

RESEARCH
[SECTOR REPORT] CAPITAL GOODS

On the cusp of a capex supercycle

SUMMARY
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- India nearing a new capex supercycle, in our view, with private spends likely coinciding with ongoing public outlay
- Private capex stimulus to stem from decarbonisation, PLI and China+1, implying fresh investments independent of capacity utilisation
- Ride the uptrend through a basket of stocks that delivers through the cycle; we prefer LT, SIEM, AIAE, POWERIND and KECI

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Daily macro indicators

Indicator	16-Nov	17-Nov	Chg (%)
US 10Y yield (%)	3.69	3.77	8bps
India 10Y yield (%)	7.27	7.28	1bps
USD/INR	81.31	81.63	(0.4)
Brent Crude (US\$/bbl)	92.9	89.8	(3.3)
Dow	33,554	33,546	0.0
Hang Seng	18,256	18,046	(1.2)
Sensex	61,981	61,751	(0.4)
India FII (US\$ mn)	15-Nov	16-Nov	Chg (\$ mn)
FII-D	53.8	122.3	68.5
FII-E	(15.5)	4.8	20.3

Source: Bank of Baroda Economics Research

BOBCAPS Research

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21 November 2022

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Strong capex cycle after nearly two decades...: We believe India is on the cusp of a new capex upcycle, close to two decades after the country's last infrastructure supercycle of 2003-08. The previous cycle ground to a halt amid the 2008 GFC, after which the government became the torchbearer of capex, keeping infrastructure at the fore and culminating in the ongoing Rs 111tn NIP (FY19-FY25). The government's trifecta of asset creation (NIP), asset recycling (NMP) and integrated planning (Gati Shakti) should reboot India's infrastructure cycle. Notably, even if only 50% of the NIP fructifies, it would still imply a massive annual capex injection of Rs 11tn over five years.

...coinciding with a private cycle independent of utilisation: Higher capacity utilisation typically leads capex. However, the new wave of private capex is likely to be independent of utilisation and driven by (1) energy transition (renewables, EVs, battery technology and hydrogen) and higher ESG compliance, (2) manufacturing capex led by production-linked incentives, supply chain diversification and the global China Plus One strategy, and (3) 5G/6G technology disruptions driving data centre demand and e-commerce growth, in turn boosting multimodal transport and smart warehousing.

Advent of a supercycle: The current milieu exhibits similar characteristics to the 2003-08 supercycle. That was a phase of recovery from dotcom excesses and a time when India was battling inflation and currency. Today, we are looking to recover from liquidity excesses and the selfsame battles of inflation and currency. Commodity prices were high, as they are now, and core industries (steel, cement) went on a capex spree facilitated by a prolonged favourable environment, which also fuelled a real estate boom – all akin to current trends. In geopolitics as well, the world's largest market (US) turned inward looking following 9/11 – a view reinforced post pandemic/Ukraine.

Hedge bets across the cycle: In a strong capex environment, all stocks benefit from a valuation rerating as they enter a virtuous cash flow cycle. We believe the best way to extract maximum value is to pick a basket of stocks that delivers returns at every stage of the cycle. Our preferred stock mix comprises AIAE: TP Rs 3,100 (early-cycle play); LT: TP Rs 2,390 & KECI: TP Rs 500 (mid-cycle); and SIEM: TP Rs 3,400 & POWERIND: TP Rs 3,600 (late-cycle). We also initiate coverage on KEII with BUY and on ABB, KKC & TMX with HOLD ratings.

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	3,122	3,100	HOLD
AIAE IN	2,575	3,100	BUY
KECI IN	427	500	BUY
KEII IN	1,625	1,900	BUY
KKC IN	1,381	1,300	HOLD
LT IN	2,030	2,390	BUY
POWERIND IN	2,943	3,600	BUY
SIEM IN	2,870	3,400	BUY
TMX IN	2,160	2,100	HOLD

Price & Target in Rupees | Price as of 17 Nov 2022



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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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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