January 10, 2022

Execution pick-up, decent order inflows expected…

Q3FY22E is likely to be a good quarter for the capital goods universe in terms of execution as most companies are likely to report marginal growth on pre-Covid levels while order inflows of EPC companies have seen a rebound QoQ. Product companies are likely to post a decent quarter YoY on a low base, aided by normalisation of supply chain and dispatches. Larsen & Toubro (L&T) announced EPC orders in the range of ~₹ 17500 crore to ~₹ 37500 crore (as on date, ex-services segment) across water treatment, heavy engineering, hydrocarbon, buildings & factories segments indicating decent order inflows for the quarter amid a challenges. In the T&D space, KEC has announced strong order inflows of ₹ 5630 crore aided by orders from T&D (domestic, international markets), railways, civil, etc, while Kalpataru Power (KPTL) has announced an order worth ₹ 1560 crore, as on date for Q3FY22. Thermax announced decent order inflows worth ~₹ 1376 crore as on date for Q3FY22 with a further pick-up in industrial capex to improve its revenue visibility. Bharat Electronics (BEL) has announced orders worth ~₹ 2400 crore.

Overall, order inflows are expected to remain decent, with some project deferrals across key segments to Q4FY22. 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 Q4FY22E. Key risks remain project delays/deferrals, lower conversion rate.

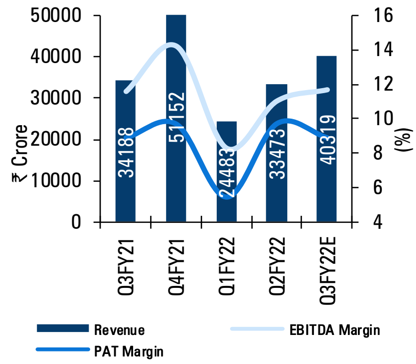
Revenue, EBITDA to grow 17.9%, 18.9%, respectively

Overall, the coverage universe revenue is expected to grow 17.9% YoY owing to execution pick-up at engineering and T&D companies like L&T, KEC, KPTL, BEL and Cochin Shipyard. The international business and exports likely to aid performance of companies like L&T, KEC, AIA, Elgi, ABB etc. We expect EBITDA to grow 18.9% YoY owing to operating leverage in product companies and execution pick-up by EPC companies factoring in pandemic impact and higher commodity prices. Consequently, overall PAT is expected to grow 18% YoY accounting for other income, operating leverage and tax effect in the base quarter.

Execution pick-up expected among EPC companies…

Overall, EPC companies are expected to post a good performance on the execution front factoring in pandemic 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 16.8%, 4.3%, -0.8% YoY, factoring in higher commodity prices and execution pick-up in key international markets. L&T (standalone, ex-E&A) is likely to report decent performance with revenue growth of 10% YoY to ₹ 21588.4 crore, EBITDA expected to grow 10.6% to ₹ 2061.7 crore amid low base and execution pick-up and adjusted PAT (ex-E&A) expected to grow 5.8% at ₹ 1803 crore partly aided by higher other income, lower interest expense. Thermax' revenue is expected to grow 11.6% while EBITDA is expected at ₹ 125.9 crore with margin of 8.0%. On the defence front, BEL is expected to report a better performance with revenue growth of 73.9% to ₹ 3993.1 crore on a very low base while EBITDA is expected to double to ₹ 895 crore YoY. Cochin Shipyard is expected to report revenue growth of 13.4% while EBITDA is expected at ₹ 213.2 crore, down 32.6% YoY on a high base.

Topline & Profitability (Cap. Goods Universe)



Top Picks

L&T
Bharat Electronics
Elgi Equipments
ABB India
SKF INdia

Research Analysts

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

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 better execution and focus on receivables collections. Companies with stronger balance sheets and cash flows like are well placed to gain the most from a gradual economic recovery. Product oriented companies like SKF India, ABB India, Elgi Equipment, AIA Engineering, which have a strong balance sheet, zero debt and healthy cash balances are likely to benefit as demand gradually coming back to normal.

