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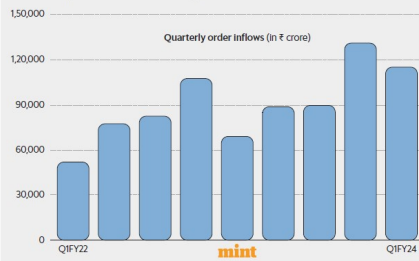
The S&P BSE Capital Goods index is among the top performing sectoral indices in 2023, gaining about 44% so far. Capital goods companies are expected to be key beneficiaries of higher government spending, and increased private sector capex, some of it thanks to production-led incentive schemes. The ongoing trends in automation, digitalization and electrification also help. For defence companies, investors are gung-ho on the indigenization theme.

Against this backdrop, with better supply chain dynamics and execution of a strong order backlog, capital goods companies are positioned for strong revenue growth in the September quarter (Q2FY24). Lower raw material and freight costs are also expected to support profitability.

According to JM Financial Institutional Securities, revenue of capital goods companies in Q2FY24 will remain healthy, owing to decent

On a strong footing

Capital goods companies saw robust order inflow growth in Q1FY24 and the trend is expected to continue in Q2FY24.



Note: Order inflows for a quarter is the sum of order inflows of all capital goods companies under Prabhudas Lilladher's coverage

Source: Company, Prabhudas Lilladher

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order book growth and sustained demand from end users.

PhillipCapital (India) predicts a 60% year-on-year increase in order inflow for capital goods and defence

companies under its coverage. This would be primarily driven by Larsen & Toubro's (L&T) hydrocarbon order from Aramco, and traction seen in transmission and distribution.

defence, transportation infrastructure, water and data centres. The brokerage anticipates upgrades in the FY24 order inflow guidance of L&T and Bharat Electronics on a healthy H1FY24.

Recall that sector bellwether L&T saw 57% year-on-year growth in its order inflow at the group level in Q1FY24. The group's consolidated order book was at ₹412,648 crore as of June end, with international orders having a share of 29%. As such, investors will have to gauge the impact of the Israel-Hamas war on the companies engaged with the Middle East. Note that the region constituted 87% of L&T's international order book in FY23.

Meanwhile, transmission and distribution EPC (engineering, procurement and construction) companies like KEC International and Kalpataru Projects International received sig-

nificant orders of around ₹3,200 crore and ₹3,300 crore, Prabhudas Lilladher noted in its Q2 preview report.

Kotak sees a healthy 23% year-on-year sales growth for ABB India led by strong growth across segments, and

GROWTH TRACK

REVENUE of capital goods firms in Q2FY24 will remain healthy, according to JM Financial

PHILLIPCAPITAL predicts a 60% y-o-y jump in order inflow for capital goods and defence firms

expects mid-teens growth in Siemens and Thermax, taking into account an improvement in profitability as commodity prices ease and operating leverage kicks in.

Among defence companies, JM Financial expects Bharat Electronics' margin to moderate a bit year-on-year, while that of Data Patterns (India) could contract by 2 percentage points due to an increased share of developmental orders.

Overall, investors should look for insights from management commentaries on the outlook for the second half of FY24 in terms of ordering, execution, margins, exports, demand and working capital management.

