

Engineering and capital goods

Va tutto bene #8

Exactly a year ago, we wrote 'Andra tutto bene' (everything is going to be alright!) in which we analysed the likely changes to consumption, industry structures, etc. We revisit the thoughts, look beyond the noise, and present potential changes in the operating environment and likely beneficiaries – Va tutto bene (everything's fine!). A root-cause-analysis of every trend indicates that it's a consumer / customer behaviour change. 'Andra tutto bene #19' is here - [link](#)

Top long-term trends in engineering and capital goods sector: 1) Boost to adoption of automation and digitalisation solutions; 2) investment towards more mechanisation, drones, etc. by EPC companies; 3) *Atmanirbhar* focus and a pro-investment Budget to crank up capex growth; 4) uptick in demand for innovative home and office automation products; and 5) sustained move towards emission control norms and ecofriendly solutions.

Beneficiaries: [L&T](#), [Siemens](#), [Honeywell Automation](#)

Potentially negatively impacted companies: [BHEL](#)

See our previous reports in the series – [Consumer](#), [Agriculture](#), [Pharma](#), [Real Estate](#), [Telecom](#), [Power](#), [Dairy](#)

- ▶ **PLI scheme and pro-capex Budget:** Focusing on *Atmanirbhar*, the government has launched a production-linked incentive (PLI) scheme targeted at reducing imports. Union Budget FY22 also highlights the government's focus towards investments despite higher fiscal deficit. We believe, this will support growth for capital goods and subsequently result in higher private sector capex.
- ▶ **Shift towards more automation and digitalisation solutions:** The impact of Covid will force companies to minimise human contact as much as possible. There will be a renewed vigour towards spending on factory automation by domestic companies and this will usher in new opportunities for companies that provide such solutions. This, we believe, will be beneficial for companies like Siemens India, and Honeywell Automation.
- ▶ **Investment towards mechanisation of projects:** Given the recent stress in project execution due to uncertainty regarding migrant manpower, we believe, companies will invest more in project automation equipment such as drones, large machines with higher mechanisation, etc. Siemens and Cummins will be the indirect beneficiaries.
- ▶ **Home and office automation solutions to gain prominence:** Having gone through a phase of quarantine, companies as well as homes will have propensity to invest more towards automation solutions. This can be as trivial as an Amazon Alexa-controlled home automation to setting up of cloud-based office data suites with encrypted controls for official work. Data centres and cloud-based IoT solutions can witness strong demand traction.
- ▶ **Thrust towards emission norms:** We believe there will be greater thrust towards emission controls and ecofriendly solutions to make the world a better and healthy place.

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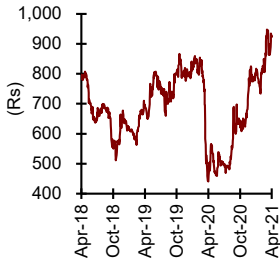
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Unappreciated short-term challenges

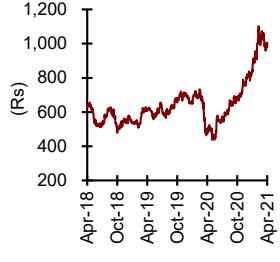
- **No major expansion in core sector capex:** Though there is a public spending push towards infrastructure, railways and related areas, we believe core sector utilisation is not at sufficiently high levels to justify capacity increase.
- **Delay in order finalisations:** Finalisation of some orders related to oil and gas, emission norms, food & beverages, pharma, etc. are likely to get delayed in terms of finalisation.
- **Tight liquidity and working capital stress:** Delay in collections is expected to aggravate, **especially from private and state sector clients.** This is likely to impact working capital and cashflows of EPC companies.

