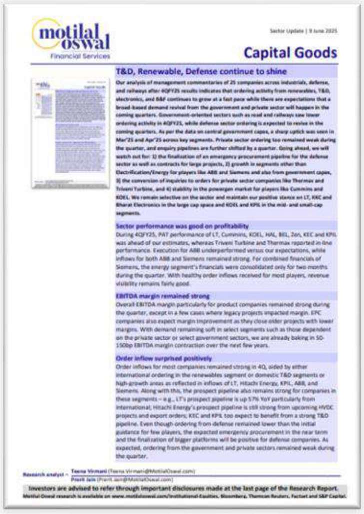
Capital Goods



Most of the 'unknowns' are 'known' now

Results and management commentaries of the key 25 companies across industrials, defense, and railways demonstrated sustained base ordering activity, along with a strong prospect pipeline for transmission, defense, and renewables, despite the absence of large orders during the quarter. Private sector ordering remained sluggish. Capital expenditure (capex) by major central public sector enterprises and four key government bodies increased 2.5% YoY during Apr-Jul'25. We will closely monitor government capex for the full year. The margin trajectory remained fairly strong, and companies are optimistic about overall exports. The sector is positioned at a juncture where valuation re-rating is difficult from current levels, while growth-oriented stocks will continue to attract investor interest. Stocks in key themes such as T&D, renewable, and defense remain our preferred bets, while pure capex-oriented stocks are witnessing delays in order finalizations. Therefore, we maintain our selective stance and prefer stocks such as L&T, KKC, and Siemens Energy in the large-cap industrial space and KOEL and KPIL in the mid- and small-cap segments. BEL continues to remain our top pick in the defense sector.

Healthy sector performance in terms of profitability

In 1QFY26, the aggregate revenue growth of our coverage universe stood at 15% YoY, and with broadly stable margin performance, the capital goods sector delivered a stronger-than-expected PAT performance. Notable examples were L&T, KKC, KOEL, TMX, KPIL, KEC, BHE, and HAL. Hitachi Energy reported a broadly in-line quarter. Executions for ABB and Siemens were in line with our expectations, though lower-than-expected margins weighed on PAT. TRIV and ZEN were hit by deferred dispatches and design modifications. Overall, revenue visibility remains strong for EPC, T&D, and defense players, but it is limited for capex-oriented players.

Margins broadly flat YoY due to benign commodity prices

For our coverage universe, overall margins were broadly in line with our estimates at ~12% (vs. 11.8% in 1QFY25). The change in revenue mix led to a slight contraction in margins for EPC (9.6% in 1QFY26 vs 9.8% in 1QFY25) and product companies (18.9% in 1QFY26 vs 17.4% in 1QFY25). Companies such as ENRIN, POWERIND, KKC, KOEL (adj. margins), TMX, KECI, and BHE reported healthy margin expansion in 1QFY26, while LT and KPIL were broadly flat. In contrast, TRIV, SIEM, ABB, and ZEN reported a YoY contraction in margins.

Ordering to accelerate on strong prospects

Order inflow growth for the capital goods sector was mixed, with continued momentum in power T&D and renewables and a gradual uptick in defense, while private capex remained weak. Overall, inflows of EPC companies jumped 28% YoY, mainly driven by LT and KPIL. The capex-oriented companies such as ABB, SIEM, TMX, and TRIV were hit by delayed decision-making in the private sector and lower ordering from exports. We believe that the Indian defense ordering pipeline will remain strong in the near term on account of emergency procurement, as well as for the medium-to-long term, led by both base and large-sized orders. Overall, power, T&D, renewable energy, data centers, real estate, defense, etc., continue to experience healthy traction, while we will monitor government and private capex trajectory in the coming quarters.

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Export performance was a mix of both up-fronting and demand revival

Export performance has improved for companies across the product as well as the EPC segments. Company managements have indicated that it is a broad-based revival that they have witnessed in export markets, and this is not just related to the up-fronting of exports due to the US tariff implementation. For Cummins, Hitachi Energy, GE T&D, and KOEL, exports have witnessed a good improvement, and management commentary is also sanguine. Triveni Turbine's export inflows were weak during the quarter due to geopolitical issues and deferral of decision-making from international clients. For EPC players, LT witnessed strong inflows from international geographies during the quarter. LT's international revenue accounted for 52% of total revenue. In terms of order book, LT/KPIL/KEC's international share stood at 46%/40%/35% of the total order book. Defense companies are actively scouting for opportunities in export markets such as Southeast Asia, Europe, the Middle East, Africa, Latin America, et al.

Key future monitorables

During the last quarter, we witnessed that the powergen market stabilized, defense emergency procurement was going on, and beyond that, large-sized defense orders were in the finalization stage, as well as the prospect pipeline on T&D continued to remain strong. We would keenly monitor the key capex drivers in both the government and private sectors.

Our recommendations

The sector is positioned at a juncture where valuation re-rating is difficult from current levels, while the growth-oriented stocks will continue to remain on the investment radar. Stocks in key themes such as T&D, renewable, and defense remain preferred bets, while pure capex-oriented stocks are experiencing delays in order finalizations. Therefore, we maintain our selective stance and prefer stocks such as **L&T, KKC, and Siemens Energy** in the large-cap industrial space and **KOEL and KPIL** in the mid- and small-cap segments. **BEL** continues to remain our top pick in the defense sector.

