

Momentum Remains Strong

2QFY24 order flows rose 67% YoY for our industrial stocks led by L&T's strong 72% YoY growth. Operating leverage helped 256 bps YoY margin expansion for ABB, Siemens, Thermax combined in 2Q. Industrial stocks in our universe, barring Voltas, have outperformed Nifty over 1-year and 2-years period. We maintain that infra+ industrial capex should see 16% CAGR in FY23-FY26E, vs 6% in FY11-20. We have 8 buys out of 10. Top picks - L&T, Siemens, Thermax and KEI

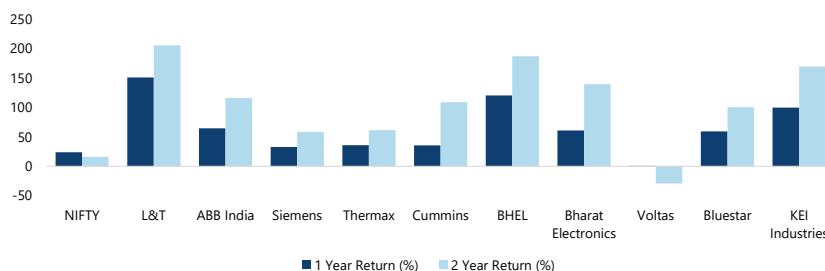
ABB, Siemens, Thermax combined saw 9% YoY order flow: 2QFY24 saw few larger orders being awarded on industrial capex side. But, Thermax management on the call highlight better visibility for 2H. L&T's domestic order inflows declined 15% YoY but was offset by 3.5x jump in international orders. L&T's management on the call indicated robust domestic prospect pipeline. Bharat Electronics, Voltas and BHEL saw 423%, 96% and 49% YoY growth respectively. We believe Power Transmission and Railways should have highest visibility in infra and industrial capex growth should be driven by Data centre and PLI. Company commentaries have pointed to strength in Railways, Buildings & Factories, Data Centres, Warehousing/Logistics, Steel, Renewable Energy also sustaining.

Operational efficiency and better execution drove margin expansion: Coverage universe saw 19% YoY revenue growth and 21% YoY EBITDA growth, as weakness in L&T's E&C business and BHEL was offset by margin expansion in ABB, Bharat Electronics and Thermax. ABB, Siemens and Thermax combined saw 55% YoY EBITDA growth on just 23% revenue growth as operating leverage helped margins improve to 12.2% from 9.6% in 2QFY23. We believe this should play out even over the next 4 quarters as revenue growth remains intact. L&T saw lower YoY margins due to project mix and higher international sales.

Infra + Industrial capex CAGR up 2.5x in FY23-26E over FY10-20 led by Power: We expect Power capex CAGR to rise 9x at 20% in FY23-26E vs. just 2.2% in FY10-20. As India enters a phase of capex-driven GDP growth, power intensity should rise. We expect annual thermal PLFs to cross 80% by FY25E, above a two-decade peak. Power generation and T&D investments should rise 2.2x to USD280 bn in FY24E-30E vs FY17-23.

Company specific triggers also exist: 1) **L&T** is in a sweet spot as Middle East and Domestic are both doing well and peak of non-core investments is behind. 2) **Siemens** should benefit from revenue and margin recovery in Power T&D division as order flow come in. 3) **Thermax** should benefit from its transition into a company focused on clean energy. 4) **KEI** is a play on Power T&D, where we see a pick-up in spend as generation capacity addition is rising in India.

Exhibit 1 - Our coverage universe except Voltas has outperformed Nifty in last 2 years



Source: Bloomberg, Jefferies

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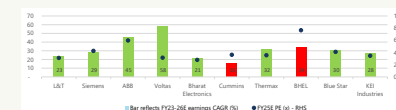
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[NTPC: 8 GW of 15 GW 2025-26 RE target visible – still at 1x book](#)

Exhibit 2 - Coverage universe: Earnings growth vs Valuations



Source: Company data, Jefferies estimates

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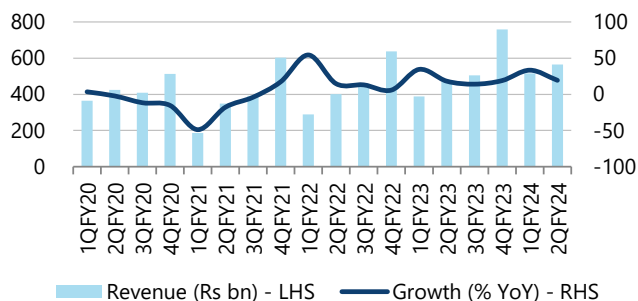
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Exhibit 3 - Valuation Summary

