

Industrials

Strong ordering ex-roads

- NHAI's FY24 awarding activity is muted; expect pick-up from H2FY25:** With minimal awarding activity in Q4FY24, the overall FY24 awarding activity remained muted. FY24 was a truncated year for ordering with ~INR 330bn worth of project awards (vs. average INR 1.2trn for the previous year). NHAI is remodelling the award mix towards BOT toll with INR 2trn worth of projects being envisaged to be bid out under this model, 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 7.5trn.
- Union budget FY25 earmarked a 7% YoY increase in capex, Roads, Railways, Defence, and Water to be key beneficiaries:** Union Government focus on infra asset creation has been the key theme driving capex. Capital goods companies are benefitting from the pick-up in government and private capex and India's big push to manufacturing. The real estate upcycle is aiding private capex; hospitality recovery augurs well. Geopolitical compulsions and resultant re-alignment in the supply chain, sustainability initiatives, etc., 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, a stable pricing environment augurs well for profitability.
- Earnings trend YoY/QoQ:** We expect EPC/infra universe revenue/EBITDA/PAT to grow 15.0/18.2/24.8% YoY to INR 225.9/33.4/14.1bn, with EBITDA margin at 14.8% (40bps YoY). In capital goods, revenue/EBITDA/PAT are expected to grow by 15.1/28.5/31% YoY to INR 928.7/105.7/62.7bn, with EBITDA margin at 11.8% (118bps YoY). The valuation of core EPC/infra universe (excluding IRB Infra) is at ~12.5/10x 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 Mar-26E.
- Asset monetization, robust balance sheet and equity recycling to support growth:** The nature of NHAI awarding is expected to shift towards high equity investments with the BOT toll project increasing in award mix. 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. **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	3,601	BUY	4,238
Siemens	5,441	BUY	5,716
ABB India	6,561	ADD	6,971
Cummins India	3,043	BUY	3,425
KEC International	704	REDUCE	626
Hitachi Energy India	7,199	ADD	7,549
Thermax	4,741	BUY	4,199
Kalpataru Power	1,157	BUY	1,299

Source: HSIE Research

Infrastructure: Recommendation Summary

Company	CMP (INR/sh)	Reco.	TP (INR/sh)
Dilip Buildcon	443	ADD	483
PNC Infratech	434	BUY	520
KNR Constructions	256	BUY	337
IRB Infra Developers	66	ADD	66
NCC	253	BUY	305
HG Infra Engineering	1,056	BUY	1,381
Ashoka Buildcon	169	BUY	257
Ahluwalia Contracts	1,071	ADD	1,056
PSP Projects	645	ADD	828
ITD Cementation	336	BUY	405
J. Kumar Infraprojects	611	ADD	658

Source: HSIE Research

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Financial summary: Q4FY24E

Capital Goods	NET SALES (INR bn)			EBITDA (INR bn)			EBITDA Margin (%)			APAT (INR bn)		
	4QFY24	QoQ (%)	YoY (%)	4QFY24	QoQ (%)	YoY (%)	4QFY24	QoQ (bps)	YoY (bps)	4QFY24	QoQ (%)	YoY (%)
Larsen & Toubro*	662.1	20.1	13.5	78.1	35.7	14.4	11.8	135.6	9.0	43.6	47.8	9.3
Siemens#	54.0	21.8	21.0	6.7	28.4	21.1	12.4	64.3	0.6	5.6	21.0	8.7
ABB India ^	28.1	2.0	16.6	4.1	(1.5)	44.0	14.6	(52.2)	277.6	3.4	(1.7)	38.3
Cummins India	22.0	(13.2)	14.2	4.2	(22.7)	27.5	18.9	(232.8)	197.1	3.7	(19.3)	15.6
KEC International*	67.9	35.6	22.9	4.4	43.5	55.8	6.5	35.5	137.4	2.0	104.9	212.4
Hitachi Energy India	14.6	14.9	9.7	1.0	(114.4)	(118.4)	7.1	6,427.4	4,978.9	0.5	(106.7)	(108.4)
Thermax*	25.4	9.5	10.1	2.3	25.0	17.2	9.2	114.2	55.5	1.7	(29.1)	7.6
Kalpataru Power	54.5	31.4	24.0	4.8	38.4	53.1	8.7	43.8	165.8	2.3	56.9	102.7
Aggregate	928.7	19.7	15.1	105.7	43.8	28.5	11.4	191.2	118.9	62.7	60.1	31.0

*Consolidated; # 2QFY24 – YE Sep; ^ 1QCY24- YE Dec;

