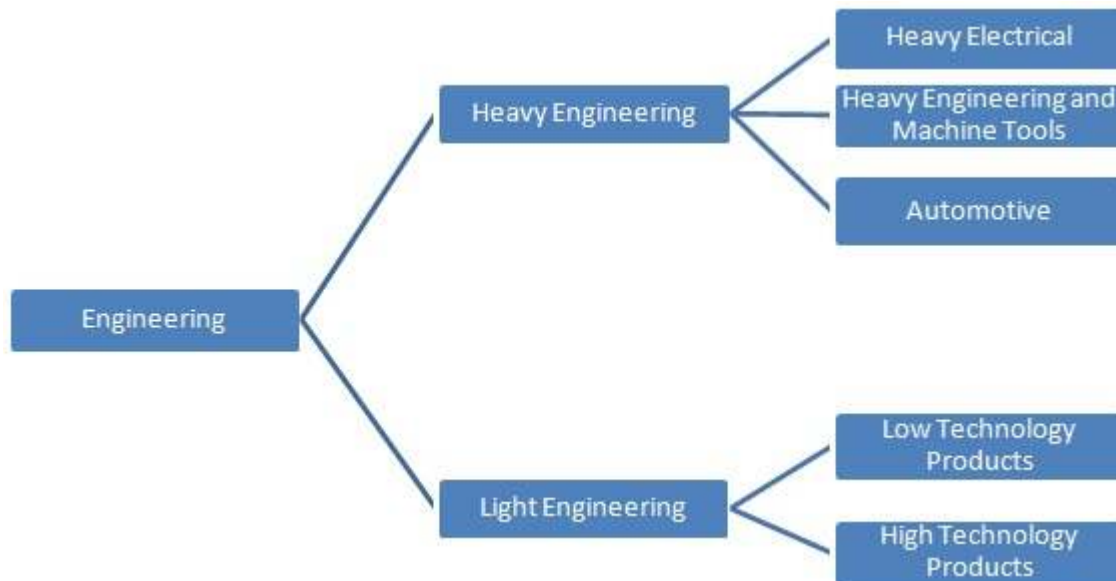


NOV 15, 2014

Engineering industry is the largest sector of overall Indian industry and is often referred as the barometer of the country's industrial development. Industry is considered as a strategic sector for the expansion of national capabilities, which are essential for a national self-reliance and security perspective. Sector facilitates faster growth for a broad base of user industries by providing critical inputs, i.e. machinery and equipment necessary for manufacturing. Engineering industry accounts for around 12 percent of the total manufacturing activity and around 1.8 percent of the India's GDP. Foreign Direct Investment (FDI) up to 100 percent permitted through the automatic route in this sector. Indian engineering sector is divided into two major segments ' heavy engineering and light engineering. Heavy engineering segment represents around 80 percent of the total industry revenue, while light engineering constitutes the rest. The sector is dominated by large organized players as it demands a high level of capability and investments for operations.



### Industry Performance

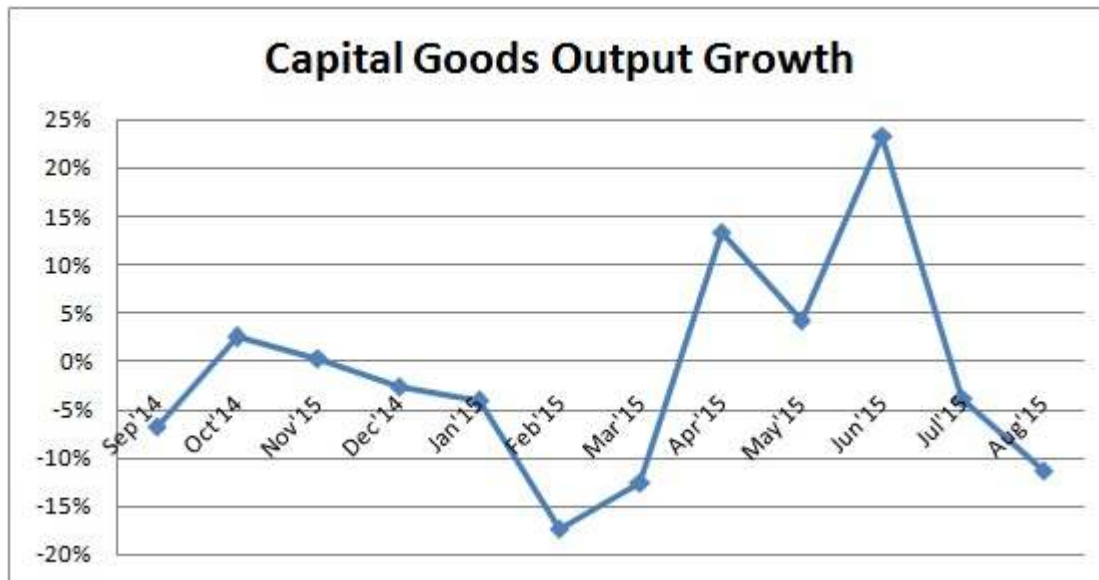
As the sector directly or indirectly influences core infrastructure development within India, development of domestic capabilities in engineering sector is essential to ensure self reliance. The sector is highly correlated to economy scenario because its growth relies heavily on the prevailing demand and interest rates in the country. Over the period of time, capacity augmentation in core industries such as infrastructure, power, mining, oil & gas, refinery, steel, automotives, and consumer durables have been driving demand of the engineering sector. The power sector is the largest contributor to the revenues of engineering companies followed by the infrastructure sector. Present, domestic market size of the industry stands at around \$55 billion which is expected to reach at around \$125.4 billion by 2017.

