

India

**Overweight** (no change)

**Highlighted Companies**

**Kalpataru Projects International Limited**  
ADD, TP Rs1575, Rs1306 close

Kalpataru Projects International continues to expand its capabilities and competencies significantly with a strong presence across industries. The merger with JMC offers a competitive edge to take on a wide range of projects.

**Larsen & Toubro Ltd**  
ADD, TP Rs4020, Rs3468 close

Larsen & Toubro is poised to be a major beneficiary of the 'Viksit Bharat' roadmap outlined in the Union Budget, aimed at driving India's development by 2047. The company has a strong order pipeline which provides healthy revenue visibility over the coming quarters.

**Skipper Limited**  
ADD, TP Rs500, Rs443 close

We expect Skipper to maintain consistent margins and a healthy revenue CAGR of 21% over FY24-27F led by its strong order book in 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-A	Mar25-F	Mar26-F
Kalpataru Projects International Limited	37.31	26.53	20.34
Larsen & Toubro Ltd	37.59	30.28	25.88
Skipper Limited	57.08	30.47	24.79
P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Kalpataru Projects International Limited	3.69	3.3	2.89
Larsen & Toubro Ltd	5.64	4.9	4.23
Skipper Limited	5.19	4.46	3.79
Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Kalpataru Projects International Limited	0.54%	0.58%	0.61%
Larsen & Toubro Ltd	0.61%	0.63%	0.63%
Skipper Limited	0.02%	0.1%	0.12%

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# Industrial Goods and Services

## 2Q capital goods & defence sector preview

- A healthy growth is likely in 2QFY25F. T&D companies, including KEC, Kalpataru Projects, and Skipper are likely to report strong order inflow.
- We expect revenue growth of ~13% YoY (-6% QoQ). The EBITDA margin is likely to increase by 37bp YoY to ~13.4% and PAT to grow ~16% YoY.
- We remain Overweight on the industrial sector as the valuations currently factor in a strong capex recovery. We remain positive on the sector.

### Double-digit revenue growth with a higher margin likely

Capital goods companies reported a better-than-expected order inflow in 1QFY25 while 2QFY25F is likely to post healthy growth, although some delay in the finalization of orders is likely. Transmission and Distribution or T&D companies including KEC International, Kalpataru Projects International, and Skipper are likely to report strong order inflow in 2QFY25F. We believe 2Q is likely to be yet another strong quarter for the capital goods sector with double-digit revenue growth and margin expansion. We expect an overall aggregate revenue growth of ~13% YoY (-6% QoQ). The EBITDA margin, at an aggregate level, in 2QFY25F is likely to increase by 37bp YoY to ~13.4%, mainly due to softening commodity prices coupled with operational efficiency at most companies. We expect the PAT of our coverage universe to grow by ~16% YoY.

### Domestic order placement activity likely to moderate

While the launch of the production-linked incentive or PLI scheme 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, in 1QFY25 new projects have been lower due to general elections in India but witnessed a healthy 75% YoY growth in 2QFY25. We expect the order inflow of our coverage universe to clock a 15% CAGR over FY24-26F. On the private capex front, investment activity witnessed selective growth in sectors such as data centres, industrial automation, cement, metals & mining, and PLI-related capex. New orders announced by L&T in 2QFY25 stood at ~Rs200bn.

### Maintain ADD rating on L&T, Siemens and KEC International

We remain Overweight on the industrial sector as the valuations currently factor in a strong capex recovery. We remain positive on the sector as the order inflow is expected to pick up after the recently concluded general elections. The initial capex efforts are predominantly driven by private sector entities, capitalizing on opportunities presented by the PLI scheme. However, government-led investments are yet to gain significant momentum in the coming quarters. We have an ADD rating on L&T, ABB India, Siemens, KEC International, Kalpataru Projects International, and Skipper as their order backlog provides revenue visibility, apart from reasonable valuations. We have a HOLD rating on Thermax and Voltas and a REDUCE rating on Cummins India due to lower volume of PCB-IV products and stretched valuation.

