

India

**Neutral** (no change)

**Highlighted Companies**

**Bharat Electronics Ltd**

**ADD, TP Rs120, Rs 136 close**

We have an Add rating on BEL due to a strong order backlog and sturdy order pipeline of ~Rs400bn over the next two to three years, government focus on localisation of defence products and reasonable valuations.

**Larsen & Toubro Ltd**

**ADD, TP Rs1180, Rs 1369 close**

We believe robust order inflows, increased market share, deleveraging and government focus on infrastructure spending bodes well for earnings, while its core business valuations remain reasonable.

**Schaeffler India Ltd**

**ADD, TP Rs4200, Rs 4520 close**

The company's focus on increasing content per vehicle and localisation, building local research and development capabilities, export opportunities and cost measures augur well for revenue growth and margins with the revival in auto volumes, in our view.

**Summary Valuation Metrics**

P/E (x)	Mar21-F	Mar22-F	Mar23-F
Bharat Electronics Ltd	21.9	17.8	15.9
Larsen & Toubro Ltd	18.3	22.9	19.2
Schaeffler India Ltd	54.8	35.8	28.8
P/BV (x)	Mar21-F	Mar22-F	Mar23-F
Bharat Electronics Ltd	3.1	2.8	2.5
Larsen & Toubro Ltd	2.9	2.7	2.4
Schaeffler India Ltd	4.5	4.1	3.7
Dividend Yield	Mar21-F	Mar22-F	Mar23-F
Bharat Electronics Ltd	1.7%	2.1%	2.4%
Larsen & Toubro Ltd	1.4%	1.5%	1.6%
Schaeffler India Ltd	0.7%	0.8%	0.9%

**Analyst(s)**



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# Industrial - Overall

## 3QFY21 results preview

- We estimate flattish 3Q aggregate sales with demand reaching pre-COVID-19 levels. Cost cut gains in margins would offset by higher commodity prices.
- Public sector orders to infra sector (L&T announced robust 3Q order inflows) were accelerated. We feel sustained demand is necessary for private capex.
- Reiterate our Neutral rating on the sector; Add on L&T, Schaeffler, SKF, HAL.

### Business momentum returns to normalcy in 3QFY21F

We estimate aggregate sales for coverage companies to be flattish yoy as sales production reaches pre-COVID-19 levels for most companies with the resumption of labour availability and supply chain operations in 3QFY21. Margins are likely to be a mixed bag with most companies seeing marginal expansion aided by operating leverage and some cost reduction benefits likely offsetting higher commodity prices. Sustained higher commodity prices remain a concern with industrial orders from the private sector yet to be revived. The Centre for Monitoring Indian Economy's (CMIE) 3Q capex data show the value of new investment proposals fell significantly. However, government-led projects orders were hastened in 3QFY21 in the infrastructure sector.

### Transportation, hydrocarbon segments boosted L&T order inflows

L&T announced its highest quarterly order inflow of ~Rs655bn in 3QFY21 led by the transportation and hydrocarbon segments. We expect L&T's 3Q ex-service revenues to be flattish, with likely margin decline of 77bp to 8.2% on higher base for hydrocarbon segment margins. We believe ABB/ Siemens/ Thermax sales could be muted considering weak opening order backlog (OB), while ordering is the key monitorable as capacity utilisation is ramping up. Cummins margins could be aided by exports, but sustainability of China exports is key, in our view.

### Auto segment pick-up to aid bearing sector sales and margins

An auto sector volumes pick-up, mainly for passenger cars, would benefit Schaeffler and SKF in terms of revenues and margins (led by increased share of manufacturing sales). We expect defence company sales growth to be strong yoy on a low base, mainly for Bharat Electronics (BEL) / Bharat Dynamics, while operating leverage would likely aid margins.

### Neutral on sector with Add ratings on L&T, Schaeffler, SKF, HAL

Our coverage stock prices rose 20-40% in the last three months. L&T remains our top pick with stock price uptick due to positive data points on order inflows, execution pick-up, higher market share and deleveraging, while Government focus on infrastructure gels well for the medium term. We have Adds on BEL and HAL with solid OB supporting revenue visibility and government's indigenisation focus. We have Add ratings on Schaeffler/ SKF as auto revival and increased content per vehicle will likely aid financials. Order backlogs for many companies have been thin and while strong industrial revival is positive, we think demand needs to sustain for capex recovery to justify high valuations. We remain Neutral on the sector. Downside risks: Sustained higher commodity prices and demand revival delays.