Healthy sector performance in terms of profitability during the quarter

Exhibit 1: Sector performance was healthy on a YoY as well as a sequential basis

Companies	Revenue (INR b)				EBITDA (INR b)				PAT (INR b)			
	1QFY26	Growth (%)		Var. over Exp. (%)	1QFY26	Growth (%)		Var. over Exp. (%)	1QFY26	Growth (%)		Var. over Exp. (%)
		YoY	QoQ			YoY	QoQ			YoY	QoQ	
ABB India*	31.8	12.2	0.5	-1.3	4.1	-23.7	-28.9	-30.0	3.5	-20	-26	-27.3
Bharat Electronics	44.2	5.2	-51.6	-8.8	12.4	32.4	-55.5	14.8	9.7	25	-54	15.5
Cummins India	29.1	26.2	18.3	9.4	6.2	33.4	20.0	16.7	5.6	32	7	13.1
Hind. Aeronautics	48.2	10.8	-64.8	-8.2	12.8	29.4	-75.8	1.8	13.8	-4	-65	9.8
Hitachi Energy	14.8	11.4	-21.5	-21.9	1.5	223.4	-42.9	-28.8	1.3	1,163	-33	1.6
Kalpataru Proj.	50.4	35.4	-18.8	9.8	4.3	36.7	-18.1	9.8	2.0	72	-24	30.0
KEC International	50.2	11.3	-26.9	-1.4	3.5	29.5	-35.0	-1.8	1.2	42	-54	6.5
Kirloskar Oil	14.4	7.6	2.3	3.0	1.9	-3.8	9.3	8.5	1.2	-9	16	10.0
Larsen & Toubro	636.8	15.5	-14.4	3.0	63.2	12.5	-23.0	3.0	36.2	30	-30	7.7
Siemens#	43.5	15.5	2.1	3.2	5.2	7.4	11.5	-1.8	4.2	-3	4	-12.1
Thermax	21.5	-1.6	-30.3	-12.0	2.3	59.5	-24.9	11.6	1.5	38	-26	19.2
Triveni Turbine	3.7	-19.9	-31.0	-24.7	0.7	-23.0	-38.9	-26.5	0.6	-20	-32	-22.1
Zen Technologies	1.1	-56.3	-62.2	-57.1	0.4	-63.1	-59.7	-59.2	0.4	-50	-56	-54.4
Amber Enterp.	34.5	43.6	-8.1	35.4	2.6	30.8	-12.9	28.7	1.0	43	-10	52.1
Dixon Tech.	128.4	95.1	24.7	7.0	4.8	94.6	8.9	7.7	2.2	68	22	3.9

Source: Company, MOFSL

Note: *For ABB, 1QFY26 denotes 2QCY26 data.

#For Siemens, company has now switched from Sep Y/E to Mar Y/E, hence, 1QFY26 denotes 3QFY26 data.

Exhibit 2: Revenue growth for industrials has moderated in recent quarters from the FY23 highs as the base effect catches up

Revenue YoY %	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
ABB India	44.0	19.2	15.5	22.5	22.2	30.6	13.6	27.8	12.8	5.2	22.0	2.6	12.2
BDL	NM	6.1	-42.6	-42.2	-57.2	15.2	30.3	7.0	-35.8	-11.5	38.3	108.0	29.7
BEL	90.4	7.8	11.8	2.1	12.8	1.2	0.1	32.1	19.6	14.8	39.1	6.9	5.2
Cummins India	42.4	13.0	25.7	29.0	31.0	-2.6	16.2	20.3	4.3	31.2	21.8	6.1	26.2
HAL	124.2	-7.3	-3.9	8.1	8.1	9.5	7.0	18.2	11.0	6.0	14.8	-7.2	10.8
Hitachi Energy	25.8	31.3	-7.9	19.8	5.5	10.2	23.2	27.1	27.6	26.5	27.2	11.1	11.4
KEC	30.6	13.3	31.0	29.2	27.9	10.7	14.4	11.6	6.3	13.7	6.8	11.5	11.3
KOEL	NA	22.4	19.5	16.4	26.5	4.8	13.5	20.7	6.2	12.8	2.5	1.5	7.6
KPIL	NA	NA	NA	NA	15.4	16.7	18.2	17.1	2.8	7.6	16.4	20.5	35.4
L&T	22.2	23.0	17.3	10.4	33.6	19.3	18.8	15.0	15.1	20.6	17.3	10.9	15.5
Thermax	57.2	41.2	26.9	16.0	16.8	10.9	13.4	19.6	13.0	13.4	7.9	11.6	-1.6
Triveni Turbine	40.7	41.9	44.7	56.3	45.3	32.4	32.5	23.9	23.1	29.2	16.6	17.5	-19.9
Zen Tech	263.9	30.0	166.5	364.4	298.5	203.1	197.8	83.0	91.7	277.4	44.3	116.3	-56.3
Amber	157.9	0.0	38.4	55.0	-6.8	23.5	-4.0	-6.6	41.1	81.7	64.8	33.8	43.6
Dixon	52.9	37.9	-21.8	3.8	14.6	27.8	100.4	52.0	101.1	133.3	117.0	121.0	95.1

Source: Company, MOFSL

Exhibit 3: Profit growth remained strong for most players, barring a few exceptions

PAT YoY %	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
ABB India	99.7	64.1	62.2	-34.3	110.9	84.0	13.1	87.4	49.6	21.7	54.1	3.2	-20.5
BDL	NA	75.3	-60.7	-48.7	4.9	94.0	61.2	89.0	-82.7	-16.7	9.0	-5.5	154.3
BEL	NM	-0.2	2.6	19.6	23.0	32.9	49.2	30.6	46.2	34.3	47.3	18.0	24.9
Cummins India	43.4	14.8	49.5	68.4	50.6	30.2	26.7	76.3	33.0	37.2	12.7	-7.2	32.3
HAL	218.5	44.2	23.8	-8.8	31.3	1.3	9.2	52.2	76.5	21.7	14.1	-7.7	-3.7
Hitachi Energy	-91.8	8.1	-92.6	-1.6	79.9	-33.3	401.5	123.7	332.4	111.4	272.1	73.5	1163.0
KEC	NA	-52.0	-81.2	-35.6	36.8	1.0	449.5	110.2	106.9	53.1	33.7	76.7	42.3
KOEL	NA	80.3	169.8	-40.6	59.9	-19.3	20.5	81.3	30.5	89.6	-20.9	-10.2	-8.8
KPIL	NA	NA	NA	NA	-23.2	8.7	29.7	52.6	-7.4	17.1	9.3	51.8	72.1
L&T	44.9	27.4	19.6	10.1	46.5	44.6	20.0	8.4	11.7	5.4	14.0	18.8	29.8
Thermax	39.0	24.1	59.1	52.5	58.1	45.3	11.0	24.9	17.4	24.9	-19.0	5.3	38.4
Triveni Turbine	18.0	66.0	24.8	68.4	59.2	39.0	30.4	35.1	31.8	41.4	35.0	25.9	-19.9
Zen Tech	NM	440.1	NM	928.2	474.2	279.1	467.2	77.3	57.4	276.1	21.9	177.3	-50.0
Amber	238.4	NM	-55.9	81.7	8.5	133.1	NM	-8.9	58.6	NM	NM	22.6	43.5
Dixon	151.7	23.3	11.9	27.9	50.6	38.9	85.8	18.0	94.3	99.7	77.5	93.9	68.3