However, over the past two fiscal, industry growth has remained under pressure on account of prevailing economic slowdown. India's economic growth stayed below 5 percent for the second

fiscal in a row at 4.7 percent during FY14. The factors like high interest rate and stubborn inflation, low investments and slow execution of infrastructure projects have impacted country's economic growth. As a result of it and due to the weak demand, the output of capital goods also declined by around 3.6 percent during FY14.

### Recovery in economic growth to provide impetus to industry

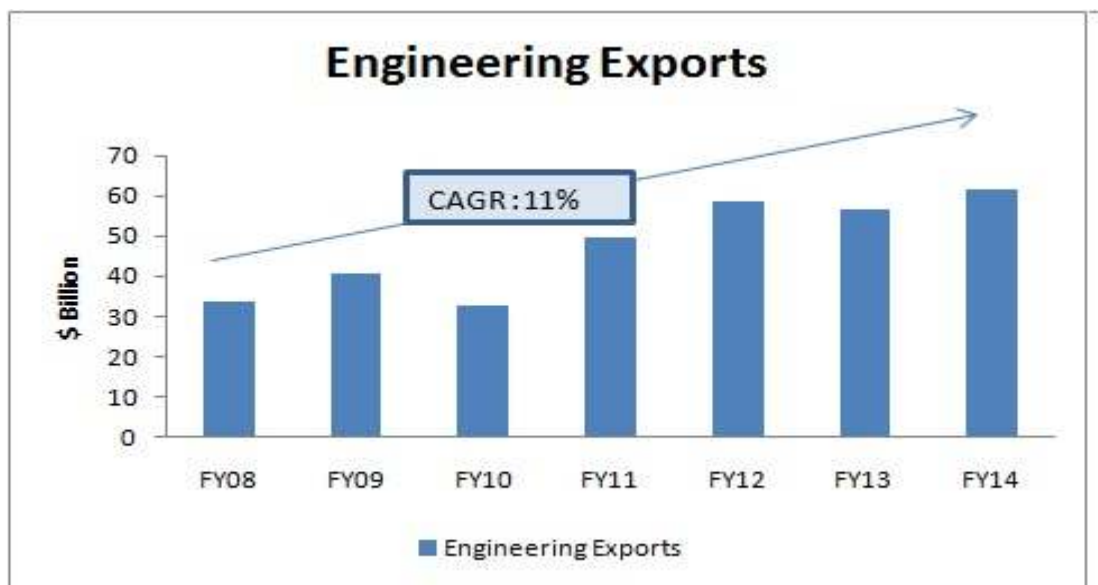
After two years of sluggish growth, Indian economy has shown sign of recovery and grew by 5.7 percent during Q1FY15 as compared to 4.7 percent growth recorded in Q1FY14. Investments seem to have rebounded with investment activity rising at solid pace and reassured consumers have begun to spend again, indicating the worst slowdown in the last decade may finally be over. Industrial sector, which accounts for around 25 percent of Indian GDP, grew by 4.24 percent in Q1FY15 as against a contraction of 0.38 percent in the same quarter of previous fiscal supported by noteworthy manufacturing growth coupled with strong performance of mining and construction sub-sectors. Furthermore, capital goods output, a broad gauge of investment activity, grew 4.3 percent in April-August FY15, compared to a meager 0.7 percent in the same period of the previous year, suggesting that companies are adding new capacities. Improved sentiments, the renewed policy thrust by new government and a pickup in consumer demand are likely to provide impetus to sector in the coming future.