Source: Company, HSIE Research

EPC/Infra	NET SALES (INR bn)			EBITDA (INR bn)			EBITDA Margin (%)			APAT (INR bn)		
	4QFY24	QoQ (%)	YoY (%)	4QFY24	QoQ (%)	YoY (%)	4QFY24	QoQ (bps)	YoY (bps)	4QFY24	QoQ (%)	YoY (%)
Dilip Buildcon	30.0	16.7	5.0	3.8	18.0	38.2	12.5	14.0	300.7	1.3	57.0	202.3
PNC Infratech	23.2	28.7	9.7	3.2	32.8	13.2	13.7	42.3	41.8	2.1	39.9	14.6
KNR Constructions	11.1	22.3	(5.8)	1.8	24.9	(13.2)	16.6	34.8	(140.7)	1.1	30.1	(14.5)
IRB Infra Developers*	19.7	0.1	21.6	8.7	0.1	14.7	44.2	(1.6)	(268.3)	1.8	(5.0)	36.8
NCC	49.4	4.1	23.0	5.0	5.2	19.0	10.2	11.1	(34.4)	2.2	5.5	26.4
HG Infra Engineering	17.2	27.8	17.1	2.7	27.1	14.5	15.8	(9.4)	(36.1)	1.6	35.2	8.0
Ashoka Buildcon	22.6	6.0	10.7	2.1	17.6	38.3	9.2	90.3	183.1	1.1	25.5	27.0
Ahluwalia Contracts	11.0	7.6	28.0	1.2	11.5	13.1	11.3	39.3	(148.6)	0.8	11.8	9.4
PSP Projects	7.5	7.6	3.0	0.8	16.5	7.2	11.1	85.5	43.4	0.4	22.3	(14.1)
ITD Cementation*	20.6	2.0	26.1	2.1	1.3	41.5	10.1	(6.7)	109.7	0.8	(2.0)	103.3
J. Kumar Infraprojects	13.6	11.7	20.0	2.0	9.3	23.1	14.4	(30.8)	36.1	0.9	11.3	24.5
Aggregate	225.9	10.6	15.0	33.4	11.0	18.2	14.8	5.7	40.3	14.1	18.6	24.8

Source: Company, HSIE Research; *Consolidated

Change in Estimates

COMPANY	Revenue (INR bn)			Change (%)			EBITDA (INR bn)			Change (%)			APAT (INR bn)			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Capital Goods																		
KEC	205.2	231.6	256.6	2.5	7.3	2.3	12.7	18.3	23.3	(3.3)	1.3	3.7	3.9	7.7	11.5	(2.8)	4.0	7.2
Kalpataru	170.8	214.5	258.5	(2.7)	2.3	7.1	14.4	19.3	24.6	(1.0)	2.3	6.0	6.1	9.4	13.2	(3.2)	3.6	8.8

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*	5,202	3,601	4,238	BUY	93.2	126.7	147.9	35.0	26.5	22.4	19.5	14.8	12.6	14.5	18.8	19.3
Siemens#	1,996	5,441	5,716	BUY	53.7	65.8	74.9	92.9	75.7	66.5	76.2	58.4	50.2	15.8	17.1	16.9
ABB India^	1,384	6,561	6,971	ADD	58.6	67.2	80.3	101.7	88.7	74.3	82.4	70.3	57.4	22.5	21.2	21.0
Cummins India	815	3,043	3,425	BUY	53.0	64.7	75.4	55.2	45.1	38.8	48.0	38.0	31.4	25.0	25.5	24.5
KEC International*	195	704	626	REDUCE	15.4	30.0	44.7	43.7	22.3	15.0	17.7	12.4	9.8	10.1	17.5	21.7
Hitachi Energy India	328	7,199	7,549	ADD	23.9	67.9	139.8	301.1	106.1	51.6	113.1	59.8	32.8	8.0	19.7	31.2
Thermax*	513	4,741	4,199	BUY	52.5	65.7	77.7	74.3	59.4	50.2	53.2	39.9	32.4	14.4	16.0	16.6
Kalpataru Power	187	1,157	1,299	BUY	37.5	58.0	81.2	28.6	18.4	13.2	12.8	9.3	7.3	10.3	13.7	16.1
Wt. Average								66.3	49.1	40.6	44.9	34.5	28.4	16.3	19.1	19.7