Source: Company, MOFSL

T&D, renewables, and defense remain the key growth drivers; private capex yet to pick up

Exhibit 4: Management commentaries on public and private capex across the sector for our coverage companies

Companies	Management Comments
ABB India	Post-pandemic, momentum remained strong, though there has been some softening in larger inquiries, particularly from heavy industries and data centers. However, base-level inquiries continue to be healthy. ABB is benefiting from megatrends in electrification, energy transition, digitalization, automation, and sustainability. On the macro side, continued government expenditure, rising private investments, steady consumption, and easing inflation provide supportive tailwinds.
Bharat Electronics	Key opportunities include 1) the INR250b QRSAM order (expected by 4QFY26), 2) subsystem orders for MF-STAR radars (likely in 2HFY26/1QFY27), 3) INR65b worth of Shatrughat and Samaghat EW systems (with RFP already issued for one), 4) a INR30b follow-on order for 97 LCA Mk1A aircraft, and 5) upcoming drone/loitering munition programs over the next 12-18 months. If timely converted, these opportunities could not only bolster the INR270b inflow guidance but also support 15-17% annual growth over the medium term, aided by BHE's rising share in indigenous and strategic systems.
Cummins India	Powergen volumes have now come back to pre-emission levels and are getting the benefit of a broad-based demand revival. Demand originated from the manufacturing sector, pharma, quick commerce, and mission-critical operations. Data centers contributed steadily, accounting for 15-20% of overall powergen sales. The CPCB IV+ transition is now fully stabilized, with market pricing holding steady for two consecutive quarters despite continued competition. Railways, mining, and compressors remained strong, while the construction sub-segment growth was hit by subdued activity due to monsoons.
Hindustan Aeronautics	The Cabinet Committee on Security (CCS) has approved the purchase of 97 Light Combat Aircraft (LCA) Mark 1A fighter jets for INR620b from HAL. The company is on track to deliver 12 jets from the previous order of 83 jets by the end of FY26, with 10 expected to be ready (other than engine integration) by Aug-Sep'25. Tejas Mk2 is in its prototype stage, with the structure expected to be ready by 1QFY27 and flight testing in 2HFY27. Future opportunities will come from Tejas Mk2, AMCA, UCAV (unmanned combat air vehicle), Sukhoi-30, Dornier aircraft, and upgrades of the existing fleet. HAL is also on track to deliver the first batch of its LCH Prachand order by mid-2028.
Hitachi Energy	India's ongoing infrastructure push presents a multi-year opportunity across key verticals where Hitachi Energy has a meaningful presence. According to industry reports, 1) the renewable energy segment is expected to see investments of INR3.1t by CY30, with 50% of this directed toward transmission and storage; 2) transmission spending alone is projected at over INR1t in the next two years on the ISTS network to meet NEP 2027 targets; 3) India's data center market is estimated to attract INR1.7t-2.1t over the next six years; and 4) the expansion of the metro rail budget from INR58b in FY13 to INR348b in FY25 offers scope for project orders in the transport sector, especially around traction power and SCADA systems.
Kalpataru Proj.	KPIL sees strong T&D growth with a tender pipeline of over INR1.2t in 12–18 months, supported by grid expansion, modernization, and energy transition. Recent HVDC wins and a deeper presence in the Middle East and Nordic regions strengthen long-term prospects. The B&F segment has a strong presence in southern India, marquee clients, and is expanding into high-growth areas like data centers. Collections in the Water business have started to improve in a few states, while progress in certain states remains very slow on the collection front. O&G and Urban infra were healthy. While on the railways side, management said that KPIL is prioritizing project closures and will be selective with new orders.
KEC International	The overall tender pipeline in T&D continues to be strong in both domestic and international markets. In India, the investment continues to be directed towards grid modernization, transmission infrastructure for renewable energy zones, and inter-regional connectivity, creating a surge in tendering activity. On the international front, KECI is witnessing sustained momentum in the Middle East, with large-scale transmission programs, particularly in Saudi Arabia and the UAE, driving demand. Additionally, KECI is actively pursuing opportunities across the Americas, Africa, CIS, and the Far East, all of which are investing in expanding and upgrading their transmission infrastructure to support economic growth and energy access.
Kirloskar Oil	The company sees strong traction from the construction equipment, mining engine, defense, marine, and nuclear sectors in the industrial business. The powergen business witnessed broad-based demand recovery, especially from infrastructure, real estate, and commercial sectors. KOEL emphasized sustained domestic demand across segments such as data centers, hospitality, QSRs, and retail, with no visible signs of cyclicality. Pricing has stabilized, and volumes are returning to pre-CPCB4-transition levels.
L&T	LT's prospect pipeline for 9MFY26 stands at INR15t, up 63% YoY, due to a significant increase in the Infrastructure and Energy segment prospects. The domestic prospect pipeline is at INR6t, while the international pipeline stands at INR9t. Growth in the international pipeline is driven by areas like onshore, offshore, renewable, transmission, and infrastructure. On domestic prospects, LT is eyeing projects in renewables, power transmission, buildings and factories, metals and mining, etc. Historically, L&T has a hit ratio of 20-25% in the prospect pipeline.
Siemens	The Indian economy has remained resilient despite the uncertainties arising from impending tariffs, bilateral trade agreements, and supply chain disruptions. Two significant orders were won in the Mobility business. While the Smart Infrastructure business continued to demonstrate strong execution, the performance at the Digital Industries business is now showing signs of recovery, indicating that the destocking phase is now largely over. Siemens continues its focus on strengthening its position as a leading technology-focused company in Industry, Infrastructure, and Mobility, combining the real and the digital worlds.
Siemens Energy	Earlier, the company had highlighted a capex of INR4.6b for power transformers in Kalwa (doubling capacity from 15,000 MVA to 30,000MVA), INR3.3b for blue GIS in Goa, and INR0.6b for vacuum interrupters in Goa. Along with this, in the current quarter, the company has announced a capex of INR2.8b in a phased manner in the manufacturing capacity expansion of high-voltage switchgear products at its Aurangabad factory.
Thermax	TMX reported 7% YoY order inflow growth, below expectations due to delays in financial closures in ethanol and sugar. The inquiry pipeline remains strong in steel, cement, oil & gas, and thermal power, with management guiding for double-digit inflow growth in FY26. Industrial Infra should benefit from rising IPP activity, while Industrial Products are set for recovery in heating and steady traction in water and cooling. Risks remain in Chemicals from weak exports and tariffs. Refining and petrochemical orders are cyclical and expected only in 4QFY26, but global client qualifications are progressing, supporting inflows from 2QFY26.
Triveni Turbine	The inquiry pipeline from the domestic market has increased by ~130% YoY, driven by strong traction across key sectors, including steel, cement, sugar, waste-to-energy, and process cogeneration industries. Management indicated that the overall steam turbine market itself has grown substantially in the quarter, and TRIV's market share has increased from ~46%-48% last year to nearly 53%-55%. The company believes that this momentum will be maintained through FY26, backed by the elevated inquiry levels and a healthy mix of sectors.
Zen Technologies	Management highlighted the possibility of a simulator order worth INR6.5b in 2QFY26, which could materially enhance execution visibility in 2HFY26. Other than that, the management expects FY27 inflows to be much higher than FY26.

