

Industrials

Inflationary concerns at play

- Q4FY22 a mixed quarter, late order awards pick up:** After a muted start, the NHAI awards strongly picked up after the state election in Mar-22 (INR 361bn project awards, Q4FY22 - INR 586bn, FY22 - INR 1.2trn (-8% YoY). This allowed EPC players to refill their order books and get closer to the annual order inflow guidance. FY22 saw heightened competitive intensity with unlisted players dominating bid wins. Since the introduction of HAM model/project awarding, bid cost vs. NHAI premium decreased in FY22, indicating that HAM bidding is now moving closer to EPC bidding. With robust ordering towards the end of Mar-22, competitive intensity decreased with (1) reduction in number of bidders and (2) narrowing of L1 and L2 bids. The NHAI's extension of monthly bill payment and lower bank guarantee relaxation until Oct-22 end shall benefit the sector as a whole. Roads EPC players are largely insulated from rising crude and commodities prices, owing to the cost pass-through nature of projects.
- Capital goods to benefit from reviving export and private Capex:** India registered record exports of more than USD 400bn in FY22 as against its previous record of USD 330bn in FY19. Engineering goods export was up 50% YoY. On the back of strong domestic and international demand (largely from the Middle East), EPC order awards were robust. Despite this, the absence of large ticket awards may result in a miss on L&T mid-teen order inflow growth guidance for FY22 (expect 0-6% growth). Execution, however, disrupted by the third COVID wave bounced back quickly. We expect pressure on margins due to higher input and logistics cost, exacerbated by geopolitical tension and higher crude prices. Companies with a higher portion of international orders will be more affected on account of fixed nature of the contract and metals volatility.
- Earnings trend YoY/QoQ:** We expect EPC/infra universe revenue/EBITDA/PAT to grow 12/20/59% sequentially and 0.3/(8.6)/(20.5)% YoY, with EBITDA margin expanding by 105/(150)bps QoQ/YoY. In capital goods, revenue/EBITDA/PAT are expected to grow 31.4/51/61% sequentially and 11.6/12/18.7% YoY, with EBITDA margin expected to expand by 166/4bps QoQ/YoY. The valuation of EPC/infra universe is at ~9.7x FY23E core EPS and it is still away from long-term mean of 19x. KEC and Kalaptaru continue to face margins pressure on T&D business due to high volatility in steel and aluminium prices (no hedging mechanism). Siemens, ABB, and Cummins have short cycle orders and recalibrated prices higher due to digital value addition; they are less impacted. LT has enough levers to manage commodity costs impact.
- Change in estimates, TP:** We have factored in the commodity impact and cut KEC FY22/23/24E EPS by -11/-37/-19%. KEC has a cost impact from completion of SAE legacy projects. For KPTL, we have cut FY22/23/24E EPS by -13/-28/-24%. Other cuts in EPS of our coverage stocks are highlighted in ensuing table.
- Valuation comfort remains, stock specific rerating contingent on execution pick-up:** Balance sheet healing may present stock-specific rerating scenario. NCC, KPTL, Ashoka Buildcon, and JMC Projects are some of the stocks in which balance sheets may heal by Q4FY22. Order books remain robust, with all the companies having strong execution capabilities and manageable balance sheets. Valuations remain supportive at 25-30% discount vs tier-1 names.
- Recommendations and stock picks:** From a near to mid-term perspective, the government would drive ordering and private Capex will be late-cycle recovery. Hence, recovery plays with high government exposure will remain in focus. In capital goods, LT and Cummins India are our top picks. In the mid-cap space, KNR, PNC, NCC, and Ashoka are our top picks.

