NIRMAL BANG
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Institutional Equities

Capital Goods

2QFY24 Result Preview

October 05, 2023

Margin expansion to drive profitability

Key Points

- We expect most companies under our coverage to deliver moderate growth on the back of execution of a robust order book. We expect topline growth of 11.8% YoY for companies under our coverage.
- We are expecting 140bps YoY EBITDA margin improvement on the back of easing RM costs, lower freight costs and better supply chain dynamics.
- We continue to remain structurally positive on the sector from near- to-medium term perspective on the back of recovery in the capex cycle and healthy order inflows, with the potential adverse impact on working capital being the key monitorable.
- We expect Triveni Turbine to deliver strong growth (+33% YoY) on the back of improved execution post strong order inflows. We expect Solar Industries to post topline growth of 9% YoY with realizations, AN price volatility and scale-up of Defence segment being the key monitorables.

Company	TP (Rs)	Rating
Apar Industries	5,415	Acc
KEC International	705	Acc
Power Mech Projects	4,705	Buy
Solar Industries	4,535	Buy
Thermax	2,640	Acc
Triveni Turbine	505	Buy

Expect strong YoY growth; realizations will be the key monitorable: We expect topline growth of 11.8% YoY for coverage companies. We expect Triveni Turbine, KEC International and Power Mech Projects to deliver healthy topline growth of 33% YoY, 17.5% YoY and 15% YoY, respectively. For Triveni Turbine, order inflow and growth in enquiry pipeline will be the key monitorables. We expect Thermax and Solar Industries to deliver moderate growth of 10% YoY and 9% YoY, respectively. For Solar Industries, realizations, AN price volatility and scale-up of Defence segment will be the key monitorables. We expect Apar Industries to deliver a muted topline growth (+4.6% YoY) on account of a high base. Conductors' segment realizations and near-term demand for cables for Apar will be the key monitorables.

Expect YoY margin improvement: We are expecting 140bps YoY improvement in EBITDA margin of our coverage companies on the back of easing RM costs, lower freight costs and better supply chain dynamics. We expect Triveni Turbine to register 20bps YoY margin improvement on the back of easing RM cost headwinds and better operating leverage. We expect 220bps YoY margin improvement for KEC on a low base. For Power Mech, we expect 10bps YoY margin improvement, driven by lower royalty payments in the Civil segment and a favourable change in the order book mix. For Thermax, we expect 80bps YoY margin improvement on the back of easing commodity cost pressures. We expect Solar Industries' margin to improve by 220bps YoY on the back of benefits accruing from softening RM costs. While we expect Apar Industries' margin to improve by 70bps YoY, the same is expected to ease QoQ by 150bps on account of declining QoQ Conductor segment realizations.

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Company	Sales			EBITDA			EBITDA margin (%)			PAT		
	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	1QFY24	2QFY23	2QFY24E	YoY (%)	QoQ (%)
Apar Industries	33,852	4.6	(10.3)	2,608	15.5	(24.6)	7.7	9.2	7.0	1,302	26.9	(34.0)
KEC International	47,752	17.5	12.5	3,152	77.1	29.0	6.6	5.8	4.4	1,061	92.1	150.7
Power Mech Projects	8,871	15.0	2.5	1,002	15.8	1.0	11.3	11.5	11.2	489	11.7	(4.1)
Solar Industries India	17,076	9.0	1.5	3,637	21.7	12.6	21.3	19.2	19.1	2,238	26.9	13.3
Thermax	22,828	10.0	18.1	1,735	23.4	31.2	7.6	6.8	6.8	1,302	19.3	32.9
Triveni Turbine	3,897	33.0	3.5	748	34.4	5.5	19.2	18.8	19.0	609	31.8	0.2
Our Coverage Universe	**134,275**	**11.8**	**4.3**	**12,883**	**30.7**	**5.9**	**9.6**	**9.4**	**8.2**	**7,002**	**31.3**	**8.2**

Source: Company, Nirmal Bang Institutional Equities Research

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BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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