**Figure 1: 3QFY21 forecasts for our coverage universe**

Company	Rating	Sales (Rs m)		EBITDA margin (%)		Core PAT (Rs m)	
		Dec-20	yoy(%)	Dec-20	yoy(bp)	Dec-20	yoy(%)
ABB	Reduce	18,241	(6.6)	7.8	75	1,124	(16.3)
BHEL	Hold	52,654	(15.4)	1.5	(378)	-181	(111.4)
Cummins	Hold	13,554	(6.7)	15.5	66	1,862	(0.0)
L&T	Add	3,69,360	1.9	10.5	(86)	17,089	(20.9)
Siemens	Hold	27,306	2.3	12.0	(61)	2,448	(6.8)
Thermax	Hold	13,720	(2.7)	7.9	(17)	766	(9.8)
Voltas	Hold	16,519	10.7	7.0	46	1,119	4.9
Bharat Electronics	Add	28,388	25.0	17.5	188	3,177	47.7
Hindustan Aeronautics	Add	46,793	5.0	18.6	(30)	4,550	10.0
Bharat Dynamics	Hold	6,614	30.0	17.0	650	848	59.5
SKF	Add	7,690	8.7	13.5	324	720	40.6
Schaeffler	Add	11,572	11.6	15.4	118	1,086	28.5
Timken	Hold	4,112	10.2	21.9	(64)	564	(33.3)

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

## 3QFY21 results preview

### Industrials - 3QFY21 earnings preview

Figure 2: Capital goods – 3QFY21 quarterly snapshot

(Rs m)	Dec-20	Dec-19	Sep-20	yoy(%)	qoq(%)	Remarks
<b>ABB</b>						
Net Sales	18,241	19,533	16,122	(6.6)	13.1	We expect revenue decline yoy (not comparable due to divestment of solar inverter business) and substantial improvement qoq with the revival of the economy. We expect EBITDA margin to improve yoy due to the absence of low margin solar business and cost control measures. Though core PAT could see strong uptick qoq, reported PAT would be weak as the company has announced Rs790m provisions on some legacy conventional power projects in the Industrial Automation segment. Order inflow commentary would be key to monitor.
EBIDTA	1,430	1,384	1,214	3.3	17.8	
EBITDA margin(%)	7.8	7.1	7.5	75 bps	31 bps	
Core PAT	1,124	1,344	855	(16.3)	31.5	
<b>BHEL</b>						
Net Sales	52,654	62,257	36,952	(15.4)	42.5	We estimate BHEL's 3Q revenue to decline by -45% yoy considering execution challenges in the power segment and curtailment of revenue booking to control elevated working capital. We expect EBITDA margin to decline yoy due to negative operating leverage. Quarterly net provisions are volatile and will have substantial impact on EBITDA margins. Working capital and cash-flows would be key to monitor apart from management outlook on order inflows.
EBIDTA	790	3,287	-6,325	(76.0)	(112.5)	
EBITDA margin(%)	1.5	5.3	(17.1)	-378 bps	1862 bps	
Core PAT	-181	1,588	-5,561	(111.4)	(96.8)	
<b>Cummins</b>						
Net Sales	13,554	14,534	11,602	(6.7)	16.8	We estimate 3Q revenue to decline -7% yoy led by decline in domestic sales by 8.7% yoy and flattish exports. EBITDA margin is likely to be aided by cost reduction measures and favourable mix (higher export share), offset to some extent by higher commodity prices. Commentary on exports and gross margins would be key.
EBIDTA	2,101	2,158	1,674	(2.6)	25.5	
EBITDA margin(%)	15.5	14.8	14.4	66 bps	107 bps	
Core PAT	1,862	1,862	1,456	(0.0)	27.9	
<b>Larsen &amp; Toubro</b>						
Net Sales	3,69,360	3,62,427	3,10,347	1.9	19.0	We estimate 3Q ex-service, Electrical & Automation sales to increase marginally yoy as the economy neared normalisation. We expect ex-service EBITDA margin to decline yoy by 77bp yoy to 8.2% as last year's margins were aided by claims reversal in the hydrocarbon segment. L&T announced -Rs655b worth of robust order inflows in 3QFY21, led by the transportation and hydrocarbon segments. Working capital and government spending outlook would be key to monitor.
EBIDTA	38,783	41,177	33,348	(5.8)	16.3	
EBITDA margin(%)	10.5	11.4	10.7	-86 bps	-25 bps	
Core PAT	17,089	21,608	11,066	(20.9)	54.4	
<b>Siemens</b>						
Net Sales	27,306	26,686	35,190	2.3	(22.4)	Our revenue growth estimate of 2.3% yoy (is not comparable with last year numbers due to sale of the mechanical drive business). We expect EBITDA margins to decline yoy due to high base for digital industries and smart infra segments and likely lower gross margins. Management commentary on cost measures and industrial capex would be key to monitor.
EBIDTA	3,277	3,365	4,529	(2.6)	(27.7)	
EBITDA margin(%)	12.0	12.6	12.9	-61 bps	-87 bps	
Core PAT	2,448	2,627	3,331	(6.8)	(26.5)	
<b>Thermax</b>						
Net Sales	13,720	14,101	11,412	(2.7)	20.2	We expect a marginal decline in revenues due to lower opening order backlog for energy segment, which would be offset by expected execution pick-up in flue gas desulphurisation orders within environment segment apart from sustained growth in the chemical segment. We expect EBITDA margins to be flattish. Order inflow growth could be muted considering core sector orders are yet to revive except for Oil & Gas. Management outlook on order revival would be key to monitor.
EBIDTA	1,078	1,132	793	(4.8)	35.8	
EBITDA margin(%)	7.9	8.0	7.0	-17 bps	90 bps	
Core PAT	766	850	312	(9.8)	145.3	
<b>Voltas</b>						
Net Sales	16,519	14,925	16,125	10.7	2.4	We expect sales growth of 11% yoy led by sales growth across segments. We expect EBITDA margin to improve yoy due to low base for electro mechanical projects (EMP) segment, while low cost inventory and cost reduction measures would offset higher commodity prices. However, continued cost provisions for the EMP segment could pose negative risks to our margin estimates.
EBIDTA	1,156	976	1,156	18.5	0.0	
EBITDA margin(%)	7.0	6.5	7.2	46 bps	-17 bps	
Core PAT	1,119	1,067	867	4.9	29.1	

