

## Capital Goods & Consumer Durables

03 April, 2023

### Strong order booking and high mercury levels to drive topline growth; Margin pressures to ease

In 4QFY23, we are expecting strong revenue growth for the Capital Goods companies (+25.2% YoY) under our coverage on the back of robust order bookings. In the Consumer Durables segment, we believe that demand moderated, particularly for ACs in March'23, due to unseasonal rains post an uptick from mid-Feb'23 amid rising Mercury levels. Consequently, we are building in 11.5% YoY topline growth for our coverage Consumer Durables companies. For Consumer Electricals companies, we are building in 9.1% YoY topline growth, mainly due to muted primary off-take of star-rated fans amid higher-than-normal channel inventory. We expect up-stocking of Wires & Cables by dealers and distributors as copper prices have risen by ~27% from their July'22 lows. Capital Goods and Consumer Durables companies are expected to show margin improvement on the back of easing commodity cost headwinds and improving supply chain situation. We predict a sequential improvement in aggregate EBITDA margin (+50bps) for our coverage universe due to softer raw material (RM) prices and easing supply chain constraints. Recovery in the capex cycle, healthy order inflows and adverse impact on working capital will be keenly monitored for the Capital Goods sector. We are factoring in strong growth for Apar Industries (+46% YoY), led by strong growth in its Conductors and Cables segment. Triveni Turbine (+40% YoY) will benefit from improved execution post strong order inflows.

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(Rs mn)	(Rs)		Revenue			EBITDA			EBITDA Margin (%)			PAT		
Companies	TP	Rating	4QFY23E	YoY (%)	QoQ (%)	4QFY23E	YoY (%)	QoQ (%)	4QFY23E	3QFY23	4QFY22	4QFY23E	YoY (%)	QoQ (%)
<b>Capital Goods</b>														
Apar Industries	2,725	Buy	43,989	46.0	11.6	2,994	72.5	-13.6	6.8	8.8	5.8	1,213	46.9	-28.6
KEC International	490	Acc	48,442	13.3	10.7	2,838	12.8	42.0	5.9	4.6	5.9	920	-17.9	422.9
Power Mech Projects	2,705	Buy	13,783	52.7	51.6	1,569	66.1	52.8	11.4	11.3	10.5	681	43.1	34.6
Solar Industries India	3,920	Acc	15,199	15.4	-16.1	2,931	11.5	-16.1	19.3	19.3	20.0	1,702	1.4	-16.7
Thermax	2,475	Acc	22,221	11.6	8.4	1,784	31.9	10.8	8.0	7.9	6.8	1,361	32.9	7.9
Triveni Turbine	365	Buy	3,325	40.5	2.0	662	57.9	4.9	19.9	19.4	17.7	511	54.7	-2.9
<b>Consumer Durables</b>														
Amber Enterprises India	2,070	Acc	22,272	15.0	65.2	1,826	45.8	132.6	8.2	5.8	6.5	815	42.5	476.2
Blue Star	1,510	Acc	25,847	15.0	44.5	1,809	26.6	72.8	7.0	5.9	6.4	1,295	69.5	121.7
Dixon Technologies	3,025	Acc	30,786	4.3	28.0	1,316	11.4	18.4	4.3	4.6	4.0	525	-16.8	1.2
IFB Industries	955	Buy	11,153	26.1	14.2	755	NA	159.7	6.8	3.0	-1.3	378	NA	NA
Voltas	990	Buy	29,326	10.0	46.2	2,560	-1.9	235.2	8.7	3.8	9.8	1,656	-9.4	512.5
Whirlpool of India	1,435	Acc	18,722	9.7	43.7	1,267	-14.1	187.7	6.8	3.4	8.6	891	6.3	234.8
Stove Kraft	535	Buy	3,029	15.9	-6.7	247	59.3	-2.8	8.2	7.8	5.9	113	30.8	45.1
<b>Consumer Electricals</b>														
Bajaj Electricals	1,130	Acc	13,791	3.9	-7.0	900	41.8	-10.4	6.5	6.8	4.8	612	36.6	-3.5
Crompton Consumer	405	Buy	17,451	12.7	15.1	1,944	-15.0	27.5	11.1	10.1	14.8	829	-56.2	-2.7
Havells India	1,400	Buy	48,128	9.0	16.8	5,564	6.9	31.3	11.6	10.3	11.8	3,828	5.8	34.8
Orient Electric	305	Buy	8,419	11.8	13.9	842	4.4	53.5	10.0	7.4	10.7	403	-17.3	23.9
Polycab India	3,065	Acc	43,670	10.0	17.5	5,240	10.0	4.0	12.0	13.6	12.0	4,031	25.1	12.7
V-Guard Industries	250	Acc	11,028	5.0	12.8	1,048	-5.5	75.2	9.5	6.1	10.6	889	-1.8	148.3
<b>Our coverage universe</b>			<b>430,581</b>	<b>15.0</b>	<b>19.2</b>	<b>38,098</b>	<b>17.6</b>	<b>27.5</b>	<b>8.8</b>	<b>8.3</b>	<b>8.6</b>	<b>22,656</b>	<b>10.7</b>	<b>36.1</b>

