

CAPITAL GOODS



"We see big changes in the capital expenditure cycle in the next 12-18 months"



Deepak Ladha, Executive Director, Ladderup Corporate Advisory

It has been estimated that India's capital goods market can grow from \$71.7 billion in 2011-12 to \$153.3 billion by 2016-17, a compounded annual growth rate of 16%.

Also, capital goods, infrastructure and power companies are likely to benefit from policies that the new government (after the 2014 general elections) pursues to increase economic growth. Also, the sector will gain from the special economic zones the government has sanctioned for the industry.

India's share of global capital goods exports is low (0.1-0.6%). There is a huge potential for growth here.

Infrastructure and capital goods indices as well as select stocks have rallied sharply of late, partly on expectations that the NDA will be able to form a government at the Centre next year. On this basis, we see big reforms and changes in the capital expenditure cycle over the next 12-18 months.

Kirloskar Oil & Engines Target price: Rs 225

The stock may get a boost from expected economic revival, higher government spending, strong balance sheet, good cash flow and high return on equity. Also, the new pollution control norms, to be implemented soon, will lead to a 10-15% increase in prices of engines and 5-7% in prices of gensets.

Praj Industries Target price: Rs 60

Praj accounts for 10% of the world's ethanol production. The cash-rich company will benefit from the mandatory ethanol blending in petrol likely to be implemented soon. For this, it is planning to set up India's first plant to make new generation ethanol directly from agro-waste, a shift from the traditional molasses-based extraction. Exports, too, are expected to rise as more and more countries opt for fuel blending.

Larsen & Toubro Target price: Rs 1,400

While high interest rates and weak economy are likely to have an impact, L&T continues to meet order inflow targets. It is expecting to raise Rs 4,200 crore from stake sale in L&T IDPL, a subsidiary. This will provide L&T the much-needed cash flow given that it has equity commitments of Rs 8,100 crore over the next five years. Revenue growth is expected to be led by growth in infrastructure & heavy engineering segments.



BSE Capital Goods index

Return (%)

