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FIRST LIGHT

23 February 2024

RESEARCH

BOB ECONOMICS RESEARCH | CORPORATE PERFORMANCE

How have companies fared in Q3FY24?

CAPITAL GOODS | Q3FY24 REVIEW

Momentum continues

CONSUMER DURABLES | Q3FY24 REVIEW

Cables, wires and EMS lead Q3 growth

SUMMARY

INDIA ECONOMICS: CORPORATE PERFORMANCE

India Inc.'s financial performance in Q3-FY24 mirrored the trend seen in the last few quarters. Profit growth remains robust, compensating for the lower growth in revenues. Debt servicing too has improved despite higher interest costs. Our in-house corporate financial performance index (BoB-CFPI) is also showing a significant improvement in India Inc. performance. Nonetheless, the performance has not been equal across sectors. Pockets of stress remain with rural demand remaining a major pressure point. However, management commentary of various companies suggests that there are some signs of recovery amidst a moderation in inflation and adequate Rabi sowing. It will be interesting to see if the growth momentum can sustain. On the banking side, some pressure is visible amidst tight liquidity and a sustained increase in credit demand. We believe that India Inc. is likely to end FY24 on a similar note. However, risks remain from escalation in tensions in the Red-Sea region and resulting disruptions in supply chains.

Click here **for the full report.**

CAPITAL GOODS: Q3FY24 REVIEW

- Q3 revenue for our capital goods coverage grew 18% YoY (+15% ex-LT) on strong execution; EBITDA margin slipped 40bps (20bps ex-LT)
- Management commentaries across the board point to a strong ordering environment for capital goods companies
- We maintain our positive sector view; prefer LT, KKC and SIEM

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Daily macro indicators

Indicator	20-Feb	21-Feb	Chg (%)
US 10Y yield (%)	4.28	4.32	4bps
India 10Y yield (%)	7.06	7.05	(1bps)
USD/INR	82.97	82.97	0.0
Brent Crude (US$/bbl)	82.3	83.0	0.8
Dow	38,564	38,612	0.1
Hang Seng	16,248	16,503	1.6
Sensex	73,057	72,623	(0.6)
India FII (US$ mn)	**16-Feb**	**20-Feb**	**Chg ($ mn)**
FII-D	23.0	221.6	198.6
FII-E	20.8	358.4	337.6

Source: Bank of Baroda Economics Research

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CONSUMER DURABLES: Q3FY24 REVIEW

- Our consumer durables universe grew 25% YoY in Q3, once again led by demand for EMS, cables and wires
- We expect Q4 to be better across categories such as ACs and fans with the onset of summer
- HAVL remains our pick in the durables space as a play on expected demand recovery

Click here for the full report.

CORPORATE PERFORMANCE

22 February 2024

How have companies fared in Q3FY24?

Aditi Gupta
Economist

India Inc.'s financial performance in Q3-FY24 mirrored the trend seen in the last few quarters. Profit growth remains robust, compensating for the lower growth in revenues. Debt servicing too has improved despite higher interest costs. Our in-house corporate financial performance index (BoB-CFPI) is also showing a significant improvement in India Inc. performance. Nonetheless, the performance has not been equal across sectors. Pockets of stress remain with rural demand remaining a major pressure point. However, management commentary of various companies suggests that there are some signs of recovery amidst a moderation in inflation and adequate Rabi sowing. It will be interesting to see if the growth momentum can sustain. On the banking side, some pressure is visible amidst tight liquidity and a sustained increase in credit demand. We believe that India Inc. is likely to end FY24 on a similar note. However, risks remain from escalation in tensions in the Red-Sea region and resulting disruptions in supply chains.