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 3: Defence companies – 3QFY21F quarterly snapshot**

(Rs m)	Dec-20	Dec-19	Sep-20	yoy(%)	qoq(%)	Remarks
<b>Bharat Electronics</b>						
Net Sales	28,388	22,710	31,887	25.0	(11.0)	
EBIDTA	4,968	3,547	6,235	40.1	(20.3)	We estimate strong sales growth yoy led by execution pick-up for Long Range Surface to Air Missile (LRSAM) and Akash orders, and favourable base yoy. EBITDA margin is expected to improve yoy aided by operating leverage. Commentary on order pipeline and working capital would be key.
EBITDA margin(%)	17.5	15.6	19.6	188 bps	-205 bps	
Core PAT	3,177	2,151	3,971	47.7	(20.0)	
<b>Hindustan Aeronautics</b>						
Net Sales	46,793	44,564	48,538	5.0	(3.6)	
EBIDTA	8,699	8,418	10,281	3.3	(15.4)	We estimate sales growth of 5% yoy in 3Q led by service revenues and execution of Advanced Light Helicopter, Light Combat Aircraft orders. We expect EBITDA margin to be flattish yoy as the likely impact on gross margins would be offset by cost reduction measures.
EBITDA margin(%)	18.6	18.9	21.2	-30 bps	-259 bps	
Core PAT	4,550	4,135	6,134	10.0	(25.8)	
<b>Bharat Dynamics</b>						
Net Sales	6,614	5,088	2,768	30.0	138.9	
EBIDTA	1,124	534	522	110.5	115.5	We estimate strong sales growth in 3Q with the resumption of production post a very weak 1HFY21. We expect EBITDA margin to improve substantially yoy due to low base last year and operating leverage. Commentary on large orders would be key.
EBITDA margin(%)	17.0	10.5	18.8	650 bps	-185 bps	
Core PAT	848	532	262	59.5	223.2	

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 4: Bearings companies – 3QFY21F quarterly snapshot**