Source: Company

Exhibit 5: Management commentaries on public and private capex across the sector for companies not under our coverage

Companies	Management Comments
GE T&D	The central government's ambitious INR9t-10t transmission plan through FY32 is driving order inflows, as seen in large wins from PGCIL, private conglomerates such as Adani and Jindal, and other EPC players. To achieve this goal, India's transmission sector must expand rapidly, with 20,000 circuit km of high-voltage transmission lines and 125 gigawatt substation capacities required each year through 2032. 97% of the current backlog is from private customers, central utilities, and PSUs, with the remaining 3% from state utilities.
TRIL	The total order inflow in 1QFY26 was INR6.7b. TRIL has an inquiry pipeline of INR180b, of which it is expecting INR50b to come in during FY26.
Voltamp Transformers	Global growth remains weak amid trade and geopolitical tensions. The RBI's pro-growth measures, such as lower borrowing costs and improved liquidity, are boosting corporate investment and supporting India's capex cycle. These measures are significant positives and are expected to strengthen the ongoing capex cycle. The company sees a healthy inquiry pipeline, with a stable outlook driven by domestic demand and government initiatives, though realizations and margins may normalize as industry capacity expands.
CG Power	The company has an order book of INR90b in the power segment, which is likely to be executed within 18-22 months. The company is ramping up its existing transformer plant to 40,000 MVA capacity by Sep'25 from the current ~20,000 MVA, while construction has begun for a new facility that will add another 45,000 MVA. Management further stated that even with 85,000 MVA, demand will continue to outstrip supply for at least the next five years, ensuring strong utilization and visibility for sustained sector growth.
Carborundum Universal	Capex for FY26 is guided at ~INR3.5b, with spending aligned to programs in abrasives, ceramics, and electrominerals. In Abrasives, growth initiatives include the commissioning of DRONCO assets in India and strengthening precision and retail channels, though near-term sales were impacted by distributor inventory clearance and logistics disruptions at Rhodius. In Ceramics, momentum is supported by engineered and metalized ceramics, with strong demand from semiconductors, defense, EVs, and corrosion-resistant applications. The Electrominerals division is focusing on expanding fused alumina capacity and advancing the high-purity silicon carbide (HP SiC) pilot plant, which is on track and seeded with customer trials, though material revenues are not expected in FY26.
TD Power	TD Power Systems expects strong order inflows across segments. Steam turbines are projected to grow steadily at 10-12% from captive power, biomass, and waste heat recovery projects. Gas engine and turbine demand from the US and Europe remains very strong, driven by data center and AI power needs, with 2Q order booking also tracking robustly. In Hydro, the company achieved strong inflows, and next year is expected to be even better with large refurbishment bids in the pipeline. Motors, railways, and exports are set to see strong traction, with the third plant being commissioned through 2Q-3Q, which is expected to take revenue to ~INR23b-24b over time without major new investments for at least two years.
Texmaco Rail	The expansion of India's rail infrastructure and logistics modernization continues to be supported by substantial public investment, with projects such as multi-tracking, high-density corridor expansions, and the development of Gati Shakti cargo terminals driving freight capacity growth. The sustained capital expenditure by Indian Railways in traction, freight, and maintenance infrastructure further reinforces its demand.
Titagarh	The company mentioned that Indian Railways added 5,200 km of new tracks in FY25 and is targeting an additional 5,500 km in FY26. The annual passenger carrying capacity is expected to increase from the current 8b to 10b over the next 4-5 years. Management also stated that the company witnessed a healthy flow of inquiries and traction from various private sector customers for wagons.
Jupiter Wagons	The company witnessed a shortage in wheelset availability from Indian Railways, which led to a short-term dip in output; however, with supply conditions improving, the management anticipates recovering the lost production in the coming months. On the private sector front, the company continues to receive sizeable orders, while major tenders from Indian railways are expected to flow in 2HFY26.
Mazagon Dock	The company expects to sign the P-75 additional submarines and P-75(I) submarines contracts in FY26. It also expects RFP to come out in the coming months for P-17 Bravo (INR700b) and the MCMV project (INR440b).
Garden Reach	The company expects order inflows for the P-17 Bravo (INR700b), five Next Generation Corvette (NGC) projects (INR250), five Next Generation Survey Vessels (INR35b), six Next Generation Offshore Patrol Vessels (NGOPV) (INR25b), 120 Fast Interceptor Craft (INR15b-18b), 18 Next Generation Fast Patrol Vessels (INR30b), two Multi-purpose Vessels (INR12b), 31 Follow-on Waterjet FACs (INR30b), two Mine Countermeasure Vessels (MCMVs; INR320b), and Autonomous Surface & Underwater Vessels.
Astra Microwave	Expected orders in 2QFY26 include orders from DRDO for ground-based radar upgradation (INR1.4b), orders received in Jul'25 (INR1.5b), negotiated orders expected (INR1.5b), and pipeline orders expected (INR1b). ARC JV additional order inflows in FY26 (~INR8b), Uttam Radar Phase 1 (10-12 units) and Phase 2 (97 units), X-band Seeker follow-on orders (50-60 units over 2–3 years), subsystems for air defense fire control radar order for BEL, ground penetrating radar Mar'26 onwards (~100 units annually), shipborne radars, active tank protection radar (expected in FY27–28), ARC JV SDR programs (3 contracts worth USD100m by Mar'26), and Project Mausam (INR20b).

