ICICI direct Research

July 8, 2022

Execution to improve in Q1FY23E…

For Q1FY23E, all EPC companies under our coverage are expected to witness moderate order inflows with improved execution. Larsen & Toubro (L&T) announced EPC orders in the range of ~₹ 7000-15000 crore (as on date, ex-services segment) across railway, hydrocarbon, power T&D, water treatment, heavy engineering, buildings & factories segments. In the T&D space, KEC has announced decent order inflows of ₹ 2239 crore aided by orders from T&D (domestic, international markets), railways, civil, etc.

Overall, order inflows are expected to remain decent, with some project deferrals across key segments to Q1FY23E. However, the order pipeline remains robust across T&D, green energy corridor, data centres, railways, transportation, water and infrastructure, etc. Key risks remain project delays/deferrals, lower conversion rate.

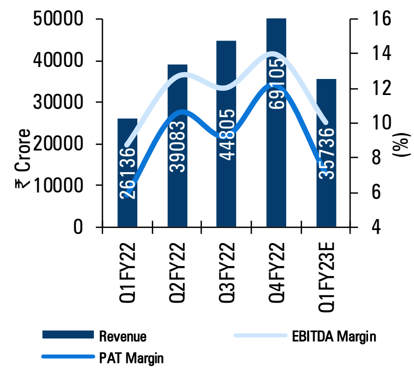
Growth of revenue at 36.7%, EBITDA 57% YoY, PAT 65.3% expected on improved execution, low base of Covid impacted Q1FY22

Overall, the coverage universe revenue is expected to grow 36.7% YoY owing to decent pick up in execution for EPC companies like L&T, KEC and Thermax. For BEL, usually Q1 remains a dull quarter due to low execution, but Q1FY23 is likely to see better revenue growth on the back of lower base. Also, some revenue, which was expected in Q4FY22, should get reflected in Q1FY23. On the other hand, mixed growth trends in auto sector will be cushioned by industrial segment, which will ensure relatively better performance for bearing companies. However, we expect EBITDA to grow 57% YoY. However, higher RM prices, logistical issues to impact margins while companies expect to pass on these pressures with a lag of a quarter. Consequently, overall PAT is expected to grow 65.3% YoY as few heavyweights like L&T will see very limited pressure on margins (higher share of PVC orders in backlog, operating efficiency and decline in finance costs YoY) putting growth rates in the positive territory for the coverage.

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 impact owing to high commodity prices. Power T&D companies like KEC are expected to report revenue, EBITDA, PAT growth of 10.8%, 18%, 14.8%, respectively, factoring in higher commodity prices and execution pick-up in key international markets. L&T (standalone (including hydrocarbon, ex-E&A) is likely to report decent performance with revenue growth of 57% YoY to ₹ 20586 crore, EBITDA expected to grow 54.5% to ₹ 1585.2 crore amid execution pick-up and adjusted PAT (ex-E&A) expected to grow 54.5% at ₹ 1159.1 crore partly aided by higher other income, lower interest expense. Thermax' revenue is expected to grow 48.7% while EBITDA is expected at ₹ 109.5 crore with margin of 7%. On the defence front, BEL is expected to report revenue, EBITDA and PAT growth of 33.2%, 433.3% and 1685%, respectively. For HAL, revenue, EBITDA and PAT growth is expected at 7.8%, 28.6 and 31.7%, respectively. Cochin Shipyard is expected to report revenue growth of 187.1% while EBITDA is expected at ₹ 175 crore, up by 664% YoY.

