

**Capital Goods & Consumer Electricals Sectors**

9 January 2019

**Execution Uptick And Festive Sales To Aid Healthy Growth**

The 3QFY19 quarter is likely to witness healthy revenue growth for capital goods and consumer electricals sectors. The revenues of companies in our coverage universe are likely to rise 13.2% YoY in 3QFY19. While the capital goods sector is undergoing a pick-up in execution largely driven by urban infrastructure projects, the consumer electricals and durables sector is likely to benefit from festive sales and a favourable base effect. The festivals of Diwali and Dussehra were part of 3Q in FY19 compared to 2Q in FY18. The pressure on margin is also likely to reduce, especially on QoQ basis, as (a) the companies took 3%-5% price hike in October-November 2018 to counter rising commodity costs and Indian rupee (INR) depreciation, while, (b) both commodity prices and the INR declined compared to 2QFY19 level. We expect our coverage universe to register 10.3%/8.1% YoY rise in EBITDA/PAT, respectively, in 3QFY19. Management commentary on demand outlook and competitive intensity for the electricals sector and ground-level improvement in industrial capex and new order inflow traction for the capital goods sector will be keenly monitored.

**Revenue growth outlook:** We expect consumer product companies to register healthy revenue growth in 3QFY19 aided by festive sales and a favourable base quarter. IFB Industries and Whirlpool of India are likely to post strong YoY growth of 26.3%/17.2%, respectively. Voltas is likely to report muted growth of 3.5% YoY owing to: (a) Unsold inventory in the trade channel post weak summer season and (b) High base effect because of pre-buying in December 2017 (3QFY18) prior to the change in BEE norms. Electrical companies like Havells India/V-Guard Industries/Crompton Consumer are likely to post YoY growth in the 12%-14% range. Bajaj Electricals is expected to post higher growth at 39.3% mainly driven by the project segment owing to execution of Uttar Pradesh rural electrification order. In the capital goods sector, strong revenue growth is expected from Power Mech Projects (42.7%), Triveni Turbine (28.2%), Solar Industries (20.8%), Thermax (19.8%) and KEC International (12.9%) because of a favourable base and execution uptick.

**Profitability outlook:** 3QFY19 will not witness the full benefit of reduction in commodity prices as it is likely to accrue with a lag of few months. EBITDA margin is likely to rise on YoY basis for Whirlpool (50bps), IFB Industries (50bps), Apar Industries (20bps) and KEC International (10bps). However, on QoQ basis, most companies will see margin expansion.