(Rs m)	Dec-20	Dec-19	Sep-20	yoy(%)	qoq(%)	Remarks
<b>SKF</b>						
Net Sales	7,690	7,073	7,032	8.7	9.4	
EBIDTA	1,038	726	918	43.1	13.1	We expect revenue growth of -9% yoy in 3QFY21F led by -13-14% growth in the auto segment and -5% growth in the industrial segment. We expect EBITDA margins to improve yoy led by favourable mix (high auto sales leading to higher share of manufacturing goods vs traded goods), operating leverage, cost reduction measures which would offset higher raw material cost.
EBITDA margin(%)	13.5	10.3	13.1	324 bps	44 bps	
Core PAT	720	512	650	40.6	10.7	
<b>Schaeffler</b>						
Net Sales	11,572	10,365	11,207	11.6	3.3	We expect sales growth of 11-12% yoy in the current quarter led by -13-14% yoy in the automotive segment, -1% yoy growth in the industrial (incl two-wheeler and tractor bearing sales) and 8% yoy growth in exports. We expect EBITDA margin to improve yoy led by operating leverage and higher share of manufactured goods vs traded goods offset to some extent by higher commodity prices.
EBIDTA	1,778	1,470	1,896	20.9	(6.2)	
EBITDA margin(%)	15.4	14.2	16.9	118 bps	-156 bps	
Core PAT	1,086	846	1,135	28.5	(4.3)	
<b>Timken</b>						
Net Sales	4,112	3,733	3,922	10.2	4.8	We expect sales growth of 10% yoy in 3Q as growth in railways and distribution segments would be offset by comparatively muted growth in mobility and ABC segments as MHCV volumes are yet to pick up. We expect EBITDA margin to decline yoy on higher base on likely lower gross margins offset by operating leverage.
EBIDTA	901	842	827	7.0	8.9	
EBITDA margin(%)	21.9	22.5	21.1	-64 bps	83 bps	
Core PAT	564	846	499	(33.3)	12.9	

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

## CMIE capex trend shows new investment proposals fell substantially in 3QFY21

**New investment proposal and completion data for 3Q will improve vs 1HFY21 quarter data trend as data gets updated; but unlikely to reach last year's quarterly average ➤**

- According to CMIE's capex data, new investment proposals fell 88% yoy (-22% qoq) to Rs801bn in 3QFY21 (quarterly average of Rs3.5tr in FY20). The count and value of new investments will be raised in the coming months as new information becomes available, according to CMIE. Interestingly a larger share of new investment is directed towards the manufacturing sector, as per CMIE.
- Project completions declined by 74% yoy in 3QFY21 and declined 39% qoq to Rs433bn (vs quarterly average of Rs1.28tr in FY20).
- CMIE projects under implementation but currently stalled were flattish yoy and qoq in 3QFY21 at Rs13.7tr (peaked to Rs22.7tr in FY20). Stalled projects, mainly in the electricity, transport and metals sectors, formed almost 11.5% (flat yoy) of projects under implementation.

**Figure 5: CMIE capex summary**

(Rs bn)	3QFY21	3QFY20	yoy growth (%)	9MFY21	9MFY20	yoy growth (%)	FY20	FY19	yoy growth (%)
<b>New project announced</b>	<b>801</b>	<b>7,014</b>	<b>(88.6)</b>	<b>2,652</b>	<b>11,979</b>	<b>(77.9)</b>	<b>15,722</b>	<b>14,834</b>	<b>6.0</b>
Revived	79	815	(90.4)	1,119	1,551	(27.9)	1,974	1,936	2.0
<b>Projects completed</b>	<b>433</b>	<b>1,669</b>	<b>(74.0)</b>	<b>1,402</b>	<b>3,411</b>	<b>(58.9)</b>	<b>5,152</b>	<b>6,499</b>	<b>(20.7)</b>
Shelved projects	291	606	(52.0)	483	1,143	(57.7)	1,874	6,779	(72.3)
Projects outstanding	2,03,001	2,04,855	(0.9)	2,03,001	2,04,855	(0.9)	2,05,037	2,00,945	2.0
Announced	56,767	60,064	(5.5)	56,767	60,064	(5.5)	60,585	56,216	7.8
Under Implementation	1,19,589	1,18,129	1.2	1,19,589	1,18,129	1.2	1,08,917	1,16,074	(6.2)
Implementation Stalled	13,714	13,612	0.8	13,714	13,612	0.8	23,040	12,689	81.6