*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	69	443	483	ADD	26.8	30.0	37.1	11.3	10.1	8.2	5.4	4.9	4.3	8.2	8.5	9.6
PNC Infratech	116	434	520	BUY	23.7	26.2	29.8	13.3	12.0	10.6	8.0	7.3	6.4	14.5	14.2	14.1
KNR Constructions	75	256	337	BUY	14.9	14.7	18.9	13.7	13.8	10.8	8.1	7.8	6.5	14.0	12.1	14.3
IRB Infra Developers*	425	66	66	ADD	1.1	1.4	1.8	53.6	41.0	32.3	14.9	13.7	12.4	4.9	6.2	7.5
NCC	161	253	305	BUY	11.0	16.2	19.1	21.4	14.6	12.4	8.3	7.2	6.4	10.2	13.5	14.1
HG Infra Engineering	71	1,056	1,381	BUY	71.0	79.9	92.1	11.4	10.2	8.8	6.7	6.0	5.2	23.2	21.0	19.8
Ashoka Buildcon	49	169	257	BUY	9.2	11.3	14.9	7.7	6.3	4.8	4.9	3.5	3.1	7.4	8.4	10.0
Ahluwalia Contracts	72	1,071	1,056	ADD	37.5	50.4	66.0	27.4	20.4	15.6	16.3	12.3	9.5	18.7	20.9	22.1
PSP Projects	26	645	828	ADD	42.8	52.5	63.7	15.3	12.5	10.3	8.2	6.9	5.8	17.9	18.9	19.6
ITD Cementation*	56	336	405	BUY	15.4	21.5	28.9	20.7	14.8	11.0	7.1	5.8	4.7	19.1	21.7	23.2
J. Kumar Infraprojects	48	611	658	ADD	41.9	47.2	57.4	14.9	13.2	10.9	7.2	6.3	5.1	12.7	12.7	13.6
Wt. Average^								15.7	12.5	10.0	8.1	6.9	5.7	14.1	14.8	15.6

*Consolidated; ^Excluding IRB Infra the P/E stands at 15.7/12.5/10x for FY24E/25E/26E;

