April 11, 2022

Order inflows reasonable for Q4FY22E…

For Q4FY22E, all EPC companies under our coverage reported decent order inflows. Larsen & Toubro (L&T) announced EPC orders in the range of ~₹ 9000-22000 crore (as on date, ex-services segment) across railway, hydrocarbon, power T&D, water treatment, heavy engineering, buildings & factories segments. Order inflow for L&T for Q4FY22 has so far remained below our expectations. In the T&D space, KEC has announced decent order inflows of ₹ 2136 crore aided by orders from T&D (domestic, international markets), railways, civil, etc. Thermax announced decent order inflows worth ~₹ 1176 crore as on date for Q4FY22 while a further pick-up in industrial capex would improve its revenue visibility. Bharat Electronics (BEL) has announced strong orders worth ~₹ 3068 crore coupled with a strong order backlog for FY23E.

Overall, order inflows are expected to remain decent, with some project deferrals across key segments to Q4FY22E. However, the order pipeline remains robust across T&D, green energy corridor, railways, transportation, water and infrastructure, etc. Key risks remain project delays/deferrals, lower conversion rate.

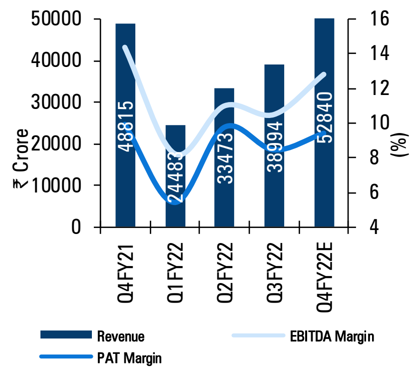
Revenue to grow 8.2%, EBITDA to de-grow 3.5% YoY as higher input costs weigh…

Overall, the coverage universe revenue is expected to grow 8.2% YoY owing to a decent pick-up in execution for EPC companies like L&T, KEC and Thermax while BEL, on account of higher base and semiconductor issue, is expected to report a decline. On the other hand, mixed growth trends in the auto sector are expected to be cushioned by industrial segment, which will ensure a relatively better performance for bearing companies. However, we expect EBITDA to de-grow 3.5% YoY owing to higher commodity prices and increasing freight costs. Consequently, overall PAT is expected to grow 2.7% YoY as few heavyweights like L&T are expected to 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 be impacted due to high commodity prices. Power T&D companies like KEC are expected to report revenue, EBITDA, PAT growth of 8.9%, -2.4%, -10.6% factoring in higher commodity prices and execution pick-up in key international markets. L&T (standalone, ex-E&A) is likely to report a decent performance with revenue growth of 10.9% YoY to ₹ 32988.3 crore, EBITDA expected to grow 9.4% to ₹ 3925.6 crore amid execution pick-up and adjusted PAT (ex-E&A) expected to grow 20.4% at ₹ 2971 crore partly aided by higher other income, lower interest expense. Thermax' revenue is expected to grow 16.3% with EBITDA expected at ₹ 131.8 crore with margin of 7.2%. On the defence front, BEL is expected to report revenue growth of -8.5% to ₹ 6325.0 crore while EBITDA is expected to de-grow 28% to ₹ 1417.9 crore YoY. Cochin Shipyard is expected to report revenue growth of 10.3% while EBITDA is expected at ₹ 221.2 crore, down 14.1% YoY.

Topline & Profitability (Cap. Goods Universe)



Top Picks

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Thermax
Timken India

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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 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 comes back to normal.

Product companies' performance likely to be aided by exports.

For our bearings coverage universe, keeping in view the current scenario like increasing raw material costs, freight charges and geopolitical conditions we have we found it was more apt to do sequential QoQ comparison. We see a sequential increase in revenues in the range of 7-10%. This is largely due to better performance in the auto sector (PV, CV) in January-March, coupled with reasonable execution in the industrial segment. Price hikes across manufacturers in recent quarters have helped the companies to curtail the impact of rising commodity prices, to an extent. We believe gross margins should remain under pressure amid high raw material prices. We also believe EBITDA margins will remain range bound on a QoQ basis, thus improving PAT margins a bit. Greaves Cotton is expected to report revenue, EBITDA de-growth of 3.4%, 5.8%, respectively, muted engine volumes in conventional 3-W, 4-W space while EV business is expected to deliver a strong sales performance. Elgi Equipment is expected to report revenue, EBITDA growth of 12.6%, -3.7%, respectively, owing to strong growth in international business. Companies like AIA Engineering are expected to report revenue, EBITDA growth of 15.3%, 11%, respectively, factoring in a revival in volumes, commodity price impact. ABB India is expected to report revenue, EBITDA growth of 10.3%, 6% YoY, respectively.

