

July 13, 2021

Reasonable execution, muted inflows amid pandemic

Q1FY22E is likely to be a reasonable quarter for the capital goods universe in terms of execution amid the second wave impact while order inflows are expected to be muted owing to a delay in finalisation and order deferrals. Product companies are likely to post a decent quarter YoY on a low base, aided by some lockdown relaxations provided to the manufacturing & infrastructure sector having lesser impact on supply chain and dispatches. Larsen & Toubro (L&T) announced EPC orders in the range of ~₹ 4500 crore to ~₹ 10500 crore (as on date, ex-services segment) across water treatment, transportation, buildings & factories segments indicating muted order inflows for the quarter amid a challenging environment. In the T&D space, KEC has announced decent order inflows of ₹ 2900 crore aided by orders from T&D (domestic, international markets), railways, civil, etc, while Kalpataru Power (KPTL) has not yet announced any order as on date for the quarter. Thermax announced order inflows worth ~₹ 250 crore as on date for the quarter while a further pick-up in industrial capex would improve its order backlog to have revenue medium term visibility. Bharat Electronics (BEL) has not yet announced any order for the quarter.

Overall, order inflows are expected to remain muted as fragmented lockdowns due to second wave impacted project finalisations and led to project deferrals across segments. However, the order pipeline remains robust across T&D, green energy corridor, railways, transportation, water and infrastructure, etc, and are expected to be lumpy in H1FY22E. Key risks remain project delays/deferrals, lesser conversion of the tendering pipeline.

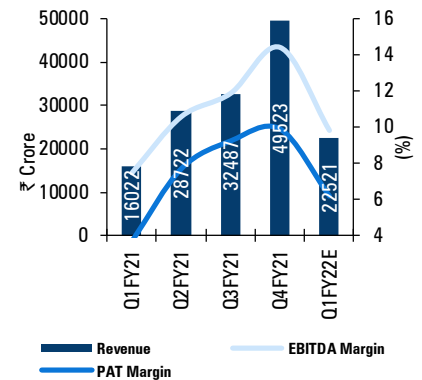
Revenue, EBITDA to grow 40.6%, 85%, respectively

Overall, the coverage universe revenue is expected to grow 40.6% YoY owing to reasonable execution amid low base at engineering and T&D companies like L&T, KEC, KPTL, BEL and Cochin Shipyard. The international business is likely to aid performance of companies like L&T, KEC, AIA, Elgi, etc. We expect EBITDA to grow 85% YoY owing to operating leverage in product companies and reasonable execution by EPC companies amid low base factoring in pandemic impact and higher commodity prices. Consequently, overall PAT is expected to grow 135.8% YoY accounting for other income, operating leverage and tax effect in the base quarter.

Reasonable execution on low base among EPC companies...

Overall, EPC companies are expected to post a reasonable performance on the execution front factoring in the second wave impact while margins are expected to see some impact owing to high commodity prices. Power T&D companies like KEC, KPTL are expected to report combined revenue, EBITDA, PAT growth of 8.8%, 0.5%, 12.3% YoY, respectively, aided by execution pick-up in key international markets. L&T (standalone, ex-E&A) is likely to report reasonable performance with revenue growth of 46.1% YoY to ₹ 11904.4 crore, EBITDA expected to grow 55.6% to ₹ 904.7 crore amid low base and reasonable execution and adjusted PAT (ex-E&A) expected to grow 114.5% at ₹ 604 crore partly aided by higher other income, lower interest expense. Thermax' revenue is expected to grow 43% while EBITDA is expected at ₹ 66.6 crore with margin of 7.0%. On the defence front, BEL is expected to report a better performance with revenue growth of 44.4% to ₹ 2412.2 crore while EBITDA is expected to grow 166.2% to ₹ 390.4 crore YoY. Cochin Shipyard is expected to report revenue, EBITDA growth of 109.3% while EBITDA is expected at ₹ 133.6 crore on a low base YoY.