SOURCES: EIP RESEARCH, CMIE

## L&T announced its highest quarterly order inflows, led by transportation and hydrocarbon sector

### L&T announced order inflows (OI) of ~Rs655bn in 3QFY21 (more than 2x 1HFY21 OI) ➤

L&T announced its order inflows for 3QFY21 stand at ~Rs655bn (more than 2x the reported ex-service order inflows of Rs300bn in 3QFY20 and Rs313bn in 1HFY21). Almost 55% of the announced order inflows came from the transportation segment (led by high-speed rail orders) and ~24% from the hydrocarbon sector. With likely order inflows of Rs700bn in 3QFY21F on a conservative basis, L&T would need ex-service order inflows of Rs440bn (-10% yoy) in 4QFY21F to report flattish ex-service order inflows of Rs1.45tr in FY21F vs FY20.

Also, we expect public capex (Centre + States + Central Public Sector Enterprises) to ramp up substantially in 2HFY21F compared to 1HFY21. Central government capital expenditure was up 12% yoy in Apr-Nov 2020 led by strong capital expenditure in the Oct-Nov months, though we do not have much clarity on State capital expenditure.

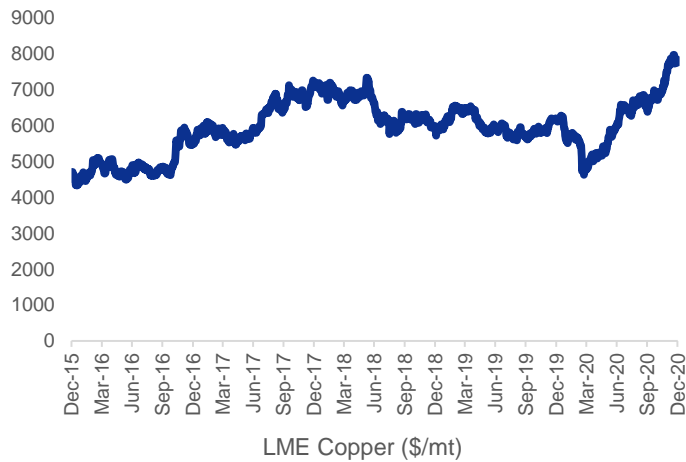
**Figure 6: L&T announced order inflows for 3QFY21**

