

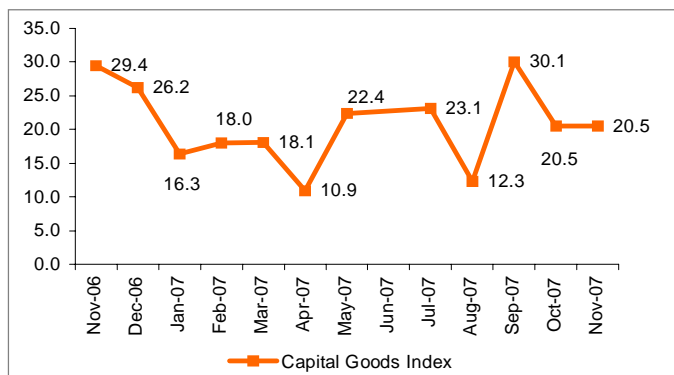


Q3FY2008 Capital Goods earnings preview

Expect another quarter of robust growth

- In recent quarters, capital goods companies have witnessed a strong growth in their earnings and order inflows driven by the buoyancy in infrastructure development and industrial capital expenditure (capex). We expect the momentum to continue with the strong order inflows of the companies.
- The Capital Goods Index grew by a staggering 20.1% during the April-October 2007 period against 15.7% during the same period last year. The growth was the highest amongst the various sectors comprising the Index of Industrial Production (IIP). The IIP grew by 9.7% during the same period.

Change in Capital Goods Index (%)



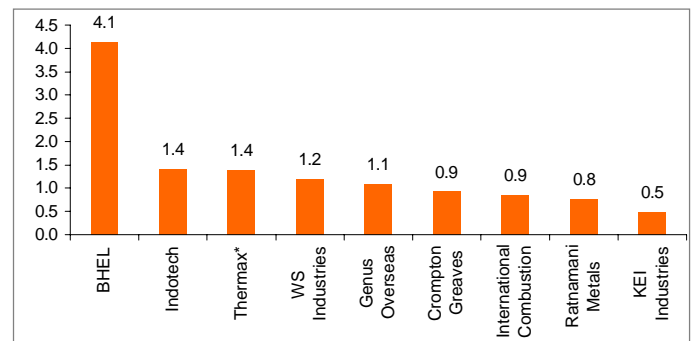
- Overall, the sector has outperformed the market on the back of expectations of a high earnings growth. In CY2007, the BSE Capital Goods Index increased by 117.3%

whereas the Sensex grew by 47.1%. We continue to remain bullish on the sector and prefer Bharat Heavy Electricals Ltd (BHEL), Crompton Greaves and Indo Tech Transformers.

Order flows to continue—visibility strong

Against the backdrop of an increased spending in infrastructure and industrial capex, we expect the companies under our coverage to continue to witness strong order inflows. The order book-to-bill ratio continues to remain strong and imparts strong visibility to the earnings going forward. Many of the companies under our coverage are either developing new capacities or are in the process of commissioning them. This, we believe, would provide further headroom for order booking and the order inflows should pick up in the first half of CY2008.

Order book to net sales ratio



*Consolidated

Rs (cr)

Quarterly estimates

Company	Net sales			Net profit		
	Q3FY2008E	Q3FY2007	% yoy chg	Q3FY2008E	Q3FY2007	% yoy chg
Bharat Bijlee	142.7	109.8	30.0	18.2	13.4	36.4
BHEL	5511.4	4339.7	27.0	859.2	667.7	28.7
Crompton Greaves	1024.4	813.0	26.0	73.9	45.4	62.7
Genus Overseas	125.3	89.5	40.0	10.8	6.3	72.5
Indotech Transformers	56.8	45.7	24.1	9.7	7.3	32.9
International Combustion	23.5	19.5	20.3	2.6	1.9	32.1
KEI Industries	223.6	157.4	42.0	13.1	11.0	18.6
Ratnamani Metals	258.8	187.5	38.0	28.5	21.7	31.3
Sanghvi Movers	48.9	38.9	28.0	11.2	8.4	33.7
Thermax	695.9	594.8	17.0	57.2	52.7	8.5
WS Industries	52.2	40.1	30.0	3.5	2.2	63.3

How could the quarter look like?

Bharat Bijlee

Bharat Bijlee has been reporting a stunning rate of growth and has been beating our expectations. In Q3FY2008 we expect the company's revenues to grow by 30% year on year (yoy) and profits to rise by 36.4%. We expect both the transformer and the motor division to do well and expect the order book to continue to remain strong for the quarter.

BHEL

We expect BHEL, the largest power equipment manufacturer in the country, to report a robust 27% year-on-year (y-o-y) growth in its revenues, while the net profit is expected to grow by 28.7% to Rs859.2 crore. The order flow has been strong for the company with the book-to-bill ratio at a staggering 4.1x its FY2007 net sales. The additional capacity of 4,000MW is on stream and the revenues should start kicking in from the fourth quarter of FY2008. The order flow will continue to remain strong for BHEL and we expect the super critical based project to be the next growth trigger for the company.

