

India

Overweight (no change)

Highlighted Companies

ABB India Ltd

ADD, TP Rs4965, Rs4832 close

ABB India remains a strong player in the automation space across multiple industries with its healthy operating performance, focus on order execution, pricing strategies and efficient capacity utilization, which bode well for the company.

Larsen & Toubro Ltd

ADD, TP Rs3300, Rs3522 close

Larsen & Toubro (L&T) is well placed to achieve its 'Lakshya 2026' revenue of Rs2.7tr and order inflow of Rs3.7tr, translating into a revenue and order inflow CAGR of 14%. L&T plans to achieve a RoE of over 18% in FY26F vs. a RoE of 13.8% in FY23.

Thermax Ltd

ADD, TP Rs3275, Rs3210 close

Thermax is a key beneficiary of the green shoots witnessed in private sector capex in multiple industries. The company has a healthy order book with a strong pipeline of small ticket-size orders in cement, biomass, food and beverage, and sugar/distillery segments.

Summary Valuation Metrics

P/E (x)	Mar-23	Mar24-F	Mar25-F
Larsen & Toubro Ltd	32.1	25.4	20.8
Thermax Ltd	66.6	50.1	41.4
KEC International Ltd	89.8	40.7	18.1

P/BV (x)	Mar-23	Mar25-F	Mar26-F
Larsen & Toubro Ltd	3.7	3.7	3.2
Thermax Ltd	8.2	7.3	6.3
KEC International Ltd	4.2	3.9	3.3

Dividend Yield	Mar-23	Mar25-F	Mar26-F
Larsen & Toubro Ltd	0.8%	0.9%	0.9%
Thermax Ltd	0.3%	0.3%	0.4%
KEC International Ltd	0.7%	0.8%	0.8%

Ind Goods & Services

3QFY24 results preview

- We expect a healthy revenue growth of ~15% YoY in 3QFY24F led by the pick-up in execution, improved opening order book position and firm pricing.
- The EBITDA margin in 3QFY24F is likely to increase by 35bp YoY, mainly due to softening commodity prices coupled with operational efficiency.
- We remain Overweight on the sector, with our preferred stocks being Larsen & Toubro, KEC International and Thermax.

Revenue growth along with operating leverage likely

We expect our capital goods coverage universe to continue posting healthy sales growth in 3QFY24F led by strong execution and pricing action along with an improved opening order book position. We expect an overall aggregate revenue growth of 14.6% YoY (up 3% QoQ) for companies in our coverage universe. The EBITDA margin, at an aggregate level, in 3QFY24F is likely to increase by 35bp YoY, mainly due to softening commodity prices coupled with operational efficiency in most companies. We expect the core PAT of our coverage universe to grow by 29% YoY. Our PAT estimates are below Bloomberg consensus estimates for Larsen & Toubro (L&T) and KEC International while they are above in the case of ABB, Siemens, Thermax and Voltas. As regards the EBITDA margin, our estimates are below Bloomberg consensus estimates for L&T and KEC International.

Order inflow momentum likely to sustain

While the launch of the production-linked incentive or PLI scheme by the government had a positive impact on the Indian economy and it is expected to attract a capex of ~Rs3tr over the next five years, in the near term, private capex is likely to remain muted due to the forthcoming state/general elections. In 3QFY24, the Centre's new investments declined by 77% YoY but improved 17% QoQ ahead of the elections. We expect the manufacturing capex led by the PLI scheme, supply chain diversification and the China+1 strategy to continue post elections as well. Industry has witnessed strong demand for data centres led by 5G rollout and e-commerce growth. We expect the order inflow of our coverage universe to clock a 14% CAGR over FY23-25F. New orders announced by L&T in 3QFY24 stood at ~Rs660bn.

Maintain ADD rating on L&T, KEC International & Thermax

We remain Overweight on the industrial sector as valuations currently factor in a strong capex recovery. Total capex was up 15% YoY in 1HFY24. Public sector companies' capex is likely to moderate in the coming quarters but may pick up post general elections. The government has maintained its strong capex in key infrastructure-related sectors like roads, railway including metro rail, water and power T&D. We have an ADD rating on ABB India, L&T, KEC International, Thermax and Siemens because their order backlog provides revenue visibility, apart from their reasonable valuations. We have a HOLD rating on Voltas; and a REDUCE rating on Cummins India because export demand is likely to be hit in the event of a recession in the US and European countries, concerns over long-term growth of the power generation segment and their rich valuations.