Source: Company

Optimistic on exports with prospect demand from the US, Europe & Middle East

Exhibit 6: Management commentaries on the international exposures of the companies under our coverage

Companies	Management Comments
Covered companies	
ABB India	Exports contributed 12% of revenue, up from ~10% earlier, mainly reflecting some softness in the domestic market. 90% of ABB India's business is domestic; only a small part of exports goes to the U.S. Hence, management does not expect a material impact from recent tariff actions. ABB follows a "local for local" strategy, increasing localization of supply chains post-Covid, which reduces dependency on imports and insulates margins.
BEL	BEL highlighted that its export portfolio spans radars, missiles, communication systems, drones, anti-drone systems, and software solutions, with strong opportunities emerging particularly in anti-drone and C4I solutions, which gained global recognition after their proven performance during Operation Sindoor. The company also sees rising traction in contract manufacturing of TR modules and LV racks. With a broad product base covering nearly all operational domains, BEL is witnessing healthy export leads and remains confident of meeting its full-year export revenue guidance of USD120m.
Cummins India	Export growth was strong and broad-based across geographies, led by Latin America and Europe, reflecting the benefits of targeted product positioning and steady market penetration. While management is mindful of geopolitical and trade policy risks, the underlying demand in key markets remains healthy, supported by lower-emission product offerings in regions with less stringent norms and continued participation in markets adopting CPCB IV+ standards. Potential opportunities in the US, particularly for engines like QSK38 and QSK50, offer additional upside, with tariff and market factors under review.
Hitachi Energy	Exports continued to play a meaningful role in Hitachi Energy India's order book in 1QFY26, contributing nearly 25% (excluding HVDC). The company secured export orders from Europe, South America, and Asia. Hitachi Energy follows a three-pronged strategy for exports: 1) building on four globally competitive products, 2) deepening presence in allocated international markets with growing traction, and 3) supplying components to group feeder factories.
Kalpataru Proj.	KPIL sees strong opportunities on the T&D side in international markets. LMG revenue increased 72% YoY to INR7.7b with an EBITDA margin of ~8%. The company is exploring fundraising for this subsidiary (including IPO). Fasttel recorded revenue growth but remained loss-making at the EBITDA level, with breakeven targeted from 3QFY26. On the O&G front, KPIL is now qualified with major Middle East utilities and is actively bidding for large-scale projects in the region.
KEC International	The company sees a strong opportunity pipeline of INR1.8t with T&D accounting for INR900b, of which INR600b is from international markets. Key geographies include the Middle East, Africa, the Americas, and CIS regions.
Kirloskar Oil	The Middle East and North Africa region stood out, benefitting from the stabilization of KOEL's partnership with Myspan as a regional OEM, which is helping the company strengthen its local presence and improve customer engagement. Beyond MENA, the company continues to see opportunities in Southeast Asia and Europe, where demand for reliable and efficient power solutions remains strong.
L&T	International orders form 46% of LT's total order book, and the GCC region accounts for 82% of its international order book. LT expects various countries in the Middle East to continue to focus on investments in oil and gas, infrastructure, industrialization, and energy transition despite the volatile oil prices in the near-to-medium term. Hydrocarbon prospects worth INR5.78t are largely international, with INR5.51t concentrated in the Middle East, spanning both onshore and offshore projects, including INR1.31t in offshore wind.
Thermax	The recently announced US tariffs on select chemical imports could affect TMX's chemical segment. The company has an estimated USD15m in planned exports to the US for FY26, with broader exposure including cooling products at around USD30m. The impact on 2Q is expected to be minimal, as goods shipped before 7th Aug'25 are exempt from these tariffs. However, if tariffs continue beyond that, it may impact the future shipments and competitiveness of TMX, particularly in specialty chemicals, where Chinese players are already engaging in aggressive pricing.
Triveni Turbine	Export order inflows declined 40% YoY to INR2.5b in 1QFY26, hit by the geopolitical turmoil in the Middle East and South Asia. Several clients deferred decisions or shifted to European suppliers, leading to a 5% YoY contraction in TRIV's international enquiry pipeline. While traction declined in Europe, Southeast Asia, and SAARC, select markets like the US (+175% YoY), Central Asia, and Africa remained active, though conversions are slower. The US saw strong inquiry momentum, but order finalizations were delayed due to tariff and localization uncertainties. Triveni has invested in its US subsidiary, absorbing near-term losses to build presence. Europe saw a pause in investment activity but remains a key region for the company, contributing ~20% of export revenue, especially in waste-to-energy and renewables.
Zen Technologies	Zen received a lot of export inquiries over the past few months after Operation Sindoor. The company expects export ordering to ramp up from 2HFY26 and to be buoyed in FY27 for both simulators and anti-drone systems. Major regions include the US, South America, Africa, the Middle East, Southeast Asia, and some CIS countries. Further opportunities will arise from its subsidiary Vector Technics, which is eyeing opportunities in the Americas and Europe regions.
Companies not under our active coverage	
GE T&D	The share of exports in backlog has grown from the 18-20% range to 30%. Opportunities are particularly strong in the Middle East, Europe, Southeast Asia, and Korea.
TRIL	The company received its single largest export order in its history, valued at USD16.6m from a leading EPC player in Botswana. TRIL has an inquiry pipeline of INR180b, of which 25% is related to export orders, and the company targets total exports to form 10% of its total revenue in FY26.
CG Power	Exports remain a key strategic focus, with management noting progress in motors and transformers. The company has strengthened its go-to-market efforts by adding sales teams and distribution channels in regions such as Northwest Africa, Europe, and other international markets. It is investing in service centers abroad to support exports of both LT and customized motors, while also working on expanding transformer exports. Management stated that while the full benefits will take a few quarters to reflect, the momentum is building.
Carborundum Universal	CUMI reiterated that international growth remains central to its long-term strategy, with progress visible across key divisions. In Abrasives, Rhodius faced a temporary logistics disruption but is expected to stabilize from 2Q, while Awuko maintained steady sales. In Electrominerals, export momentum was sustained despite sanctions at VAW, with standalone operations reporting healthy international demand and progress in high-purity silicon carbide for advanced applications. Ceramics continued to benefit from global demand in engineered ceramics, metallized ceramics, and monolithic ceramics, with exports to high-tech industries such as EVs and semiconductors.
TD Power	Exports remain the key growth driver, contributing 66% of order inflow this quarter. TDPS has spent over a decade building presence in the US and Europe, with current demand driven by renewables, grid stabilization, and particularly the boom in data centers and AI power demand. Despite tariff headwinds, the company is implementing a "Plan B" by shifting part of production to Turkey to leverage lower duties, ensuring competitiveness vs. the European and Japanese peers.

