Capital Goods & Consumer Durables/Electricals Sectors

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4QFY19 Result Preview

Healthy Revenue Growth And Selective Margin Recovery Likely

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The 4QFY19 quarter is likely to witness healthy revenue growth for capital goods and consumer durables/electricals sectors. The revenues of companies in our coverage universe are likely to rise 13.1% YoY in 4QFY19. While the capital goods sector is undergoing a pick-up in execution, largely driven by urban infrastructure projects, the consumer durables and electricals sector is likely to benefit from selective demand uptick for summer season-driven products. The pressure on margin is likely to reduce on QoQ basis as the companies went for a 3%-5% price hike in 3QFY19 to counter rising commodity costs and the Indian rupee's depreciation, whose full benefit will accrue in 4QFY19. We expect our coverage universe to register 6.6% YoY rise in EBITDA in 4QFY19, but PAT is likely to jump 27.1% YoY mainly driven by a large swing in BHEL and Bajaj Electricals. Management commentary on demand outlook and pricing trend for consumer goods companies and ground-level improvement in industrial capex as well as new order inflow traction for the capital goods sector will be keenly monitored.

Capital goods sector: (1) We expect Apar Industries to post 20% YoY rise in revenues driven by conductor and cable segment. EBITDA margin is likely to decline 100bps YoY to 6.1%, while PAT is likely to grow 10% YoY to Rs439mn. (2) BHEL is likely to register 13% YoY growth in sales to Rs114bn aided by ramp-up in execution of its strong order book of Rs1,167bn. We expect EBITDA margin to decline 80bps YoY to 11.3% owing to pressure on pricing. However, PAT is likely to jump 67% YoY to Rs7.6bn owing to a high tax rate (60%) in the base quarter. (3) KEC International is likely to post revenues of Rs40.7bn, up 11% YoY, led by execution of life-time high order book worth Rs206bn. EBITDA margin is likely to rise 40bps YoY to 10.5% (same as 9MFY19 level). However, the significant rise in interest costs will lead to flattish PAT at Rs1.9bn. Moderation in working capital and debt will be key to the re-rating. (4) Power Mech Projects is likely to post strong revenue growth of 21% YoY at Rs5.9bn led by execution of robust order book worth Rs63bn. EBITDA margin is likely to rise 20bps YoY to 13.3%, leading to 19% YoY rise in PAT to Rs311mn.

