ICRA

PRESS RELEASE

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Fuelled by continued investments in the end-user industries, ICRA assigns a positive outlook on the capital goods sector

- *After a strong compounded annual growth rate (CAGR) of around 20% over the last three years, the industry is anticipated to grow at a healthy rate of around 13-15% over the next two to three years despite the high base*

ICRA's analysis of 17 leading, listed entities (accounting for around 55% of the total revenues of the industry) operating in the capital goods segment indicates prospects of continued healthy revenue growth of around 13-15% for FY2025 and FY2026. Further, the margins are expected to expand and ICRA expects median operating profit growth of around 16-18% for FY2026, even after witnessing robust growth in the last 3-4 years.

Girishkumar Kadam, Senior Vice President and Group Head, Corporate Ratings, ICRA Ltd., said**:** "*The sustained investments in the end-user industries, especially the strong capacity additions in the renewable power space and simultaneously high capex in the transmission and distribution infrastructure bodes well for the demand prospects of the capital goods industry. The order book position of the ICRA sample set companies is at all-time high levels and is growing at a healthy pace with a CAGR of around 19%, amounting to Rs 141,000 crore as on September 30, 2024. Moreover, the budgetary allocation for the Government capex has been enhanced to Rs. 11.2 lakh crore for FY2026, which, along with planned capacity additions in the cement, steel, oil and gas sectors, is likely to keep the order book position elevated."*

Power sector, which remains a key end-user industry for the capital goods segment is slated to witness significant capital expenditure estimated at about Rs. 25 lakh crore over the next five-year period for capacity addition in renewable & thermal generation, as well as for strengthening of transmission & distribution network, along with storage capacity. Further, capacity expansion plans in the **cement** sector remain robust with the sector slated to add more than 40 MTPA capacity in FY2026, while **data centre** capacity is expected to be doubled by FY2027. These, along with **refinery** capacity expansion and growth in **real estate** and **infrastructure** are likely to provide a fillip to the capital goods industry.

"*The healthy order book position of the capital goods companies, especially those catering to the power sector, is likely to translate into revenue growth of around 13-15% for FY2026, which is expected to result in a median operating profit growth for ICRA's sample set of around 16-18% for FY2026. This median growth surpasses the ICRA benchmark threshold for outlook change, prompting an outlook revision to Positive,"* **Kadam** reiterated.

