

# Industrials

## Monetisation picking pace, ordering muted

- **NHAI's 9MFY24 awarding activity is muted; Q4FY24 may be no better:** With minimal awarding activity in Q3FY24 and just four projects in Q1FY24, the overall 9MFY24 awarding activity remained muted. New NHAI project DPRs are currently under finalisation, which has caused a delay in ordering. We expect FY24 to be a truncated year for ordering with ~INR 450bn worth of project awards (vs. average INR 1.2trn for the previous year). NHAI is contemplating awarding INR 2tn worth of projects under BOT toll, which seems to be a tall ask. We expect on an annual basis INR 200-250bn of projects to be awarded (~20% of annual awards) under BOT. The emphasis on BOT is aimed at reducing the authority's burden on financing highway projects, currently being built more on HAM and EPC. BMP-II-A is being envisaged covering c.8,100km and INR 3.4trn project cost. The overall balance NHAI bid pipeline is estimated at c.INR 7.7trn.
- **Union budget may see a 14-15% increase in YoY capex, Roads, Railways, Defence, and Water to be key beneficiaries:** Capital good companies are beneficiaries of the pick-up in government and private capex and India's big push to manufacturing. The real estate upcycle is expected to drive private capex; hospitality recovery augurs well. Geopolitical compulsions are driving incremental investments towards India alongside the government rolling out conducive policies like PLI/concessional tax rate to promote investments. We are seeing major MNC companies undertake new capacity build-outs in traditional segments as well as new opportunities like clean energy/automation. This expansion is being envisaged for catering to export and local demand. Given 75%+ capacity utilisation, the pricing environment remains stable and augurs well for profitability.
- **Earnings trend YoY/QoQ:** We expect EPC/infra universe revenue/EBITDA/PAT to grow 22.0/21.5/25.3% YoY to INR 195.8/29.2/11.4bn, with EBITDA margin at 14.9% (-7bps YoY). In capital goods, revenue/EBITDA/PAT are expected to grow by 14.6/18.5/33.4% YoY to INR 752.1/84.2/50.3bn, with EBITDA margin at 11.2% (-60bps YoY). The valuation of core EPC/infra universe (excluding IRB Infra) is at ~11.5/9.2x FY25/26E core EPS and it is still far from the long-term mean of 15x, offering a favourable risk-reward. We roll over our earnings estimate to Dec-25E.
- **Asset monetization picking pace, further valuation rerating contingent on orders wins outperformance:** During Q3FY24, we saw laggards catching up with peers and outperforming. As we enter the election season, we may see some consolidation or market performance in our coverage universe. The balance sheets of companies are robust, asset monetisation is picking pace with PNC announcing deal closure with KKR, overall ordering (ex-roads) has been robust, inflation is largely under control and interest rates may have peaked. Except for global risks, we don't see any local headwinds for multiple derating. We expect laggards to continue to outperform peers, led by stock-specific rerating. Capital goods companies continue to rerate on the expectation of likely EPS upgrades, partly driven by order booking outperformance and partly by operating leverage kicking in on the back of receding commodity inflation.
- **Recommendations and stock picks:** Tier-1 infrastructure developers are trading at ~9-11x 1-yr forward valuation. The sector has witnessed rerating as (1) ordering remains strong with the emergence of new segments like water, railway, etc.; (2) asset monetisation is fructifying; (3) balance sheets are strong and NWC days are stable; and (4) cash flow generation is likely to be robust. **We have upgraded Thermax and ABB to BUY/ADD from ADD/REDUCE. LT, Cummins India, Thermax and Kalpataru are our top picks in capital goods. In the infra space, we like Ashoka, HG Infra, and NCC.**

### Capital Goods: Recommendation Summary

Company	CMP (INR/sh)	Reco.	TP (INR/sh)
Larsen & Toubro	3,646	BUY	4,036
Siemens	4,142	BUY	4,849
ABB India	4,820	ADD	4,987
Cummins India	2,112	BUY	2,464
KEC International	625	REDUCE	556
Hitachi Energy India	6,132	ADD	6,115
Thermax	3,062	BUY	3,705
Kalpataru Power	727	BUY	1,016