(Rsmn)	Rating	TP	Revenues			EBITDA			*EBITDA margin (%)*			PAT		
Companies		(Rs)	4QFY19E	*YoY (%)*	*QoQ (%)*	4QFY19E	*YoY (%)*	*QoQ (%)*	*4QFY18*	*3QFY19*	*4QFY19E*	4QFY19E	*YoY (%)*	*QoQ (%)*
Capital Goods														
Apar Industries	Buy	865	21,158	*19.7*	*(0.2)*	1,291	*2.5*	*12.8*	*7.1*	*5.4*	*6.1*	439	*9.7*	*26.5*
BHEL	Acc	71	114,569	*12.9*	*56.2*	12,959	*5.2*	*492.5*	*12.1*	*3.0*	*11.3*	7,654	*67.4*	*298.6*
KEC International	Buy	400	40,747	*11.2*	*54.0*	4,278	*15.7*	*52.0*	*10.1*	*10.6*	*10.5*	1,942	*(1.1)*	*75.1*
Power Mech Projects	Buy	1,335	5,903	*20.6*	*(3.2)*	784	*22.3*	*0.5*	*13.1*	*12.8*	*13.3*	311	*19.2*	*(8.3)*
Solar Industries India	Buy	1,390	6,322	*9.9*	*(3.2)*	1,340	*13.5*	*10.3*	*20.5*	*18.6*	*21.2*	676	*2.6*	*(1.5)*
Thermax	Acc	1,070	16,992	*17.8*	*18.3*	1,500	*8.5*	*39.8*	*9.6*	*7.5*	*8.8*	1,005	*32.8*	*34.0*
Triveni Turbine	Buy	147	2,502	*2.5*	*18.4*	535	*(9.9)*	*49.0*	*24.3*	*17.0*	*21.4*	363	*2.5*	*59.2*
Consumer Durables														
Blue Star	Buy	815	14,850	*10.3*	*35.1*	822	*36.1*	*94.3*	*4.5*	*3.8*	*5.5*	385	*21.5*	*NA*
Dixon Technologies	Buy	3,190	8,112	*35.7*	*2.2*	397	*44.9*	*1.8*	*4.6*	*4.9*	*4.9*	194	*37.6*	*10.2*
IFB Industries	Buy	1,290	6,021	*15.1*	*(9.6)*	409	*8.5*	*30.7*	*7.2*	*4.7*	*6.8*	210	*1.4*	*12.3*
Voltas	Acc	632	21,699	*5.9*	*45.5*	2,257	*(10.9)*	*95.1*	*12.4*	*7.8*	*10.4*	1,616	*(16.7)*	*74.3*
Whirlpool of India	Buy	1,900	14,339	*14.0*	*18.4*	1,631	*16.0*	*67.3*	*11.2*	*8.0*	*11.4*	1,083	*18.5*	*78.7*
Consumer Electricals														
Bajaj Electricals	Acc	600	18,975	*18.8*	*(12.2)*	1,101	*(18.4)*	*(20.1)*	*8.5*	*6.4*	*5.8*	507	*594.5*	*(20.7)*
Crompton Consumer	Buy	285	12,637	*12.2*	*22.7*	1,658	*0.8*	*31.5*	*14.6*	*12.2*	*13.1*	1,048	*1.6*	*31.5*
Havells India	Acc	740	27,348	*7.9*	*8.6*	3,756	*5.0*	*27.5*	*14.1*	*11.7*	*13.7*	2,519	*11.6*	*28.7*
V-Guard Industries	Buy	250	7,497	*13.8*	*26.1*	697	*83.9*	*54.9*	*5.8*	*7.6*	*9.3*	537	*94.6*	*59.3*
Coverage universe			**339,671**	***13.1***	***27.8***	**35,415**	***6.6***	***87.7***	***11.1***	***7.1***	***10.4***	**20,489**	***27.1***	***86.3***

Source: Respective companies, Nirmal Bang Institutional Equities Research

(5) Solar Industries is likely to report 10% YoY growth in sales to Rs6.3bn owing to the high-base effect (posted 30% growth in 4QFY18). EBITDA margin is likely to rise 70bps YoY to 21.2%. However, PAT is likely to grow marginally by 3% YoY to Rs676mn owing to rising interest costs. (6) We expect Thermax to post 18% YoY growth in revenues to Rs17bn. EBITDA margin is likely to decline 80bps YoY to 8.8% (9MFY19 margin fell 130bps YoY to 7.4%). Core PAT is likely to rise 12% YoY to Rs1bn. However, on an adjusted basis, PAT growth will be 33% YoY considering the loss from associates worth Rs172mn in the base quarter of 4QFY18. (7) Triveni Turbine is likely to post 3% YoY growth in revenues to Rs2.5bn owing to the high-base effect (4QFY18 sales rose 33% YoY to the highest-ever quarterly level at Rs2.4bn). EBITDA margin is likely to be healthy at 21.4% (versus 18.5% in 9MFY19), but will be lower on YoY basis by 300bps owing to the high-base effect. PAT is likely to rise 3% YoY to Rs363mn aided by rising other income.

Consumer durable sector: (1) We expect Blue Star to register 10% YoY growth in sales to Rs14.8bn led by healthy performance of unitary product segment. EBITDA margin is likely to expand 100bps YoY to 5.5% leading to 21% increase in PAT to Rs385mn. (2) Aided by the low-base effect, Dixon Technologies is likely to post 36% YoY growth in sales to Rs8.1bn and 38% YoY jump in PAT to Rs194mn. EBITDA margin is likely to rise 30bps YoY to 4.9%. (3) IFB Industries is likely to report 15% YoY growth in sales to Rs6bn. EBITDA margin is likely to decline 40bps YoY to 6.8%, leading to flattish PAT at Rs210mn. (4) We expect Voltas to post 6% YoY rise in revenues to Rs21.7bn. Higher inventory level in the trade channel post 3QFY19 and a delayed summer season is likely to lead to lower despatches of air-conditioners. EBITDA margin is likely to decline 200bps YoY to 10.4%. Consequently, PAT is likely to fall 17% YoY to Rs1.6bn. (5) Whirlpool of India is likely to post a healthy 14% YoY growth in sales to Rs14.3bn, despite the high-base effect (4QFY18 revenues had grown 24% YoY). EBITDA margin is likely to rise 20bps YoY to 11.4%. With rising other income, PAT is likely to increase 18% YoY to Rs1.1bn.