**Figure 1: Summary of 2QFY25F earnings of our coverage universe**

Company	Rating	CMP (Rs)	Revenue (Rs m)		EBITDA (Rs m)		PAT (Rs m)	
			Sep-24	YoY (%)	Sep-24	YoY (%)	Sep-24	YoY (%)
ABB India	ADD	7,758	34,046	22.9%	6,303	43.7%	5,106	41.0%
Cummins India	REDUCE	3,591	22,106	16.4%	4,355	28.6%	4,016	22.3%
Larsen & Toubro	ADD	3,468	5,73,165	12.3%	61,725	9.6%	34,497	7.0%
KEC International	ADD	988	50,083	11.3%	9,004	28.6%	7,259	27.0%
Siemens	ADD	6,998	64,316	10.7%	9,004	28.6%	7,259	27.0%
Thermax	HOLD	5,088	25,825	12.2%	2,371	15.9%	1,881	18.6%
Voltas	HOLD	1,757	27,983	22.0%	1,623	131.0%	854	139.4%
Kalpataru Projects Int.	ADD	1,306	50,863	12.6%	4,069	10.0%	1,111	23.5%
Skipper	ADD	443	9,687	25.4%	958	30.0%	273	38.2%
Bharat Electronics	ADD	267	46,870	17.4%	11,247	12.0%	9,273	14.1%
Bharat Dynamics	ADD	1,109	7,390	20.0%	1,827	36.3%	1,892	28.7%
Hindustan Aeronautics	ADD	4,166	63,121	12.0%	17,924	17.2%	14,260	15.4%
Data Patterns	ADD	2,238	1,280	18.2%	470	15.3%	404	19.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY25 results preview