Capital Goods: Recommendation Summary

Company	CMP (INR/sh)	Reco.	TP (INR/sh)
Larsen & Toubro	1,760	BUY	2,492
Siemens	2,467	REDUCE	2,120
ABB India	2,226	REDUCE	1,815
Cummins India	1,084	BUY	1,253
KEC International	402	BUY	467
Kalpataru Power	390	BUY	489

Source: HSIE Research

Infrastructure: Recommendation Summary

Company	CMP (INR/sh)	Reco.	TP (INR/sh)
Dilip Buildcon	295	BUY	444
PNC Infratech	252	BUY	412
KNR Constructions	286	BUY	360
IRB Infra Developers	246	ADD	302
NCC	70	BUY	121
HG Infra Engineering	628	BUY	988
Ashoka Buildcon	91	BUY	162
Ahluwalia Contracts	504	BUY	522
JMC Projects	88	BUY	162
PSP Projects	559	BUY	671
ITD Cementation	69	BUY	125
J. Kumar Infraprojects	199	BUY	279
Capacite Infraprojects	132	BUY	212
Sadbhav Engineering	37	ADD	44

Source: HSIE Research

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Financial summary: Q4FY22E

Capital Goods	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)		
	Q4FY22E	QoQ (%)	YoY (%)	Q4FY22E	QoQ (%)	YoY (%)	Q4FY22E	QoQ(bps)	YoY (bps)	Q4FY22E	QoQ (%)	YoY (%)
Larsen & Toubro*	542.7	37.2	12.9	74.0	63.3	15.8	13.6	218.0	34.5	41.5	101.8	25.9
Siemens#	39.6	22.2	18.0	4.5	35.1	1.6	11.3	108.2	(183.3)	3.2	31.3	2.0
ABB India ^	19.7	(6.2)	21.0	1.6	(13.4)	21.3	8.1	(67.7)	1.8	1.2	(25.7)	24.3
Cummins India	15.7	(9.3)	26.3	2.2	(18.6)	31.5	14.0	(160.4)	55.2	2.2	(10.6)	16.0
KEC International*	43.4	29.9	(0.5)	2.8	18.5	(20.1)	6.5	(63.0)	(160.5)	1.2	32.0	(36.4)
Kalpataru Power	19.9	7.5	(15.0)	1.4	(15.8)	(41.8)	7.1	(197.0)	(327.7)	0.8	(75.3)	(40.1)
Aggregate	516.1	8.7	10.0	58.5	11.4	6.6	11.3	27.1	(36.6)	31.1	24.2	(9.5)

Source: Company, HSIE Research; * Consolidated; # 2QFY22 – YE Sep; ^ 1QCY22- YE Dec

EPC/Infra	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)		
	Q4FY22E	QoQ (%)	YoY (%)	Q4FY22E	QoQ (%)	YoY (%)	Q4FY22E	QoQ(bps)	YoY(bps)	Q4FY22E	QoQ (%)	YoY (%)
Dilip Buildcon	25.5	16.1	(12.7)	2.5	3,878.2	(51.0)	9.8	952.0	(767.1)	0.0	(100.7)	(99.3)
PNC Infratech	16.6	9.1	1.0	2.3	11.5	(1.9)	13.7	29.8	(39.8)	1.4	70.7	6.9
KNR Constructions	8.8	14.2	(6.5)	1.7	9.6	(4.4)	19.9	(82.7)	43.9	0.9	2.2	13.9
IRB Infra Developers*	12.7	(0.7)	(20.9)	7.4	0.6	(2.3)	58.5	75.3	1,114.5	0.9	20.9	(9.8)
NCC	30.7	13.7	17.4	3.3	13.8	15.1	10.8	1.6	(22.3)	1.4	32.2	21.3
HG Infra Engineering	10.2	11.0	(1.1)	1.6	7.0	(6.6)	15.3	(56.8)	(90.5)	0.9	4.5	(4.9)
Ashoka Buildcon	14.3	29.9	3.4	1.7	38.7	(16.8)	11.7	73.9	(283.2)	1.1	38.8	(29.5)
Ahluwalia Contracts	7.7	12.6	1.1	0.8	17.3	16.7	10.6	42.3	141.5	0.5	12.1	28.0
JMC Projects	13.8	2.2	2.1	1.3	4.1	(6.3)	9.2	16.9	(82.6)	0.5	(1.9)	(24.2)
PSP Projects	5.1	4.5	1.4	0.7	(4.8)	13.6	13.9	(135.7)	150.1	0.4	(13.2)	0.1
ITD Cementation*	11.0	10.2	11.8	1.1	35.3	(4.2)	9.9	183.4	(165.5)	0.4	99.8	(25.2)
J. Kumar Infraprojects	10.6	9.5	6.6	1.5	9.6	45.5	14.4	1.0	383.2	0.7	14.6	105.8
Capacite Infraprojects	3.7	1.8	0.8	0.6	3.3	(11.0)	15.9	24.3	(210.9)	0.1	(17.0)	(56.6)
Sadbhav Engineering	5.0	47.8	18.4	0.6	33.7	(16.7)	11.3	(120.0)	(477.2)	0.1	(401.9)	(90.7)
Aggregate	175.7	12.1	0.3	27.1	20.3	(8.6)	15.4	104.7	(150.3)	9.1	59.3	(20.5)

