

Steady Ebitda, mixed margins expected for cap goods firms in Q4

Many engineering and capital goods companies are currently executing multi-year high order books

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Engineering and capital goods firms are largely expected to report steady double-digit growth in revenue and earnings for the March 2024-ended quarter, according to analysts.

However, margins of companies could remain a mixed bag.

Brokerage firm Motilal Oswal expects growth in revenue and earnings before interest, taxation, depreciation and amortisation (Ebitda) to be in the early teens.

Similarly, Nuvama expects a 13 per cent growth in both earnings and revenue of the capital goods companies in its universe.

Domestic brokerage firm Centrum also indicated double-digit growth in revenue and Ebitda for most of the companies in its capital goods coverage.

In the March 2024 quarter (Q4 FY24) preview of the capital goods sector, analysts with Centrum noted that they expect the strong earnings growth momentum to continue.

Many of India's engineering and capital goods firms are currently executing multi-year high order books. Revenue recognition from execution of these orders, according to analysts, is expected to aid their earnings in the March-ended quarter.

Analysts with Nuvama said they expect a double-digit growth in revenue for companies like KEC International on strong order inflows and better execution. The brokerage firm noted robust order inflow growth and execution completion of legacy projects of engineering major Larsen & Toubro (L&T).

Analysts at Motilal Oswal highlighted that the quarter gone by saw some moderation in domestic ordering due to the impending elections. However, the brokerage firm notes that, "The strong enquiry pipeline seen in Q3 FY24 should start materialising in Q4 FY24. For our

coverage universe, we estimate 15 per cent year-on-year (Y-o-Y) growth in execution in Q4 FY24."

Analysts expect margins to remain a mixed bag, depending on where a particular company is placed on the engineering value chain.

For engineering, procurement and construction (EPC) companies, Motilal Oswal noted, "EPC firms L&T, KEC International and Kalpataru Projects International had guided better margin performance in H2 FY24, given the delay in completion of legacy projects. However, they lowered the initial FY24 margin guidance by 25-50 basis points."

L&T's margins for the past many quarters have remained under pressure, owing to execution of orders won during a low commodity price cycle of the pandemic. There are signs of improvement in these margins, as these orders are near completion, analysts noted. For firms such as KEC International, some expect issues such as the Red Sea disruptions to weigh on margins.

For product companies such as ABB India, Motilal Oswal said it is likely to witness a mixed impact of strong demand and

lower raw material (RM) prices. Hence, it expects the company to pass on some RM price benefits to end users.

Nuvama expects margins for companies in its universe to remain unchanged from a year ago at 12.3 per cent.

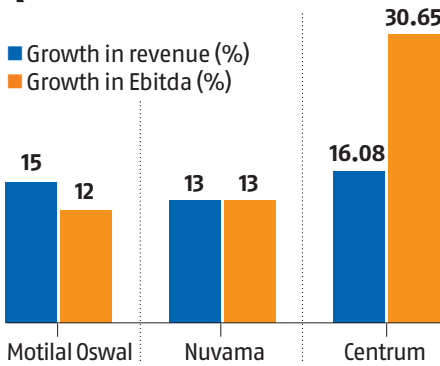
The brokerage agrees that a meaningful turn in the order-inflow trend from the private sector is unlikely to reflect in the March-2024 quarter financials. "A pickup of conventional private capex may still see some delay," analysts with Nuvama noted.

On private capex, analysts at Motilal Oswal said the investment activity has been selective, primarily in data centres, real estate, cement, metals & mining, industrial automation, and performance linked incentive-led capex.

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Q4 PROJECTIONS



Source: Analysts' estimates
Note: Numbers for Centrum are average