### Engineering exports continue to rise

Indian engineering exports accounts for around 20 percent of the country's total merchandise shipments. The US and Europe together account for around 60 percent of the country's total engineering exports. Industry exports various products including transport equipments, other machinery and instruments and light engineering products like castings, forgings and fasteners among others. Among these products, transport equipments is the leading contributor to sector's exports, representing around 32.5 percent, followed by machinery and instruments with a share

of around 26.8 percent. Indian engineering exports has been increased by significant growth at around CAGR of around 11 percent to \$61.61 billion in FY14 from \$33.7 billion in FY08. A key driver for increased engineering exports is the improved global competitiveness of domestic players. During April-September FY15, India's engineering exports grew by around 24 percent y-o-y to \$35 billion. Apart from traditional markets such as the US and European nations, neighboring countries including Sri Lanka, Bangladesh and Nepal are emerging as important markets for Indian exports, in terms of volume as well as scale in valuation despite being small economies. These three south Asian countries are included in the top 25 destinations for India's engineering exports, with Sri Lanka standing at No. 3 position after the US and the UAE. The top 25 destinations account for around 74 percent of the total engineering export, which is expected to surge to over \$70 billion during the current fiscal.



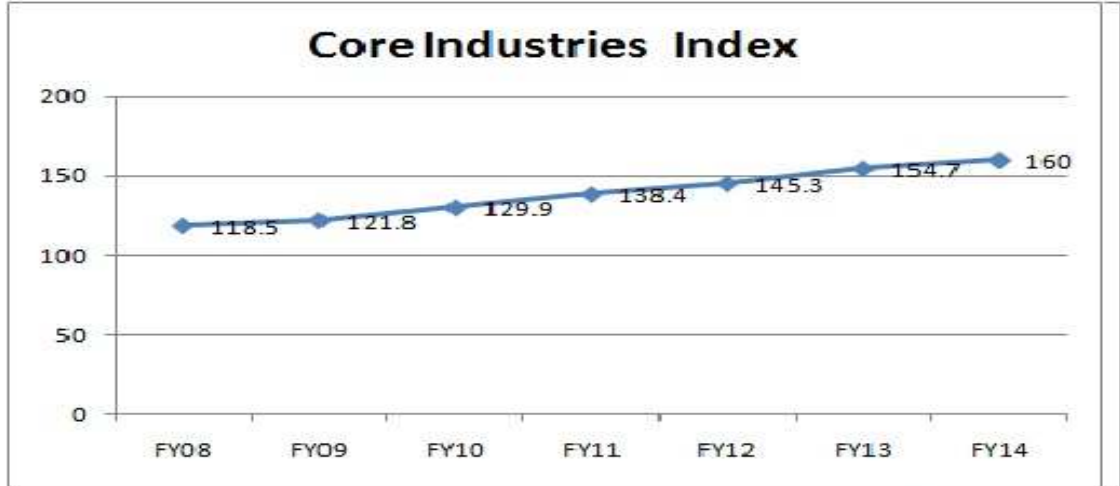
### **Power capacity augmentation, developing infrastructure to boost sector growth**

Power and infrastructure are the largest demand driver sectors of the Indian engineering industry. Power sector contributes around 70 percent to the revenues of engineering companies. The demand for electricity in the country has been growing at a rapid pace on the back of growing population and increase in industrialization activities. Power requirements in India increased to around 1,050 billion units in FY14 from 737 billion units during FY08. Domestic power requirement is currently higher than production and hence massive addition to the installed generating capacity in the country is required to meet the increasing requirement of electricity. Higher demand for energy has led to increasing capacity additions for power generation which in turn boosts demand for power generation and transmission equipment. In view of the paucity of power in the country, the government plans to add large-scale generation capacities and envisaged around \$235 billion investment under 12th five year plan to add 76,000 MW power capacities. Thus, there is enormous potential for the engineering majors in both generation and transmission & distribution (T&D) space.



\*- estimated

Development of the infrastructure sector is crucial to the growth of Indian economy. In spite of steady performance of core industries (infrastructure index) over the past few years, India's infrastructure facilities, including transport, sanitation and electricity, are still estimated to be inadequate for its population, thereby presenting a challenge for sustainable economic growth. However, the government of India is taking various measures to develop the country's infrastructure. The Government has set a massive target for doubling investment in infrastructure to \$1 trillion (Rs 40.9 trillion) during the 12th Plan period (2012'2017) from Rs 20.5 trillion in 11th five year plan. The share of total investment in infrastructure including roads, railways, ports, airports, electricity, oil gas pipelines and irrigation, is expected to increase at around 10 percent of GDP by the end of 12th Five Year Plan period from 7.5 percent of GDP in the previous plan. The recent spurt given to infrastructure sector is likely to drive the engineering sector demand in future.