Source: Company, HSIE Research; *Consolidated

Change in Estimate

COMPANY	Revenue (Rs bn)			Change (%)			EBITDA Margin (%)			Change (bps)			APAT (Rs bn)			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
EPC/Infra																		
Sadbhav Engineering	15.3	21.0	23.5	-10%	0%	-1%	12.1	11.7	12.1	57	-	-	0.2	0.4	0.7	-1%	-17%	-16%
Dilip Buildcon	90.5	95.2	102.4	-	-4%	-7%	8.5	13.2	13.4	-	9	(21)	(1.5)	2.3	3.2	0%	-10%	-17%
Capital Goods																		
KEC International*	138.1	148.7	168.9	-2%	-8%	-4%	6.8	7.5	9.3	(47.05)	(151.28)	(94.02)	3.4	4.6	8.0	-11%	-37%	-19%
Kalpataru Power	70.4	74.7	82.5	-3%	-8%	-9%	8.9	8.7	9.4	(57.63)	(134.05)	(99.63)	3.5	3.6	4.5	-13%	-28%	-24%

Source: Company, HSIE Research; *Consolidated;

Change in TP

COMPANY	Mcap (Rs bn)	CMP	Old TP	New TP	OLD RECO	NEW RECO	Old Multiple (x)	New Multiple (x)
EPC/Infra								
J. Kumar Infraprojects	15	199	279	279	BUY	BUY	7	7
KNR Constructions	79	282	360	360	BUY	BUY	18	18
NCC	43	70	121	121	BUY	BUY	9	9
ITD Cementation	12	69	125	125	BUY	BUY	10	10
Ashoka Buildcon	26	91	162	162	BUY	BUY	9	9
Sadbhav Engineering	6	37	50	44	ADD	ADD	8	8
PNC Infratech	65	252	412	412	BUY	BUY	15	15
IRB Infra Developers	149	246	302	302	ADD	ADD	12	12
Dilip Buildcon	43	295	490	444	BUY	BUY	12	12
Ahluwalia Contracts	34	504	522	522	BUY	BUY	13	13
PSP Projects	20	559	671	671	BUY	BUY	13	13
JMC Projects	15	88	162	162	BUY	BUY	11	11
HG Infra Engineering	41	628	988	988	BUY	BUY	14	14
Capacite Infraprojects	9	132	232	212	BUY	BUY	10	10
Capital Goods								
Siemens	878	2,467	2,120	2,120	REDUCE	REDUCE	38	38
Larsen & Toubro	2,469	1,760	2,504	2,492	BUY	BUY	22	22
ABB India	472	2,226	1,815	1,815	REDUCE	REDUCE	45	45
Cummins India	300	1,084	1,253	1,253	BUY	BUY	30	30
KEC International	103	402	578	467	BUY	BUY	15	15
Kalpataru Power	58	390	559	489	BUY	BUY	11	12