Topline & Profitability (Cap. Goods Universe)



Top Picks

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Timken India
AIA Engineering

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Result Preview

ICICI Securities – Retail Equity Research

Focus on working capital, cash flows likely to continue…

Overall, EPC companies like L&T, KEC, 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, keeping in view the that last year Q1 was below par due to Covid second wave, we have we found it was more apt to do sequential QoQ comparison. We see a sequential increase in revenues in the range of 4-7% (on a high base). This is largely due to better performance in the auto sector especially 2-W in April-June. This was coupled with reasonable execution in industrial activities, especially power, steel and cement. Price hikes across manufacturers in recent quarters has helped manufacturers to curtail the impact of rising commodity prices to an extent. We believe gross margins should be back to normal levels amid cool off in raw material price, especially in the second half of the quarter. We also believe EBITDA margins to remain range bounded QoQ, thus impacting PAT margins a bit. Greaves Cotton is expected to report revenue growth of 77.6% on account of EV business to deliver strong sales performance. Elgi Equipment is expected report revenue, EBITDA growth of 26.7%, 156.8%, respectively, owing to strong growth in international business. Companies like AIA Engineering are expected to report revenue, EBITDA growth of 41.8%, 27.6%, respectively, factoring in revival in volumes, commodity price impact. ABB India expected to report revenue and EBITDA growth of 22.2% and 43.3% YoY basis.

Exhibit 1: Estimates for Q1FY23E: (Capital Goods) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
AIA Engineering	1,049.4	41.8	-4.0	219.3	27.6	-2.7	183.3	22.4	-5.5
Bharat Electronics	2,176.5	33.2	-65.6	335.3	433.3	-78.6	199.0	1,685.0	-82.6
Greaves Cotton	380.7	77.6	0.5	30.5	LP	4.7	13.8	LP	-34.0
Elgi Equipments	620.0	26.7	-14.8	82.5	156.8	-22.3	54.8	356.2	-24.9
KEC International	2,815.2	10.8	-34.1	188.7	18.0	-25.0	53.0	14.8	-52.7
**L&T	20,586.7	57.0	-45.0	1,585.2	54.5	-59.0	1,159.1	54.5	-60.0
NRB Bearings	272.2	35.2	6.5	44.6	66.6	3.6	30.0	78.6	-8.9
SKF India	1,096.2	58.1	5.5	171.0	50.3	7.3	115.2	45.6	5.2
Thermax Ltd	1,564.8	48.7	-21.4	109.5	73.8	-19.0	82.4	94.4	-19.6
Timken India	697.6	49.1	4.5	174.4	87.9	-3.0	114.2	101.4	-5.8
Cochin Shipyard	945.7	187.1	-22.0	175.0	664.0	-40.9	168.0	420.2	-39.8
ABB India Ltd	1,741.3	22.2	-11.5	135.8	43.3	-27.7	101.1	43.9	-33.9
Hindustan Aeronautics	1,742.3	7.8	-84.9	311.8	28.6	-87.5	256.4	31.7	-91.7
Data Patterns (India) Ltd	47.3	27.0	-72.3	19.4	15.5	-77.9	12.2	18.9	-80.2
Total	**35,736.0**	**36.7**	**-48.3**	**3,583.0**	**57.0**	**-62.8**	**2,542.6**	**65.3**	**-69.8**

*** Adjusted for E&A, L&T Hydrocarbon Engineering Limited, a wholly owned subsidiary has been amalgamated with the company, our estimated numbers for the Q1FY23E are including Hydrocarbon business.*

Source: Company, ICICI Direct Research

Exhibit 2: Estimates for Q1FY23E: (Power) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
NTPC Ltd	33,893.0	30.2	3.0	9,251.4	24.4	-8.6	3,976.0	26.4	-29.3
Power Grid	10,378.3	6.2	1.5	9,120.0	6.4	2.8	3,307.8	-52.2	-23.2
IEX	98.5	8.2	-12.2	80.8	7.9	-14.9	70.4	13.3	-20.4
Total	**44,369.8**	**23.6**	**2.6**	**18,452.2**	**14.7**	**-3.3**	**7,354.2**	**-27.4**	**-26.6**

Source: Company, ICICI Direct Research

Topline & Profitability (Power Universe)

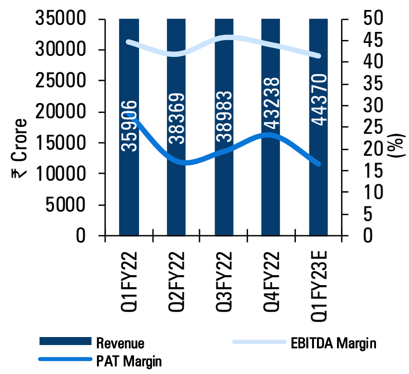

Exhibit 3: Company Specific Views (Capital Goods)