Product companies' performance likely to be aided by exports.

For our bearings coverage universe, we see a sequential increase in revenues in the range of 7-10%. This is largely due to better performance in auto sector in Q3FY22 coupled with reasonable execution in Industrial activities. Price hikes across manufacturers in the recent quarters have helped the manufacturers to curtail the impact of rising commodity prices, to an extent, and we believe that gross margins should remain range bound due to stable raw material prices in recent quarter. We also believe EBITDA margins will improve on a QoQ basis due to positive operating leverage and thus improving PAT margins. Greaves Cotton is expected to report revenue, EBITDA de-growth of 6.1%, 46.6%, respectively, with muted engine volumes in conventional 3-W, 4-W space while EV business is expected to deliver strong sales performance. Elgi Equipment is expected to report revenue, EBITDA growth of 21%, 36.5%, respectively, owing to strong growth in international business. Companies like AIA Engineering are expected to report revenue, EBITDA growth of 29.7%, 10.5%, respectively, factoring in revival in volumes, commodity price impact. ABB India is expected to report revenue and EBITDA growth of 31.1% and 122.5% on a very low base and improved margins.

Exhibit 1: Estimates for Q3FY22E: (Capital Goods) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ
AIA Engineering	906.5	29.7	2.4	190.4	10.5	17.6	160.9	1.1	16.9
Bharat Electronics	3,993.1	73.9	9.1	895.0	103.3	4.5	619.0	136.4	1.1
Greaves Cotton	410.1	-6.1	44.4	28.7	-46.6	NA	15.9	-49.5	NA
Elgi Equipments	662.0	21.0	1.5	83.9	36.5	4.7	51.4	48.4	-0.5
Kalpataru Power	2,103.6	5.5	30.0	206.1	-0.4	35.6	120.1	-11.9	100.7
KEC International	4,067.3	23.7	13.4	321.1	7.5	27.0	159.2	9.7	98.2
L&T	21,588.4	10.0	26.5	2,061.7	10.6	47.0	1,803.0	5.8	2.5
NRB Bearings	276.8	13.1	7.9	49.6	15.0	4.8	27.2	16.9	11.6
SKF India	1,049.5	28.2	8.6	169.5	-6.0	6.1	122.0	-4.8	3.7
Thermax Ltd	1,574.2	11.6	7.1	125.9	-14.7	14.5	96.8	-6.7	10.2
Timken India	608.7	58.7	9.1	129.7	93.2	4.7	83.2	123.8	5.1
Cochin Shipyard	849.3	13.4	22.0	213.2	-32.6	29.7	166.9	-25.4	27.1
ABB India Ltd	2,229.4	31.1	25.4	228.3	122.5	35.1	169.3	194.1	41.2
Total	**40,318.9**	**17.9**	**20.5**	**4,703.1**	**18.9**	**27.6**	**3,594.9**	**18.0**	**10.2**

Source: Company, ICICI Direct Research

Exhibit 2: Estimates for Q3FY22E: (Power) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ
NTPC Ltd	27,059.6	10.4	-4.5	7,926.4	7.6	9.7	3,701.1	11.6	15.2
Power Grid	10,653.9	10.1	7.3	9,300.8	9.9	5.9	3,369.6	1.4	0.9
IEX	116.2	36.4	5.3	99.2	42.5	4.4	80.5	38.5	4.0
Total	**37,829.7**	**10.4**	**-1.4**	**17,326.4**	**9.0**	**7.6**	**7,151.2**	**6.8**	**7.9**

Source: Company, ICICI Direct Research

Topline & Profitability (Power Universe)