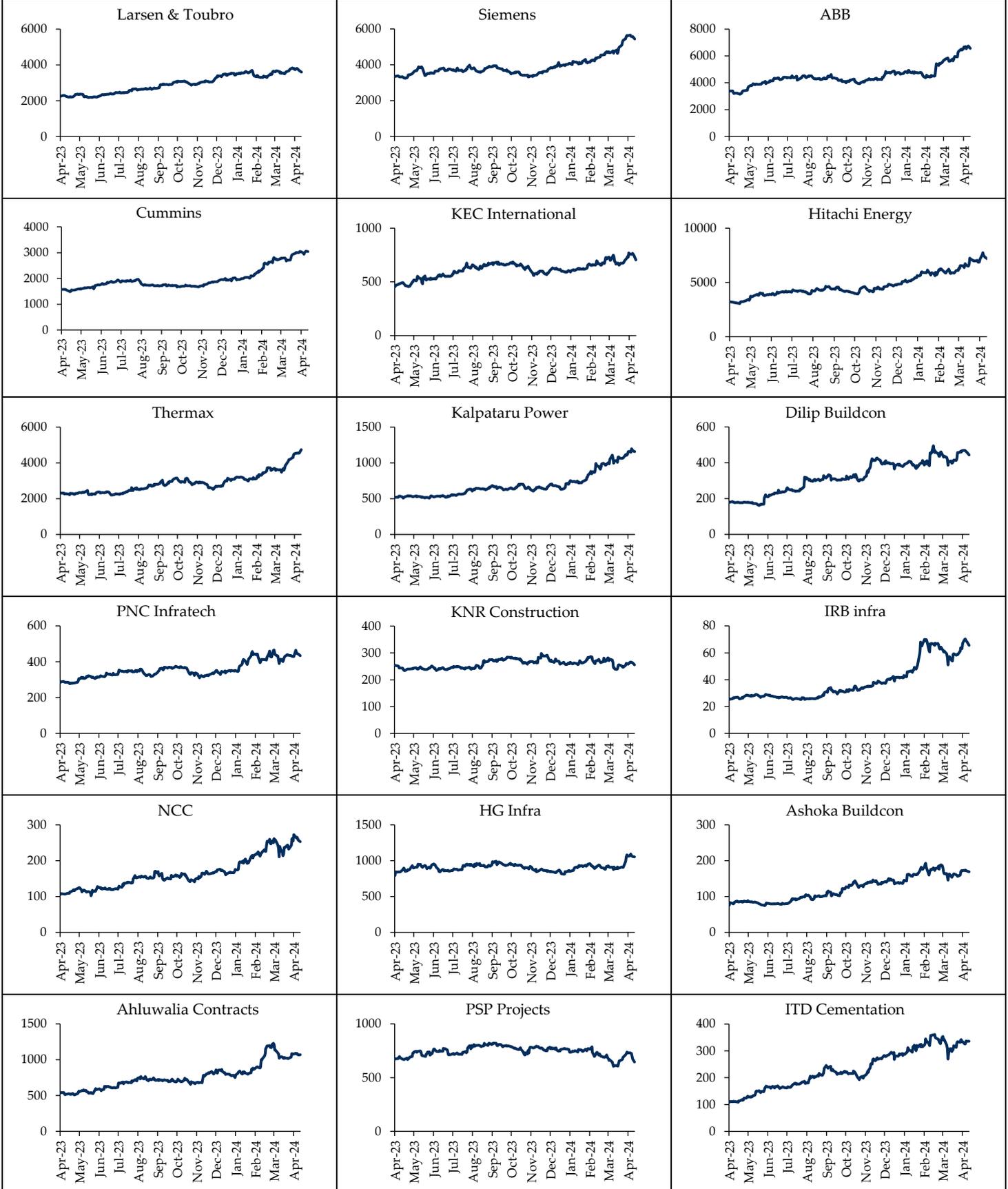
Source: Company, HSIE Research

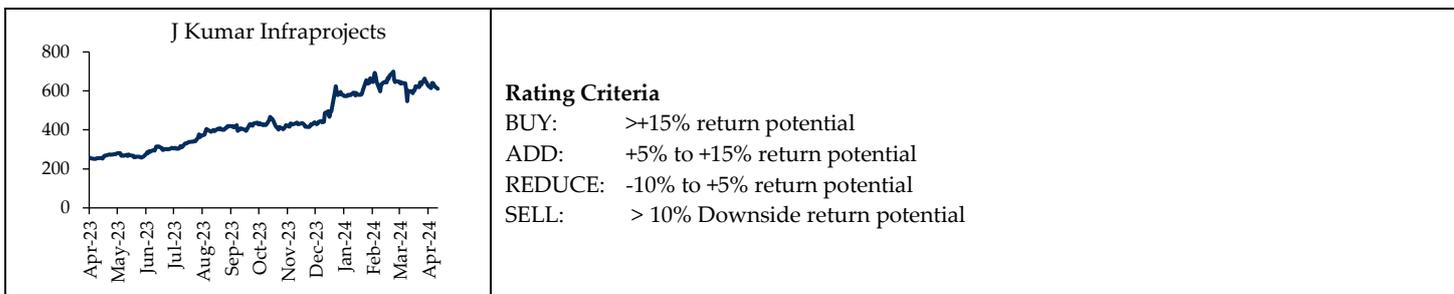
Changes in rating and target price

COMPANY	Mcap (Rs bn)	CMP	Old TP	New TP	OLD RECO	NEW RECO	Upside (%)	Old Multiple (x)	New Multiple (x)	Comment
EPC/Infra										
J. Kumar Infraprojects	48	640	658	658	ADD	ADD	2.9	11	11	No Change
KNR Constructions	75	266	337	337	BUY	BUY	26.7	15	15	No Change
NCC	161	264	305	305	BUY	BUY	15.6	13	16	Increased multiple to factor in strong order inflows, Improvement in NWC and debt
ITD Cementation	56	326	380	405	BUY	BUY	24.3	13	13	No Change
Ashoka Buildcon	49	174	254	257	BUY	BUY	47.7	10	10	No Change
PNC Infratech	116	452	520	520	BUY	BUY	15.1	14	14	No Change
IRB Infra Developers	425	70	56	66	ADD	ADD	(6.4)	12	12	No Change
Dilip Buildcon	69	469	483	483	ADD	ADD	3.1	10	10	No Change
Ahluwalia Contracts	72	1,077	990	1,056	ADD	ADD	(1.9)	14	16	Change to factor in strong order booking
PSP Projects	26	735	828	828	ADD	ADD	12.6	13	13	No Change
HG Infra Engineering	71	1,093	1,338	1,381	BUY	BUY	26.3	14	14	No Change
Capital Goods										
Siemens	1,996	5,605	4,940	5,716	BUY	BUY	2.0	55	65	Multiple increase to factor in strong expected ordering in Railways and T&D
Larsen & Toubro	5,202	3,785	4,238	4,238	BUY	BUY	12.0	29	29	No Change
ABB India	1,384	6,530	5,487	6,971	REDUCE	ADD	6.8	60	72	Multiple increase to factor in strong expected ordering
Cummins India	815	2,938	3,425	3,425	BUY	BUY	16.6	35	48	Multiple increase to factor in strong expected ordering
KEC International	195	757	539	626	REDUCE	REDUCE	(17.4)	14	14	No Change
Hitachi Energy India	328	7,737	6,135	7,549	ADD	ADD	(2.4)	42	54	Multiple increase to factor in strong expected ordering
Thermax	513	4,560	3,732	4,199	ADD	BUY	(7.9)	45	54	Multiple increase to factor in strong expected ordering
Kalpataru Power	187	1,149	1,045	1,299	BUY	BUY	13.0	14	16	Multiple increase to factor in strong expected ordering

Source: HSIE Research

1 Yr Price history





Disclosure:

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