### Rising investments in engineering sector

Among developing countries, India offers the best combination of low costs availability and cheap labour with good engineering talent. As raw material accounts for nearly 50 percent of the industry's operating costs, ready availability of these materials gives India a major cost advantage on global front. With the focused growth and appropriate planning for sector, Indian engineering industry is viewed as one of the most attractive sector in the world and has been attracting huge foreign investments. During the period April 2000-August 2013, the sector has received cumulative FDI of \$45.35 billion. A large number of multi-national companies such as Cummins, ABB and Alfa Laval have entered the industry to leverage the low manufacturing costs benefit. This has resulted in MNCs increasingly leveraging their Indian arms to support their global operations.

With the entry of large number of multinational companies, Indian engineering industry has become more competitive with a number of players in each segment. Meanwhile, the intense competition has led to Indian players developing improved capabilities that have made them more competitive. Companies have become more quality conscious and upgraded their technology base, besides diversifying their manufacturing range in tune with global market requirements. It is reported that more than 2500 firms in the engineering sector in different areas such as castings and forgings, automobile parts, machine tools, electrical machinery, pumps, textile machinery, etc. have acquired ISO 9000 accreditation. Most of the domestic firms are taking various initiatives to become more competitive in Research and Development (R&D), product development and service. The move is also helping them to enhance exports.

### Outlook

Engineering sector is of strategic importance to the economy as the sector directly or indirectly influences core infrastructure development within India. The sector has observed tremendous growth over the past decade owing to the significant investments in India's industrial sector. Apart from demand from user industries, the availability of cheap technically trained human resources has been another key factor supporting engineering industry in India. At present, industry manufactures the entire range of engineering products ranging from diesel engines, sugar mill and construction machinery to light engineering products such as castings, forgings and fasteners. In the near term, growth of engineering industry is likely to surge as recovery in domestic economy will boost the order book growth. Medium to long-term prospect also looks promising for industry on the back of strong growth drivers. Capacity creation in sectors such as infrastructure, power, mining and oil & gas, growing engineering exports, nuclear capacity expansion coupled with the strong policy support from the government to fuel further sector's growth.

**Companies Financial Data In Industry**

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Disa India Ltd.	3677.50	555.38	543.11	0.07	70.32	52.30
Alstom India Ltd.	559.60	3762.05	148.63	2.50	41.22	13.58
AIA Engineering Ltd.	1081.25	10198.39	156.84	0.55	33.83	31.96
Mazda Ltd.	234.70	99.94	199.73	2.34	25.38	9.25
Thejo Engineering Ltd.	164.00	56.31	176.54	2.13	25.37	6.46
Thermax Ltd.	1030.85	12283.23	180.53	0.58	25.17	40.95
JostS Engineering Company Ltd.	435.75	33.32	194.76	2.87	19.92	21.88
Sunil Hitech Engineers Ltd.	178.25	272.28	211.42	0.67	18.25	9.77
Ion Exchange (India) Ltd.	235.00	341.51	141.46	0.85	13.46	17.46
Alfred Herbert (India) Ltd.	296.10	22.84	381.19	0.68	12.55	23.60
GMM Pfaudler Ltd.	256.90	375.52	84.64	1.17	12.07	21.29
Fluidomat Ltd.	229.45	113.05	44.62	1.20	11.73	19.57
Engineers India Ltd.	231.65	7805.14	77.18	2.81	11.21	20.66
TIL Ltd.	357.00	358.08	251.43	0.42	10.88	32.82
Mold-Tek Technologies Ltd.	164.20	77.16	49.61	1.10	9.37	17.53
Patels Airtemp (India) Ltd.	162.80	82.54	93.71	1.23	9.25	17.60
United Drilling Tools Ltd.	64.30	34.76	50.61	0.00	8.72	7.37
Kennametal India Ltd.	806.80	1773.20	154.67	0.00	8.70	92.69
Hindustan Everest Tools Ltd.	37.10	5.96	14.88	0.00	8.31	4.46
Mangal Credit and Fincorp Ltd.	222.20	31.30	218.03	0.90	7.62	29.15
Hercules Hoists Ltd.	195.20	624.64	55.91	0.77	6.35	30.75
Rapicut Carbides Ltd.	46.00	24.71	33.38	2.61	4.64	9.92
Sika Interplant Systems Ltd.	104.35	44.25	92.14	0.77	4.51	23.14
Om Metals Infraprojects Ltd.	27.10	260.98	54.30	0.74	4.38	6.19
ITL Industries Ltd.	34.00	11.21	63.68	1.47	3.52	9.66
Pitti Laminations Ltd.	59.00	79.55	83.79	1.69	3.06	19.29
Artefact Projects Ltd.	37.55	20.75	62.27	2.00	2.87	13.08
Yuken India Ltd.	316.10	94.83	175.74	0.47	2.56	123.32
Triveni Turbine Ltd.	91.20	3009.35	6.36	0.82	2.37	38.53
Windsor Machines Ltd.	30.50	198.04	8.00	0.00	2.36	12.94
Max Alert Systems Ltd.	46.60	42.87		0.00	2.20	21.19
Kalindee Rail Nirman (Engineers) Ltd.	112.25	185.30	103.41	0.00	1.77	63.28
Akar Tools Ltd.	24.95	13.46	47.70	2.40	1.73	14.41
International Combustion (India) Ltd.	252.60	60.38	368.61	0.59	1.46	172.51
Cenlub Industries Ltd.	23.50	9.68	34.31	0.00	1.21	19.36
Rajdarshan Industries Ltd.	10.34	3.21	59.84	0.00	1.18	8.78
Solitaire Machine Tools Ltd.	14.94	6.79	23.28	3.35	0.93	16.12
Expo Gas Containers Ltd.	8.44	16.07	10.86	0.00	0.89	9.50
International Conveyors Ltd.	19.50	131.63	12.08	1.28	0.89	21.97
Cranex Ltd.	4.15	2.49	7.32	0.00	0.61	6.84



