

## Capital Goods & Defence

### Price Performance

Company (%)	3M	6M	12M
Garden Reach Shipbuilders & Engineers	(9.6)	(13.2)	59.4
Bharat Electronics	1.5	(1.5)	47.3
Cummins	4.1	18.4	30.2
Bharat Dynamics	0.9	(22.1)	29.8
Hindustan Aeronautics	(7.6)	(10.4)	9.0
BEML	(16.5)	(19.5)	(2.5)
RITES	(6.2)	(15.7)	(15.4)
Thermax	(3.8)	(11.4)	(23.1)
ABB India	(2.4)	(14.0)	(24.6)
KEC International	(19.9)	(22.1)	(34.7)
Zen Technology	(6.0)	(31.9)	(46.1)
Siemens	(5.3)	(8.7)	(52.2)

Source: ACE Equity, Elara Securities Research

### Sector preview & stock positioning

- Our coverage universe is likely to witness healthy PAT growth of 12% YoY, supported by reasonable performance in BEML (BEML IN), Hindustan Aeronautics (HNAL IN), KEC International (KECI IN) and RITES (RITE IN). We remain positive on the sector as government capital expenditure continues while private capex remains muted, especially in core industries, such as steel and cement. Although private capex is taking place in select pockets, such as new-age sectors like data centers, renewables, and semiconductors.
- The defence sector continues to be in a sweet spot as the Defence Acquisition Council (DAC) has accorded proposals worth INR 3.3tn FY26 YTD, up 94% YoY. The Ministry of Defence (MoD) has achieved 80% pr ~INR 1.2tn of defence capex YTD until December 2025 (defence Capex ex-R&D stands at INR 1.5tn in FY26).

### Key monitorable and trigger points

- Key monitorable would be the upcoming Union Budget and update on large ticket orders, such as QRSAM at INR 400bn, next-generation *Corvette* at INR 360bn, P75I Submarine at INR 700bn and *Pinaka* guided missile of INR 50-100bn.

### Leaders

- BEML (BEML IN):** Revenue is set to grow 6% YoY, led by healthy execution in defence along with rail & metro (R&M) while mining is likely to pick up in Q4FY26. Margin is likely to expand 150bp YoY, driven by revenue mix and operating leverage.
- Hindustan Aeronautics (HNAL IN):** We expect revenue growth of 6% YoY, driven by healthy execution in repair & overhaul (RoH), followed by manufacturing revenue while margin is likely to surprise on the positive, spiking 140bp YoY to 25.6% (vs margin dilution in Q2FY26), dragged by higher contribution from manufacturing and provisions doubling YoY in Q2.
- RITES (RITE IN):** RITE is poised to deliver revenue growth of 5% YoY and margin is likely to expand 290bp YoY, driven by execution of better margin orders and set to rebound from H2FY26, with scope for margin improvement, led by execution of high-value exports orders. We expect earnings growth of 28% YoY during the quarter.

### Laggards

- ABB India (ABB IN):** Overall performance is set to remain muted, as we believe QCO related norms could weigh on near-term margin performance and sluggishness in the macro environment is set to delay revival in private capex activity.

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### Peer valuation

Name	Ticker	Rating	Mcap	CMP	TP	Upside	Sales (INR mn)			EBITDA (INR mn)			PAT (INR mn)		
			(INR bn)	(INR)	(INR)	(%)	Q3FY26E	YoY (%)	QoQ (%)	Q3FY26E	YoY (%)	QoQ (%)	Q3FY26E	YoY (%)	QoQ (%)
Bharat Electronics	BHE IN	Accumulate	3,038.3	416	470	13.1	63,478	10.0	9.6	17,449	4.5	2.5	13,413	3.1	4.9
Hindustan Aeronautics	HNAL IN	Buy	2,996.0	4,480	5,680	26.8	73,795	6.1	11.3	18,872	12.2	21.1	18,585	29.1	11.4
Cummins	KKC IN	Accumulate	1,141.5	4,118	4,780	16.1	31,601	2.4	(0.3)	6,666	11.1	(4.1)	6,067	18.0	(4.9)
Siemens	SIEM IN	Accumulate	1,071.7	3,010	3,550	18.0	40,190	12.0	(22.3)	4,092	2.1	(33.7)	3,450	(7.3)	(28.9)
ABB India	ABB IN	Reduce	1,064.0	5,021	5,030	0.2	31,596	2.6	(6.1)	5,823	3.0	(11.4)	4,741	3.2	(10.9)
Bharat Dynamics	BDL IN	Accumulate	562.2	1,534	1,625	6.0	9,641	15.9	(15.9)	1,777	(32.0)	(5.2)	2,137	(24.1)	(1.0)
Thermax	TMX IN	Reduce	364.8	3,061	3,220	5.2	26,592	6.0	7.5	2,116	11.9	23.0	1,510	32.2	26.3
Garden Reach Shipbuilders	GRSE IN	Sell	281.7	2,459	2,200	(10.5)	16,777	32.0	0.0	1,664	120.9	6.6	1,617	64.7	5.2
KEC International	KECI IN	Buy	182.3	685	930	35.8	61,072	14.2	0.3	4,506	20.3	4.7	1,973	52.3	22.7
BEML	BEML IN	Buy	151.6	1,820	2,700	48.3	9,275	5.9	10.5	780	29.3	6.6	394	61.4	(18.0)
Zen Technology	ZEN IN	Buy	120.1	1,330	2,120	59.4	1,446	(5.0)	(16.7)	502	13.6	(22.5)	460	7.8	(24.7)
RITES	RITE IN	Buy	113.7	237	320	35.2	6,029	4.7	9.9	1,401	19.4	8.1	1,164	28.1	6.7

Note: Pricing as on 8 January 2026; TP and Rating as per last published report; Source: Bloomberg, Elara Securities Estimate