AIA Engineering	For Q1FY23E, we expect AIA Engineering to report volume numbers at 71473 MT, up 18.5% YoY as new mining customer acquisition is to pick up as the travel situation has started to normalise. We expect realisation at ₹ 145 per kg, up 19.8% on account of a change in the product mix and price pass-through. Consequently, revenue is expected to grow 41.8% to ₹ 1049.4 crore YoY. EBITDA is expected to grow 27.6% to ₹ 219.3 crore with EBITDA margin of 20.9% while PAT is expected to grow 22.4% to ₹ 183.3 crore YoY factoring in lower margins and higher other income
Bharat Electronics	Though Q1 remains a dull quarter for BEL due to low execution, Q1FY23 is likely to see better revenue growth on the back of lower base. Also, some part of revenue, which was expected in Q4FY22 should get reflected in Q1FY23. Overall, we expect revenues at ₹ 2176.5 crore, up 33.2% YoY. EBITDA margin is expected at 15.4% (+1156 bps YoY) led by some operating leverage benefits on higher revenue booking, resulting in absolute EBITDA increasing to ₹ 335.3 crore (5.3x YoY). PAT is expected at ₹ 199 crore (vs. ₹ 11.2 crore in Q1FY22). Healthy order backlog of ~₹ 57500 crore
Greaves Cotton	Greaves Cotton is making inroads in the EV arena. Therefore, e-mobility and new-initiatives business share are likely to drive growth. For Q1FY23E, we expect weak engine volumes owing to slowdown in conventional 3-W, 4-W space. Non-auto volumes are likely to continue the growth momentum. Standalone revenues are expected to grow 77.6% YoY to ₹ 380.7 crore. EBITDA is expected at ₹ 30.5 crore with margins of 8% factoring commodity inflation while adjusted PAT is expected at ₹ 13.8 crore
Elgi Equipments	For Q1FY23E, Elgi Equipments is expected to see good traction in India business 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 26.7% YoY to ₹ 620 crore while EBITDA margin is expected at 13.3% leading absolute EBITDA grow by 156.8% to ₹ 82.2 crore while PAT is expected at ₹ 54.8 crore, up 356% factoring in operating leverage and tax adjustments
KEC International	KEC announced new orders worth ~ ₹ 2239 crore, as on date for the quarter. For Q1FY23E, 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 amid cost overrun and commodity price impact. We expect revenues to grow 10.8% to ₹ 2815.2 crore. The company is witnessing a gradual revival in the domestic T&D market, which had been sluggish for past few quarters. EBITDA is expected to grow 18% to ₹ 188.7 crore with EBITDA margin will be at 6.7% YoY primarily due to change in business mix, higher fixed price order backlog, higher commodity prices having substantial impact on SAE Tower business. Adjusted PAT is expected to grow 14.8% to ₹ 53 crore YoY