Valuation summary

Capital Goods	Mcap Rs Bn	CMP (Rs)	TP (Rs)	RECO	Adj. EPS (Rs/sh)			P/E (x)			EV/EBIDTA (x)			ROE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Larsen & Toubro	2,447	1,760	2,492	BUY	60.3	76.4	91.0	12.5	10.9	9.3	9.4	7.9	6.6	10.9	13.0	14.3
Siemens#	876	2,467	2,120	REDUCE	41.7	53.6	62.5	59.0	45.9	39.4	41.1	32.6	27.3	13.6	15.7	16.2
ABB India^	461	2,226	1,815	REDUCE	30.9	31.2	40.3	70.5	69.7	53.9	79.4	49.7	38.9	17.2	15.5	17.5
Cummins India	304	1,084	1,253	BUY	30.3	39.6	45.7	36.2	27.7	24.0	32.4	26.1	21.4	16.7	20.8	21.8
KEC International	102	402	467	BUY	13.4	18.0	31.2	29.8	22.1	12.8	14.1	11.8	8.4	9.6	11.5	17.6
Kalpataru Power	58	390	489	BUY	23.8	24.2	30.3	14.5	14.2	11.4	8.7	7.5	5.7	8.6	7.9	9.2

Source: Company, HSIE Research; * Consolidated; #Sep-YE; ^Dec-YE

EPC/Infra	Mcap (Rs Bn)	CMP (Rs)	TP (Rs)	RECO	Adj. EPS (Rs/sh)			P/E (x)			EV/EBIDTA (x)			ROE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Dilip Buildcon	43	295	444	BUY	(10.0)	16.1	22.2	(11.6)	7.3	5.3	5.9	3.5	3.2	(3.6)	5.3	6.9
PNC Infratech	65	252	412	BUY	18.8	22.3	25.7	11.5	9.7	8.4	6.6	5.9	5.2	15.4	15.9	15.8
KNR Constructions	79	286	360	BUY	12.5	15.6	18.5	19.4	15.5	13.1	10.3	9.3	7.9	17.4	18.7	18.8
IRB Infra Developers*	149	246	302	ADD	5.6	8.1	13.1	43.8	30.3	18.8	9.0	8.6	7.5	3.5	3.9	6.0
NCC	43	70	121	BUY	6.5	10.8	13.3	9.7	5.8	4.7	4.5	3.4	3.1	7.1	10.9	12.0
HG Infra Engineering	41	628	988	BUY	52.3	55.3	60.8	10.7	10.1	9.2	6.7	6.4	5.7	28.3	23.2	20.5
Ashoka Buildcon	26	91	162	BUY	9.3	10.9	11.9	4.0	3.4	3.1	2.5	2.1	1.6	9.3	11.2	10.8
Ahluwalia Contracts	35	504	522	BUY	23.9	34.2	40.5	20.9	14.6	12.4	11.7	8.3	7.0	16.8	20.2	19.6
JMC Projects	15	88	162	BUY	5.8	12.1	15.6	15.1	7.3	5.6	4.6	3.8	2.9	10.6	22.3	23.5
PSP Projects	20	559	671	BUY	40.3	43.8	54.2	13.9	12.8	10.3	8.9	8.1	6.3	24.3	21.9	22.5
ITD Cementation*	12	69	125	BUY	5.7	9.7	13.4	12.1	7.1	5.1	4.4	3.0	2.4	8.8	13.4	15.8
J. Kumar Infraprojects	14	199	279	BUY	26.3	34.3	41.6	7.3	5.6	4.6	3.6	2.6	1.8	10.0	11.8	12.8
Capacite Infraprojects	9	132	212	BUY	6.5	15.6	19.9	18.0	7.5	5.9	5.0	2.8	2.7	4.7	10.4	11.9
Sadbhav Engineering	6	37	44	ADD	1.1	2.6	3.9	19.1	7.8	5.3	6.4	4.0	3.7	0.9	2.1	3.0
Wt. Average								19.9	15.1	10.9	8.3	6.9	5.8	11.8	13.7	14.3

Source: Company, HSIE Research; *Consolidated

Industrials: Q4FY22 Results Preview

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

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