Source: HSIE Research

### Infrastructure: Recommendation Summary

Company	CMP (INR/sh)	Reco.	TP (INR/sh)
Dilip Buildcon	390	ADD	453
PNC Infratech	407	BUY	520
KNR Constructions	262	BUY	332
IRB Infra Developers	47	ADD	45
NCC	204	BUY	259
HG Infra Engineering	931	BUY	1,304
Ashoka Buildcon	162	BUY	230
Ahluwalia Contracts	816	ADD	824
PSP Projects	757	ADD	860
ITD Cementation	316	BUY	327
J. Kumar Infraprojects	582	ADD	576

Source: HSIE Research

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**Financial summary: Q3FY24E**

Capital Goods	NET SALES (INR bn)			EBITDA (INR bn)			EBITDA Margin (%)			APAT (INR bn)		
	3QFY24	QoQ (%)	YoY (%)	3QFY24	QoQ (%)	YoY (%)	3QFY24	QoQ (bps)	YoY (bps)	3QFY24	QoQ (%)	YoY (%)
Larsen & Toubro*	522.8	2.5	12.7	59.8	6.3	18.0	11.4	40.8	51.0	33.4	3.7	38.3
Siemens#	47.1	(12.4)	29.3	5.5	(12.3)	0.8	11.7	1.1	(332.5)	4.7	(11.6)	7.8
ABB India ^	30.9	11.7	27.4	4.8	8.9	31.1	15.4	(39.3)	43.3	3.9	7.7	27.4
Cummins India	22.8	19.9	4.5	4.3	26.6	4.0	18.8	98.8	(9.2)	3.8	15.0	4.9
KEC International*	50.1	11.3	14.5	3.3	19.7	64.3	6.6	45.9	198.7	1.0	80.7	1,092.8
Hitachi Energy India	12.8	4.6	24.2	1.1	75.8	191.1	8.9	362.4	512.8	0.7	169.2	1,353.9
Thermax*	23.6	2.4	15.0	1.9	(5.3)	20.3	8.2	(66.2)	36.4	1.5	(5.7)	18.3
Kalpataru Power	41.9	9.1	19.5	3.4	10.2	11.3	8.1	8.3	(59.7)	1.3	15.0	17.0
<b>Aggregate</b>	<b>752.1</b>	<b>3.1</b>	<b>14.6</b>	<b>84.2</b>	<b>6.7</b>	<b>18.5</b>	<b>11.2</b>	<b>37.6</b>	<b>36.8</b>	<b>50.3</b>	<b>4.8</b>	<b>33.4</b>

\*Consolidated; # 1QFY24 – YE Sep; ^ 4QCY23– YE Dec;

Source: Company, HSIE Research

EPC/Infra	NET SALES (INR bn)			EBITDA (INR bn)			EBITDA Margin (%)			APAT (INR bn)		
	3QFY24	QoQ (%)	YoY (%)	3QFY24	QoQ (%)	YoY (%)	3QFY24	QoQ (bps)	YoY (bps)	3QFY24	QoQ (%)	YoY (%)
Dilip Buildcon	26.0	7.3	9.5	3.2	8.2	27.2	12.2	10.3	170.0	0.8	(8.9)	89.1
PNC Infratech	18.4	8.6	13.0	2.5	8.1	18.3	13.4	(5.6)	60.2	1.5	9.8	18.6
KNR Constructions	9.1	(3.3)	9.6	1.6	(2.6)	3.8	17.8	14.3	(99.2)	1.0	(2.9)	19.9
IRB Infra Developers*	18.0	3.2	18.9	8.0	0.9	7.7	44.5	(99.1)	(462.9)	1.5	53.5	4.0
NCC	47.5	6.0	40.8	4.9	2.7	40.7	10.3	(33.3)	(1.4)	2.2	223.9	49.2
HG Infra Engineering	13.1	50.3	15.5	2.1	49.2	9.1	15.8	(10.9)	(93.1)	1.1	80.1	(0.3)
Ashoka Buildcon	17.8	13.9	14.0	1.7	15.7	42.2	9.4	14.6	185.8	0.8	18.0	25.9
Ahluwalia Contracts	8.9	(1.1)	20.0	0.9	4.6	31.4	10.5	57.0	91.4	0.6	4.3	28.2
PSP Projects	6.7	10.6	35.0	0.8	12.9	35.1	12.4	25.4	0.6	0.4	14.0	27.3
ITD Cementation*	18.7	16.1	40.9	1.8	16.5	77.1	9.9	3.4	201.6	0.6	20.3	76.7
J. Kumar Infraprojects	11.6	4.9	9.0	1.7	3.4	8.8	14.2	(20.2)	(2.0)	0.8	2.1	5.5
<b>Aggregate</b>	<b>195.8</b>	<b>9.1</b>	<b>22.0</b>	<b>29.2</b>	<b>7.1</b>	<b>21.5</b>	<b>14.9</b>	<b>(27.6)</b>	<b>(7.1)</b>	<b>11.4</b>	<b>34.2</b>	<b>25.3</b>