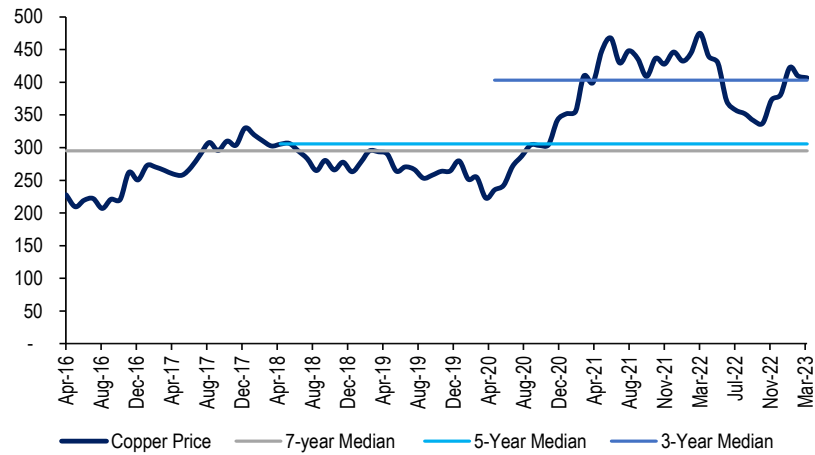
Source: Nirmal Bang Institutional Equities Research

**Capital Goods:** (1) Apar Industries is expected to report revenue of Rs44bn, up 46% YoY, mainly led by strong growth in its Conductors & Cables segment. We expect it to report EBITDA margin of 6.8%, up 105bps YoY on the back of improved realizations in the Conductors & Cables. It is likely to report a PAT of Rs1.2bn, up 46.9% YoY. (2) KEC International is expected to report revenue of Rs48.4bn, up 13.3% YoY. We expect it to report EBITDA margin of 5.9%, nearly flat YoY. KEC is likely to report a PAT of Rs920mn, down 17.9% YoY due to high interest costs. (3) Power Mech Projects is expected to report revenue of Rs13.8bn, up 52.7% YoY on the back of strong execution of order book. We expect it to report EBITDA margin of 11.4%, up 92bps YoY. Power Mech is likely to report a PAT of Rs681mn, up 43.1% YoY. (4) Solar Industries India is expected to report revenue of Rs15.2bn, up 15.4% YoY on the back of strong off-take by Coal India (CIL). We expect it to report EBITDA margin of 19.3%, down 67bps YoY. Solar Industries is likely to report a PAT of Rs1.7bn, up by a modest 1.4% YoY mainly on account of a high base. (5) Thermax is expected to report revenue of Rs22.2bn, up 11.6% YoY, led by growth in its Environment and Energy segment. We expect it to report EBITDA margin of 8%, up 124bps YoY on the back of a sharp improvement in Chemical segment's profitability. Thermax is likely to report a PAT of Rs1.4bn, up 32.9% YoY. (6) Triveni Turbine is expected to report revenue of Rs3.3bn, up 40.5% YoY. We expect it to report EBITDA margin of 19.9%, up 219bps YoY on the back of improved share in profitability from exports and after-market segments. Triveni Turbine is likely to report a PAT of Rs511mn, up 54.7% YoY.

**Consumer Durables:** (1) Amber Enterprises India is expected to report revenue of Rs22.3bn, up 15% YoY. We expect it to report EBITDA margin of 8.2%, up 173bps YoY on the back of softening commodity costs pressures. Amber is likely to report a PAT of Rs815mn, up 42.5% YoY. (2) Blue Star is expected to report revenue of Rs25.8bn, up 15% YoY, mainly led by strong growth in the UCP segment. We expect it to report EBITDA margin of 7%, up 64bps YoY. Blue Star is likely to report a PAT of Rs1.3bn, up 69.5% YoY. (3) Dixon Technologies is expected to report revenue of Rs30.8bn, up 4.3% YoY. We expect it to report EBITDA margin of 4.3%, up 27bps YoY on the back of higher mix from the ODM business. Dixon is likely to report a PAT of Rs525mn, down 16.8% YoY. (4) IFB Industries is expected to report revenue of Rs11.2bn, up 26.1% YoY, led by strong OEM AC sales. We expect it to report EBITDA margin of 6.8% vs (-)1.3% YoY mainly on account of better operating leverage. IFB is likely to report a PAT of Rs378mn vs a loss of Rs285mn in 4QFY22. (5) Voltas is expected to report revenue of Rs29.3bn, up 10% YoY, mainly led by growth in the UCP segment. We expect it to report EBITDA margin of 8.7%, down 106bps YoY, mainly due to a high base of last year. Voltas is likely to report a PAT of Rs1.7bn, down 9.4% YoY. (6) Whirlpool of India is expected to report revenue of Rs18.7bn, up 9.7% YoY. We expect it to report EBITDA margin of 6.8%, down 188bps YoY. Whirlpool of India is likely to report a PAT of Rs891mn, up 6.3% YoY. (7) Stove Kraft is expected to report revenue of Rs3bn, up 15.9% YoY. We expect it to report EBITDA margin of 8.2%, up 223bps YoY on the back of softening commodity prices and freight costs. Stove Kraft is likely to report a PAT of Rs113mn, up 30.8% YoY.