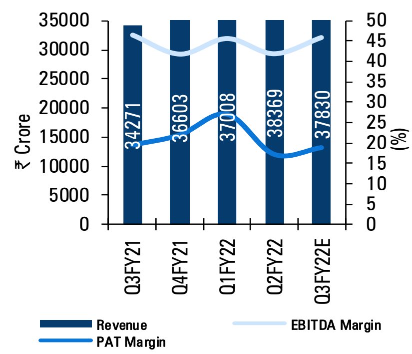


Exhibit 3: Company Specific Views (Capital Goods)

Company	Remarks
AIA Engineering	For Q3FY22E, we expect AIA Engineering to report volume numbers at 69202 MT, up 6.2% YoY owing to revival in business from new customers amid pandemic. We expect realisation at ₹ 125.5 per kg, up 19% on account of a change in the product mix and price pass-through. Consequently, revenue is expected to grow to ₹ 906.5 crore, up 29.7% YoY. EBITDA is expected to grow by ~10.5% to ₹190.4 crore with EBITDA margin of 21% while PAT is expected to grow by 1.1% to ₹ 160.1 crore YoY factoring in lower margins and higher other income
Bharat Electronics	We expect BEL to report revenues at ₹ 3993 crore, up 73.9%, YoY on a low base with improved execution and supply chain. EBITDA margin is expected at 22.4% owing to product mix & execution pace, resulting in absolute EBITDA growing 103.3% YoY to ₹ 895 crore. Accordingly, we expect PAT to grow 136.4% YoY to ₹ 619 crore amid a low base. BEL orders worth ₹ 2400 crore as on date for the quarter. Overall, strong order backlog of ~₹ 54627 crore is likely to augur well in the long term
Greaves Cotton	For Q3FY22E, we expect Greaves Cotton to report 3-W & 4-W engine volumes at ~30675 units owing to slowdown in conventional 3-W, 4-W space. Non-auto volumes are likely to continue the growth momentum. New business initiatives and Ampere sales to register strong growth amid new capacity addition. Consequently, standalone revenues are expected to decline 6.1% YoY to ₹ 403.6 crore, EBITDA is expected at ₹ 410.1 crore with margins of 7.0% factoring in high commodity prices and cost rationalisation initiatives while adjusted PAT is expected at ₹ 15.9 crore amid impact on margins
Elgi Equipments	For Q3FY22E, Elgi Equipment is likely to sustain the growth revival in domestic performance 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 21% YoY to ₹ 662 crore while EBITDA margin is expected at 12.7% leading absolute EBITDA growth of 36.5% to ₹ 83.9 crore factoring in margin improvement amid better demand while PAT is expected at ₹ 51.4 crore, up 48.4% factoring in operating leverage and tax adjustments
Kalpataru Power (KPTL)	KPTL has announced new orders worth ₹ 1560 crore, as on date for the quarter. For Q3FY22E, 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 5.5% YoY to ₹ 2103.6 crore, as base quarter saw marginal impact of pandemic. EBITDA is expected to decline marginally by 0.4% to ₹ 206.1 crore with EBITDA margin expected at around 9.8% YoY factoring in impact of higher commodity prices. Adjusted PAT is expected decline 11.9% to ₹ 120.1 crore factoring in lower interest cost, taxes and other income in base quarter
KEC International	KEC announced robust orders inflows worth ~ ₹ 5630 crore, as on date for the quarter. For Q3FY22E, KEC is expected to report good performance on revenue front in key segments like T&D, railways, civil while SAE Tower business to see muted execution amid cost overrun and commodity price impact. We expect revenues to grow 23.7% on YoY to ₹ 4067.3 crore. EBITDA is expected to grow 7.5% to ₹ 321.1 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 substantially impacting SAE Tower business. Adjusted PAT is expected to grow 9.7% to ₹ 159.2 crore YoY