Figure 2: Results summary

(Rs m)	Sep-2024	Sep-2023	YoY (%)	Jun-2024	QoQ (%)	Remarks
<b>ABB India</b>						
Net Sales	34,046	27,692	22.9	28,309	20.3	
EBITDA	6,303	4,385	43.7	5,425	16.2	We expect a healthy 23% YoY growth in revenue led by robust growth across
EBITDA margin (%)	18.5	15.8	268bp	19.2	-65bp	segments. We expect operating leverage, easing commodity prices and pricing benefits
PBT	6,826	4,842	41.0	5,938	15.0	to aid the EBITDA margin by 268bp YoY, leading to ~41% YoY growth in PAT.
Core PAT	5,106	3,620	41.0	4,426	15.4	
<b>Cummins India</b>						
Net Sales	22,106	18,997	16.4	23,042	(4.1)	
EBITDA	4,355	3,386	28.6	4,673	(6.8)	We estimate ~16% YoY revenue growth while the EBITDA margin is likely to improve by
EBITDA margin (%)	19.7	17.8	188bp	20.3	-58bp	188bp. PAT is likely to increase by 22% YoY.
PBT	5,284	4,263	24.0	5,509	(4.1)	
Core PAT	4,016	3,285	22.3	4,198	(4.3)	
<b>Larsen &amp; Toubro</b>						
Net Sales	5,73,165	5,10,240	12.3	5,51,198	4.0	
EBITDA	61,725	56,320	9.6	56,153	9.9	We estimate sales growth to be at ~12% YoY while the EBITDA margin is expected to
EBITDA margin (%)	10.8	11.0	-27bp	10.2	58bp	dip by 27bp YoY to 10.8%. PAT is expected to grow by ~7% YoY. Order inflow will likely
PBT	54,857	49,911	9.9	46,767	17.3	fall by 14% to Rs767bn due to a high base from international order inflow.
Core PAT	34,497	32,226	7.0	27,857	23.8	
<b>KEC International</b>						
Net Sales	50,083	44,990	11.3	45,119	11.0	
EBITDA	3,255	2,743	18.7	2,704	20.4	We estimate sales growth of 11% YoY led by improved execution, mainly in the civil and
EBITDA margin (%)	6.5	6.1	40bp	6.0	51bp	T&D segments. The EBITDA margin is expected to grow by 40bp. PAT is likely to
PBT	1,314	658	99.8	1,120	17.3	increase by 100% YoY.
Core PAT	1,117	558	100.1	696	60.5	
<b>Siemens</b>						
Net Sales	64,316	58,077	10.7	52,035	23.6	
EBITDA	9,004	7,003	28.6	6,915	30.2	We estimate revenue growth estimate of 11% YoY led by strong growth in mobility,
EBITDA margin (%)	14.0	12.1	194bp	13.3	71bp	digital industries, and smart infrastructure. We expect the EBITDA margin to improve by
PBT	9,679	7,623	27.0	7,575	27.8	194bp to 14% while PAT is likely to rise by 27% YoY.
Core PAT	7,259	5,718	27.0	5,781	25.6	
<b>Thermax</b>						
Net Sales	25,825	23,025	12.2	21,844	18.2	
EBITDA	2,371	2,046	15.9	1,412	68.0	We estimate revenue growth of ~12% YoY, led by a good order backlog and healthy
EBITDA margin (%)	9.2	8.9	29bp	6.5	272bp	execution. We expect the EBITDA margin to improve by 29bp while PAT is likely to
PBT	2,518	2,177	15.7	1,617	55.7	improve by ~19% YoY.
Core PAT	1,881	1,586	18.6	1,094	71.9	
<b>Voltas</b>						
Net Sales	27,983	22,928	22.0	49,210	(43.1)	
EBITDA	1,623	703	131.0	4,238	(61.7)	We estimate 22% YoY sales growth, led by a healthy growth in room AC and project
EBITDA margin (%)	5.8	3.1	274bp	8.6	-281bp	businesses. The EBITDA margin is likely to increase by 274bp YoY while PAT is
PBT	2,128	1,181	80.2	4,809	(55.7)	expected to increase 139% YoY.
Core PAT	854	357	139.4	3,350	(74.5)	
<b>Kalpataru Projects</b>						
Net Sales	42,668	38,440	11.0	37,220	14.6	
EBITDA	3,590	3,080	16.6	3,140	14.3	We estimate a sales growth of 11% YoY. The EBITDA margin is expected to rise by
EBITDA margin (%)	8.4	8.0	40bp	8.4	-2bp	40bp while PAT is likely to increase by 29% YoY.
PBT	2,047	1,600	28.0	1,640	24.8	
Core PAT	1,454	1,130	28.6	1,170	24.2	
<b>Skipper</b>						
Net Sales	9,687	7,724	25.4	10,917	(11.3)	
EBITDA	958	737	30.0	1,047	(8.5)	We estimate a sales growth of 25% YoY, led by strong growth in the engineering and
EBITDA margin (%)	9.9	9.5	35bp	9.6	30bp	infrastructure product segments. The EBITDA margin is expected to improve by 35bp
PBT	365	285	27.7	431	(15.4)	while PAT is likely to increase by 38% YoY.
Core PAT	273	198	38.2	324	(15.7)	
<b>Bharat Electronics</b>						
Net Sales	46,870	39,933	17.4	41,998	11.6	
EBITDA	11,247	10,044	12.0	9,377	19.9	Revenue is expected to improve by 17%, led by healthy order inflow momentum. The
EBITDA margin (%)	24.0	25.2	-115bp	22.3	167bp	EBITDA margin is likely to take a dip of 115bp while PAT is expected to improve by 14%
PBT	12,363	10,729	15.2	10,383	19.1	YoY.
Core PAT	9,273	8,123	14.1	7,771	19.3	
<b>Bharat Dynamics</b>						
Net Sales	7,390	6,158	20.0	6,158	20.0	
EBITDA	1,827	1,340	36.3	1,340	36.3	Bharat Dynamics is expected to post a revenue growth of 20% while there is scope of
EBITDA margin (%)	24.7	21.8	296bp	21.8	296bp	margin improvement by 296bp. PAT is expected to improve by 29% YoY.
PBT	2,523	1,941	30.0	1,941	30.0	
Core PAT	1,892	1,471	28.7	1,471	28.7	
<b>Hindustan Aeronautics</b>						
Net Sales	63,121	56,358	12.0	43,476	45.2	
EBITDA	17,924	15,288	17.2	9,937	80.4	Revenue is expected to grow by 12% YoY. The EBITDA margin is expected to improve
EBITDA margin (%)	28.4	27.1	127bp	22.9	554bp	by 127bp while PAT may increase by 15% YoY.
PBT	19,141	16,501	16.0	15,822	21.0	
Core PAT	14,260	12,353	15.4	14,356	(0.7)	
<b>Data Patterns</b>						
Net Sales	1,280	1,083	18.2	1,041	23.0	
EBITDA	470	408	15.3	372	26.4	Data Patterns is expected to witness a revenue growth of 18% YoY. The EBITDA
EBITDA margin (%)	36.7	37.6	-93bp	35.7	98bp	margin will likely dip by 93bp while PAT may grow by 20% YoY.
PBT	538	463	16.4	435	23.9	
Core PAT	404	338	19.5	328	23.2	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Aggregate results expectation