Exhibit 1: Estimates for Q4FY22E: (Capital Goods) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
AIA Engineering	992.1	15.3	17.0	187.9	11.0	16.6	148.5	11.0	7.5
Bharat Electronics	6,320.5	-8.5	71.1	1,417.9	-28.0	72.5	1,003.0	-25.8	71.9
Greaves Cotton	441.2	-3.4	46.8	44.6	-5.8	159.3	20.6	-12.7	122.4
Elgi Equipments	687.4	12.6	4.8	76.2	-3.7	3.1	44.5	2.7	6.6
KEC International	4,746.6	8.9	42.1	345.9	-2.4	44.8	173.6	-10.6	85.5
L&T	32,988.3	10.9	53.1	3,925.6	9.4	128.2	2,971.0	20.4	77.8
NRB Bearings	252.2	-1.9	-8.9	37.7	-19.4	-23.9	21.6	-37.6	-20.7
SKF India	1,038.9	22.6	-1.0	139.1	-6.2	-17.9	102.6	-2.2	-15.9
Thermax Ltd	1,830.7	16.3	13.4	131.8	-5.6	16.5	102.6	-4.4	29.2
Timken India	553.7	16.5	-9.0	110.1	26.7	-15.1	68.1	28.7	-18.2
Cochin Shipyard	1,191.1	10.3	40.2	221.2	-14.1	3.8	188.5	-20.2	12.9
ABB India Ltd	1,797.2	10.3	-14.5	140.2	6.0	-24.3	123.3	43.0	-22.7
Total	**52,840.0**	**8.2**	**35.5**	**6,778.2**	**-3.5**	**65.3**	**4,967.9**	**2.7**	**50.8**

Source: Company, ICICI Direct Research

Exhibit 2: Estimates for Q4FY22E: (Power) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
NTPC Ltd	27,428.0	3.2	1.4	6,845.1	5.2	-13.6	3,110.5	-30.6	-16.0
Power Grid	10,676.2	7.4	0.2	9,395.1	7.4	1.0	3,788.7	7.8	12.4
IEX	114.1	21.6	-1.8	94.7	22.2	-4.5	78.3	28.6	-2.7
Total	**38,218.3**	**4.4**	**1.0**	**16,334.9**	**6.5**	**-5.7**	**6,977.5**	**-13.4**	**-2.4**

Source: Company, ICICI Direct Research

Topline & Profitability (Power Universe)

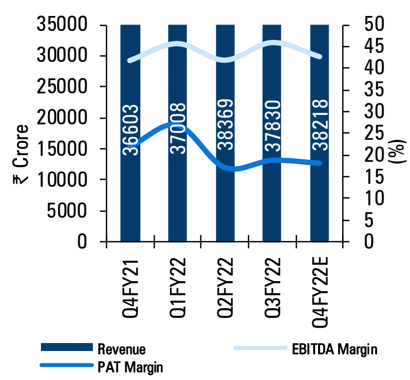

Exhibit 3: Company Specific Views (Capital Goods)

Company	Remarks
AIA Engineering	For Q4FY22E, we expect AIA Engineering to report volume numbers at 68021 MT, down 14.3% YoY owing to marginal impact on the base business from repeat customers amid challenges in new customer engagements due to pandemic. We expect realisation at ₹ 143 per kg, up 33.8%, on account of a change in the product mix and price pass-through. Consequently, revenue is expected to grow 15.3% to ₹ 992 crore YoY. EBITDA is expected to grow 11.3% to ₹ 187.9 crore with EBITDA margin of 18.9% while PAT is expected to grow 11% to ₹ 148.5 crore YoY, factoring in lower margins and higher other income
Bharat Electronics	We expect BEL to report revenues at ₹ 6320.5 crore, down 8.5%, YoY on challenges posed by Covid-19 and global semiconductors shortage. EBITDA margin is expected at 22.4% owing to high raw material cost and higher base of last year, resulting in absolute EBITDA declining 28% YoY to ₹ 1417.9 crore. Accordingly, we expect PAT to decline 25.8% YoY to ₹ 1003 crore. Overall, strong order backlog of ~₹ 57000 crore on making efforts to tap new market and diversification are likely to augur well in the long term
Greaves Cotton	For Q4FY22E, 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 decline 3.4% YoY to ₹ 441.2 crore, EBITDA is expected at ₹ 44.6 crore with margins of 10.1% factoring in high commodity prices and cost rationalisation while adjusted PAT is expected at ₹ 20.6 crore amid impact on margins
Elgi Equipments	For Q4FY22E, Elgi Equipment is likely to see a rebound 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 12.57% YoY to ₹ 687.4 crore while EBITDA margin is expected at 11.1% leading absolute EBITDA decline of 3.74% to ₹ 76.2 crore factoring in impact of commodity prices while PAT is expected at ₹ 44.5 crore, down marginally by 0.03% factoring in operating leverage and tax adjustments
KEC International	KEC announced new orders worth ~ ₹ 2136 crore, as on date for the quarter. For Q4FY22E, KEC is expected to report a decent performance on the revenue front in key segments like T&D, railways, civil while SAE Tower business is expected to see muted execution amid cost overrun and commodity price impact. We expect revenues to grow 8.9% to ₹ 4746.6 crore. The company is witnessing a gradual revival in the domestic T&D market, which had been sluggish for the past few quarters. EBITDA is expected to marginally decline by 2.4% to ₹ 345.9 crore with EBITDA margin expected to see an impact of 80 bps to 7.3% 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 de-grow 10.6% to ₹ 173.6 crore YoY

