Demand adds heft to capital goods order book

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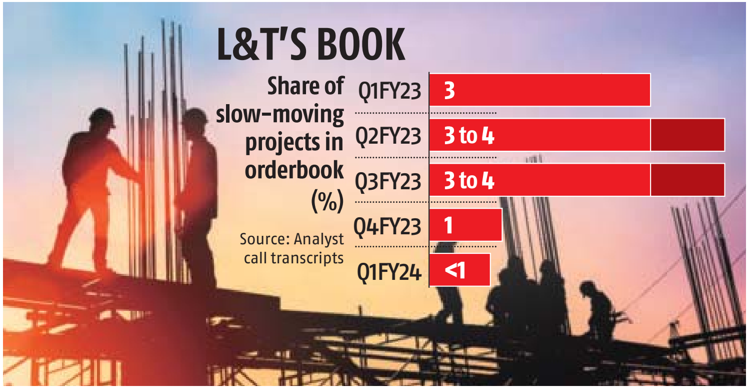
The share of slow-moving orders in the overall order book of Larsen & Toubro (L&T) is at a multi-year low. This has led to a renewed focus on fast-moving orders. A mix of factors such as commodity price fluctuations, robust order inflow and strong sectoral demand have put capital goods order book in the fast lane, analysts and company executives said.

L&T, with its large presence in the capital goods sector, is often seen as the bellwether for trends in this space. For the June 2023 quarter, the company told analysts that the share of slow-moving orders in its total book was less than one per cent. As of June, L&T's total order book was at ₹4.12 trillion. An email query sent to L&T, seeking details on what led to the fall in slow-moving orders, remained unanswered.

However, L&T is not an outlier. The company's competitors confirm a similar trend.



"Slow-moving as a percentage of our order book at the moment, is the lowest ever," said Ashish Bhandari, managing director (MD) and chief executive officer (CEO) at Thermax Global.

"In the last two-three years, project-related approvals have witnessed improved pace and come for bidding after financial closure. Some have come to the bidding stage only once all clearances are in place. This has helped," said Anupama Arora, vice-president and sector head – corporate ratings, ICRA.

There is more than the streamlining of approvals.

Order inflow has been robust for capital goods companies.

For the June 2023 quarter, L&T reported a 57 per cent growth in order inflow. Thermax said order book grew 11 per cent and CG Power and Industrial Solutions reported a 47 per cent rise in order intake, all on a year-on-year (YoY) comparison.

Arora said the robust order inflow also allows capital goods companies to choose projects and avoid those with delay potential.

Bhandari added that the demand growth in certain sectors is also aiding the client's perspective. "Clients have a demand pull, so they do not wish to stall projects," he said.

Another reason for the lower share of slow-moving orders, Bhandari said, was stabilisation of pandemic disrupted supply-chains. Top executives from L&T have pointed out that orders booked at lower commodity prices during the pandemic have strained margins of the company.

Arora said this has made both companies and clients conscious about project time-frames. "The recent fluctuation in commodity prices have made both companies and clients conscious as many of these are fixed-cost contracts," she added.