Lokesh Machines Ltd.	46.35	54.59	83.59	1.08	0.56	82.09
Iykot Hitech Toolroom Ltd.	5.58	3.39	4.61	0.00	0.49	11.35
Lippi Systems Ltd.	8.61	6.03	27.88	0.00	0.25	34.44
ATV Projects India Ltd.	3.59	19.07	-44.60	0.00	0.22	16.61
Birla Precision Technologies Ltd.	3.33	17.53	24.84	0.00	0.07	49.81
Servotech Engineering Industries Ltd.	3.56	1.83	2.94	0.00	-0.18	0.00
Texmaco Rail & Engineering Ltd.	111.95	2037.79	31.62	0.22	-0.27	0.00
Axtel Industries Ltd.	12.44	20.10	17.84	0.00	-0.42	0.00
Skyline Millars Ltd.	4.20	16.89	9.93	0.00	-0.53	0.00
Hittco Tools Ltd.	5.32	3.28	9.69	0.00	-0.56	0.00
Central Provinces Railways Company Ltd.	117.80	11.07	-6.02	0.00	-0.71	0.00
Kulkarni Power Tools Ltd.	41.65	14.16	70.52	1.20	-1.26	0.00
Artson Engineering Ltd.	39.95	147.50	-17.46	0.00	-1.57	0.00
Ema India Ltd.	22.50	2.26	54.51	0.00	-2.03	0.00
Gujarat Apollo Industries Ltd.	120.10	182.02	192.34	2.08	-2.06	0.00
LA TIM Metal & Industries Ltd.	38.95	8.55	-21.63	0.00	-2.25	0.00
Manugraph India Ltd.	36.80	111.93	73.76	2.72	-2.54	0.00
Filtron Engineers Ltd.	14.25	3.73	6.50	0.00	-2.73	0.00
Schrader Duncan Ltd.	99.80	36.89	89.71	0.00	-2.88	0.00
Sancia Global Infraprojects Ltd.	1.58	6.86	-44.51	0.00	-2.89	0.00
Batliboi Ltd.	27.40	78.59	13.23	0.00	-3.47	0.00
Sanghvi Movers Ltd.	169.05	731.78	148.48	0.00	-5.01	0.00
Mcnally Bharat Engineering Company Ltd.	87.30	271.45	97.85	0.00	-5.14	0.00
GG Dandekar Machine Works Ltd.	57.95	27.59	57.64	0.00	-7.44	0.00
Lynx Machinery & Commercials Ltd.	60.00	3.60	47.00	0.00	-9.68	0.00
Avon Corporation Ltd.	0.23	1.49	-4.28	0.00	-19.74	0.00
TRF Ltd.	358.10	394.07	45.03	0.00	-23.44	0.00
Jaihind Projects Ltd.	19.60	19.12	60.61	0.00	-27.60	0.00

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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