Source: Company, HSIE Research; \*Consolidated

**Change in Estimates**

COMPANY	Revenue (INR bn)			Change (%)			EBITDA (INR bn)			Change (%)			APAT (INR bn)			Change (%)		
	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E
<b>Capital Goods</b>																		
ABB India	107.8	130.3	150.9	-	-	-	15.5	17.4	20.0	15.0	6.3	4.7	12.9	14.3	16.3	15.1	6.9	5.5

Source: Company, HSIE Research; \*Consolidated

## Valuation summary

Capital Goods	Mcap INR Bn	CMP (INR)	TP (INR)	Reco	Adj. EPS (INR/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Larsen & Toubro*	5,011	3,646	4,036	BUY	98.5	124.7	145.8	35.4	28.8	24.3	19.1	15.5	13.2	15.3	18.4	19.0
Siemens#	1,475	4,142	4,849	BUY	53.7	65.8	74.9	77.2	62.9	55.3	62.8	48.0	41.2	15.8	17.1	16.9
ABB India^	1,021	4,820	4,987	ADD	61.0	67.6	76.7	79.1	71.3	62.8	63.7	56.1	48.3	23.4	21.3	20.1
Cummins India	586	2,112	2,464	BUY	48.6	58.4	69.0	43.5	36.2	30.6	37.9	30.1	24.4	23.2	23.7	23.4
KEC International*	161	625	556	REDUCE	17.2	30.8	42.6	36.4	20.3	14.7	15.3	11.2	9.2	11.2	17.7	20.6
Hitachi Energy India	260	6,132	6,115	ADD	45.5	91.6	139.3	134.7	67.0	44.0	70.0	40.5	27.8	14.7	24.2	28.2
Thermax*	345	3,062	3,705	BUY	54.6	68.2	80.1	56.1	44.9	38.2	40.5	32.7	27.3	15.0	16.5	16.9
Kalpataru Power	118	727	1,016	BUY	41.3	60.3	76.7	17.6	12.1	9.5	8.3	6.2	5.2	22.4	28.1	30.3
<b>Wt. Average</b>								<b>51.2</b>	<b>41.1</b>	<b>34.9</b>	<b>34.7</b>	<b>27.6</b>	<b>23.3</b>	<b>16.8</b>	<b>19.1</b>	<b>19.4</b>

\*Consolidated; #Sep-YE; ^Dec-YE;