Crompton Greaves

For Q3FY2008, we expect the stand-alone sales of Crompton Greaves to grow at 26% yoy and the profits to grow at 52.7% with improved margins in the stand-alone business. The management has guided for a 15-18% growth in the earnings of Pauwels in FY2008. Ganz is expected to break even at the profit before tax (PBT) level in FY2008. The order book of the group is strong at Rs5,211 crore.

Genus Power Infrastructure

The company ended the last quarter with an order book of Rs400 crore. The Haridwar plant is now operational and the company will ramp up its capacity further. It expects to derive about 33% of the total revenue from this plant in FY2008. We expect the company to post a 40% y-o-y growth in the revenues to Rs125.3 crore. Led by better operating profit margins, we expect the profits to grow by 72.6%.

Indo Tech Transformers

Indo Tech Transformers has been one of the top performers in the mid-cap space in our universe. The company arguably has the best operating profit margins amongst all the transformer manufacturers. It has been growing at a rapid pace and the momentum should continue with the revenues and profits growing at 24.1% and 32.9% yoy respectively.

International Combustion

International combustion (IC) reported disappointing results in Q2FY2008 due to execution delay in the gear-box division. However, in Q3FY2008 we expect a come-back performance

from IC with a 20.3% y-o-y growth in its top line. A marginal increase in the operating profit margins should drive a 32.6% growth in the profits.

KEI industries

The Chopanki plant of the company is now operational. The margins have been under pressure due to its foray into the HT cables and the rise in its raw material cost. The demand outlook for cables continues to be positive and with the sale of house wires picking up, KEI should report a high growth going forward. We expect the company to post a 42% y-o-y growth in its top line and an 18.6% rise in its bottom line.

Ratnamani Metals and Tubes (RMTL)

Increased expenditure in oil & gas and power sectors has led to an increased demand for RMTL's products. The order inflow has been impressive with the unexecuted orders worth Rs431 crore. In Q3FY2008, we expect the company's revenues to grow at 38% yoy whereas the net profits should grow by 31.3%.

Sanghvi Movers

Sanghvi Movers Ltd (SML) has laid out a plan of adding Rs200 crore worth of cranes in FY2008. Increased infrastructure spending puts SML, the largest crane hiring service provider in the country, in a sweet spot. We expect the company to report a robust growth of 28% yoy in its top line in Q3FY2008. The net profit is expected to grow at 33.7% to Rs11.2 crore.

Thermax

The recent line-up of expenditure on captive power plants by the Indian manufacturers has led to good order inflows for Thermax. We expect its consolidated revenues to grow at 17% yoy. Its net profit should grow by 8.5%. At Q2FY2008 end, the unexecuted orders for the group stood at Rs3,234 crore.

WS Industries

Increased expenditure in the power sector and better-cost management have been the key growth drivers for WS Industries (WSI). WSI is the second largest insulator manufacturer in the country and is well placed to benefit from the power sector spends. In Q3FY2008, we expect its revenues to grow by 30% yoy and the net profits to rise by 63.3% yoy.

Sector outlook—bullish stance maintained

The high emphasis on infrastructure spending by the Government of India coupled with the aggressive plan to expand the capacities for power generation, transmission and distribution has emerged as a growth driver for the

companies in the power equipment and allied products & services space. Power equipment major BHEL is the prime beneficiary of the government's aggressive plans.

The increasing spend by India Inc on capacities and capex has also added to the surge in the order book of the capital goods companies. The recent strategy by many companies to set up captive power plants is adding to the growth of companies like Thermax which specialise in captive power plant equipment.

Transmission and distribution of power would also involve high capital investment, which is a demand driver for companies like Bharat Bijlee, Crompton Greaves and Indo Tech Transformers.

We expect the earnings of capital goods companies to see a robust growth in Q3FY2008. We continue to remain bullish on the sector and prefer BHEL, Crompton Greaves and Indo Tech Transformers.

Company Name	CMP* (Rs)	P/E		EPS		Absolute return		Relative return	
		FY2008E	FY2009E	FY2008E	FY2009E	3 months	1 year	3 months	1 year
Bharat Bijlee	3710	25.9	19.1	143.4	194.3	45.9	213.9	22.1	102.9
BHEL	2440	37.2	28.4	65.6	86.0	13.9	122.1	-4.7	43.6
Crompton Greaves	372	32.3	24.8	11.5	15.0	15.9	75.2	-3.0	13.3
Genus Overseas	845	25.3	15.8	33.4	53.5	30.0	283.0	8.8	147.7
Indotech Transformers	740	21.7	15.7	34.1	47.0	58.2	187.1	32.4	85.6
International Combustion	561	11.9	9.7	47.1	58.0	31.3	62.9	9.9	5.3
KEI Industries	160	23.1	15.4	6.9	10.4	78.0	53.9	49.0	-0.5
Ratnamani Metals	1360	13.1	9.4	103.9	144.1	42.7	188.6	19.4	86.6
Sanghvi Movers	308	21.4	16.8	14.4	18.3	71.1	96.3	43.2	26.9
Thermax	798	31.7	22.7	25.2	35.1	15.6	114.2	-3.3	38.5
WS Industries	120	17.6	13.8	6.8	8.7	56.7	154.8	31.1	64.8

Source: Sharekhan estimates, Bloomberg

*CMP as on January 09, 2008

The author doesn't hold any investment in any of the companies mentioned in the article.

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