**Chirag Muchhala**

Research Analyst

chirag.muchhala@nirmalbang.com

+91-22-6273 8092

| (Rsmn)<br>Companies      | Rating | TP<br>(Rs) | Revenues       |             |            | EBITDA        |             |            | EBITDA margin (%) |            |            | PAT           |            |            |
|--------------------------|--------|------------|----------------|-------------|------------|---------------|-------------|------------|-------------------|------------|------------|---------------|------------|------------|
|                          |        |            | 3QFY19E        | YoY (%)     | QoQ (%)    | 3QFY19E       | YoY (%)     | QoQ (%)    | 3QFY18            | 2QFY19     | 3QFY19E    | 3QFY19E       | YoY (%)    | QoQ (%)    |
| BHEL                     | Acc.   | 75         | 71,345         | 6.4         | 5.2        | 3,178         | 5.2         | 32.0       | 4.5               | 3.6        | 4.5        | 1,787         | 16.6       | (3.5)      |
| Thermax                  | Sell   | 960        | 13,383         | 19.8        | (6.3)      | 1,059         | 10.9        | (3.7)      | 8.5               | 7.7        | 7.9        | 740           | 26.3       | (0.7)      |
| Triveni Turbine          | Buy    | 138        | 2,123          | 28.2        | (2.3)      | 420           | 26.5        | (6.9)      | 20.0              | 20.8       | 19.8       | 278           | 43.3       | (7.6)      |
| Solar Industries India   | Buy    | 1,275      | 5,625          | 20.8        | 8.0        | 1,172         | 12.4        | 9.2        | 22.4              | 20.6       | 20.8       | 619           | 14.2       | 19.3       |
| Apar Industries          | Buy    | 760        | 16,586         | 10.7        | (12.0)     | 1,106         | 13.4        | 1.6        | 6.5               | 5.8        | 6.7        | 294           | (25.6)     | 2.8        |
| KEC International        | Buy    | 395        | 27,149         | 12.9        | 12.7       | 2,800         | 14.7        | 10.6       | 10.2              | 10.5       | 10.3       | 1,115         | (0.3)      | 15.8       |
| Power Mech Projects      | Buy    | 1,295      | 5,061          | 42.7        | (5.3)      | 657           | 39.2        | (4.1)      | 13.3              | 12.8       | 13.0       | 245           | 35.4       | (13.7)     |
| Voltas                   | Buy    | 620        | 14,233         | 3.5         | 0.1        | 1,057         | (7.4)       | (2.6)      | 8.3               | 7.6        | 7.4        | 934           | (6.1)      | (9.8)      |
| V-Guard Industries       | Buy    | 215        | 5,918          | 11.7        | (1.0)      | 541           | 9.5         | 8.6        | 9.3               | 8.3        | 9.1        | 409           | 14.2       | 7.1        |
| Havells India            | Acc.   | 640        | 22,480         | 14.4        | 2.6        | 2,745         | 4.7         | 4.6        | 13.3              | 12.0       | 12.2       | 1,857         | (4.5)      | 4.0        |
| Crompton Consumer        | Buy    | 265        | 10,506         | 12.0        | 1.2        | 1,267         | 8.8         | 2.3        | 12.4              | 11.9       | 12.1       | 775           | 11.5       | 0.8        |
| Bajaj Electricals        | Acc.   | 515        | 15,950         | 39.3        | (0.2)      | 734           | 4.4         | (8.1)      | 6.1               | 5.0        | 4.6        | 308           | (16.3)     | (9.7)      |
| Whirlpool of India       | Buy    | 1,850      | 11,228         | 17.2        | (5.0)      | 1,075         | 22.7        | (0.3)      | 9.1               | 9.1        | 9.6        | 777           | 46.3       | (1.0)      |
| IFB Industries           | Buy    | 1,345      | 6,718          | 26.3        | 2.3        | 499           | 36.3        | 18.5       | 6.9               | 6.4        | 7.4        | 265           | 42.5       | 23.8       |
| Dixon Technologies       | Buy    | 2,990      | 7,469          | 9.8         | 1.1        | 331           | 15.7        | 0.3        | 4.2               | 4.5        | 4.4        | 165           | 7.8        | 0.6        |
| <b>Coverage universe</b> |        |            | <b>235,774</b> | <b>13.2</b> | <b>1.6</b> | <b>18,641</b> | <b>10.3</b> | <b>7.1</b> | <b>8.1</b>        | <b>7.5</b> | <b>7.9</b> | <b>10,568</b> | <b>8.1</b> | <b>1.4</b> |

Source: Respective companies, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

## DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

**Analyst Certification:** I, Mr. Chirag Muchhala the research analysts, the author of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website [www.nirmalbang.com](http://www.nirmalbang.com)

Access all our reports on Bloomberg, Thomson Reuters and Factset.

| Team Details:  |                  |                               |   |
|----------------|------------------|-------------------------------|---|
| Name           |                  | Email Id                      | Direct Line                             |
| Rahul Arora    | CEO              | rahul.arora@nirmalbang.com    | -                                       |
| Girish Pai     | Head of Research | girish.pai@nirmalbang.com     | +91 22 6273 8017 / 18                   |
| Dealing        |                  |                               |   |
| Ravi Jagtiani  | Dealing Desk     | ravi.jagtiani@nirmalbang.com  | +91 22 6273 8230, +91 22 6636 8833      |
| Pradeep Kasat  | Dealing Desk     | pradeep.kasat@nirmalbang.com  | +91 22 6273 8100/8101, +91 22 6636 8831 |
| Michael Pillai | Dealing Desk     | michael.pillai@nirmalbang.com | +91 22 6273 8102/8103, +91 22 6636 8830 |

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010