Source: Company, HSIE Research

Core EPC	Mcap INR Bn	CMP (INR)	TP (INR)	RECO	Adj. EPS (INR/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Dilip Buildcon	57	390	453	ADD	22.4	26.9	36.4	12.4	10.3	7.6	5.3	4.8	4.2	6.9	7.8	9.7
PNC Infratech	104	407	520	BUY	23.7	26.2	29.8	12.4	11.2	9.8	7.4	6.7	5.9	14.5	14.2	14.1
KNR Constructions	74	262	332	BUY	15.4	16.7	19.2	13.6	12.5	10.9	7.6	7.0	6.2	14.5	13.5	14.2
IRB Infra Developers*	285	47	45	ADD	1.0	1.4	1.6	49.0	34.4	28.6	13.3	12.3	11.3	4.3	6.0	6.8
NCC	124	204	259	BUY	12.2	16.2	19.3	16.6	12.5	10.6	7.5	6.3	5.5	11.2	13.2	13.7
HG Infra Engineering	61	931	1,304	BUY	69.6	75.5	90.2	12.0	11.1	9.3	7.3	6.5	5.5	22.6	19.9	19.5
Ashoka Buildcon	46	162	230	BUY	8.2	11.4	14.5	8.5	6.1	4.8	5.4	3.6	3.1	6.6	8.5	9.8
Ahluwalia Contracts	55	816	824	ADD	38.0	50.0	61.8	21.5	16.3	13.2	13.5	10.3	8.3	19.0	20.7	20.8
PSP Projects	27	757	860	ADD	52.4	60.3	68.1	14.4	12.6	11.1	9.1	7.8	6.6	21.6	20.9	20.0
ITD Cementation*	54	316	327	BUY	14.7	18.8	27.3	21.5	16.7	11.6	7.7	6.5	5.1	18.4	19.4	22.7
J. Kumar Infraprojects	44	582	576	ADD	40.4	43.9	55.2	14.4	13.3	10.5	7.0	6.2	5.0	12.3	11.9	13.3
<b>Wt. Average^</b>								<b>23.5</b>	<b>17.7</b>	<b>14.5</b>	<b>9.1</b>	<b>8.0</b>	<b>6.9</b>	<b>11.5</b>	<b>12.2</b>	<b>13.1</b>

\*Consolidated; ^Excluding IRB Infra the P/E stands at 14.0/11.5/9.2x for FY24E/25E/26E;