Source: Company

Margin trajectory remains strong

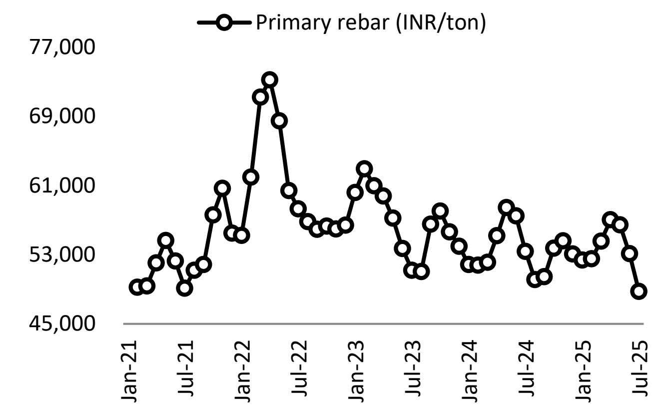
Exhibit 7: Management comments on future margins

Companies	Management Comments
Covered companies	
ABB India	Higher import content due to QCO compliance affected margins in 2QCY25. Forex headwinds (esp. EUR/CHF) also caused a 4.6% swing in material costs. Hence, near-term profitability remains mixed as the company used imported components to ensure deliveries. Gradually, margins are expected to normalize towards the 12-15% band, supported by increasing manufactured and service revenues.
BEL	The company has given EBITDA margin guidance of more than 27% for FY26.
Cummins India	Margins are expected to hold steady on sustained volumes, a favorable mix, and cost efficiencies.
Hindustan Aeronautics	The company expects to continue maintaining the current level of margin of 31% in FY26.
Hitachi Energy	The company expects margins to continue being in double digits in FY26.
Kalpataru Proj.	PBT margins are guided at 5.0-5.5% for standalone operations, with further improvement expected beyond FY26.
KEC International	KEC has retained its FY26 EBITDA margin guidance of 8.0-8.5% and aims to improve margins by 50-100bp in FY27.
Kirloskar Oil	With an improved product mix, the company aims to improve margins going forward.
L&T	Core E&C margin is targeted to be at 8.38.5%.
Thermax	Overall margin is expected to reach double digits in FY26. Industrial Infra margins will be driven by volumes, which saw a dip in 1Q. Chemical segment 2Q margin guidance of 12%-13%, with a medium-term target of 16%-17%.
Triveni Turbine	The company emphasized that turbine-related aftermarket offers better margin potential compared to relatively newer areas like heat pumps, primarily due to the higher frequency of spares and servicing required for rotating equipment. Going forward, TRIV aims to focus on higher-margin refurbishment projects rather than generic service contracts.
Zen Technologies	Zen has maintained its guidance of a 35% EBITDA margin and a PAT of 25% for FY26.
Companies not under our active coverage	
GE T&D	In 1QFY26, EBITDA margin rose to 29.1% (+1,000bp YoY), driven by higher export-led volumes, better pricing, and productivity gains, though this is expected to normalize in the coming quarters due to business cyclicality. In the earlier cycle, the backlog was more tilted toward projects that led to relatively lower margins. However, management currently states that GE T&D has shifted its focus towards exports and products, which is aiding its endeavor to generate higher margins. In FY25, the company delivered a margin of 19.1%, and going forward, it expects to further improve its margins.
TRIL	TRIL is now working in a direction where it can have a high-margin order book. The company aims to maintain its margin in the range of 17-18% going forward. The company has initiated the expansion of its CRGO processing along with the construction of its new backward integration units aimed at enhancing quality control and supporting its long-term vision for self-reliance.
CG Power	Management expects margins across segments to only get better going forward. PBT margins are expected to bounce back to the 14-15% range in the medium term, with power systems already delivering strong profitability at >20% EBITDA margins and expected to improve further.
Carborundum Universal	CUMI expects consolidated PBIT margins to decline by 250-300bp YoY in FY26 (vs drop of 100-150bp mentioned in previous call). Consolidated Ceramics segment PBIT margins to be at 23.5-23.7%, Electrominerals at 4.5-5.5% (vs 6.5-7.5% earlier), and Abrasives at 6.0-6.5% (vs. 8.0-8.5% earlier).
TD Power	Management guided the FY26 margin to be stable at current levels with the possibility of ±0.5% variance. Confidence is backed by tariff mitigation through Turkey, cost control, and high-margin hydro refurbishment orders.
Texmaco Rail	The company reported an EBITDA margin of 8.7% in 1QFY26. Management has guided a low double-digit margin for FY26.
Titagarh	The company maintains its EBITDA margin guidance for the Freight business at 10-12% for FY26, and within passenger coaches, the Vande Bharat and metro coaches' margins are expected to be similar to its international business, i.e., 10-12%, and the propulsion business margin is likely to be higher at ~15-20%.
Jupiter Wagons	JWL maintains its EBITDA margin guidance of 14%-15%. While it faced some wheel supply issues at the start of FY26, it has now stabilized from July onwards, and the company expects the last two quarters to make up for the lost ground in 1Q.
Mazagon Dock	The company maintains its guidance of 15% PBT margins for FY26.
Garden Reach	Management mentioned that GRSE reported its best-ever financials in FY25 and that similar growth momentum is expected in FY26 and FY27 as P-17 Alpha runs through completion in Aug'26.
Astra Microwave	The company expects to maintain its margin of ~18% at the PBT level.

