

Yet another healthy showing likely for capital goods in Q3

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Mumbai, 9 January

Earnings growth trajectory for India's capital goods firms is likely to stay buoyant for the December 2023-ended quarter (Q3 FY24), said analysts.

Guidance on margins, ordering activity in an election year and export-related demand would be key monitorables. Brokerages — Motilal Oswal, Nuvama, Kotak Institutional Equities and Prabhudas Lilladher — estimated revenue growth for their capital goods universe to be 11-16 per cent year-on-year (Y-o-Y).

Buoyed by a mix of domestic and international orders, many capital goods firms in India are currently busy with multi-year high order books, a combined worth of at least ₹8 trillion, as of September 2023.

This, according to analysts with Kotak, is expected to aid Q3 FY24 earnings. "We expect the execution of all capital goods companies and most

engineering, procurement and construction (EPC) firms to remain healthy Y-o-Y, led by strong order book accretion in the past 5-6 quarters," they wrote in a January 5 note.

Of the expected revenue growth for the sector, those in the EPC segment are likely to report higher growth rates.

Analysts with Prabhudas Lilladher noted that they expect product/consumables companies' revenue to grow by 11.0 per cent and EPC companies' revenue to surge 19.4 per cent.

On the earnings before interest, taxes, depreciation, and amortisation (Ebitda) margins front, analysts with Motilal Oswal expect a mixed trend. "We expect EPC companies such as L&T, KEC, and Kalpataru Projects to witness

a gradual improvement in margins due to near-completion of the low-margin legacy projects. We also expect product companies to pass on the lower raw material price benefits to the end users." For the entire capital goods universe, Motilal Oswal expects a 30 per cent growth in profit after tax



WHAT'S EXPECTED

Q3FY24 earnings estimates



Company	Change %		Change %	
	Q-o-Q	Y-o-Y	Q-o-Q	Y-o-Y
Larsen & Toubro	3.9	14.2	6.0	40.8
Bharat Heavy Electricals	4.4	8.3	-	165.3
Thermax	4.5	17.5	-1.4	23.7
ABB India	5.2	20.2	-11.9	4.3
Siemens	-22.1	12.4	-24.2	-6.5

Source: Bloomberg; Compiled by BS Research Bureau

(PAT). The fourth quarter precedes India's general elections this year.

Analysts noted that a key monitorable in the post earnings management commentary would be to look for signs of pre-election impact on ordering activity. Other key takeaways

to watch out for, analysts noted, would be export market trends.

"Amid fears of a global slowdown, exports are at a clear risk while a pickup of private capex may still see some delay," said analysts with Nuvama.