3QFY21	Segment	Sub-Segment	Client	Amount (Rs m)	Details
21-Oct-20	Infrastructure	Buildings & factories	Mumbai		Order from a reputed developer to construct a residential project and an office space in Mumbai.
21-Oct-20	Infrastructure	Buildings & factories	Mumbai, Odisha, Andhra Pradesh, Karnataka and Tamil Nadu		Order from a leading global shipping & logistics company for the design and construction of warehousing logistics park at Mumbai. The business has also received add-on orders for ongoing projects in Andhra Pradesh, Karnataka and Tamil Nadu.
21-Oct-20	Infrastructure	Water and effluents treatment	Punjab Water Supply & Sewerage Board, Punjab	Between 25,000 and 50,000	Order for providing 24x7 surface-based water supply to Patiala town.
21-Oct-20	Infrastructure	Water and effluents treatment	Gujarat Water Infrastructure Limited		Order for design, construction, and operation of Navda to Chavand bulk water transmission pipeline project in Gujarat.
21-Oct-20	Infrastructure	Water and effluents treatment	Bangalore Water Supply and Sewerage Board		Secured by the business for the construction of ground level reservoirs with associated mechanical, electrical & instrumentation works, along western route (CP 13) of Bengaluru, Karnataka.
21-Oct-20	Infrastructure	Transportation	National Capital Region Transport Corporation (NCRTC)		The order involves Pre-Cast ballastless Slab Track system along with associated works for Delhi - Meerut section (82km) as part of the Regional Rapid Transit System (RRTS) network of NCRTC.
28-Oct-20	Infrastructure	Transportation	National High-Speed Rail Corporation Limited (NHRCL)	>70,000	To construct the 237.1km stretch MAHSR - C4 package, which is part of the Mumbai Ahmedabad High-Speed Rail Project.
11-Nov-20	Infrastructure	Heavy civil	National Capital Region Transport Corporation		To execute a new, dedicated, high-speed, high-capacity rail project in the Delhi - Ghaziabad - Meerut Corridor.
11-Nov-20	Power	T&D	International Market (Nepal and Kingdom of Saudi Arabia)	Between 10,000 and 25,000	In Nepal, the business has won an order to construct a 220kV Gas Insulated Substation along with associated work in connected substations. In Saudi Arabia, the business has received orders to establish certain transmission links in the existing 132kV network.
18-Nov-20	Others	Construction and mining equipment	Tata Steel		Secured one of its biggest orders ever to supply 46 units of Komatsu Mining Equipment from Tata Steel.
19-Nov-20	Infrastructure	Transportation	National High-Speed Rail Corporation Limited (NHRCL)	>70000	To construct 87km of the Mumbai-Ahmedabad High Speed Rail (MAHSR) project.
25-Nov-20	Infrastructure	Transportation infrastructure	National Highways & Infrastructure Development Corporation Ltd	Between 25,000 and 50,000	To construct India's longest road bridge across Brahmaputra river connecting Dhubri in Assam to Phulbari in Meghalaya.
07-Dec-20	Infrastructure	Construction and mining equipment	Subsidiaries of Coal India, leading Infra companies engaged with Coal sector and customers from Cement and Iron Ore sectors		Secured multiple orders for the supply of 90 units of Komatsu Mining Equipment.
14-Dec-20	Infrastructure	Buildings & factories	Reputed clients in building tower, hospitals in Nagpur, IT space in Bengaluru.	Between 10,000 and 25,000	Received an add-on order from a reputed developer, secured a design-and-build order from a reputed client to construct a multispecialty hospital in Nagpur; IT & office space business has received an order from a reputed client for core works of a mixed-use building in Bengaluru.
14-Dec-20	Power	T&D	Udhampur Srinagar Baramulla rail link project, and a South Indian city		To provide electrical & mechanical systems for tunnels in the Udhampur Srinagar Baramulla rail link project.
23-Dec-20	Infrastructure	Water and effluents treatment	Jal Jeevan Mission, Madhya Pradesh	Between 25,000 and 50,000	Secured multiple EPC* orders for the execution of rural piped water supply schemes in various districts of Madhya Pradesh.
29-Dec-20	Infrastructure	Water and effluents treatment	Chhattisgarh	Between 10,000 and 25000	Secured an EPC order involving design, engineering, supply & installation of plant and equipment to lay 135km of slurry pipeline and water pipeline systems between Bachel and Nagarnar and associated facilities in the State of Chhattisgarh.
31-Dec-20	Power	T&D	Saudi Arabia		Won two transmission line packages in Saudi Arabia.
31-Dec-20	Infrastructure	Water and effluents treatment	Gujarat under Sauni Yojna Link 3	Between 10,000 and 25,000	Project involves survey, design, procurement, laying and jointing of 2500 mm diameter pipeline.
01-Jan-21	Process	Metallurgical & material handling business	Domestic and International orders	Between 10,000 and 25,000	Secured EPC orders of coal processing plants in the domestic market and a prestigious engineering & procurement project for a metallurgical plant overseas.
04-Jan-21	Hydrocarbon	Upstream	HPCL Rajasthan Refinery Limited (HRRL)	>70,000	The EPCC** contract is for setting up a dual feed cracker unit (DFCU), EPCC-07 Package (capacity: 890 KTPA) for Rajasthan Refinery Project at Barmer, Rajasthan.
04-Jan-21	Hydrocarbon	Upstream	HPCL Rajasthan Refinery Limited (HRRL)	Between 25,000 and 50,000	The EPCC contract is for setting up a petrochemical fluidized catalytic cracking (PFCC) including propylene recovery unit, EPCC-03 Package (capacity: 2.9 MMTA), for Rajasthan Refinery Project at Barmer, Rajasthan.
07-Jan-21	Hydrocarbon	Upstream	Oil & Natural Gas Corporation (ONGC)	Between 25,000 and 50,000	Contract involves a new living quarter platform, 'NQL Platform' for 120 men, bridge to existing 'NQO Complex' and major revamping / replacement of existing process systems / facilities.