Source: ICICI Direct Research, Company

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

Company	Remarks
Larsen & Toubro (L&T)	During Q3FY22E, EPC order inflows announced by L&T are in the range of ~₹ 17500-37500 crore (as on date, ex-services segment) across water treatment, heavy engineering, hydrocarbon, buildings & factories segments indicating decent order inflows for the quarter amid challenging environment. We expect decent execution pick-up YoY amid gradual work force mobilisation during Q3FY22. In our view, working capital and cash flow management will be key monitorable. Consequently, we expect adjusted standalone revenue to grow 10% to ₹ 21588.4 crore on a low base. EBITDA is expected to grow 10.6% to ₹ 2061.7 crore with margins expected remain stable at 9.5% owing to better execution and adjusted PAT (ex-E&A) expected to grow 5.8% to ₹ 1803 crore partly aided by lower interest expense and tax adjustments in base quarter
NRB Bearings	NRB Bearings is expected to report a decent set of numbers in Q3FY22E both YoY and QoQ, on account of decent recovery in auto segment (CV and PV) and good traction from EV segment. We estimate revenue at ₹ 276.8 crore, up 7.9% QoQ and 13.1% YoY. We build in gross margins to the tune of 61.5% for the quarter vs 62.2% in Q2FY22 and 62.8% in Q2FY21, Steady margins are due to stable raw material prices and price hikes in recent quarter by the company. Consequently, we arrive at EBIDTA margin estimate of 17.9% for the quarter vs. 18.4% in Q2FY22. Absolute EBIDTA is estimated at ₹ 49.6 crore, up 14.8% YoY and 4.4% QoQ. Hence, we expect NRB to register adjusted PAT of ₹ 27.2 crore
SKF India	For SKF, we see domestic and exports business doing decent mainly due to reasonable execution in industrial activities. We built in revenue to the tune of ₹ 1049.5 crore, up 8.6% QoQ and up 28.2% YoY. We expect Industrial segment to grow by 9% and Automobile segment to grow about 4.5%. We estimate gross margins at 37.9% for the quarter, down ~65 bps sequentially. Consequently, we expect EBIDTA margin of 16.2% during the quarter vs 16.5% sequentially. Following suit, we expect EBIDTA to increase 6.6% QoQ to ₹ 169.5 crore. We estimate a PAT of ₹ 122 crore vs ₹ 117.6 crore in Q2FY22
Thermax	For Q3FY22E, Thermax announced order inflows worth ~ ₹ 1376 crore in FGD segment, as on date for the quarter. In terms of financial performance, we expect revenues to grow 11.6% to ₹ 1574.2 crore amid normalised execution. We expect EBITDA at ₹ 125.9 crore with EBITDA margins at 8.0% factoring in change in business mix and commodity price impact. Adjusted PAT is expected at ₹ 96.8 crore partly aided by higher other income
Timken India	An overall decent quarter for automobiles (CV, PV) should boost up Timken's Q3FY22E performance. For Q3FY22E, we expect revenue increase of 9.1% QoQ to ₹ 608.7 crore as ₹ 557.9 crore in Q2FY22. Revenue for the same period last year was at ₹ 392.2 crore. (YoY, the numbers are not comparable given lower base). We build in gross margins of 44.1% vs. 44.3% in Q2FY22. Consequently, we expect an EBIDTA margin of 21.8% vs. 22.1% sequentially. Absolute EBITDA is expected to be around ₹ 133.9 crore compared to ₹ 123.7 crore in Q2FY22. Our PAT estimate is at ₹ 86.37 crore, post a tax rate assumption of 26%
Cochin Shipyard	For Q3FY22E, we expect Cochin Shipyard to post a better set of results as operations of the company are coming back on track. We build in revenue to the tune of ₹ 849.3 crore, up 13.4% YoY and 22% QoQ. Our EBIDTA margin estimate is at 25.2% vs. 23.2% QoQ and 42.2% YoY (Margins were higher in Q3FY21 due to negative change in Inventory). Consequently, we expect absolute EBIDTA to be around ₹ 213.1 crore. Post a tax rate of 26%, we estimate PAT at ₹ 166.9 crore, up ~26.3% as compared to the last quarter
ABB India	For Q4CY21E (Q3FY22E), ABB India is likely to sustain the growth revival as it is gradually ramping up in key markets with enhanced product and service portfolio. Revenues are expected to grow 31.1% YoY to ₹ 2229.4 crore while EBITDA margin is expected at 10.2% factoring in significant improvement owing to resolution of legacy projects in process automation business and better demand in other businesses while PAT is expected at ₹ 169.3 crore, up 194.1% on low base

