

India

Overweight (no change)**Highlighted Companies****Larsen & Toubro Ltd****ADD, TP Rs3965, Rs3798 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.

KEC International Ltd**ADD, TP Rs800, Rs770 close**

KEC International has a strong Rs1,250bn order pipeline, of which the transmission segment accounts for Rs750bn while the railway and civil segments account for Rs200-250bn each. The company has a healthy order book, with L1 status orders worth over Rs380bn. We expect the company to report strong revenue growth in the coming quarters.

Skipper Limited**ADD, TP Rs400, Rs323 close**

We expect Skipper to maintain consistent margins and a healthy revenue CAGR of 28% over FY23-26F led by a strong order book for the engineering products segment and healthy performance of the polymer products segment. The domestic T&D environment is showing signs of a rebound after a two-year slowdown.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Larsen & Toubro Ltd	38.42	32.01	26.39
KEC International Ltd	44.74	23.16	19.26
Skipper Limited	38.64	25.46	20.22

P/BV (x)

	Mar24-F	Mar25-F	Mar26-F
Larsen & Toubro Ltd	5.91	5.14	4.41
KEC International Ltd	4.84	4.11	3.47
Skipper Limited	3.45	3.05	2.67

Dividend Yield

	Mar24-F	Mar25-F	Mar26-F
Larsen & Toubro Ltd	0.55%	0.58%	0.58%
KEC International Ltd	0.65%	0.65%	0.65%
Skipper Limited	0.08%	0.16%	0.25%

Ind Goods & Services

4QFY24 results preview

- We expect a healthy revenue growth of 16% YoY in 4QFY24F led by the pick-up in execution, improved opening order book position and firm pricing.
- The EBITDA margin in 4QFY24F is likely to decrease by 29bp YoY, mainly due to lower margin in L&T.
- We remain Overweight on the sector, with our preferred stocks being Larsen & Toubro, KEC International, and Skipper.

Revenue growth along with operating leverage to continue

We expect our capital goods coverage universe to continue posting healthy sales growth in 4QFY24F led by strong execution and pricing action along with an improved opening order book position. We expect an overall aggregate revenue growth of 16% YoY (+20% QoQ) for the companies in our coverage universe. The EBITDA margin, at an aggregate level, in 4QFY24F is likely to decrease by 29bp YoY, mainly due to the lower margin in L&T which is offset against softening commodity prices and operational efficiency in most companies. We expect the core PAT of our coverage universe to grow by ~18% YoY (~40% QoQ). Our PAT estimates are below Bloomberg consensus estimates for Kalpataru Projects International, Siemens and Voltas while they are above in the case of Cummins India and Thermax. As regards the EBITDA margin, our estimates are below Bloomberg consensus estimates for Kalpataru and KEC international.

Domestic order placement activity likely to moderate

While the launch of the production-linked incentive or PLI schemes by the government had a positive impact on the Indian economy and they are expected to attract a capex of ~Rs3tr over the next five years, but in the near term, private capex is likely to remain muted due to the forthcoming general elections in India. In 4QFY24, the Centre's new investments declined by 30% YoY but improved 235% QoQ. We expect the order inflow of our coverage universe to clock a 14% CAGR over FY23-25F. The order inflow for key sectors like power T&D, railways, metro rail and water supply witnessed a steady growth in FY24 led by government's capex. On the private capex front, investment activity witnessed selective growth in the businesses such as data centres, industrial automation, cement, metals & mining, and PLI capex. We expect the order placement momentum to be back on track after the general elections. New orders announced by L&T in 4QFY24 stood at ~Rs600bn.

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 may moderate in the coming quarters but pick up post general elections. The government has maintained its strong capex in key infrastructure-related sectors like roads, railways including metro rail, water supply & power T&D. We have an ADD rating on ABB India, L&T, KEC International, Thermax, Siemens and Skipper as their order backlog provides revenue visibility, apart from reasonable valuations. We have a HOLD rating on Voltas (losses in projects business) & Cummins India due to weak export demand and rich valuations.

