

Order book brings cheer to infra, cap goods firms

Orders for companies grew 15–57% in the first quarter of the financial year

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A seasonally-weak quarter appears to have hardly dampened the spirits of infrastructure and capital goods companies in India.

Results of some key players in the sector for Q1 — including Larsen & Toubro (L&T), Siemens, Thermax and KEC International — show that the order book has grown in the range of 15-57 per cent over the year-ago period.

The order book uptick in Q1 comes as the government's thrust on infra development remains strong. It is backed by an increase in private-sector capital expenditure (capex) as well as a strong order inflow from the Gulf region.

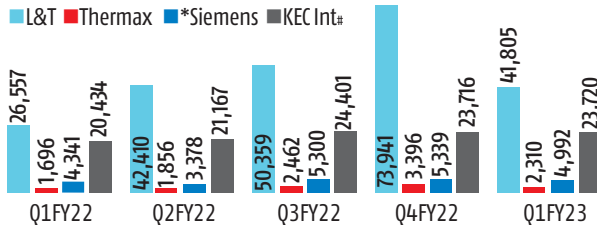
Analysts have also pointed to better order execution by companies, as the capex cycle improves. Though margins are expected to improve with a lag, as commodity and currency volatility remains for now.

For instance, sector leader L&T's orders secured in the June quarter stood at ₹41,805 crore, a 57 per cent jump over the previous year. Of this, domestic orders constituted 57 per cent and international orders made up 43 per cent, its results showed.

A year ago, the picture was different as L&T was grappling with the impact of the pandemic, which saw economic

FIRMS' BOOKS OVER PAST FIVE QUARTERS

(figures in ₹ crore)



*Siemens follows an October–September financial year. Figures are orders secured during the quarter for L&T, Thermax, Siemens; # Figures for KEC International are consolidated order book numbers

Source: Company results

and business activity remain subdued. This, in turn, hurt investments by companies across segments.

In the June quarter of the ongoing financial year, domestic orders for L&T came from diverse areas, including power, hydrocarbons, water management and transportation, among others.

Pune-based Thermax said its order inflow came from steel, power, refineries and chemicals. This helped it secure orders worth ₹2,310 crore, a jump of 36 per cent over the previous year.

Siemens saw an uptick of 15 per cent over last year in orders secured during the June quarter to touch ₹4,992 crore, it said on Tuesday. And KEC International said that a mix of transmission and distribution, cables, railways and oil & gas had helped it log strong order inflows in Q1.

Sequentially, order book numbers for L&T as well as its peers are lower than figures reported in the March quarter. However, executives of these firms remain optimistic, albeit, cautiously, in the wake of global slowdown concerns.

The International Monetary Fund (IMF) cut its global growth outlook last week to 3.2 per cent from 3.6 per cent forecast in April, saying that the world was on the brink of a recession.

India, on the other hand, will likely grow at 7.4 per cent in FY23, against 8.2 per cent forecast in April, the IMF said. It added that India would remain among the fastest-growing economies in the world.

“There is a pick-up in business activity (in India) as Covid concerns have receded. Investment in segments such as minerals and metals, health care, information technology

and services, data centres, airports and metro rail stations has been good. All this has helped order inflows in Q1,” R Shankar Raman, whole-time director and chief financial officer (CFO), L&T, said during a media call last week.

Vimal Kejriwal, managing director (MD) and chief executive officer (CEO), KEC International, says that a diversified order book augurs well for future growth. “It gives us confidence of delivering continued growth in the coming quarters,” he said.

While Sunil Mathur, MD and CEO, Siemens said that though performance across verticals was strong, concerns around global headwinds impacting demand remained.

There are other challenges, too, for these companies, including an increase in the cost of capital. This is due to sustained interest rate hikes, though international commodity prices have cooled off for now.

“The overall interest rate cycle has only been picking up as the Reserve Bank of India (RBI) looks to tackle inflation,” said MS Unnikrishnan, capital goods veteran and former MD of Thermax. “This is a near-term concern,” he added.

Analysts at brokerage YES Securities say that the key monitorables over the next few quarters will include conversion of the order pipeline in both domestic and international markets.