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Figure 1: 3QFY24F earnings of our coverage universe

Company	Rating	Price	TP	Sales (Rs m)		EBITDA margin (%)		Core PAT (Rs m)	
				Rs	Rs	Dec-23	YoY (%)	Dec-23	YoY (bp)
ABB India	ADD	4,832	4,965	29,648	22.2	15.2	14	3,768	23.2
Cummins India	REDUCE	1,998	1,740	23,343	7.1	17.9	(101)	3,530	(2.0)
L&T	ADD	3,522	3,300	5,31,162	14.5	11.1	19	32,116	32.9
KEC International	ADD	604	700	47,884	9.5	7.2	258	872	395.6
Siemens	ADD	4,077	4,400	45,980	16.0	14.2	(87)	5,123	10.7
Thermax	ADD	3,210	3,275	23,526	14.8	8.9	105	1,644	30.0
Voltas	HOLD	1,009	872	24,642	22.9	6.5	268	945	251.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 results preview

Overall industrial sector – earnings preview

Figure 2: Capital goods sector - 3QFY24F quarterly snapshot

(Rs m)	Dec-23F	Dec-22	Sep-23	YoY (%)	QoQ (%)	Remarks
ABB						
Net Sales	29,648	24,269	27,692	22.2	7.1	We expect a healthy 22% YoY growth in revenue led by robust growth across segments. We expect the operating leverage, easing commodity prices and pricing benefits to aid the EBITDA margin by 14bp YoY, leading to a 23% YoY growth in PAT.
EBITDA	4,492	3,643	4,385	23.3	2.4	
EBITDA margin (%)	15.2	15.0	15.8	14 bps	-69 bps	
Core PAT	3,768	3,059	3,620	23.2	4.1	
Cummins						
Net Sales	23,343	21,805	18,997	7.1	22.9	We expect ~7% YoY revenue growth, while EBITDA margin is likely to erode by 100bp YoY due to a high base and higher commodity prices for new products. PAT is likely to decline by 2% YoY.
EBITDA	4,176	4,122	3,386	1.3	23.3	
EBITDA margin (%)	17.9	18.9	17.8	-101 bps	7 bps	
Core PAT	3,530	3,601	3,285	(2.0)	7.5	
Larsen & Toubro						
Net Sales	5,31,162	4,63,897	5,10,240	14.5	4.1	We expect sales growth to be healthy at 15% YoY on improved execution by the infrastructure segment while the EBITDA margin is expected to increase by 20 bp YoY to 11.1%. L&T announced ~Rs660bn worth of order inflow in 3QFY24 while the actual order inflow is likely to touch ~Rs530bn. PAT is expected to grow by ~33% YoY to Rs32bn.
EBITDA	59,099	50,730	56,320	16.5	4.9	
EBITDA margin (%)	11.1	10.9	11.0	19 bps	9 bps	
Core PAT	32,116	24,169	32,226	32.9	(0.3)	
KEC International						
Net Sales	47,884	43,746	44,990	9.5	6.4	We expect sales growth of 10% YoY led by improved execution, mainly in civil and T&D segments. The EBITDA margin is expected to improve by 258bp led by closure of Brazil projects coupled with softening commodity prices. Elevated working capital requirement leading to higher interest expenses to impact PAT. YTD order inflow as of Dec 2023-end stood at ~Rs120bn. We expect 3QFY24F order inflow at ~Rs30bn while PAT is likely to increase by 396% YoY.
EBITDA	3,424	1,999	2,743	71.3	24.8	
EBITDA margin (%)	7.2	4.6	6.1	258 bps	105 bps	
Core PAT	872	176	558	395.6	56.2	
Siemens						
Net Sales	45,980	39,638	57,210	16.0	(19.6)	We expect a robust revenue growth of 16% YoY led by strong growth in mobility, digital industries, and smart infrastructure segments. We expect the EBITDA margin to decline by 87bp YoY on a high base while PAT is likely to rise by 11% YoY.
EBITDA	6,550	5,993	7,003	9.3	(6.5)	
EBITDA margin (%)	14.2	15.1	12.2	-87 bps	200 bps	
Core PAT	5,123	4,628	5,718	10.7	(10.4)	
Thermax						
Net Sales	23,526	20,493	23,025	14.8	2.2	We expect a revenue growth of ~15% YoY led by healthy order backlog and healthy execution. We expect the EBITDA margin to improve by 105bp YoY aided by operating leverage while PAT is likely to improve by ~30% YoY.
EBITDA	2,097	1,611	2,046	30.2	2.5	
EBITDA margin (%)	8.9	7.9	8.9	105 bps	3 bps	
Core PAT	1,644	1,264	1,586	30.0	3.6	
Volta						
Net Sales	24,642	20,056	22,928	22.9	7.5	We expect a 23% YoY sales growth led by healthy growth in the project business. The EBITDA margin is expected to improve marginally by 268bp YoY while PAT is likely to hit Rs945m, registering a slight growth of 251% YoY.
EBITDA	1,598	764	703	109.2	127.4	
EBITDA margin (%)	6.5	3.8	3.1	268 bps	342 bps	
Core PAT	945	269	357	251.0	165.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 3QFY24F earnings and their comparison with Bloomberg consensus estimates