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Figure 1: 4QFY24F results expectations

Company	Rating	Price		Sales (Rs m)		EBITDA margin (%)		Core PAT (Rs m)	
		Rs	Rs	Mar-24	YoY(%)	Mar-24	YoY(bps)	Mar-24	YoY(%)
ABB	ADD	6,502	5,500	30,424	26.2	13.4	156	3,326	35.7
Cummins	HOLD	3,030	2,665	21,800	13.2	18.7	179	3,869	21.5
L&T	ADD	3,742	3,965	6,67,937	14.5	11.0	(70)	44,034	10.5
KEC International	ADD	760	800	62,937	13.9	6.2	107	1,907	164.2
Siemens	ADD	5,627	4,400	57,960	21.0	13.0	2	5,912	25.3
Thermax	ADD	4,508	3,675	28,028	21.3	8.8	19	1,934	23.8
Voltas	HOLD	1,218	1,115	35,099	18.7	7.3	(10)	1,897	32.4
Kalpataru Projects	ADD	760	1,000	59,361	21.6	7.7	90	1,587	111.0
Skipper	ADD	1,126	400	8,598	30.8	9.6	(131)	241	15.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 results preview

Overall industrial sector – earnings preview

Figure 2: Capital goods sector - 4QFY24F quarterly snapshot

(Rs m)	Mar-24F	Mar-23	Dec-23	YoY (%)	QoQ (%)	Remarks
ABB India						
Net Sales	30,424	24,112	27,575	26.2	10.3	We expect a healthy 26% YoY growth in revenue led by robust growth across segments. We expect operating leverage, easing commodity prices and pricing benefits to aid EBITDA margin by 43bp YoY, leading to ~36% YoY growth in PAT.
EBITDA	4,074	2,853	4,172	42.8	(2.3)	
EBITDA margin (%)	13.4	11.8	15.1	156 bps	-174 bps	
PBT	4,447	3,279	4,537	35.6	(2.0)	
Core PAT	3,326	2,452	3,452	35.7	(3.6)	
Cummins India						
Net Sales	21,800	19,260	25,341	13.2	(14.0)	We estimate ~13% YoY revenue growth while the EBITDA margin is likely to improve by 180bp and PAT is likely to increase by 22% YoY.
EBITDA	4,081	3,261	5,379	25.2	(24.1)	
EBITDA margin (%)	18.7	16.9	21.2	179 bps	-251 bps	
PBT	4,961	4,129	6,017	20.1	(17.5)	
Core PAT	3,869	3,185	4,549	21.5	(14.9)	
Larsen & Toubro						
Net Sales	6,67,937	5,83,352	5,51,278	14.5	21.2	We estimate 4QFY24 sales growth to be healthy at ~15% YoY on improved execution by the infrastructure segment while the EBITDA margin is likely to decrease by 70bp YoY to 11%. L&T announced ~Rs600bn of order inflow in 4QFY24 while the actual order inflow is likely to touch ~Rs850bn. PAT is likely to grow by ~11% YoY to Rs44bn.
EBITDA	73,540	68,329	57,590	7.6	27.7	
EBITDA margin (%)	11.0	11.7	10.4	-70 bps	56 bps	
PBT	64,571	59,074	47,718	9.3	35.3	
Core PAT	44,034	39,868	29,474	10.5	49.4	
KEC International						
Net Sales	62,937	55,250	50,067	13.9	25.7	We estimate sales growth of 14% YoY led by improved execution, mainly in the civil and T&D segments. The EBITDA margin is likely to improve by 107bp led by closure of Brazil projects coupled with softening commodity prices. Elevated working capital requirement, leading to higher interest costs, to sustain. PAT is likely to increase by 164% YoY in 4QFY24F. Order inflow in FY24F is at Rs181bn.
EBITDA	3,905	2,835	3,079	37.7	26.8	
EBITDA margin (%)	6.2	5.1	6.1	107 bps	5 bps	
PBT	2,326	859	1,207	170.8	92.7	
Core PAT	1,907	722	969	164.2	96.9	
Siemens						
Net Sales	57,960	47,901	47,813	21.0	21.2	We estimate a robust revenue growth estimate of 21% YoY led by strong growth in the mobility, digital industries, and smart infrastructure segments. We expect the EBITDA margin to remain flat YoY at 13% while PAT is likely to rise by 25% YoY.
EBITDA	7,529	6,212	5,961	21.2	26.3	
EBITDA margin (%)	13.0	13.0	12.5	2 bps	52 bps	
PBT	7,883	6,494	6,783	21.4	16.2	
Core PAT	5,912	4,718	5,057	25.3	16.9	
Thermax						
Net Sales	28,028	23,108	23,244	21.3	20.6	We estimate revenue growth of ~21% YoY led by healthy order backlog and execution. We expect the EBITDA margin to improve by 19bp YoY aided by operating leverage while PAT is likely to improve by ~24% YoY.
EBITDA	2,479	1,999	1,874	24.0	32.3	
EBITDA margin (%)	8.8	8.7	8.1	19 bps	78 bps	
PBT	2,512	2,140	3,095	17.4	(18.8)	
Core PAT	1,934	1,562	1,425	23.8	35.8	
Voltas						
Net Sales	35,099	29,568	26,257	18.7	33.7	We expect a 19% YoY sales growth led by healthy growth in the projects business. The EBITDA margin is likely to decline by 10bp YoY, while PAT is likely to be Rs1.9bn, up 32% YoY.
EBITDA	2,555	2,182	284	17.1	798.9	
EBITDA margin (%)	7.3	7.4	1.1	-10 bps	620 bps	
PBT	2,894	2,420	599	19.6	382.7	
Core PAT	1,897	1,432	-276	32.4	(787.2)	
Kalpataru Projects International						
Net Sales	59,361	48,820	48,960	21.6	21.2	We expect a sales growth of 22% YoY led by improved execution, mainly in the civil and T&D segments. The EBITDA margin is likely to improve by 90bp. Elevated working capital requirement, leading to higher interest costs, to sustain while PAT is likely to increase by 111% YoY.
EBITDA	4,571	3,320	4,240	37.7	7.8	
EBITDA margin (%)	7.7	6.8	8.7	90 bps	-96 bps	
PBT	2,115	1,040	1,930	103.4	9.6	
Core PAT	1,587	752	1,440	111.0	10.2	
Skipper						
Net Sales	8,598	6,574	8,016	30.8	7.3	We expect a sales growth of 31% YoY led by infrastructure projects. The EBITDA margin is likely to decline by 130bp while PAT is likely to increase by 15% YoY.
EBITDA	824	716	771	15.1	6.9	
EBITDA margin (%)	9.6	10.9	9.6	-131 bps	-3 bps	
PBT	356	303	264	17.7	35.2	
Core PAT	241	209	178	15.2	35.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Our 4QFY24F earnings estimates vs. Bloomberg consensus estimates