Source: Company

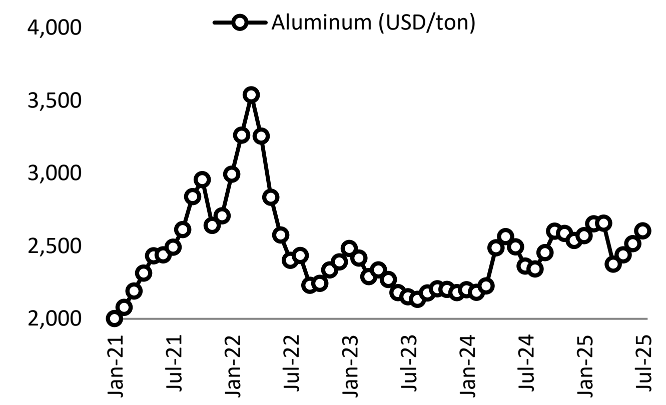
Commodity prices largely benign

Exhibit 8: Primary rebar price trend (INR/ton)



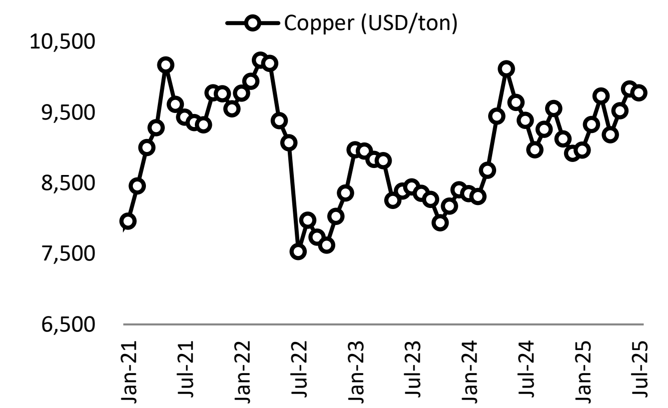
Source: Bloomberg, MOFSL

Exhibit 9: Aluminum price trend (USD/ton)



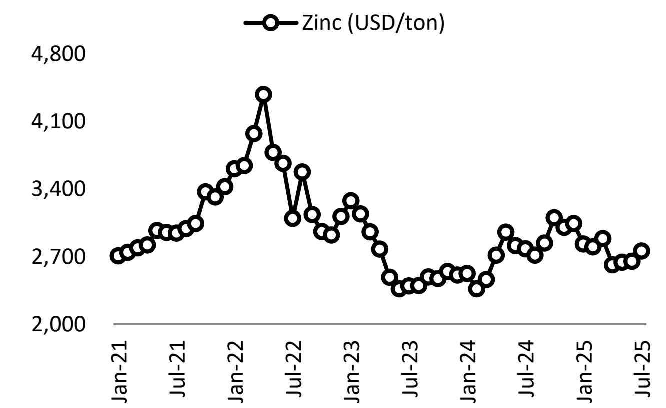
Source: Bloomberg, MOFSL

Exhibit 10: Copper price trend (USD/ton)



Source: Bloomberg, MOFSL

Exhibit 11: Zinc price trend (USD/ton)



Source: Bloomberg, MOFSL

Sector valuations have dipped over the last one year as growth expectations have moderated

Exhibit 12: Target valuations for the core business and expected growth over FY25-28