Exhibit 1: Trend in order book movement

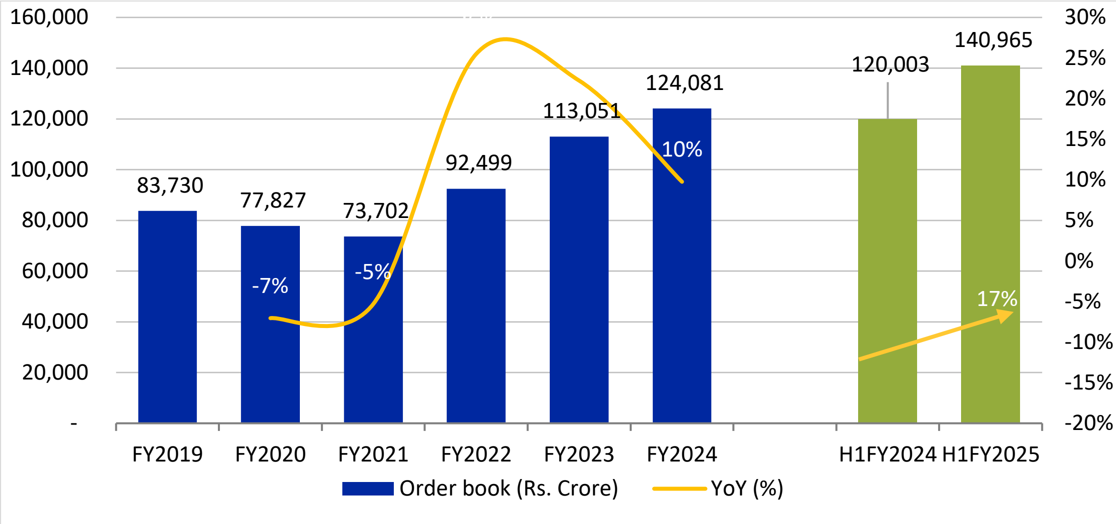


Exhibit 2: Trend in operating income and margins

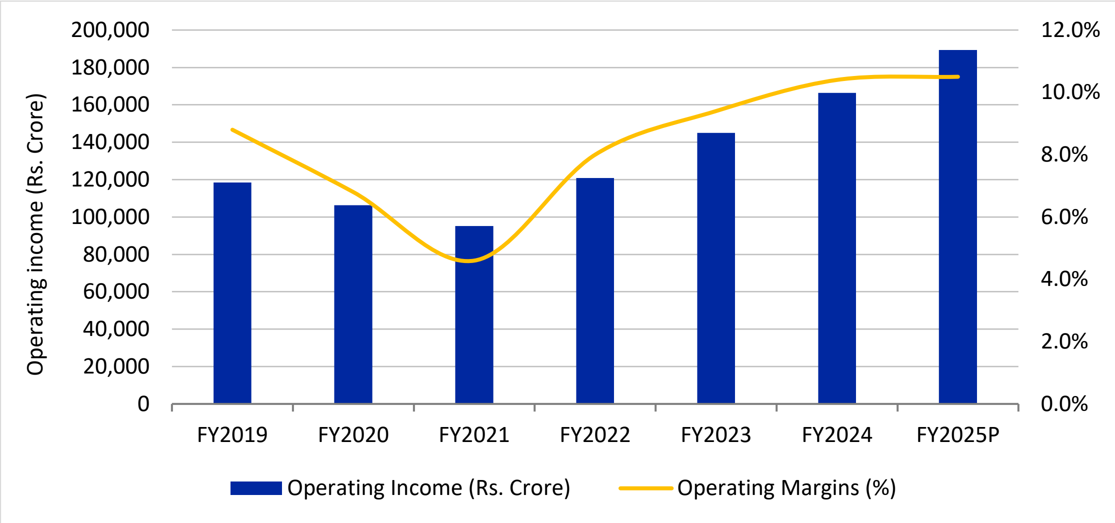
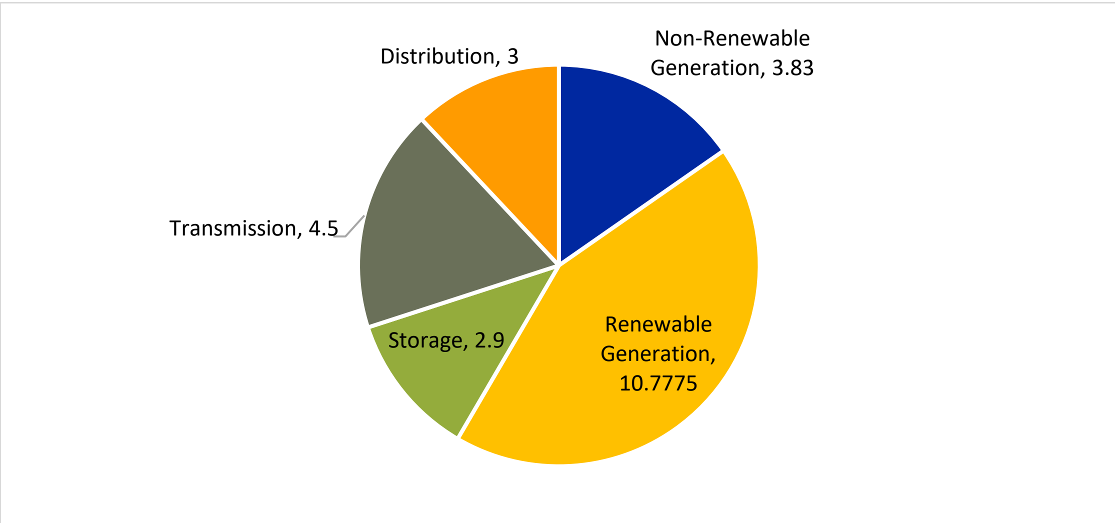


Exhibit 3: Aggregated capex projection for power sector over FY2026-FY2030 (Rs. lakh crore)



Source: ICRA Research

Media Contacts:	
Naznin Prodhani Head Group Media & Corporate Communications ICRA Ltd Tel: + (91 124) 4545300, Email: naznin.prodhani@icraindia.com	**Ashwani Singh** Deputy Manager - Media & Communications ICRA Ltd Tel: +91- 9560842447 Email: ashwani.singh@icraindia.com

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