
Govt Orders May Again Come to Rescue of Cap Goods Firms

Power, railways, metros and hydrocarbons to dominate order flow: HDFC Sec

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Mumbai: Government orders were the key driver for capital goods and engineering companies last year and may continue to be so in 2017-18 as the order pipeline reveals more state-funded schemes and far too few private sector projects, analysts and industry executives said.

Companies including Larsen & Toubro, ABB and Siemens are eyeing more government projects than ever as the private sector remains jittery about investments.

“Order flows continue to be dominated by public sector capex, led by sectors like power transmission & distribution, railways, metros and hydrocarbons,” HDFC Securities said in a pre-earnings report. “Orders from Power Grid grew 112% year-on-year to ₹8,020 crore in Q4 FY17. Power generation orders continued to be muted, with no major orders announced by BHEL.”

The aggregate order inflows by major capital goods companies, excluding L&T, declined 20% to ₹16,500 crore in the fourth quarter from a year earlier, according to Elara Capital.

The contracts were driven mainly by railways, transmission & distribution, renewables and water treatment. Analysts said L&T has so far announced ₹15,500 crore of orders in the fourth quarter, although the final number may be higher since the company may not have disclosed all wins.

The sector bellwether’s guidance for 2017-18, which it will announce with its annual results, will be tracked for cues, given its wide exposure to different sectors. Besides lower order inflows, the pace of project execution continues to be slow.



“We expect that domestic capital goods sector would continue to be impacted primarily due to slower execution, lower order inflow and poor financial health of the power distribution companies. We believe announcement of Uday scheme for discoms is positive, which is likely to result in better cash flows and new investments in state T&D networks and independent power producers,” Reliance Securities said. The Uday scheme is aimed at reviving debt-laden state-owned power distribution companies.

Power transmission & distribution companies are likely to have ended FY17 with robust order books due to higher demand for engineering jobs, wires, cables, towers and substation projects from Power Grid and state governments. Kalpatru Power bagged about ₹2,900 crore of orders, while KEC announced international contracts worth ₹1,900 crore.