3QFY24F	Bloomberg Estimates			Bloomberg			InCred Research Estimates			InCred			% Variation		
	Rs m	Revenue	EBITDA	PAT	EBITDA Margin	Revenue	EBITDA	PAT	EBITDA Margin	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
ABB India	28,939	3,985	3,040	13.8%	29,648	4,492	3,768	15.2%	2.5%	12.7%	24.0%				
Cummins	21,864	3,838	2,780	17.6%	23,343	4,176	3,530	17.9%	6.8%	8.8%	27.0%				
L&T	5,30,980	61,354	34,210	11.6%	5,31,162	59,099	32,116	11.1%	0.0%	-3.7%	-6.1%				
KEC International	50,660	3,660	1,240	7.2%	47,884	3,424	872	7.2%	-5.5%	-6.4%	-29.7%				
Siemens	44,549	5,553	4,328	12.5%	45,980	6,550	5,123	14.2%	3.2%	18.0%	18.4%				
Thermax	24,120	2,039	1,558	8.5%	23,526	2,097	1,644	8.9%	-2.5%	2.8%	5.5%				
Volta	24,390	1,400	684	5.7%	24,642	1,598	945	6.5%	1.0%	14.2%	38.2%				

SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

Figure 4: L&T's order inflow in 3QFY24 (as announced by the company)

Date	Quarter	Segments	Order Size	Average Size (Rs bn)	Order Type
03-Oct-23	3QFY24	Transportation Infrastructure	Rs25-50bn	37.5	Large
04-Oct-23	3QFY24	Power Business	Rs10-25bn	17.5	Significant
05-Oct-23	3QFY24	Construction: B&F	Rs25-50bn	37.5	Large
10-Oct-23	3QFY24	Construction: Water & Effluent Treatment	Rs10-25bn	17.5	Significant
11-Oct-23	3QFY24	Hydrocarbon	>Rs70bn	70	Mega
30-Oct-23	3QFY24	Power T&D	Rs25-50bn	37.5	Large
31-Oct-23	3QFY24	Hydrocarbon	>Rs150bn	150	Ultra-Mega
06-Nov-23	3QFY24	Construction: Bhogapuram International Airport	Rs25-50bn	37.5	Large

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Comparison of companies in our coverage universe

Company	Bloomberg Ticker	Recom.	Price Rs	TP Rs	Mkt cap (US\$ m)	P/E (x)			P/BV (x)			EV/EBITDA (x)			Dividend Yield (%)		
						FY23	FY24F	FY25F	FY23	FY24F	FY25F	FY23	FY24F	FY25F	FY23	FY24F	FY25F
ABB	ABB IN	ADD	4,832	4,965	12,309	83.6	79.4	72.8	17.0	14.3	12.2	67.8	61.5	56.7	0.1%	0.1%	0.2%
Cummins India	KKC IN	REDUCE	1,998	1,740	6,659	48.3	45.1	37.8	10.3	8.9	7.7	43.6	36.9	30.3	0.9%	1.0%	1.0%
Larsen & Toubro	LT IN	ADD	3,522	3,300	58,192	32.1	25.4	20.8	3.7	3.7	3.2	19.3	19.3	16.7	0.9%	0.9%	0.9%
Siemens	SIEM IN	ADD	4,077	4,400	17,454	68.9	59.2	51.8	9.1	9.1	8.0	41.0	41.0	35.9	0.4%	0.4%	0.4%
Thermax	TMX IN	ADD	3,210	3,275	4,598	66.6	50.1	41.4	8.2	7.3	6.3	50.0	35.3	29.7	0.3%	0.3%	0.4%
Voltas	VOLT IN	HOLD	1009.2	872	4,014	63.5	66.0	34.7	5.1	4.7	4.3	42.7	47.5	25.8	0.7%	0.7%	0.7%
KEC International	KECI IN	ADD	604.3	700	1,868	89.8	40.7	18.1	4.2	3.9	3.3	22.5	15.8	11.1	0.7%	0.8%	0.8%

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