

Infra orders

Capex engines keep capital goods running

Robust order books, infrastructure push, and defence spending drive sectoral resilience.

by Sameer Bhardwaj

The capital goods sector has demonstrated resilience, buoyed by strong order inflows and sustained demand from infrastructure, power, and defence industries, alongside a government-led capex cycle. Many companies in this space maintain robust order books, ensuring multi-year revenue visibility.

This strength was evident in the December 2025 quarter, when 33 firms in the BSE Capital Goods index reported an aggregate net profit growth of 31.8% (adjusted for extraordinary items), significantly outpacing the 11.9% earnings growth posted by BSE Sensex companies, according to data compiled from Reuters-Refinitiv.

Despite global geopolitical headwinds weighing on most sectoral indices, the BSE Capital Goods index has risen 5.2% year-to-date, while the broader BSE 500 has declined 5.9%. As of 6 March 2026, it stands as the second-best performer among BSE's 15 sectoral indices, trailing only the metals index.

Brokerage houses, including Motilal Oswal, Elara Capital and Nuvama, rating agency ICRA and Tata Mutual Fund remain constructive on the sector's outlook. Their optimism is largely driven by improved budgetary allocations and continued spending across high-growth areas in both domestic and international markets. The Union Budget has raised the capex outlay to ₹12.2 trillion for 2026-27, reflecting a 12% increase over the revised ₹10.9 trillion for 2025-26. Defence capital expenditure surged 18% year-on-year to ₹2.2 trillion.

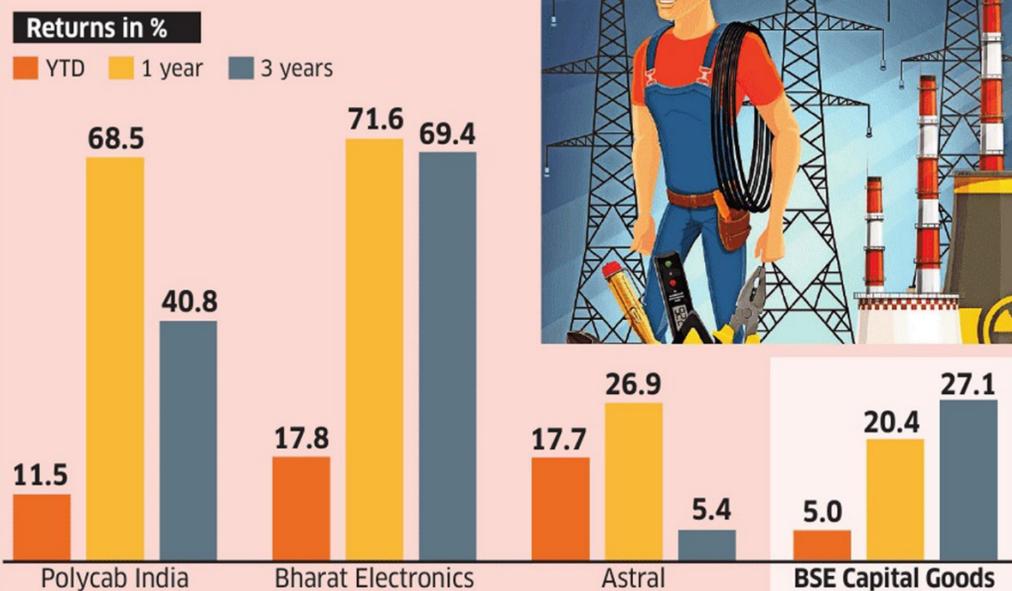
Motilal Oswal notes that while private capex remains selective—focused on thermal, metals and mining, automobiles, and cement—newer segments such as renewables, grid expansion, and data centres are gaining momentum. This is further supported by policy incentives, including the proposed tax holiday for data centres until 2047.

Export growth prospects are set to strengthen, supported by recent trade agreements with the United States and the European Union. Key segments such as industrial equipment, electronics, transformers, and defence are expected to benefit from improved export momentum in the coming years.

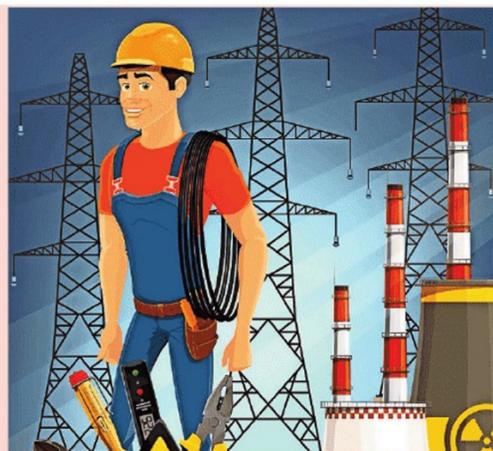
Analysts highlight that the power transmission and distribution (T&D) segment offers strong multi-year growth visibility. According to Nuvama, incremental ordering is expected to rise from emerging sectors such as data centres, electric vehicles, batteries, semiconductors, and electronics.