	Mkt. Cap.		CMP	Target Price	Upside	P/E (x)				P/B (x)			
Company	(USD mn)	Reco	(Rs)	(Rs/shr)	(%)	FY23	FY24E	FY25E	FY26E	FY23.	FY24E.	FY25E.	FY26E.
L&T	56,401	Buy	3,424	3,400	(1)	46.4	39.6	31.2	24.8	5.4	5.5	5.0	4.5
Siemens	16,798	Buy	3,937	4,502	14	72.7	55.0	42.7	34.1	10.8	9.4	8.1	6.8
ABB	12,262	Buy	4,828	5,260	9	133.1	84.2	59.9	43.6	20.7	17.3	14.2	11.2
Voltas	3,398	Buy	857	950	11	100.7	41.4	31.6	25.7	5.2	4.8	4.3	3.8
Bharat Electronics	14,562	Buy	166	165	(0)	40.4	34.4	28.0	22.8	8.9	7.9	6.9	5.8
Cummins	6,516	Unpf	1,961	1,470	(25)	47.7	38.9	36.3	30.8	10.1	8.9	7.8	6.8
Thermax	3,704	Buy	2,744	3,800	38	68.6	47.2	35.6	29.9	8.0	7.2	6.2	5.4
BHEL	7,734	Unpf	185	50	(73)	142.4	106.0	76.6	59.8	2.4	2.3	2.2	2.2
Blue Star	2,462	Buy	999	1,080	8	74.1	52.5	41.1	33.6	15.4	8.2	7.5	6.7
KEI Industries	3,263	Buy	3,021	3,150	4	57.0	45.5	34.8	27.5	10.5	8.6	7.0	5.6

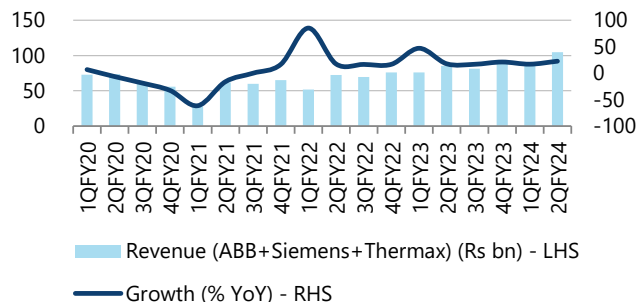
Source: Company data, Jefferies estimates

Exhibit 4 - Coverage universe saw 19% YoY revenue growth in 2QFY24



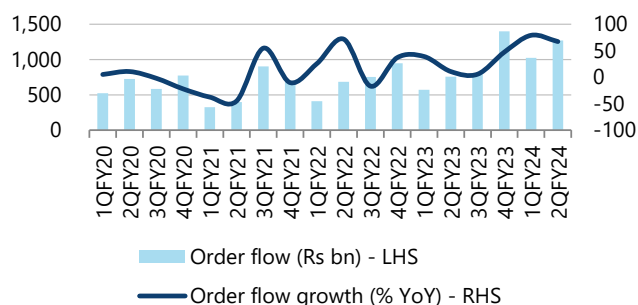
Source: Company data, Jefferies

Exhibit 6 - ABB, Siemens and Thermax combined saw 23% YoY revenue growth in 2QFY24 ...



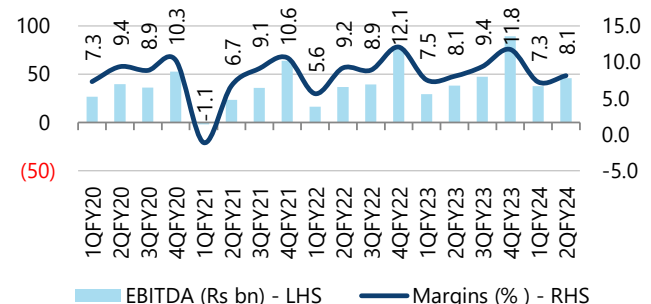
Source: Company data, Jefferies

Exhibit 8 - Coverage universe order flow for 2QFY24 was up 67% YoY led by L&T, BEL and Voltas ...



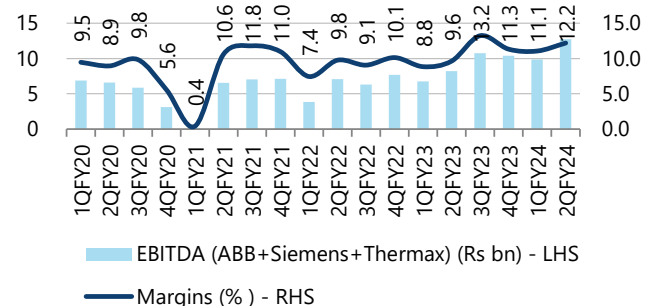
Source: Company data, Jefferies

Exhibit 5 - ... while EBITDA growth of 21% YoY was driven by margin expansion in ABB, BEL, Thermax to offset EBITDA loss in BHEL



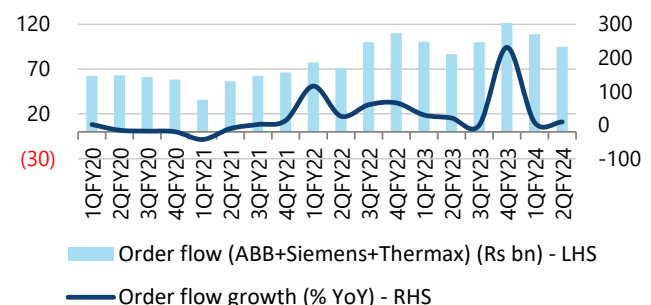
Source: Company data, Jefferies

Exhibit 7 - ... while EBITDA grew 55% YoY given 256 bps margin expansion



Source: Company data, Jefferies

Exhibit 9 - ... 2QFY24 combined order flow for ABB, Siemens and Thermax was up 9% YoY