Source: ICICI Direct Research, Company

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

Company	Remarks
Larsen & Toubro (L&T)	During Q4FY22E, EPC order inflows announced by L&T are in the range of ~₹ 9000-22000 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 monitorables. Consequently, we expect adjusted standalone revenue to grow 10.9% to ₹ 32988.3 crore. EBITDA is expected to grow 9.3% to ₹ 3925.6 crore with margins expected to be flattish 11.9% owing to better execution and adjusted PAT (ex-E&A) expected to grow 20.4% to ₹ 2971 crore, partly aided by lower interest expense and lower tax
NRB Bearings	NRB Bearings is expected to report a decent set of numbers in Q4FY22E on account of a decent recovery in auto segment (CV, PV) and good traction from EV segment. We estimate revenue at ₹ 252.2 crore, up 9.3% QoQ. We build in gross margins to the tune of 61.5% for the quarter vs. 62.5% in Q3FY22, Steady margins are due to price hikes in the recent quarter by the company. Consequently, we arrive at EBIDTA margin estimate of 14.9% for the quarter vs. 12.7% in Q3FY22. Absolute EBIDTA is estimated at ₹ 37.7 crore, up 27.1% QoQ. Hence, we expect NRB to register adjusted PAT of ₹ 21.6 crore
SKF India	For Q4FY22 we see domestic and exports business doing decently, mainly due to reasonable execution in industrial activities. We built in revenue to the tune of ₹ 1038.9 crore, up 7.44% QoQ. Sales for Q3FY22 were at ₹ 966.98 crore. We expect the industrial segment to grow 3.5% and automobile segment to grow ~4% QoQ. We estimate gross margins at 35.9% for the quarter, up ~30 bps sequentially. Consequently, we expect EBIDTA margin of 13.4% during the quarter vs. 12.7% sequentially. Following suit, we expect EBIDTA to increase 12.9% QoQ to ₹ 139.1 crore. We estimate PAT of ₹ 102.6 crore vs. ₹ 88.9 crore in Q3FY22
Thermax	For Q4FY22E, Thermax announced order inflows worth ~ ₹ 1176 crore, as on date for the quarter. In terms of financial performance, we expect revenues to grow 16.3% to ₹ 1830.7 crore on the back of decent order wins in the past few quarters. We expect EBITDA at ₹ 131.8 crore with EBITDA margins at 7.2%, factoring in execution of some legacy low cost orders and commodity price impact. Adjusted PAT is expected at ₹ 102.6 crore, down 4.4% YoY partly aided by other income
Timken India	An overall decent quarter for automobiles (CV, PV) should boost the Q4FY22E performance. For Q4FY22E, we expect revenue increase of 8.6% QoQ to ₹ 553.7 crore vs. ₹ 510 crore in Q3FY22. We build in gross margins to the tune of 42.9% vs. 46.1% in Q3FY22. Consequently, we expect an EBIDTA margin of 19.9% vs. 22.4% sequentially. Absolute EBIDTA is expected to be ~₹ 110.1 crore compared to ₹ 114.1 crore in Q3FY22. Our PAT estimate is ₹ 68.1 crore, post a tax rate assumption of 26%
Cochin Shipyard	For Q4FY22E, 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 ₹ 1191.1 crore, up 10.2% YoY, 25% QoQ. Our EBIDTA margin estimate is at 18.5% vs. 14.9% QoQ and 23.8% YoY. Consequently, we expect absolute EBIDTA to be ~₹ 221.1 crore. Post a tax rate of 26%, we estimate PAT at ₹ 188.4 crore, up ~45.6% compared to the last quarter
ABB	For Q1CY22E (Q4FY22E), ABB India is likely to sustain the growth revival as it is gradually ramping up in key markets with improved product and service portfolio. Revenues are expected to grow 10.3% YoY to ₹ 1797.2 crore while EBITDA margin is expected at 7.8%, factoring in higher commodity prices. PAT is expected at ₹ 123.3 crore up 43% YoY. A sharp spike in commodity prices, chip shortage and higher logistic costs may continue to have an impact