Topline & Profitability (Cap. Goods Universe)



Top Picks

L&T
Bharat Electronics
Elgi Equipments
SKF India

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Focus on working capital, cash flows likely to continue...

Overall, EPC companies like L&T, KEC, KPTL, BEL and Cochin Shipyard are expected to remain focused on working capital and cash flow management amid reasonable execution factoring in second wave impact and focus on receivables collections. Companies with stronger balance sheets and cash flows like Thermax are well placed to gain the most from a gradual economic recovery. Product companies like Greaves Cotton, Timken India, Elgi Equipment, AIA Engineering, which have a strong balance sheet, zero debt and healthy cash balances are likely to benefit on the operational front with demand coming back as the economy inches back to normal.

Product companies likely to be aided by export markets....

In the bearing space, we see a sequential drop in revenues in the range of 20-30%. This is largely due to sluggish auto numbers in April and May caused by the second wave of the pandemic. We expect price hikes across manufacturers to curtail the impact of rising commodity prices, to an extent. However, we believe margins would dip on a QoQ basis due to negative operating leverage and the remaining spread between price hikes and commodity costs. Greaves Cotton is expected to report revenue growth of 131.5% while EBITDA is expected at ₹ 29.3 crore on low base and muted volumes in 3-W, 4-W space. Elgi Equipment is expected report revenue, EBITDA growth of 32.3%, 257.8%, respectively, owing to strong growth in international business and operating leverage. Companies like AIA Engineering are expected to report revenue, EBITDA growth of 12.4%, 5.7%, respectively, factoring in commodity price impact.

Company	Revenue			Change (%)			EBITDA			Change (%)			PAT			Change (%)		
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
AIA Engineering	652.5	12.4	-24.1	130.5	5.7	-22.9	111.8	-13.7	-16.4									
Bharat Electronics	2,412.2	44.4	-65.1	390.4	166.2	-80.2	225.4	316.7	-83.3									
Greaves Cotton	340.5	131.5	-25.5	29.3	NA	-38.1	15.4	NA	-34.7									
Elgi Equipments	378.5	32.3	-38.0	31.1	257.8	-60.8	10.3	NA	-76.3									
Kalpataru Power	1,588.3	8.9	-32.0	162.0	3.9	-33.3	87.5	26.9	-32.7									
KEC International	2,399.4	8.7	-45.0	190.7	-2.1	-46.2	69.4	-1.9	-64.3									
L&T	11,904.4	46.1	-60.0	904.7	55.6	-74.8	604.0	114.5	-75.5									
NRB Bearings	179.5	185.9	-30.2	21.5	NA	-53.9	9.2	NA	-73.6									
SKF India	638.3	111.9	-24.7	85.2	NA	-42.5	56.0	NA	-46.6									
Thermax Ltd	951.0	43.0	-39.6	66.6	NA	-52.3	44.2	NA	-58.8									
Timken India	380.9	137.7	-19.9	60.6	330.4	-30.3	34.1	982.1	-35.6									
Cochin Shipyard	695.9	109.3	-35.6	133.6	683.9	-48.1	119.6	180.4	-49.4									
Total	22,521.5	40.6	-54.5	2,206.2	85.0	-69.1	1,386.9	135.8	-71.6									

Source: Company, ICICI Direct Research

Company	Revenue			Change (%)			EBITDA			Change (%)			PAT			Change (%)		
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
NTPC Ltd	27,140.5	15.7	2.2	8,218.4	6.1	26.3	3,862.7	56.4	-13.8									
Power Grid	9,886.9	10.0	-0.6	8,651.1	9.8	-1.1	3,038.1	53.5	-13.6									
IEX	87.3	28.6	-6.9	71.4	48.4	-7.8	56.9	35.2	-6.5									
Total	37,114.7	14.2	1.4	16,940.9	8.1	10.5	6,957.7	54.9	-13.6									