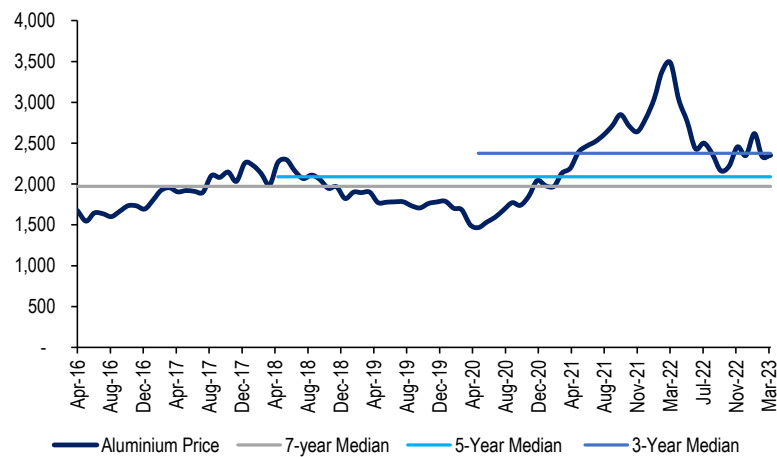
**Consumer Electricals:** (1) Bajaj Electricals is expected to report revenue of Rs13.8bn, up 3.9% YoY. We expect it to report EBITDA margin of 6.5%, up 174bps YoY on the back of softening commodity cost pressures. Bajaj Electricals is likely to report a PAT of Rs612mn, up 36.6% YoY. (2) Crompton Consumer is expected to report revenue of Rs17.5bn, up 12.7% YoY. We expect it to report EBITDA margin of 11.1%, down 364bps YoY mainly due to a higher share Butterfly revenue compared to 4QFY22 (lower margin profile). Crompton Consumer is likely to report a PAT of Rs829mn, down 56.2% YoY due to higher depreciation, amortization and interest costs. (3) Havells India is expected to report revenue of Rs48.1bn, up 9% YoY, mainly led by strong growth in Lloyds. We expect it to report EBITDA margin of 11.6%, down 22bps YoY. Havells India is likely to report a PAT of Rs3.8bn, up 5.8% YoY. (4) Orient Electric is expected to report revenue of Rs8.4bn, up 11.8% YoY. We expect it to report EBITDA margin of 10%, down 71bps YoY. Orient Electric is likely to report a PAT of Rs403mn, down 17.3% YoY. (5) Polycab India is expected to report revenue of Rs43.7bn, up 10% YoY, mainly led by strong demand for Wires & Cables. We expect it to report EBITDA margin of 12%, nearly flat YoY. Polycab India is likely to report a PAT of Rs4bn, up 25.1% YoY. (6) V-Guard Industries is expected to report revenue of Rs11bn, up 5% YoY, led by strong growth in Electronics and Durables segment. We expect it to report EBITDA margin of 9.5%, down 105bps YoY due to a higher share of Durables segment revenue. V-Guard Industries is likely to report a PAT of Rs889mn, down 1.8% YoY.

**Exhibit 1: Copper Price Trend (in USD/lb)**



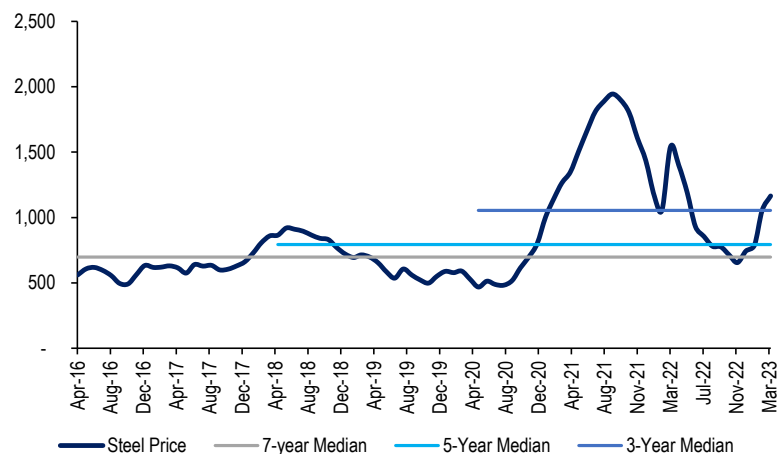
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Aluminum Price Trend (in USD/MT)**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Steel Price Trend (in USD/T)**



Source: Company, Nirmal Bang Institutional Equities Research

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SELL < -5%

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