Source: Company, ICICI Direct Research

Exhibit 5: Company Specific Views (Power)

Company	`
NTPC	NTPC is expected to end FY22 with strong capacity addition, which will augur well for FY23E. For Q4FY22, a third wave in Jan 2022 is expected to lead to flattish generation growth at 76.6 billion units whereas energy sold is expected at 71.2 BUs. We expect 3.2% YoY growth in revenues at ₹ 27428.8 crore with per unit realisation of ₹ 3.85/KWhr. EBITDA and PAT are expected at ₹ 6845 crore and ₹ 3110.5 crore, respectively. PAT is not comparable YoY on account of tax reversal in Q4FY21
Power Grid	We expect Powergrid to report a stable Q4FY22 performance on the back of ₹ 4000-5000 crore of asset capitalisation. In terms of revenues, it is expected to grow 7.4% YoY to ₹ 10676.3 crore. Transmission segment is expected to grow 5% YoY whereas consultancy segment is expected to grow 8% YoY. EBITDA is expected at ₹ 9395 crore. Given decent capacity addition, interest costs are expected to remain flattish QoQ given muted growth in assets and liquidity on balance sheet on account of stake sale to InvIT assets. PAT is expected at ₹ 3788.7 crore, up 7.8% YoY
IEX	High electricity demand during the quarter, resumption of REC's trading, Bhutan commencing trading in DAM, commencement of trade in hydropower contracts in GTAM have helped IEX to report total volume of 27017 MUs vs. 22451 MUs in the same quarter last year, up 20% YoY. We expect IEX to report revenue of ₹ 114.1crore, up 21.6% YoY. Our other income estimate is at ₹ 14.2 crore for the quarter. For the quarter, we expect IEX to report an EBIDTA of ₹ 94.7 crore with a margin of 83.1% vs. 82.6% YoY. We estimate PAT at ₹ 78.34 crore, up 28.7% YoY

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)	1782	2,270	Buy	250106	81.9	54.7	55.7	21.8	32.6	32.0	7.4	8.0	9.3	18.8	12.0	11.7
Siemens Ltd	2501	2,856	Buy	89066	21.6	29.5	37.8	115.7	84.8	66.2	11.2	13.9	16.1	8.1	10.1	11.9
AIA Engineering (AIAENG)	1758	1,895	Hold	16582	59.7	56.8	59.9	29.4	31.0	29.3	16.4	14.4	14.2	13.3	11.8	11.3
Thermax (THERMA)	1994	2,445	Buy	23759	17.3	27.4	42.5	115.0	72.8	46.9	9.8	12.1	17.2	7.6	9.5	13.4
KEC International (KECIN)	400	535	Hold	10284	21.5	17.2	25.5	18.6	23.3	15.7	19.4	15.9	18.3	16.5	13.1	15.6
Greaves Cotton (GREAVE)	200	220	Hold	4633	0.4	1.3	2.8	447.2	150.1	72.7	6.5	3.5	10.4	3.3	2.4	7.4
Elgi Equipment (ELGEQU)	307	410	Hold	9720	3.2	4.0	6.3	94.8	77.3	48.5	11.7	12.7	18.0	11.8	14.0	19.1
Bharat Electronics (BHAELE)	244	250	Buy	59404	8.5	9.4	11.2	28.8	26.0	21.7	27.2	26.2	28.7	19.1	19.4	21.4
Cochin Shipyard (COCSHI)	333	500	Buy	4382	46.4	44.0	55.6	7.2	7.6	6.0	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3510	4,115	Buy	17353	67.6	77.0	81.0	51.9	45.6	43.3	27.0	26.0	26.5	21.4	20.6	21.0
Timken India (TIMIND)	2185	2,405	Buy	16435	19.0	37.8	43.3	114.8	59.5	46.2	13.7	21.1	27.1	10.7	16.4	21.1
NRB Bearing (NRBBEA)	129	220	Buy	1250	5.6	7.8	9.2	30.2	20.6	17.3	11.8	15.0	15.3	10.4	12.6	12.6
Action Construction (ACTCON)	229	290	Buy	2726	7.1	9.8	12.7	32.2	23.4	18.0	26.9	22.5	24.4	15.3	15.1	16.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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