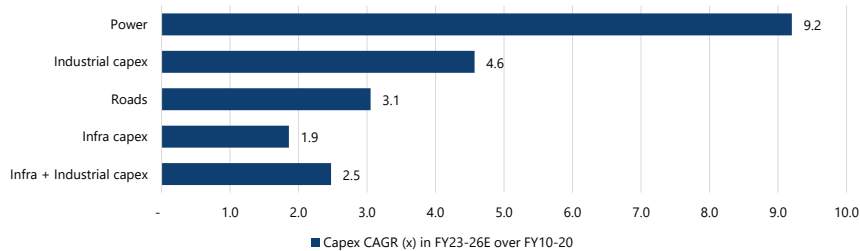
Source: Company data, Jefferies

Exhibit 10 - FY23-FY26E capex CAGR should be 16% vs 6% in FY10-FY20

Rs bn	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Infra																	
Railways	169	184	200	241	261	292	350	452	433	521	678	290	1,069	1,176	1,294	1,423	1,565
Power	1,052	1,246	1,595	1,784	1,961	1,829	1,688	1,560	1,574	1,602	1,311	1,344	1,380	1,528	1,735	2,210	2,672
Road	549	371	477	615	419	338	456	495	733	823	989	1,060	1,118	1,287	1,512	1,775	2,141
Irrigation	217	228	240	251	264	277	305	335	369	406	467	397	456	525	603	694	798
Railway DFC	-	-	-	-	36	29	85	119	167	200	280	224	269	291	100	100	100
Smart Cities	-	-	-	-	-	9	1	32	40	50	63	50	63	78	98	122	153
Metro Projects	37	42	68	88	128	171	242	311	324	304	374	377	552	614	702	695	695
Total	2,024	2,071	2,580	2,980	3,070	2,945	3,128	3,305	3,640	3,906	4,161	3,742	4,907	5,499	6,043	7,020	8,125
Industrial																	
Oil & Gas	763	765	859	855	1,092	1,166	1,173	1,081	1,078	1,179	1,324	805	1,114	1,406	1,673	1,787	1,978
Auto	59	66	112	117	103	104	105	115	112	153	158	72	120	184	218	245	263
Metals	354	508	414	416	526	433	395	295	302	322	346	151	299	361	438	488	547
Cement	94	106	42	105	86	121	51	51	80	159	71	56	140	179	201	205	219
Data Centres													59	87	150	226	263
PLI													102	504	883	1,404	1,288
Total	1,270	1,445	1,426	1,494	1,807	1,824	1,724	1,542	1,573	1,813	1,899	1,117	1,833	2,720	3,564	4,354	4,558
Grand Total	3,294	3,516	4,006	4,475	4,876	4,769	4,852	4,848	5,213	5,719	6,060	4,859	6,740	8,219	9,607	11,374	12,683
Growth (%YoY)	9.8	6.7	13.9	11.7	9.0	(2.2)	1.7	(0.1)	7.5	9.7	6.0	(19.8)	38.7	22.0	16.9	18.4	11.5

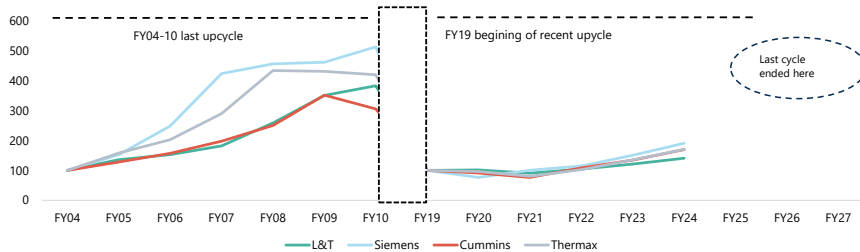
Source: Jefferies estimates, Company data, Planning Commission, Ministry Documents

Exhibit 11 - Infra + Industrial capex up 2.5x in FY23-26E over FY10-20 led by Power up 9.2x



Source: Jefferies estimates, Company data, Ministry Documents

Exhibit 12 - Last cycle points to 2x EBITDA jump potential from here also



Source: Company data, Jefferies estimates

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- Bharat Electronics (BHE IN: INR169.10, BUY)
- Bharat Heavy Electricals Limited (BHEL IN: INR181.50, UNDERPERFORM)
- Blue Star Limited (BLSTR IN: INR969.65, BUY)
- Cummins India Limited (KKC IN: INR1,927.10, UNDERPERFORM)
- KEI Industries Ltd (KEI IN: INR3,075.60, BUY)
- Larsen & Toubro (LT IN: INR3,486.85, BUY)
- Siemens Limited (SIEM IN: INR3,903.30, BUY)
- Thermax Limited (TMX IN: INR2,820.00, BUY)
- Voltas Limited (VOLT IN: INR860.45, BUY)

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