Company	Sales (Rs m)			EBITDA margin (%)			Core PAT (Rs m)		
	InCred	Consensus	Diff (%)	InCred	Consensus	YoY (bps)	InCred	Consensus	YoY (%)
ABB	30,424	28,777	6%	13.4	13.4	(5)	3,326	3,448	-4%
Cummins	21,800	21,577	1%	18.7	18.4	28	3,869	3,289	18%
L&T	6,67,937	6,46,628	3%	11.0	10.6	42	44,034	44,880	-2%
KEC International	62,937	60,926	3%	6.2	7.6	(139)	1,907	2,053	-7%
Siemens	57,960	62,170	-7%	13.0	13.4	(40)	5,912	6,601	-10%
Thermax	28,028	27,518	2%	8.8	9.0	(16)	1,934	1,876	3%
Voltas	35,099	35,121	0%	7.3	6.8	48	1,897	2,060	-8%
Kalpataru Projects	59,361	60,435	-2%	7.7	9.6	(190)	1,587	2,830	-44%
Skipper	8,598			9.6			241		

SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

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

Date	Details	Value (Rs bn)	Order type
09-Jan-24	Construction: B&F	Rs10-25bn	Significant
16-Jan-24	Construction: Mumbai-Ahmedabad High Speed Rail	>Rs70bn	Mega
17-Jan-24	Construction: B&F	Rs10-25bn	Significant
23-Jan-24	Heavy Engineering	Rs10-25bn	Significant
30-Jan-24	Construction: Largest Renewable Generation Plant UAE	>Rs70bn	Mega
05-Feb-24	Hydrocarbon: Onshore project Indian Oil Adani Ventures	Rs25-50bn	Large
06-Feb-24	Construction: Transportation Infra	Rs25-50bn	Large
07-Feb-24	Construction: Power T&D	Rs25-50bn	Large
13-Feb-24	Hydrocarbon	Rs10-25bn	Significant
22-Feb-24	Construction: B&F	Rs10-25bn	Significant
26-Feb-24	Construction: Jakarta Mass Rapid Transit (Phase-2A)	Rs10-25bn	Significant
01-Mar-24	High Power Radars	Rs50-100bn	Major
07-Mar-24	Hydrocarbon	Rs10-25bn	Significant
13-Mar-24	Construction: B&F	Rs10-25bn	Significant
14-Mar-24	Hydrocarbon: Onshore O&G Pipeline	Rs50-100bn	Major
27-Mar-24	Construction: B&F	Rs25-50bn	Large
28-Mar-24	Geo Structure	Rs10-25bn	Significant

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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