Cap goods firms: Low costs to ensure strong earnings

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GEARING UP FOR GOOD TIMES (Q1 estimates, in ₹ cr)

	Sales	YoY growth (%) E	Adjusted PAT*	YoY growth (%)
L&T	40,282	12.4	2,127	25
ABB India	2,456	20	210	42.8
Siemens	4,726	11	412	36.2
BHEL	5,380	15.2	46.4	NA
Thermax	1,864	12.7	103	73.9

E-Estimates; *Profit after tax

Source: Prabhudas Lilladher

Capital goods companies are likely to report double-digit growth in sales and profit for the first quarter of the 2023-24 financial year (Q1FY24), according to analysts.

The performance will ride on lower raw-material costs and healthy execution of orders.

Sales by capital goods companies are likely to increase 13-20 per cent year-on-year (YoY), five domestic brokerage firms said.

YoY growth in profit after tax (PAT) at such companies is expected to be between 21 per cent and 37 per cent, three domestic brokerages said.

The Street will watch out for guidance on new order inquiries, order execution and working capital management in the companies' post-earnings commentary. Raw material cost pressure has eased, and it is expected to boost profitability. Revenue growth will be aided by a healthy order book execution seen in the quarter ended June 2023, said analysts.

RESULTS PREVIEW

Analysts with Nirmal Bang said they expected an 80 basis points improvement in margins YoY, on the back of easing raw material costs, lower freight costs and better supply chain dynamics.

"Margin pressures are largely behind us as commodity inflation has cooled off significantly, and the unrecovered portion has been passed on in the form of price hikes," said analysts with YES Securities in a July 6 report on the capital goods sector. Analysts with Prabhudas Lilladher expect the order execution momentum to have continued in the June quarter. "We expect our capital goods coverage universe to report healthy performance in Q1FY24, owing to strong opening order books, continued execution momentum, favourable product mix, and better demand/orders/volumes from domestic as well as key export markets such as Middle East (ME), Americas, SAARC, Africa," they wrote in a July 6 report.

YES Securities analysts said management commentary on order inflows in domestic and international markets and its conversion would be key monitorable from companies like Siemens.

In May, engineering major Larsen & Toubro (L&T) gave guidance that predicted 10-12 per cent growth in order inflow and 12-15 per cent growth in revenue for full FY24. The Street will look out for the momentum of this guidance.

L&T will announce its Q1 results on July 25.

For companies, such as BHEL, the street will also watch out for further clarity on the non-power segment.

ABB expects low revenue growth

Global industrial company ABB has said that it anticipates low double-digit comparable revenue growth for the second quarter of the 2023-24 financial year (Q2FY24) and comparable revenue growth of at least 10 per cent for the full year, despite current market uncertainty.

ABB also reported sluggish growth in order intake for Q1FY24, at $8,667 million, up 2 per cent in comparable terms.

"In the third quarter of 2023, we anticipate low double-digit comparable revenue growth and the Operational Ebita (earnings before interest, tax, and amortisation) margin to be slightly up from the 16.6 per cent reported in the third quarter last year," the company stated in its press statement.

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