Price charts

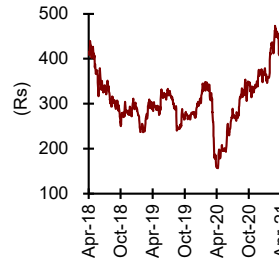
Blue Star



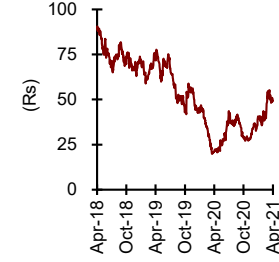
Volta



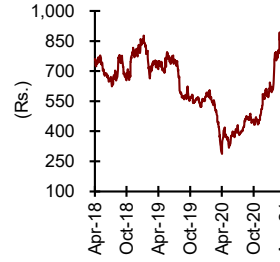
KEC International



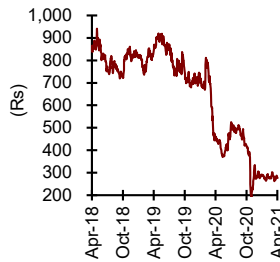
BHEL



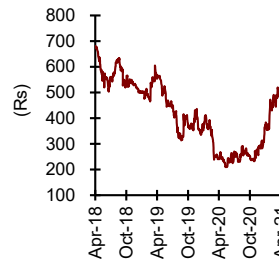
Cummins India



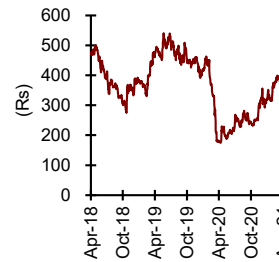
GE Power



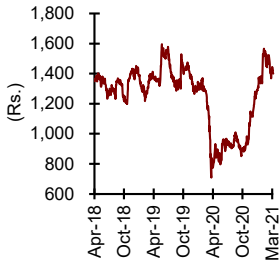
ISGEC Heavy Engineering



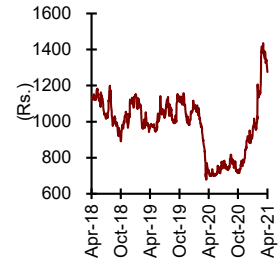
Kalpataru Power



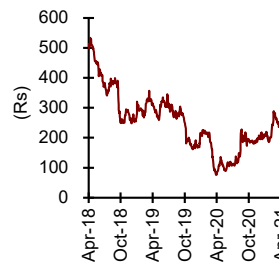
Larsen & Toubro



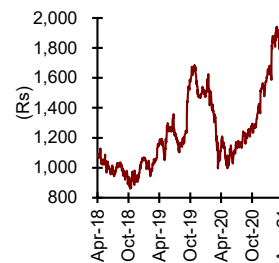
Thermax



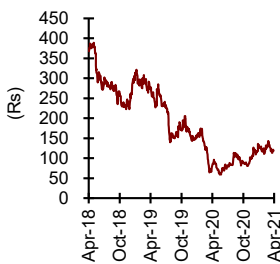
VA Tech Wabag



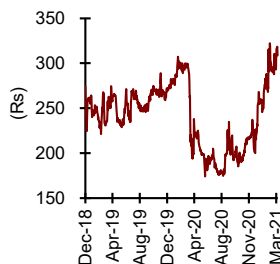
Siemens



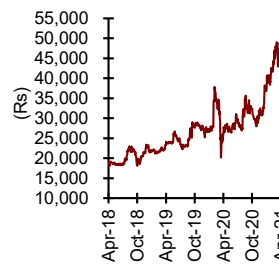
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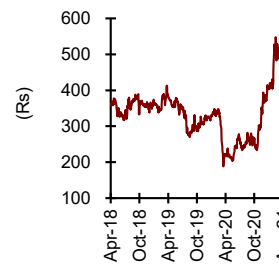
Techo Electric



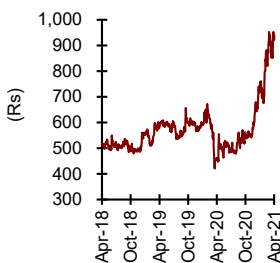
Honeywell Automation



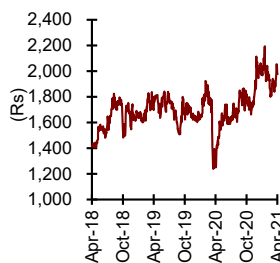
Carborandum Universal



Grindwell Norton



AIA Engineering



Source: Bloomberg

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