Companies	Target Multiple	TP (INR)	CAGR FY25-28 (%)		
			Revenue	EBITDA	PAT
ABB India*	55x	6,000	12.9	8.2	8.1
Bharat Dynamics	42x	1,900	34.5	63.8	51.4
Bharat Electronics	45x	490	17.8	16.9	17.4
Cummins India	41x	4,350	16.4	16.1	16.8
Hindustan Aeronautics	32x	5,800	23.6	18.4	16.6
Hitachi Energy	60x	16,500	30.5	53.5	60.4
Kalpataru Proj.	18x	1,450	17.3	21.3	30.3
KEC International	21x	950	17.5	24.0	35.7
Kirloskar Oil	25x	1,230	15.1	17.2	18.3
Larsen & Toubro	28x	4,200	15.2	16.2	20.1
Siemens#	45x	3,300	11.2	17.0	11.1
Siemens Energy*	60x	3,600	24.7	39.1	44.5
Thermax	40x	3,450	11.1	20.6	18.8
Triveni Turbine	40x	620	14.4	13.9	14.2
Zen Technologies	30x	1,650	25.1	29.1	28.1
Amber Enterprises	DCF-based	9,000	24.1	31.6	54.0
Dixon Technologies	DCF-based	22,300	35.5	41.1	45.6

Source: Company, MOFSL

Note: *ABB India CAGR for CY24-26 (Dec ending), Siemens Energy CAGR for Sep'24-Sep'28

#Siemens CAGR for 3.5 years from Oct'24-Mar'28

Exhibit 13: Capital Goods & Defense – relative valuation

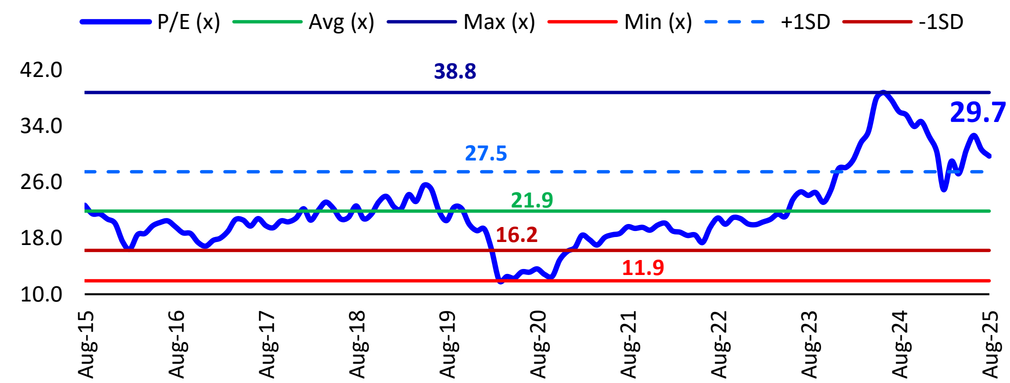
Companies	CMP	TP	% upside	Rating	Mcap (INR b)	EPS (INR)			P/E (X)			RoE (%)			RoCE (%)		
						FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
ABB India	5,001	6,000	20	BUY	1,060	80.0	95.1	111.9	62.5	52.6	44.7	22.8	24.6	26.2	23.0	24.8	26.3
BDL	1,429	1,900	33	BUY	524	28.2	37.8	52.0	50.6	37.8	27.5	21.5	23.3	25.2	22.1	23.8	25.6
BEL	364	490	35	BUY	2,660	8.2	9.8	11.7	44.3	37.0	31.1	24.0	22.9	22.1	26.9	25.5	24.4
Cummins India	3,827	4,350	14	BUY	1,061	83.5	98.4	114.3	45.8	38.9	33.5	30.9	32.1	32.8	29.4	30.6	31.3
HAL	4,345	5,800	33	BUY	2,906	141.2	161.2	197.9	30.8	26.9	22.0	22.6	21.8	22.2	23.4	22.4	22.6
Hitachi Energy	19,540	16,500	-16	SELL	871	177.4	238.4	319.9	110.1	82.0	61.1	15.9	17.6	19.2	16.8	18.4	19.8
KEC	809	950	17	NEUTRAL	215	34.9	44.2	53.6	23.2	18.3	15.1	16.2	17.9	18.6	15.0	16.1	16.8
KOEL	899	1,230	37	BUY	130	33.6	40.9	47.6	26.8	22.0	18.9	15.3	16.4	16.8	15.0	16.1	16.6
KPIL	1,266	1,450	15	BUY	216	57.0	74.9	87.0	22.2	16.9	14.6	12.8	14.8	15.0	11.3	13.0	13.4
L&T	3,565	4,200	18	BUY	4,901	130.5	155.1	185.0	27.3	23.0	19.3	17.3	18.2	19.1	9.7	10.4	11.2
Siemens*	3,047	3,300	8	NEUTRAL	1,085	76.8	66.9	77.8	39.7	45.5	39.2	15.1	11.6	11.9	15.4	11.8	12.1
Siemens Energy	3,384	3,600	6	Buy	1,205	31.6	40.0	59.2	107.0	84.6	57.2	25.9	24.7	26.8	27.6	25.9	27.7
Thermax	3,188	3,450	8	SELL	359	68.0	79.8	94.6	46.9	39.9	33.7	14.6	15.2	15.9	12.4	12.9	13.6
Triveni Turbine	518	620	20	BUY	165	11.8	14.0	16.8	44.0	37.0	30.9	27.7	27.1	26.7	27.9	27.2	26.9
Zen Tech	1,457	1,650	13	NEUTRAL	132	29.8	46.7	61.2	48.9	31.2	23.8	14.7	19.4	20.8	14.7	19.4	20.8
Amber	7,240	9,000	24	BUY	245	116.2	181.4	262.9	62.3	39.9	27.5	15.8	20.6	23.8	13.3	16.3	19.0
Dixon	16,704	22,300	34	BUY	1,006	173.5	275.2	361.7	96.3	60.7	46.2	29.8	34.5	32.7	37.1	45.5	41.9

Source: Company, MOFSL

Note: Siemens Energy/ABB have Sep/Dec year-ends. CMP as on 28 Aug'25.

*For Siemens, FY26E data is for 18 months Mar Y/E, FY27E/FY28E is for 12 months Mar Y/E

Exhibit 14: Overall valuations for capital goods and the defense sectors are still down from the previous highs on a two-year forward basis – P/E (x)



Source: Bloomberg, MOFSL

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NEUTRAL	< - 10 % to 15%
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