Consumer electricals sector: (1) We expect Bajaj Electricals to post 19% YoY growth in revenues to Rs19bn driven by ramp-up in execution of rural electrification orders in Uttar Pradesh (UP). However, adverse revenue mix (higher share of E&P segment) and likely margin pressure in UP order could lead to a 270bps YoY decline in EBITDA margin to 5.8%. PAT is likely to be at Rs507mn versus Rs73mn YoY, but it is not comparable as 4QFY18 witnessed a one-time impairment loss of Rs894mn towards CFL business. (2) Crompton Greaves Consumer Electricals is expected to post 12% YoY growth in revenues to Rs12.6bn aided by healthy growth in electrical consumer durable (ECD) segment. However, EBITDA margin is likely to decline 150bps YoY to 13.1% owing to the high-base effect of ECD margin and lower margin profile of lighting segment on YoY basis. Consequently, PAT is likely to be flattish YoY at Rs1bn. (3) Havells India is likely to post 8% YoY rise in revenues to Rs27.3bn. Higher inventory level in the trade channel post 3QFY19 and a delayed summer season is likely to lead to lower sales in respect of Lloyd. EBITDA margin is likely to decline 40bps YoY to 13.7%. PAT is expected to rise 12% YoY to Rs2.5bn. (4) V-Guard Industries is likely to post 14% YoY growth in sales to Rs7.5bn. EBITDA margin is likely to normalise to 9.3%. In the base quarter of 4QFY18, EBITDA margin was lower at 5.8% owing to higher advertisement spending of Rs450mn to launch its new brand identity. Consequently, likely PAT at Rs537mn would be much higher than Rs276mn reported in 4QFY18.

Rolling forward valuation to FY21:

We roll forward the valuation of the companies in our coverage universe to March 2021 estimated EPS (from September 2020 estimated EPS earlier). Post the roll forward of P/E to FY21E, the rating on Thermax gets upgraded to Accumulate (from Sell earlier) while the rating on Voltas gets downgraded to Accumulate (from Buy earlier). Rating on all other stocks remains unchanged.

Company	New P/E (x)	Old P/E (x)	New Target (Rs)	Old Target (Rs)	New Rating	Old Rating
Capital Goods						
Apar Industries	13	13	865	775	Buy	Buy
BHEL	14	14	71	66	Accumulate	Accumulate
KEC International	14	14	400	365	Buy	Buy
Power Mech Projects	11	12	1,335	1,320	Buy	Buy
Solar Industries India	32	33	1,390	1,285	Buy	Buy
Thermax	26	26	1,070	965	Accumulate	Sell
Triveni Turbine	28	28	147	135	Buy	Buy
Consumer Durables						
Blue Star	SOTP	SOTP	815	815	Buy	Buy
Dixon Technologies	28	30	3,190	3,020	Buy	Buy
IFB Industries	SOTP	SOTP	1,290	1,240	Buy	Buy
Voltas	SOTP	SOTP	632	625	Accumulate	Buy
Whirlpool of India	38	40	1,900	1,820	Buy	Buy
Consumer Electricals						
Bajaj Electricals	SOTP	SOTP	600	545	Accumulate	Accumulate
Crompton Consumer	35	36	285	270	Buy	Buy
Havells India	39	39	740	690	Accumulate	Accumulate
V-Guard Industries	38	38	250	230	Buy	Buy

Source: Nirmal Bang Institutional Equities Research

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