July 10, 2020

Execution, inflows expected to be subdued amid lockdown

Q1FY21E is likely to be subdued for the capital goods universe in terms of order inflows, execution that was affected by labour migration, lockdowns due to Covid-19. L&T has announced orders ranging at ₹ 2500-5000 crore (ex-services) across transportation infrastructure, water treatment business but is expected to see subdued order inflows considering crude oil crash, project delays/deferrals amid domestic slowdown and less-than-expected conversion of the tendering pipeline.

KEC, Bharat Electronics (BEL), Thermax are likely to see muted order inflows as they have not yet announced any new order as on date for the quarter owing to less-than-expected public sector and government order conversions and weaker private capex amid lockdowns. Thermax' core order inflows continue to remain sluggish and pose concerns for an already ailing order backlog. Overall, order inflows were impacted by a delay in tendering/awarding amid domestic, global lockdowns due to Covid-19 while crude oil price crash would impact orders in hydrocarbon space.

Revenue to decline 43.4% with EBITDA declining 61.7%...

Overall, the coverage universe revenue is expected to decline 43.4% YoY owing to slower execution rates at engineering and T&D companies like L&T, KEC, Cochin Shipyard. The exports business is likely to provide some cushion to companies like L&T, KEC, AIA, etc. We expect EBITDA to de-grow 61.7% YoY mainly due to expected margin pressure amid Covid-19, auto & industrial slowdown and slower execution leading to negative operating leverage. Consequently, overall PAT is expected to fall 68.8% YoY factoring in the dismal performance of product companies and aided by tax cut benefit.

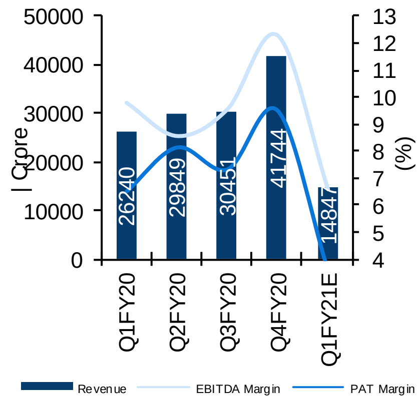
Weak performance expected among EPC companies…

Overall, EPC companies are expected to post a weaker performance. Power T&D EPC company KEC is expected to report revenue, EBITDA, PAT decline of 35.1%, 51.4%, 74.1% YoY, respectively, due to lockdowns and labour migration issues. L&T (standalone, ex-E&A) is likely to report a weak performance with revenue expected to decline 46.3% YoY to ₹ 8865.7 crore, EBITDA to decline 58.5% to ₹ 505.3 crore and adjusted PAT expected to decline 63.6% at ₹ 323.6 crore. Thermax' revenue, EBITDA are expected to de-grow 48.6%, 71.1%, respectively, owing to slower execution, dispatches held. On the defence front, BEL is expected to report revenue decline of 17.2% to ₹ 1739.8 crore while PAT is expected to de-grow 47.6% to ₹ 107.2 crore YoY. Cochin Shipyard is expected to report revenue, EBITDA decline of 45.5%, 73.1% YoY, respectively, owing to slower execution in shipbuilding and ship repair activities.

Working capital, cash flows to be key monitorables…

Overall, EPC companies like L&T, KEC, BEL and Cochin Shipyard are expected to continue to face working capital and cash flow challenges amid increasing receivables, vendor support and slower pace of execution. Thermax is expected to have some cushion owing to stronger balance sheet and cash flows to manage the situation in near term. Product companies like Greaves Cotton, Timken India, Elgi Equipment, AIA Engineering having a strong balance sheet, zero debt and healthy cash balances that are likely to give some cushion to face challenges like economic slowdown, demand/supply disruptions and stress on working capital in the medium term.

Topline & Profitability (Capital Goods Universe)



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L&T
Bharat Electronics
Thermax

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Product companies likely to post dismal performance…

Bearing companies are expected to follow suit with the domestic auto segment affected by lockdown & depressed auto demand. We expect a fall in revenue by 58.9%, 54.8% & 59.1% YoY for NRB, SKF & Timken, respectively. Greaves Cotton is expected to report a revenue decline of 63.1% while EBITDA is expected to decline 86.5%, owing dismal volumes. Elgi Equipment is expected report revenue, EBITDA decline of 34.4%, 62.1%, respectively owing to disrupted activities. Companies like AIA Engineering are expected to report revenue, EBITDA decline of 37.2%, 57.4%, respectively.