BoB Corporate Financial Performance Index (BoB-CFPI):

To track corporate performance more closely and on a regular basis, we have constructed the BoB Corporate Financial Performance Index (BoB-CFPI). The quarterly index aims to capture corporate performance at a more comprehensive level by analyzing key parameters covering revenue, cost, profitability and debt servicing. The index aims to track the performance of corporates based on the published quarterly financial results. The data has been sourced from Ace Equity corporate database. A sample of 32 key sectors are tracked which range from automobiles, capital goods, chemicals, construction materials, consumer durables, hospitality, healthcare, iron and steel, IT, telecom, retailing, etc. We have excluded sectors such as banks, insurance etc. as they tend to add a substantial modicum of bias to the numbers and present a skewed picture. Equal weights have been assigned to all the sectors to maintain comparability. Hence, the size of the industry will not skew the picture as overall corporate performance should ideally be broad based.

The current dataset includes a sample of 2,268 companies. It must be noted that the index has been constructed for the post-pandemic period i.e Jun'21 onwards to address partly the problem of base effect inflating the numbers. The sample companies used for FY23 (4 quarters) will be different from that in Q3-FY24. Detailed methodology for the construction of the index has been provided in the Annexure 1.

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CAPITAL GOODS | Q3FY24 Review | 22 February 2024

Momentum continues

- **Q3 revenue for our capital goods coverage grew 18% YoY (+15% ex-LT) on strong execution; EBITDA margin slipped 40bps (20bps ex-LT)**
- **Management commentaries across the board point to a strong ordering environment for capital goods companies**
- **We maintain our positive sector view; prefer LT, KKC and SIEM**

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LT leads order inflows, as always: Capital goods players under our coverage displayed impressive project execution in Q3FY24, which underpinned revenue growth of 18% YoY (15% ex-LT). Aggregate order inflows surged 21% YoY, albeit dominated by LT which attracted flows of Rs 760bn (+25% YoY). Excluding LT, order inflow for the rest of our coverage increased 3.5% YoY. Margins softened off a high base. Ex-EPC (engineering, procurement, and construction) players, gross margin contracted 50bps YoY in Q3. The aggregate EBITDA margin contracted 40bps YoY (-80bps ex-EPC).

Order outlook remains strong: Management commentaries across the board point to a strong ordering environment. LT raised its FY24 order inflow and revenue growth guidance to 20% (vs. 10-12%) and the high teens (vs. 12-15%) respectively. LT's addressable pipeline for Q4FY24 stands at Rs 6.3tn despite the approaching 2024 elections, driven by infrastructure (Rs 4.1tn) and hydrocarbon (Rs 1.7tn) projects. KECI retained its FY24 revenue guidance of Rs 200bn but believes it could fall slightly short of its initial order flow estimate of Rs 250bn. TMX has also turned positive and expects large orders to come in from the power and petrochemical sectors in FY25.

Mixed bag for product companies: KKC saw faster adoption of the newer CPCB-IV products than anticipated and pointed to a strong outlook going forward. Similarly, ABB and SIEM posted healthy quarters on the back of higher order flows and revenues. However, AIAE expects volumes of ~300,000t for FY24 vs. 310,000t guided earlier on account of delayed order decisions by clients. Hitachi has maintained its target of double-digit operating margins by the end of FY25.

Positive sector view: We remain positive on the capital goods sector given the government's capex thrust. We anticipate sustained structural demand tailwinds in the areas of automation, digitalisation and electrification, and retain our bullish view on LT (BUY, TP Rs 4,200), KKC (BUY, TP Rs 2,900), and SIEM (BUY, TP Rs 4,900).

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	4,985	5,000	HOLD
AIAE IN	3,798	4,000	HOLD
KECI IN	655	700	HOLD
KKC IN	2,608	2,900	BUY
LT IN	3,296	4,200	BUY
POWERIND IN	5,857	4,200	SELL
SIEM IN	4,440	4,900	BUY
TMX IN	3,544	3,300	HOLD

Price & Target in Rupees | Price as of 21 Feb 2024 | POWERIND = Hitachi

Capital goods: Q3 result reviews

Company	Result review link
ABB IN	Ends the year on a high note
AIAE IN	Soft quarter, volume growth uncertain; cut to HOLD
KECI IN	Pipeline robust, margin improvement delayed
KKC IN	Powering ahead; maintain BUY
LT IN	Order inflow guidance raised; maintain BUY
POWERIND IN	In-line quarter but valuations overdone; cut to SELL
SIEM IN	Strong topline, margins waver
TMX IN	Improving order outlook; maintain HOLD

