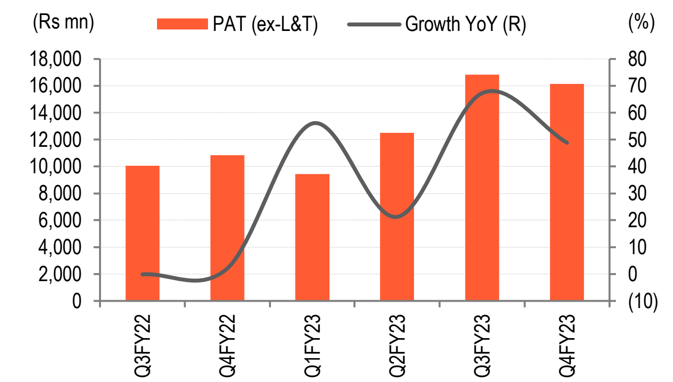
Source: Company, BOBCAPS Research

Fig 5 – Aggregate PAT trend



Source: Company, BOBCAPS Research

Fig 6 – PAT (ex-LT) trend



Source: Company, BOBCAPS Research

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Fig 7 – Valuation matrix

Companies	Rating	Target	Upside (%)	Revenue (Rs mn)				EBITDA (Rs mn)			
				FY23P	FY24E	FY25E	CAGR (%)	FY23P	FY24E	FY25E	CAGR (%)
AIAE	Buy	3,500	14	49,088	54,606	56,422	7	12,406	12,800	13,114	3
TMX	Hold	2,400	3	80,898	95,857	1,09,346	16	5,976	6,758	8,684	21
KKC	Buy	2,000	14	77,721	86,816	96,924	12	12,477	12,786	14,584	8
ABB*	Hold	3,700	(10)	85,675	1,04,522	1,27,355	22	9,619	11,367	14,102	21
SIEM**	Hold	3,700	4	1,96,656	2,33,094	2,83,697	20	23,402	29,432	37,812	27
POWERIND	Buy	4,400	14	44,685	56,851	66,149	22	2,359	4,707	6,766	69
KECI	Hold	500	(4)	1,72,817	2,02,357	2,36,340	17	8,297	13,747	18,742	50
LT	Buy	2,630	19	18,33,407	21,32,402	24,04,205	15	2,07,533	2,55,954	3,08,008	22

Companies	EBITDA Margin (%)			PAT (Rs mn)				ROE (%)			PE (x)		
	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	CAGR (%)	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E
AIAE	25.3	23.4	23.2	10,559	10,680	10,976	2	20.2	17.6	16.1	27	27	26
TMX	7.4	7.1	7.9	4,507	5,334	7,173	26	12.2	13.2	16.1	62	52	39
KKC	16.1	14.7	15.0	12,425	13,431	15,507	12	22.8	22.2	23.1	39	36	31
ABB*	11.2	10.9	11.1	6,864	9,108	11,195	28	15.3	17.1	18.0	127	96	78
SIEM**	11.9	12.6	13.3	17,228	22,202	29,043	30	14.1	16.3	18.9	73	57	44
POWERIND	5.3	8.3	10.2	939	2,613	4,139	110	8.0	19.5	24.9	174	62	39
KECI	4.8	6.8	7.9	1,760	5,647	9,450	132	4.8	14.1	20.4	76	24	14
LT	11.3	12.0	12.8	1,03,347	1,39,039	1,75,195	30	12.0	14.8	16.7	30	22	18

Source: Company, BOBCAPS Research | *CY22E, CY23E, CY24E; **SY22, SY23, SY24

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Note: Recommendation structure changed with effect from 21 June 2021

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