Exhibit 1: Estimates for Q1FY21E: (Capital Goods) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ
AIA Engineering	460.2	-37.2	-46.3	71.8	-57.4	-61.1	61.8	-58.2	-56.3
Bharat Electronics	1,739.8	-17.2	-70.0	208.6	-40.1	-85.9	107.2	-47.6	-89.6
Greaves Cotton	175.8	-63.1	-51.1	8.3	-86.5	-73.0	0.8	-97.9	-94.2
Elgi Equipments	306.0	-34.4	-32.7	15.6	-62.1	-42.3	-0.1	-100.4	-105.9
KEC Internnationa	1,566.5	-35.1	-57.3	122.1	-51.4	-67.1	22.9	-74.1	-88.1
L&T	8,865.7	-46.3	-67.5	505.3	-58.5	-80.7	323.6	-63.6	-85.6
NRB Bearings	85.4	-58.9	-54.4	-5.3	-120.7	-134.2	-16.8	-293.2	-501.2
SKF India	351.0	-54.8	-42.5	-14.0	-111.7	-122.7	-15.1	-119.4	-120.1
Thermax Ltd	716.4	-48.6	-45.9	28.7	-71.1	-54.9	22.0	-65.0	-43.7
Timken India	178.9	-59.1	-55.9	3.6	-96.2	-96.2	-8.6	-117.1	-114.1
Cochin Shipyard	400.9	-45.5	-50.9	38.1	-73.1	-76.6	34.0	-71.7	-75.5
Total	**14,846.5**	**-43.4**	**-62.8**	**982.8**	**-61.7**	**-79.4**	**531.7**	**-68.8**	**-85.5**

Source: Company, ICICI Direct Research

Power

Exhibit 2: Estimates for Q1FY21E: (Power) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ
NTPC Ltd	22,193.8	-8.3	-18.5	5,520.1	-14.4	-24.6	2,082.6	-20.0	66.3
CESC Ltd	1,875.4	-20.5	18.5	331.5	-25.0	32.1	137.6	-36.6	-44.9
Total	**24,069.2**	**-9.3**	**-16.5**	**5,851.5**	**-15.1**	**-22.7**	**2,220.3**	**-21.3**	**47.8**

Source: Company, ICICI Direct Research

Topline & Profitability (Power Universe)

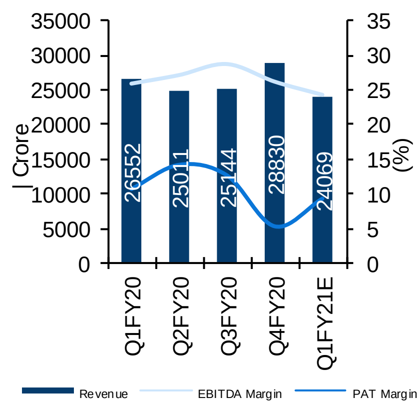

Exhibit 3: Company Specific Views (Capital Goods)