While private sector capex remains uneven, the report notes that recent traction in steel and oil & gas orders, combined with government initiatives—such as tax cuts, goods and services tax (GST) reforms, production-

Speeding up



Price as on 6 March 2026. Returns greater than one year are compounded annualised. Source: Reuters-Refinitiv.



In high gear

Polycab India PRICE ₹8,552

ANALYSTS' RECOMMENDATIONS		
BUY	HOLD	SELL
23	5	2

Bharat Electronics ₹468

ANALYSTS' RECOMMENDATIONS		
BUY	HOLD	SELL
21	1	4

Astral ₹1,689

ANALYSTS' RECOMMENDATIONS		
BUY	HOLD	SELL
21	7	1

Price as on 6 March 2026. Source: Reuters-Refinitiv.

linked incentives (PLIs), rate reductions and liquidity support—could pave the way for a broader and more sustained private investment cycle.

Margins outlook

The sector continues to grapple with commodity price pressures, which remain a key challenge for sustaining profitability. An ICRA note highlights that companies' ability to effectively pass on fluctuations in commodity costs will be critical to maintaining operating margins.

The recent surge in crude oil and other commodity prices, driven by geopolitical tensions, has added a new layer of cost volatility. Rising energy prices typically push up logistics, freight, and input costs, which can squeeze margins—particularly for firms operating under fixed-price contracts in EPC (engineering, procurement, and construction)-heavy models.

Sanjiv Bajaj, Joint Chairman and MD of

Bajaj Capital, observes that while overall sector earnings should remain healthy, margin performance will increasingly vary by company. He emphasises that firms with strong order books, efficient execution, and disciplined bidding strategies are better positioned to sustain stable profitability. In contrast, companies heavily dependent on low-margin project execution may face earnings pressure if elevated input costs persist over the medium term.

Impact of West Asia conflict

The current tensions in West Asia are expected to create short-term uncertainties, particularly for engineering firms with significant overseas project exposure. According to a report by Emkay, companies such as Larsen & Toubro and KEC International may face challenges due to delays or cancellations in new project awards and execution of ongoing contracts.

India's domestic demand continues to be resilient, supported by infrastructure investments, power capacity expansion, and defence procurement initiatives. Bajaj echoes this view, noting that while geopolitical risks could introduce short-term volatility and affect companies with overseas exposure, the sector's long-term growth drivers remain intact. As long as the conflict does not trigger a prolonged energy shock or a deep global slowdown, the structural fundamentals of the industry are expected to hold strong.

Sector valuations

Valuations in the capital goods sector have re-rated significantly in recent years, and analysts believe that the re-rating phase has largely played out. Future returns are likely to depend more on earnings delivery and execution quality. In other words, the market is likely to differentiate between companies with strong fundamentals and those driven

primarily by market optimism.

The current price-to-earnings ratio of the BSE Capital Goods index continues to remain at a premium. According to BSE data, this premium is 12.3% compared to the last one-year average. Bajaj notes that compared with many other cyclical sectors, capital goods companies offer better earnings visibility, stronger balance sheets, and relatively stable order pipelines, which justifies part of this valuation premium.

Investor approach

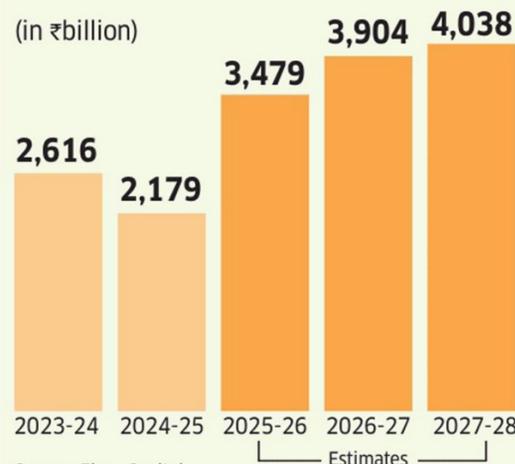
Experts advise investors to focus on companies with strong order visibility, disciplined capital allocation, healthy balance sheets, and the ability to convert order books into sustainable cash flows. Segment-wise, power equipment, industrial electrification, defence electronics, and diversified engineering remain better positioned to benefit from the ongoing capex cycle.

Retail investors, in particular, are encouraged to approach the sector with a long-term perspective. Among the BSE Capital Goods constituents, Polycab India, Bharat Electronics, and Astral have received the largest number of buy ratings from analysts, suggests data compiled by Reuters-Refinitiv:

- **Polycab India:** Known for its strong balance sheet, healthy return ratios, market share gains, and leadership in the cables and wires segment.
- **Bharat Electronics:** Buoyed by healthy execution, strong export potential, and a promising order pipeline.
- **Astral:** Favoured due to its aggressive capacity expansion and backward integration plans.

Capital goods order books swell

Strong order inflows will sustain revenue growth in the future.



Source: Elara Capital

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