Source: ICICI Direct Research, Company

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

Larsen & Toubro (L&T)	During Q1FY23E, EPC order inflows announced by L&T are in the range of ~₹ 7000-15000 crore (as on date, ex-services segment) across railway, hydrocarbon, power T&D, water treatment, heavy engineering, buildings & factories segments indicating decent order inflows for the quarter amid challenging environment. We expect decent execution pick-up YoY. In our view, working capital and cash flow management will be key monitorable. Consequently, we expect adjusted standalone (including hydrocarbon) revenue to grow 57% to ₹ 20587 crore. EBITDA is expected to grow 54.5% to ₹ 1585 crore with margins expected to flattish 7.7% owing to better execution and adjusted PAT (ex-E&A) expected to grow 54.5% to ₹ 1159 crore partly aided by lower interest expense and lower tax
NRB Bearings	NRB Bearings is expected to report a decent set of numbers in Q1FY23E, on account of decent recovery in auto segment (2-W) and good execution from EV segment. We estimate revenue at ₹ 272.2 crore, up 6.5% and 30.9% QoQ and pre Covid levels of Q1FY20, respectively. We build in gross margins to the tune of 60.9% for the quarter vs 60.5% in Q4FY22, Steady margins are due price hikes in recent quarter by the company and cool off in commodity prices. Consequently, we arrive at EBIDTA margin estimate of 16.4% for the quarter vs. 16.9% in Q4FY22. Absolute EBIDTA is estimated at ₹ 44.6 crore, up 3.2% QoQ. Hence, we expect NRB to register adjusted PAT of ₹ 30.6 crore
SKF India	For SKF, we see domestic and exports business doing decent mainly due to reasonable execution in industrial activities and better performance in 2W segment. We built in revenue to the tune of ₹ 1096.2 crore, up 5.51% and 39.2% QoQ and pre-Covid levels of Q1FY20, respectively. Sales for the Q4FY22 were ₹ 1039.01 crore. We expect Industrial segment to grow 2.7% and automobile segment to grow about 2.85%. We estimate gross margins at 39% for the quarter, up ~155 bps sequentially. Consequently, we expect EBIDTA margin of 16% during the quarter vs 15.3% sequentially. Following suit, we expect EBIDTA to increase 0.7% QoQ to ₹ 171.10 crore. We estimate PAT of ₹ 115.2 crore vs ₹ 109.5 crore in Q4FY22
Thermax	For Q1FY23E we expect revenues to grow by 48.7% to ₹ 1564.8 crore on back decent order wins in past few quarters and low base due to Covid. We expect EBITDA at ₹ 109.5 crore with EBITDA margins at 7% factoring in execution of some legacy lo cost orders and commodity price impact. Adjusted PAT is expected at ₹ 82.4 crore up 94.4% YoY partly aided by other income
Timken India	An overall decent quarter for industrial and exports should boost Timken's Q1FY23E performance. We expect revenues to increase 4.52% and 59.4% QoQ and pre Covid levels of Q1FY20, respectively, to ₹ 697.5 crore as ₹ 667.4 crore in Q4FY22. We build in gross margins to the tune of 47% vs. 47.7% in Q4FY22. Consequently, we expect Timken to post an EBIDTA margin of 25.1% vs. 26.9% sequentially. Absolute EBITDA is expected to be around ₹ 174.3 crore as compared to ₹ 179.8 crore in Q4FY22. Our PAT estimate is at ₹ 114.2 crore, post a tax rate assumption of 26.5%
Cochin Shipyard	For Q1FY23E, we expect a muted set of results as most of the execution of IAC is done and it is preparing for next set of orders to be executed. We build in revenue to the tune of ₹ 945.7 crore, down 22.5% QoQ. Our EBIDTA margin estimate is at 18.5% vs. 24.4% QoQ. Consequently, we expect absolute EBIDTA to be around ₹ 174.9 crore. Post a tax rate of 26.5%, we estimate PAT at ₹ 168.1 crore, down~39.8% compared to the last quarter, which was cushioned by other income of 111.6 crore led by a one-off
ABB	For Q2CY2022E (Q1FY23E), 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 by 22.2% YoY to ₹ 1741.3 crore while EBITDA margin is expected at 7.8% factoring higher commodity prices. PAT is expected at ₹ 101.1 crore up 43.9% YoY. Commodity inflation, chip shortage and higher logistic costs may continue to impact

Source: Company, ICICI Direct Research

HAL	We expect HAL revenues at ₹ 1742.3 crore, up 7.8% YoY; largely on account of lower base (Q1FY22 revenue declined 7% YoY). EBITDA margin is expected at 17.9% (+289 bps YoY); lower than full year average as lower execution in Q1 led higher fixed costs (as % of sales). Absolute EBITDA is expected at ₹ 311.8 crore, up 28.6% YoY. PAT is expected at ₹ 256.4 crore; an increase of 31.7% YoY. Order backlog of ₹ 82100 crore (as of March 2022), increasing share of repair & overhaul in revenues and better operational efficiencies provide strong earnings visibility in the long term.
Data Pattern	We expect revenue to grow at 27% YoY to ₹ 47.3 crore led by better execution of the key orders during the quarter compared to last year. EBITDA margin is expected at 41% (against 45% in Q1FY22); resulting in absolute EBITDA growth of 15% YoY to ₹ 19.4 crore. PAT is expected at ₹ 12.2 crore (up 19% YoY). Healthy order pipeline for products in electronics warfare, radars, avionics segments for the next two to three years provides strong earnings visibility