Company	Remarks
AIA Engineering	In Q1FY21E, we expect AIA Engineering to report volume numbers at 42179 MT with 33.7% YoY decline owing to domestic lockdown and partial resumptions amid Covid-19 outbreak. Total 70% of revenue comes from export markets, which is likely to cushion volume declined compared to stringent domestic lockdowns that have disrupted business activities. We expect realisation at ₹ 102 per kg on account of a change in the product mix and foreign exchange. Consequently, revenue is expected to decline 37.2% to ₹ 460.2 crore. EBITDA is expected to decline ~57.4% to ₹ 71.8 crore with EBITDA margin of 15.6%. PAT is expected to decline 58.2% to ₹ 61.8 crore
Bharat Electronics	We expect BEL to report revenues at ₹ 1739.8 crore with decline of 17.2%, YoY on the back of supply chain disruption affecting execution. EBITDA margin is expected to decline 12.0% vs. 16.6%, YoY owing to product mix, resulting in absolute EBITDA decline of 40.1% YoY to ₹ 208.6 crore. However, execution/acceptance of some projects may get affected due to the Covid-19 outbreak. Accordingly, we expect PAT to fall 47.6% YoY to ₹ 107.2 crore. It has not announced any orders as on date for the quarter. Overall, strong order backlog of ₹ 51970 crore is likely to augur well for BEL in long term
Greaves Cotton	For Q1FY21E, we expect Greaves Cotton to report subdued 3W & 4W engine volumes at 22405 units owing to a slump in auto sales, weakness in domestic demand amid lockdowns due to Covid-19 outbreak. New business initiatives and Ampere sales may face relatively less decline. Consequently, revenues are expected to de-grow 63.1% YoY to ₹ 175.8 crore, EBITDA is expected to decline 86.5% to ₹ 8.3 crore with subdued margins of 4.7% while adjusted PAT is expected to decline 97.9% YoY to ₹ 0.8 crore
Elgi Equipment's	For Q1FY21E, Elgi Equipments is likely to post a weak performance on the domestic front given the lockdown adding to already ailing industrial activities while international air compressor market is likely to aid revenues as it is gradually ramping up. Consolidated revenues are expected to de-grow 34.4% YoY to ₹ 306 crore while EBITDA margin is expected to decline to 5.1% YoY leading absolute EBITDA to decline 62.1% YoY to ₹ 15.6 crore while it is expected to report a net loss of ₹ 0.1 crore (vs. PAT of ₹ 17 crore in Q1FY20)
KEC International	KEC has not yet announced any new order as on date for the quarter. For Q1FY21E, however, some deferred revenues of Q4FY20 may get booked in this quarter. International markets of KEC such as Brazil, Mexico, Dubai are expected to fare better than domestic markets. We expect revenues to de-grow 35.1% to ₹ 1566.5 crore. EBITDA is expected to decline 51.4% to ₹ 122.1 crore with EBITDA margin expected to see impact of 250 bps to 7.9% YoY. PAT is expected to decline 74.1% to ₹ 22.9 crore

Source: ICICI Direct Research, Company

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

Company	Remarks
L&T	During Q1FY21E, L&T has announced order inflows within the range of ₹ 2500-5000 crore (as on date, ex-services segment) across transportation infrastructure and water effluent segments. India and global lockdowns amid Covid-19, crude oil price crash, labour migration issue will have an impact on order execution and order inflows. In our view working capital situation will be key monitorable. Consequently, we expect adjusted standalone revenue (ex E&A as discontinued operations) to fall 46.3% to ₹ 8865.7 crore. EBITDA is expected to fall 58.5% to ₹ 505.3 crore with margin down 170 bps to 5.7% and adjusted PAT expected to decline 63.6% to ₹ 323.6 crore
NRB Bearings	NRB's Q1FY21E performance is expected to be a washout given a complete lockdown in April and partial operations in May at 20% to 30% of normal capacity coupled with already weak auto cycle. Thus, we expect NRB's Q1FY21E revenues to come in at 85.4 crore, down 59% YoY and 54% sequentially. With production being at a standstill during a third of the quarter, operating profitability and margins are expected to take a hit on account of fixed overheads. Building onto this, we estimate an EBIDTA loss of ₹ 5.3 crore for NRB in Q1. Hence, we expect a net loss of ₹ 16.8 crore
SKF India	SKF's Q1FY21E performance is expected to follow suit with the domestic auto segment affected by lockdown and depressed domestic demand. Revenue is expected to slide 55% YoY and 42.5% QoQ, coming in at ₹ 351 crore. We do not expect much decline in SKF's employee expenses but other expenses would be cushioned by lower power costs & other variable expenses. Negative operating leverage is expected take a toll on the operating profitability. Thus, we foresee SKF registering an EBIDTA loss of ₹ 14 crore. Hence, given a weak operating performance, we expect a net loss of ₹ 15.1 crore for the quarter
Thermax	For Q1FY21E, Thermax' order inflow is expected to remain a washout. All factories are running at 25% to 55% of pre-Covid levels, which will take a toll on execution. In terms of financial performance, we expect revenues to decline 48.6% to ₹ 716.4 crore. Some relief may come in the form of deferred revenue booking of Q4FY20 to the tune of ₹ 250-300 crore. We expect EBITDA to decline 71.1% to ₹ 28.7 crore with EBITDA margins expected to decline 310 bps to 4.0% on a YoY basis. Adjusted PAT is expected to decline 65% to₹ 22 crore with PAT margin of 3.1%
Timken India	For Q1FY21E, we estimate Timken's revenue at ₹ 178.9 crore, down 59% YoY and 56% QoQ. Decline in revenue is primarily led by lockdown that has impacted all segments. However, we expect mobility segment to be the hardest hit on account of ~90% decline in CV sales across the board in Q1FY21E. Under absorption of fixed overheads would negatively impact EBIDTA. Thus, we expect EBIDTA of ₹ 3.6 crore in Q1FY21, down 96% YoY. We, expect a net loss of ₹ 8.6 crore
Cochin Shipyard	CSL resumed production activities from May 6 at the Kochi unit (90% of turnover). Business was impacted on account of supply chain issues, delay in operational projects & lockdown. Taking cognizance of the above, we expect a 45% decline in CSL's Q1FY21E revenue, estimated at ₹ 400.9 crore. We expect employee expenses at normal levels as CSL has paid full salary to all the direct employees during lockdown period. EBIDTA is expected at ₹ 38.1 crore, implying an EBIDTA margin of 9.5% vs. 19.3% YoY. There will be no additional impact of liquidated damages for operational projects as the company has invoked Force Majeure clause available in all the contracts. Absolute PAT is expected at ₹ 34 crore, down 72% YoY