Industrial sector	Sep-2024	Sep-2023	YoY (%)	Jun-2024	QoQ (%)
Revenue	8,49,878	7,52,112	13.0	8,18,894	3.8
EBITDA	93,185	80,403	15.9	85,706	8.7
EBITDA margin	11.0	10.7	27bp	10.5	50bp
PBT	85,019	72,540	17.2	75,406	12.7
PAT	56,457	48,678	16.0	48,897	15.5
<b>Defence sector</b>	<b>Sep-2024</b>	<b>Sep-2023</b>	<b>YoY (%)</b>	<b>Jun-2024</b>	<b>QoQ (%)</b>
Revenue	1,18,661	1,03,533	14.6	92,672	28.0
EBITDA	31,469	27,080	16.2	21,027	49.7
EBITDA margin	26.5	26.2	36bp	22.7	383bp
PBT	34,566	29,634	16.6	28,581	20.9
PAT	25,829	22,285	15.9	23,926	8.0
<b>Aggregate</b>	<b>Sep-2024</b>	<b>Sep-2023</b>	<b>YoY (%)</b>	<b>Jun-2024</b>	<b>QoQ (%)</b>
Revenue	9,68,539	8,55,645	13.2	9,11,567	6.2
EBITDA	1,24,654	1,07,483	16.0	1,06,733	16.8
EBITDA margin	12.9	12.6	31bp	11.7	116bp
PBT	1,19,585	1,02,174	17.0	1,03,986	15.0
PAT	82,286	70,963	16.0	72,823	13.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: InCred vs. consensus estimates

(Rs m)	InCred Research Estimates				Bloomberg Estimates				Variation			
	Revenue	EBITDA	PAT	EBITDA Margin	Revenue	EBITDA	PAT	EBITDA Margin	Revenue	EBITDA	PAT	EBITDA Margin
ABB India	34,046	6,303	5,106	18.5%	32,356	5,496	4,438	17.0%	5.2%	14.7%	15.0%	153bp
Cummins India	22,106	4,355	4,016	19.7%	22,310	4,168	3,765	18.7%	-0.9%	4.5%	6.7%	102bp
Larsen & Toubro	5,73,165	61,725	34,497	10.8%	5,66,526	59,923	25,583	10.6%	1.2%	3.0%	34.8%	19bp
KEC International	50,083	3,255	1,117	6.5%	52,475	3,555	1,243	6.8%	-4.6%	-8.4%	-10.1%	-27bp
Siemens	64,316	9,004	7,259	14.0%	N/A	8,987	7,248	N/A	N/A	0.2%	0.2%	N/A
Thermax	25,825	2,371	1,881	9.2%	25,467	2,494	1,864	9.8%	1.4%	-4.9%	0.9%	-61bp
Voltas	27,983	1,623	854	5.8%	28,134	1,449	1,171	5.2%	-0.5%	12.0%	-27.1%	65bp
Kalpataru Projects Int.	42,668	3,590	1,454	8.4%	45,316	3,862	1,569	8.5%	-5.8%	-7.0%	-7.3%	-11bp
Skipper	9,687	958	273	9.9%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bharat Electronics	46,870	11,247	9,273	24.0%	47,569	11,325	9,056	23.8%	-1.5%	-0.7%	2.4%	19bp
Bharat Dynamics	7,390	1,827	1,892	24.7%	7,669	1,736	1,730	22.6%	-3.6%	5.3%	9.4%	210bp
Hindustan Aeronautics	63,121	17,924	14,260	28.4%	60,994	N/A	12,648	N/A	3.5%	N/A	12.7%	N/A
Data Patterns	1,280	470	404	36.7%	1,357	469	395	34.6%	-5.6%	0.1%	2.3%	211bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Valuations