Source: Company, ICICI Direct Research

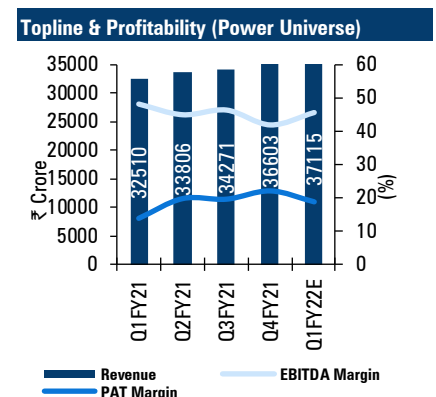


Exhibit 3: Company Specific Views (Capital Goods)

Company	Remarks
AIA Engineering	<p>For Q1FY22E, we expect AIA Engineering to report volume numbers at 59805 MT, up 12.5% YoY on a low base aided by business from repeat customers while the second wave of the pandemic may delay new customer engagements. We expect realisation at ₹ 105.6 per kg on account of a change in the product mix and foreign exchange. Consequently, revenue is expected to grow 12.4% to ₹ 652.5 crore. EBITDA is expected to grow ~5.7% to ₹130.5 crore with EBITDA margin of 20%. PAT is expected to decline 13.7% to ₹ 111.8 crore YoY partly impacted by lower margins and lower other income</p>
Bharat Electronics	<p>We expect BEL to report revenues at ₹ 2412.2 crore, up 44.4%, YoY on a low base amid some impact of second wave of pandemic on execution and supply chain. EBITDA margin is expected at 16.2% owing to product mix & execution pace, resulting in absolute EBITDA growing 166.2% YoY to ₹ 390.4 crore on a low base. Accordingly, we expect PAT to grow 316.7% YoY to ₹ 225.4 crore amid a low base. Overall, strong order backlog of ~₹ 53434 crore is likely to augur well in the long term</p>
Greaves Cotton	<p>For Q1FY22E, we expect Greaves Cotton to report muted 3-W & 4-W engine volumes at 35152 units owing to impact of second wave of pandemic in 3-W, 4-W space while non-auto volumes are likely to aid growth. New business initiatives and Ampere sales likely aided overall sales. Consequently, revenues are expected to grow 131.5% YoY on a very low base to ₹ 340.5 crore, EBITDA is expected at ₹ 29.3 crore with margins of 8.6% aided by cost rationalisation initiatives and factoring in high commodity prices while adjusted PAT is expected at ₹ 15.4 crore on a low base amid pandemic</p>
Elgi Equipments	<p>For Q1FY22E, Elgi Equipment is likely to see some impact on the domestic front amid lockdowns while international air compressor market is likely to report strong revenue growth as it is gradually ramping up in key markets. Consolidated revenues are expected to grow 32.3% YoY to ₹ 378.5 crore while EBITDA margin is expected at 8.2% leading absolute EBITDA to more than double to ₹ 31.1 crore factoring in impact of commodity prices and pandemic while PAT is expected at ₹ 10.3 crore aided by operating leverage and tax adjustments</p>
Kalpataru Power (KPTL)	<p>KPTL has not yet announced any new orders, as on date for the quarter. For Q1FY22E, KPTL is expected to report reasonable performance on the back of execution pick-up in key segments like T&D despite challenges. We expect revenues to grow 8.9% YoY to ₹ 1588.3 crore, as base quarter saw marginal impact of pandemic. EBITDA is expected to grow 3.9% to ₹ 162 crore with EBITDA margin expected at around 10.2% YoY factoring in impact of higher commodity prices and lockdowns. Adjusted PAT is expected grow 26.9% to ₹ 87.5 crore partly aided by lower interest cost and taxes in base quarter</p>
KEC International	<p>KEC announced new orders worth ~ ₹ 2900 crore, as on date for the quarter. For Q1FY22E, KEC is expected to report decent performance on revenue front in key segments like T&D, railways, Civil while SAE tower business to see muted execution. We expect revenues to grow 8.7% to ₹ 2399.4 crore, as base quarter was only marginally impacted by pandemic. EBITDA is expected to marginally decline 2.1% to ₹ 190.7 crore with EBITDA margin expected to see an impact of 90 bps to 7.9% YoY primarily due to change in business mix and higher commodity prices having substantial impact on SAE Tower business. PAT is expected to de-grow 1.9% to ₹ 69.4 crore YoY</p>

Source: ICICI Direct Research, Company

Exhibit 4: Company Specific Views (Capital Goods) Continued...