Source: Company, ICICI Direct Research

Exhibit 5: Company Specific Views (Power)

NTPC	Strong demand in power consumption will lead strong PLF and generation trend for NTPC in Q1FY23E. Gross generation and energy sold is expected to grow 18.5% each at 85 billion units and 78.8 billion units, respectively. We expect revenues to grow 30.2% YoY to ₹ 33893 crore as we are building in tariff of ₹ 4.17/kwhr for the quarter. EBITDA is expected to grow 24.4% YoY to ₹ 9251.4 crore. Consequently, PAT is expected at ₹ 3976 crore, up 26.4% YoY
Power Grid	We expect Power Grid to capitalise assets to the tune of ₹ 3000 crore in Q1FY23. The revenues are expected to grow by 6.2%% to ₹ 10387.3 crore. In terms of segmental performance, transmission revenues are expected to grow by 4% to ₹ 10073.6 crore. EBITDA is expected to grow 6.4% to ₹ 9120 crore YoY. Consequently, PAT is expected at ₹ 3307.8 crore and is not comparable YoY on one offs in the base quarter
IEX	CERC imposing a capping of ₹ 12 on all segments of power exchanges has negatively impacted volumes of IEX. Total volume of IEX is at 23439 MUs vs. 21340 MUs in same quarter last year (Last year was impacted due to Covid second wave), growth of 9.8% YoY. However, volumes declined QoQ by 15.3% from 27676 MUs to 23439 MUs. We expect IEX to report revenue of ₹ 98.45 crore, up 8.5% YoY and down 12.1%. Our other income estimate is at ₹ 15.2 crore for the quarter. For the quarter, we expect IEX to report an EBIDTA of ₹ 80.8 crore with a margin of 82.1% vs. 82.2% YoY. We estimate PAT at ₹ 70.36 crore, up 13.7% YoY and down 20.4% 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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1697	1,930	Buy	238123	50.2	65.5	72.9	33.8	25.9	23.3	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2684	2,900	Buy	95583	29.5	36.6	48.2	91.0	73.2	55.7	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2310	2,570	Buy	21788	64.6	79.6	85.7	35.8	29.0	27.0	16.5	17.8	17.0	13.2	14.2	13.6
Thermax (THERMA)	2082	2,390	Buy	24808	26.2	42.4	53.1	79.4	49.1	39.2	11.3	16.7	18.7	9.0	13.0	14.4
KEC International (KECIN)	407	381	Hold	10464	12.7	13.0	25.4	32.1	31.4	16.0	12.3	12.0	17.2	10.7	9.2	15.8
Greaves Cotton (GREAVE)	156	179	Buy	3607	0.7	2.6	3.3	220.4	59.2	47.3	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	360	390	Buy	11409	5.7	6.6	8.7	63.0	54.6	41.4	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	237	290	Buy	57589	9.6	11.0	12.2	24.6	21.5	19.5	26.2	27.9	27.9	19.6	20.9	20.9
Cochin Shipyard (COCSHI)	318	340	Hold	4183	42.9	38.6	42.3	7.4	8.2	7.5	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	3783	3,720	Buy	18702	77.0	89.6	103.5	49.1	42.2	36.6	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	2520	2,810	Buy	18955	43.5	54.8	62.5	87.0	69.0	60.5	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	140	220	Buy	1357	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	224	230	Buy	2667	9.8	11.5	13.6	22.9	19.5	16.5	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	705	870	Buy	3367	18.1	21.7	27.2	38.9	32.5	25.9	23.8	24.4	25.8	16.4	18.1	19.1
HAL	1738	2,200	Buy	58117	151.9	123.6	137.4	11.4	14.1	12.6	27.4	29.7	30.5	26.3	22.5	23.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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