Company	Bloomberg Ticker	Recom.	Price Rs	Shares (m)	Mkt Cap (Rs bn)	P/E (x)			P/BV (x)			EV/EBITDA (x)			Dividend Yield (%)		
						FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
ABB India	ABB IN	ADD	7,758	212	1,644	86.3	75.3	63.4	22.0	17.8	14.6	67.6	58.3	49.0	0.2%	0.3%	0.3%
Cummins India	KKC IN	REDUCE	3,591	277	995	52.4	45.3	38.5	13.2	10.8	8.8	47.7	40.5	33.4	0.5%	0.5%	0.5%
Larsen & Toubro	LT IN	ADD	3,468	1375	4,768	30.3	25.9	22.4	4.9	4.2	3.6	21.9	19.0	16.7	0.6%	0.6%	0.6%
KEC International	KECI IN	ADD	988	257	254	33.5	25.4	19.3	5.4	4.6	3.9	18.2	15.2	12.7	0.7%	0.9%	1.1%
Siemens	SIEM IN	ADD	6,998	356	2,491	77.5	62.8	59.4	13.9	11.8	10.1	61.5	48.3	46.0	0.2%	0.3%	0.3%
Thermax	TMX IN	HOLD	5,088	113	573	78.9	55.4	44.2	11.4	9.8	8.3	60.2	43.1	35.1	0.2%	0.2%	0.2%
Voltas	VOLT IN	HOLD	1,757	331	581	60.2	49.7	42.1	8.9	7.9	7.0	45.6	38.9	34.0	0.5%	0.6%	0.7%
Kalpataru Projects Int.	KPIL IN	ADD	1,306	162	212	27.4	20.7	17.6	3.3	2.9	2.5	14.4	12.0	10.5	0.6%	0.6%	0.7%
Skipper	SKIPPER IN	ADD	443	113	50	32.7	26.6	21.4	4.8	4.1	3.4	13.4	11.5	9.8	0.1%	0.1%	0.1%
Bharat Electronics	BHE IN	ADD	267	7310	1,954	41.3	32.8	28.2	10.3	8.6	7.2	30.5	24.1	20.6	0.9%	1.2%	1.3%
Bharat Dynamics	BDL IN	ADD	1,109	367	407	61.4	45.0	41.0	9.8	8.4	7.3	53.2	37.6	34.8	0.4%	0.5%	0.6%
Hindustan Aeronautics	HNAL IN	ADD	4,166	669	2,786	34.1	30.1	33.3	7.9	6.6	5.8	23.5	20.1	21.1	0.8%	0.9%	0.8%
Data Patterns	DATAPATT IN	ADD	2,238	56	125	43.2	31.0	28.8	8.0	6.5	5.5	32.2	23.1	20.5	0.3%	0.5%	0.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Order inflow and order inflow (Rs m)

	Order Inflow					Order Book				
	Sep-2024	Sep-2023	YoY (%)	Jun-2024	QoQ (%)	Sep-2024	Sep-2023	YoY (%)	Jun-2024	QoQ (%)
Larsen & Toubro	7,67,308	8,91,530	-13.9	8,91,500	-13.9	51,02,953	45,07,340	13.2	45,07,000	13.2
Thermax	23,664	19,720	20.0	25,690	-7.9	1,04,659	1,02,640	2.0	1,06,820	-2.0
ABB India	35,581	30,040	18.4	34,350	3.6	96,040	80,080	19.9	95,170	0.9
KEC International	54,000	45,000	20.0	76,640	-29.5	3,29,196	3,13,200	5.1	3,27,150	0.6
Kalpataru Projects Int.	46,716	38,930	20.0	31,820	46.8	5,68,800	4,70,400	20.9	5,71,950	-0.6
Bharat Electronics	27,355	72,901	-62.5	49,708	-45.0	7,47,535	6,87,280	8.8	7,67,050	-2.5
Data Patterns	2,023	1,445	40.0	381	431.0	10,914	10,033	8.8	10,171	7.3
<b>Aggregate</b>	<b>9,56,647</b>	<b>10,99,566</b>	<b>-13.0</b>	<b>11,10,089</b>	<b>-13.8</b>	<b>69,60,097</b>	<b>61,70,973</b>	<b>12.8</b>	<b>63,85,311</b>	<b>9.0</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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#### **Recommendation Framework**

##### **Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** 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:

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

##### **Country Ratings**

Definition:

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