Company	Remarks
Larsen & Toubro (L&T)	<p>During Q1FY22E, EPC order inflows announced by L&T are in the range of ~₹ 4500-10500 crore (as on date, ex-services segment) across water treatment, transportation, buildings & factories segments indicating muted order inflows for the quarter amid challenging environment. We expect reasonable execution pick-up YoY amid a low base while work force mobilisation and supply chain disruptions are likely to have an impact on performance due to second wave of pandemic. In our view, working capital and cash flow management will be key monitorable. Consequently, we expect adjusted standalone revenue to grow 46.1% to ₹ 11904.4 crore on a low base. EBITDA is expected to grow 55.6% to ₹ 904.7 crore with margins expected to improve by 50 bps to 7.6% owing to better execution and adjusted PAT (ex-E&A) expected to grow 114.5% to ₹ 604 crore partly aided by higher other income, lower interest expense</p>
NRB Bearings	<p>NRB Bearings is expected to report a muted set of Q1FY22 numbers relative to Q4FY21 numbers amid state specific lockdowns and curbs due to the second Covid-19 wave. The numbers are not comparable YoY given lower base but we expect a decline QoQ. We estimate revenue at ₹ 179.5 crore, down 30.2% QoQ, up 185.9% YoY. We build in gross margins to the tune of 62% for the quarter vs. 63% in Q4FY21. Consequently, we arrive at EBIDTA margin estimate of 12% for the quarter. We see impact of higher commodity cost being curtailed to an extent by price hikes. Absolute EBIDTA is estimated at ₹ 21.5 crore, down 53.9% QoQ, led primarily by negative operating leverage. Following suit, we expect NRB to register adjusted PAT of ₹ 9.2 crore</p>
SKF India	<p>For SKF, we see domestic business performing weakly but exports should provide a bit of cushion. We built in revenue to the tune of ₹ 638.3 crore, down 24.7% sequentially. Sales for the same period in previous year were at ₹ 301.2 crore. We estimate gross margins at 39.3% for the quarter, down ~175 bps sequentially. Consequently, we expect EBIDTA margin of 13.4% during the quarter vs. 17.5% sequentially. Following suit, we expect EBIDTA to decline 42.5% QoQ to ₹ 85.2 crore. We estimate a PAT of ₹ 56 crore vs. ₹ 104.8 crore PAT in previous quarter and a loss of ₹ 25 lakh in Q1FY21</p>
Thermax	<p>For Q1FY22E, Thermax announced order inflows worth ~ ₹ 250 crore, as on date for the quarter. In terms of financial performance, we expect revenues to grow 43% to ₹ 951 crore on a low base factoring in impact of second wave of pandemic. We expect EBIDTA at ₹ 66.6 crore with EBIDTA margins at 7.0% factoring in pandemic and commodity price impact. Adjusted PAT is expected at ₹ 44.2 crore partly aided by tax adjustment in base quarter</p>
Timken India	<p>An overall weak quarter for auto, lagging CV segment should impact Timken's Q1FY22E performance. For Q1FY22E, we expect a revenue decline of 19.9% QoQ to ₹ 380.9 crore. Revenue for the same period last year was at ₹ 160.2 crore. We build in gross margins to the tune of 41.5% vs. 42.7% in Q4FY21. Consequently, we expect Timken to post an EBIDTA margin of 15.9% vs. 18.3% sequentially. Absolute EBIDTA is expected to decline 30% QoQ and come in at ₹ 60.6 crore. Our PAT estimate is at ₹ 34.1 crore, post a tax rate assumption of 26%</p>
Cochin Shipyard	<p>For Q1FY22E, we expect Cochin Shipyard to post a dismal performance as operations of the company were temporarily suspended for a large part in May. We build in revenue to the tune of ₹ 696 crore, down 36% QoQ. Revenue for the same period last year was at ₹ 332.5 crore. We expect negative operating leverage to have an impact on margins. Hence, our EBIDTA margin estimate is at 19.2% vs. 23.8% sequentially. Consequently, we expect absolute EBIDTA to decline 48% sequentially to ₹ 133.6 crore. Post a tax rate of 26%, we estimate PAT at ₹ 119.6 crore, down 49% sequentially</p>