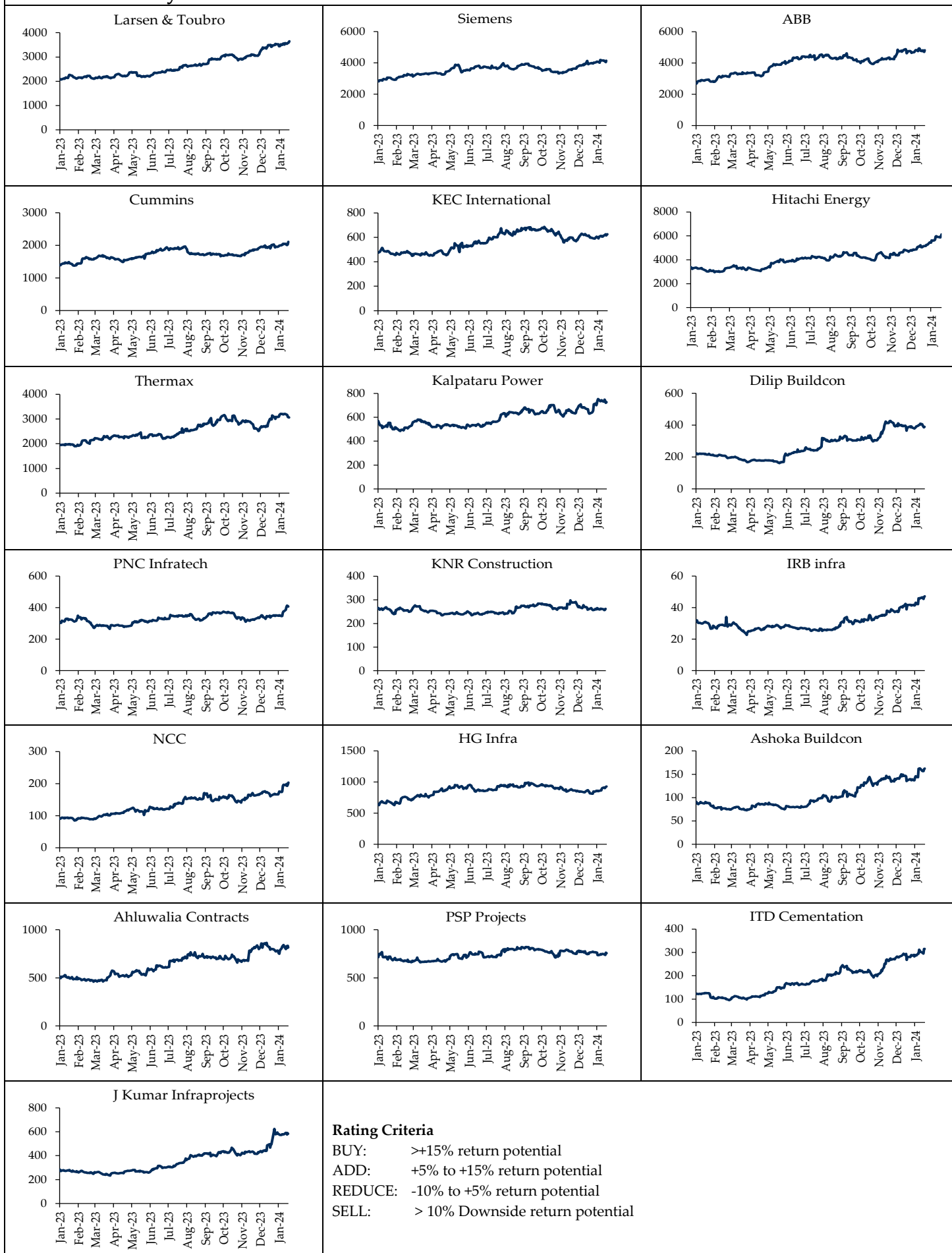
Source: Company, HSIE Research

## Changes in rating and target price

COMPANY	Mcap (Rs bn)	CMP	Old TP	New TP	OLD RECO	NEW RECO	Upside (%)	Old Multiple (x)	New Multiple (x)	Comment
<b>EPC/Infra</b>										
J. Kumar Infraprojects	44	582	446	576	ADD	ADD	(1.0)	9	11	Increase in multiple reflective of robust order booking
KNR Constructions	74	262	341	332	BUY	BUY	26.6	18	15	Weak order booking lends limited growth visibility
NCC	124	204	231	259	BUY	BUY	27.4	13	14	Marginal upgrade to factor in order book outperformance
ITD Cementation	54	316	254	327	BUY	BUY	3.6	11	13	upgrade to factor in order book outperformance
Ashoka Buildcon	46	162	202	230	BUY	BUY	41.5	10	10	
PNC Infratech	104	407	452	520	BUY	BUY	27.6	13	14	Asset monetisation proceeds to aid growth
IRB Infra Developers	285	47	35	45	ADD	ADD	(4.1)	12	12	
Dilip Buildcon	57	390	367	453	ADD	ADD	16.2	10	10	
Ahluwalia Contracts	55	816	782	824	ADD	ADD	0.9	14	14	
PSP Projects	27	757	834	860	ADD	ADD	13.5	13	13	
HG Infra Engineering	61	931	1,252	1,304	BUY	BUY	40.1	14	14	
<b>Capital Goods</b>										
Siemens	1,475	4,142	4,445	4,849	BUY	BUY	17.1	55	58	Multiple expansion to factor in better than expected ordering, decarbonisation theme, digitalisation and automation
Larsen & Toubro	5,011	3,646	3,613	4,036	BUY	BUY	10.7	26	29	Multiple expansion to factor in improving outlook in exports orders and large domestic wins
ABB India	1,021	4,820	4,080	4,987	REDUCE	ADD	3.4	60	65	Multiple expansion to factor in better than expected ordering, decarbonisation theme, digitalisation and automation
Cummins India	586	2,112	2,082	2,464	BUY	BUY	16.7	35	39	Multiple expansion to factor in market share gains on powergen under the CPCB 4+ norms
KEC International	161	625	514	556	REDUCE	REDUCE	(11.1)	14	14	
Hitachi Energy India	260	6,132	4,849	6,115	ADD	ADD	(0.3)	42	48	Multiple expansion to factor in better than expected outlook on T&D ordering, both domestic and for exports market
Thermax	345	3,062	3,340	3,705	ADD	BUY	21.0	45	48	Multiple expansion to factor in limited competition in recently introduced green energy products and solutions
Kalpataru Power	118	727	959	1,016	BUY	BUY	39.8	14	14	

Source: HSIE Research

## 1 Yr Price history



## Disclosure:

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