Source: Company, ICICI Direct Research

Exhibit 5: Company Specific Views: (Power)

Company	Remarks
NTPC	NTPC's operations have been relatively better than the sectoral average as we expect gross generations to decline 12.9% to 59.67 billion units (BUs) whereas energy sold is expected to decline 12.8% to 55.5 BUs. We build in realisations of ₹ 4/kWHR. We expect revenues at ₹ 22193.8 crore and PAT at ₹ 2082.6 crore. The key monitorable would be the accounting treatment for the rebate to be offered to discoms and the deterioration of receivables during Q1FY21E on account of inability of SEBs to pay during lockdown
CESC	Given the lockdown, CESC's standalone generation is expected to decline 22.6% in Q1FY21E to 132.9 crore units. The energy sold is likely to decline 19.8% to ₹ 245.1 crore units. We build in realisations of ₹ 7.65/kWHR. Revenues are expected to decline 20.1% to ₹ 1875.4 crore. We expect receivables to stretch on account of lockdown, which will lead to higher outgo on interest costs at ₹ 145 crore vs. ₹ 130 crore in Q1FY20. In contrast, generation performance of other power subsidiaries was relatively better than the sector. Dhariwal Infra is likely to post 6.9% growth in generation in Q1FY21E

Source: Company, ICICI Direct Research

Exhibit 6: ICICI Direct coverage universe (Capital Goods)

Company	CMP	TP		M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E
L&T (LARTOU)	930	1,090	Hold	130498	45.1	23.2	45.2	20.6	40.1	20.6	6.6	3.8	7.4	11.7	5.9	10.7
AIA Engineering (AIAI	1650	1,705	Hold	15,563	62.8	36.0	58.8	26.3	45.9	28.1	18.7	10.5	15.6	16.0	8.5	12.7
Thermax (THERMA)	784	830	Hold	9,342	17.8	10.6	27.6	44.0	73.8	28.4	13.7	6.3	14.7	7.7	4.5	10.9
KEC International (KE(	271	220	Hold	6,967	22.0	20.2	22.0	12.3	13.4	12.3	22.3	18.5	18.8	20.2	16.0	15.2
Greaves Cotton (GRE	86	75	Hold	1,877	6.8	2.8	5.4	12.7	31.2	16.1	21.4	9.4	18.4	15.7	7.0	13.8
Elgi Equipment (ELGE(	156	160	Hold	2,472	2.7	0.1	6.2	58.0	1,472.8	25.2	6.7	1.5	11.5	5.5	0.2	11.9
Bharat Electronics (BI	98	100	Hold	24,366	7.4	6.5	7.5	13.3	15.0	13.2	25.9	21.6	22.6	18.8	15.4	16.1
Engineers India (ENGI	72	92	Buy	4,550	6.8	6.7	8.0	10.6	10.8	9.1	22.6	19.3	21.0	17.8	16.9	19.4
Cochin Shipyard (CO(	327	370	Buy	4,311	48.5	32.2	40.9	6.4	9.6	7.6	17.6	12.4	13.9	17.1	10.9	12.7
SKF (SKFIND)	1757	1390	Hold	8,680	58.5	36.0	55.6	24.7	40.2	26.0	20.3	17.4	23.2	15.2	12.9	17.7
Timken India (TIMIND)	1021	820	Buy	7,740	29.3	20.5	27.4	23.3	33.4	24.9	16.8	12.9	14.3	14.3	9.1	11.0
NRB Bearing (NRBBE,	81	55	Hold	782	2.9	2.7	3.7	20.3	21.8	15.7	8.1	7.6	9.3	5.7	5.2	7.0

Source: Company, ICICI Direct Research

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