Source: Company, ICICI Direct Research

Exhibit 5: Company Specific Views: (Power)

Company	Remarks
NTPC	Given recovery in demand, higher industry capacity addition and low base, Q1FY22 gross generation and energy sold is expected to grow 18.5% each to 71.3 billion units and 66.2 billion units, respectively. We expect revenues to grow 15.7% YoY to ₹ 27140.5 crores as we are building in tariff of ₹ 4.1/kWHR for the quarter. EBITDA is expected to grow 6.1% YoY to ₹ 8218.4 crore. Consequently, PAT is expected at ₹ 3862.7 crore
Power Grid	We expect Power grid to capitalise assets to the tune of ₹ 3000 crore in Q1FY22. The revenues are expected to grow 10% to ₹ 9868.9 crore. In terms of segmental performance, transmission revenues are expected to grow 7% to ₹ 9587.7 crore. EBITDA is expected to grow 10% to ₹ 8651.1 crore YoY. Consequently, PAT is expected at ₹ 3038.1 crore and is not comparable YoY on one offs in the base quarter
IEX	During the quarter, IEX reported a total volume of 21340 million units. We expect IEX to report revenue of ₹ 87.3 crore, up 28.6% YoY and down 6.9% QoQ. Our other income estimate is at ₹ 10 crore for the quarter. For the quarter, we expect IEX to report an EBITDA of ₹ 71.4 crore with a margin of 81.8% vs. 70.9% YoY and 82.6% QoQ. We estimate PAT at ₹ 56.9 crore, up 35.2% YoY

Source: Company, ICICI Direct Research

Exhibit 6: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1500	1,700	Buy	210480	81.9	44.5	52.8	18.3	33.7	28.4	7.4	7.6	8.8	18.7	9.8	11.0
AIA Engineering (AIAEN)	2072	2,275	Buy	19543	60.0	58.7	71.0	34.6	35.3	29.2	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1433	1,685	Buy	17075	17.3	26.8	37.0	82.7	53.6	38.7	9.8	12.5	15.9	7.6	9.8	12.4
Kalpataru Power(KALPC)	426	470	Buy	6591	40.3	32.6	40.5	10.6	13.1	10.5	15.6	14.8	16.2	12.4	11.3	12.6
KEC International (KECIL)	418	445	Buy	10747	21.2	24.1	33.6	19.7	17.3	12.4	19.2	19.7	22.5	16.2	16.7	19.3
Greaves Cotton (GREAL)	168	210	Buy	3884	0.4	4.7	6.5	374.9	35.4	25.7	6.5	16.5	21.9	3.3	12.0	16.0
Elgi Equipment (ELGEOI)	214	260	Buy	6782	3.2	4.3	6.5	66.2	50.2	33.2	11.7	13.7	18.7	11.8	14.8	19.2
Bharat Electronics (BH/)	181	205	Buy	44102	8.5	9.5	10.8	21.4	19.0	16.7	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCS)	388	500	Buy	5089	46.4	44.0	55.6	8.4	8.8	7.0	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2595	2,890	Buy	12913	60.2	75.0	88.0	43.1	34.6	29.5	24.8	27.0	26.0	19.0	20.0	20.0
Timken India (TIMIND)	1541	1,235	Hold	11729	19.0	31.2	35.3	80.9	49.4	43.7	15.4	19.4	21.9	11.9	14.8	16.8
NRB Bearing (NRBBEA)	147	175	Buy	1466	5.6	8.0	9.8	26.3	18.4	15.0	11.8	15.8	17.2	10.4	13.1	14.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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