Source: BOBCAPS Research

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CONSUMER DURABLES | Q3FY24 Review | 22 February 2024

Cables, wires and EMS lead Q3 growth

- **Our consumer durables universe grew 25% YoY in Q3, once again led by demand for EMS, cables and wires**
- **We expect Q4 to be better across categories such as ACs and fans with the onset of summer**
- **HAVL remains our pick in the durables space as a play on expected demand recovery**

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C&W and EMS lead aggregate revenue growth: Our consumer durables coverage grew 25% YoY on average in Q3FY24, underpinned by the cables & wires (C&W) and electronics manufacturing services (EMS) segments. Aggregate EMS revenue grew 60% YoY in Q3. Domestic C&W demand was also robust amid improving trends in capex and real estate, with aggregate revenue growth of 14% YoY despite a 6% correction in copper prices (pass-through) during the quarter.

No major price hikes taken in Q3: Most players did not take major price hikes during the quarter, which resulted in aggregate gross margin contraction of ~100bps YoY. Coupled with higher A&P spends, EBITDA margin dipped by a similar ~100bps.

BLSTR continues to stand out in room AC segment: Backed by volume growth, BLSTR's unitary cooling products (UCP) topline increased 35% YoY to Rs 9.6bn, which compares favourably with VOLT's 21% and Llyod's 8% YoY growth for the quarter. The company's EBIT margin was flattish YoY at 7.1%, whereas VOLT reported an increase of 90bps to 8.3%. Lloyd continues to report losses.

DIXON leads the EMS pack: EMS companies under our coverage delivered a robust performance in Q3, growing 35% YoY. DIXON, which accounts for 51% of our EMS universe revenue, looks to maintain strong return ratios and positive cash flow. AMBER's focus is on expanding its non-AC businesses where it saw 20bps EBITDA margin improvement. SYRMA saw 380bps margin slippage due to a change in revenue mix toward the consumer business.

FMEG remains a drag: In fast-moving electric goods (FMEG), apart from a robust showing in C&W, the ECD and lighting businesses delivered weak growth, at 4% and 3% respectively. Price deflation in LEDs hurt the segment's topline. With the onset of summer, fans are expected to do well and lift ECD revenue in Q4FY24.

HAVL our pick: We expect the sector to recover as the onset of summer strengthens demand for cooling products such as ACs and fans. HAVL (TP Rs 1,600) remains our top pick in the durables space as a play on the likely revival in demand.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	3,955	3,200	SELL
CROMPTON IN	290	330	BUY
HAVL IN	1,415	1,600	BUY
KEII IN	3,210	3,120	HOLD
ORIENTEL IN	204	240	HOLD
POLYCAB IN	4,717	5,200	BUY
SYRMA IN	517	550	HOLD
VGRD IN	313	310	HOLD
VOLT IN	1,107	1,060	HOLD

Price & Target in Rupees | Price as of 21 Feb 2024

Consumer durables: Q3 result reviews

Company	Result review link
AMBER IN	Persistent near-term challenges; cut to SELL
BLSTR IN	Purple patch continues; maintain BUY
CROMPTON IN	Slowdown at BGAL weighs on quarter
DIXON IN	Mobile business dials up growth; maintain BUY
HAVL IN	Slow quarter but summer could bring cheer; maintain BUY
KEII IN	Decent quarter; maintain HOLD
ORIENTEL IN	Slow quarter; Hyderabad plant to spur growth
POLYCAB IN	Fair quarter but I-T search clouds multiples
SYRMA IN	Margin slide continues; retain HOLD
VGRD IN	In-line quarter
VOLT IN	UCP improving, Qatar business a dampener

Source: BOBCAPS Research

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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