Source: Company, ICICI Direct Research

Exhibit 5: Company Specific Views (Power)

Company	Remarks
NTPC	On the baOn the back of reasonable capacity addition in FY20-9MFY22, we expect NTPC to report 8.7% YoY growth in gross generations at 71.1 billion units. Similarly, energy sold is expected to exhibit growth of 8.7% at 66 BUs for Q3FY22E. We expect NTPC to report revenues of ₹ 27059.6crore up 10.4% as we have built in tariff of ₹4.1/ kWhr. Consequently, PAT is expected at ₹ 3701.1 crore. Key monitorable would be the roadmap on the capacity addition on the renewable energy front
Power Grid	We expect Power Grid to report an asset capitalisation of ₹ 5000 crore for Q3FY22E. Given robust rate of asset addition in the base business, we expect transmission revenues to grow 8% YoY to ₹ 10316 crore. On a whole, overall revenues are expected to grow 10.1% to ₹ 10653.9 crore. EBITDA is expected to remain steady at ₹ 9300.8 crore up 9.9% YoY. Consequently, we expect PAT at ₹ 3369 crore for Q3FY22E. Key monitorables will be the management roadmap on new areas of business like distribution business and data centres
IEX	HiHigh electricity demand during the quarter and resumption of RECs trading has helped IEX to report a total volume of 27676 million units vs 25856 million units last quarter, growth of 7.1%. We expect IEX to report revenue of ₹ 116.24 crore, up 36.38% and 5.31% YoY and QoQ subsequently. Our other income estimate is at ₹ 12.1 crore for the quarter. For the quarter, we expect IEX to report an EBIDTA of ₹ 99.15 crore with a margin of 85.3% vs. 81.65% YoY and 86.1% QoQ. We estimate PAT at ₹ 80.4 crore, up 38.39% YoY and 4.1% QoQ

Source: Company, ICICI Direct Research

Exhibit 6: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1933	2,150	Buy	271239	81.9	51.9	52.9	23.6	37.2	36.5	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2289	2,550	Buy	81516	29.5	37.3	45.0	77.6	61.4	50.9	13.9	15.9	17.4	10.1	11.7	12.9
AIA Engineering (AIAENG)	1848	2,230	Buy	17430	59.7	60.4	69.7	30.9	30.6	26.5	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1930	1,800	Buy	22997	17.3	26.7	40.0	111.3	72.4	48.3	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	383	455	Hold	5926	41.3	25.8	37.8	9.3	14.8	10.1	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	481	550	Buy	12367	21.5	19.9	32.3	22.4	24.1	14.9	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	197	150	Hold	4555	0.4	2.4	5.4	439.6	80.6	36.6	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	347	260	Buy	10997	3.2	3.9	6.2	107.3	89.2	56.4	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	210	250	Buy	51168	8.5	9.6	11.3	24.8	21.8	18.6	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	349	500	Buy	4746	46.4	44.0	55.6	7.5	7.9	6.3	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3961	3,960	Buy	19580	67.6	78.1	98.9	58.6	50.7	40.1	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	2063	2,240	Hold	15400	19.0	30.8	40.0	108.4	67.0	51.6	13.7	19.4	25.1	10.7	15.1	19.6
NRB Bearing (NRBBEA)	182	220	Buy	1775	5.6	8.2	9.8	30.2	20.6	17.3	11.8	15.8	16.8	10.4	13.4	13.9
Action Construction (ACTCON)	234	320	Buy	2644	7.1	9.7	13.9	33.0	24.1	16.8	26.9	22.3	26.2	15.3	14.9	17.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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