NOTE: \* ENGINEERING, PROCUREMENT AND CONSTRUCTION, \*\* ENGINEERING, PROCUREMENT, CONSTRUCTION, AND COMMISSIONING.  
SOURCES: EIP RESEARCH, COMPANY REPORTS

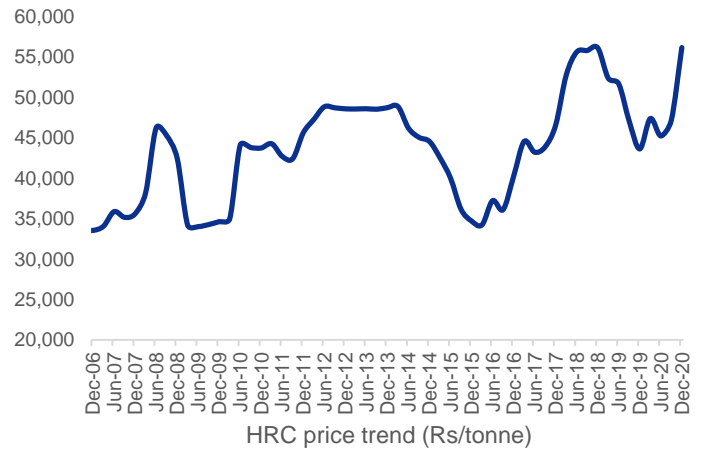
## Sustained higher commodity prices pose risk to margins as pricing comes with lag

Figure 7: LME\* copper was up 22% yoy (+10% qoq) in 3QFY21



SOURCES: BLOOMBERG, EIP RESEARCH. \*LONDON METAL EXCHANGE

Figure 8: HRC\* steel prices rose 29% yoy (+19% qoq) in 3QFY21



SOURCES: CMIE, EIP RESEARCH. \*HOT ROLLED COIL STEEL

Figure 9: Sector valuation summary

Company	Bloomberg Ticker	Recom.	Price Rs	TP Rs	Mkt cap (US\$ m)	P/E (x)			P/BV (x)			EV/EBITDA (x)			Dividend Yield (%)		
						FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
ABB India	ABB IN	Reduce	1,276	900	3,694	116	63	51	7.2	6.7	6.1	81	43	34	0.4	0.4	0.4
Bharat Heavy Electricals	BHEL IN	Hold	40	30	1,947	-15	53	18	0.5	0.5	0.5	-14	19	11	0.0	0.0	0.0
Cummins India	KKC IN	Hold	617	480	2,325	33	26	22	3.9	3.7	3.5	32	24	20	2.1	2.8	2.8
Larsen & Toubro	LT IN	Add	1,314	1,180	25,912	32	22	18	2.8	2.6	2.3	22	18	16	1.5	1.5	1.6
Siemens India	SIEM IN	Hold	1,650	1,380	7,952	77	51	43	6.1	5.7	5.2	53	35	29	0.4	0.7	0.7
Thermax	TMX IN	Hold	1,025	825	1,613	51	38	26	3.3	3.1	2.9	32	23	16	0.9	0.9	1.1
Voltas	VOLT IN	Hold	910	770	4,060	62	40	35	6.2	5.6	5.1	57	33	29	0.6	0.7	0.7
SKF	SKF IN	Add	1,840	1,720	1,248	41	29	24	5.8	5.0	4.3	28	20	16	7.5	0.7	0.9
Schaeffler	SCHFL IN	Add	4,498	4,200	1,936	56	37	30	4.7	4.3	3.8	28	20	17	0.6	0.8	0.9
Timken	TMKN IN	Hold	1,236	1,200	1,307	56	39	31	7.2	6.2	5.3	33	24	20	3.8	0.4	0.5
Bharat Electronics	BHE IN	Add	139	120	4,495	21	17	15	3.0	2.7	2.4	14	11	10	1.8	2.2	2.5
Bharat Dynamics	BDL IN	Hold	348	325	857	19	17	10	2.3	2.1	1.9	12	10	5	2.1	2.4	3.8
Hindustan Aeronautics	HNAL IN	Add	1,009	850	4,210	14	12	11	2.0	1.9	1.7	8	7	7	2.9	3.2	3.5

SOURCES: EIP RESEARCH ESTIMATES, BLOOMBERG. PRICED AS AT 14 JAN 2021.

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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

### Recommendation Framework

#### Stock Ratings

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.