

Fundamental Analysis of India's Capital Goods & Engineering Sector: BHEL & KEC International Limited

CA Dr. Shyamsundar Das¹, Hitakshi Maniar²

¹Director, Post graduate Diploma in Management, MET

²Student, Post Graduate Diploma in Management, MET

Abstract

This research paper presents an in-depth fundamental analysis of two leading companies in India's Capital Goods and Engineering sector—Bharat Heavy Electricals Limited (BHEL) and KEC International Limited. Relying exclusively on secondary data, the study examines the financial performance, operational efficiency, and long-term investment outlook of both firms during a period of strong national infrastructure expansion. The analysis incorporates profitability, liquidity, solvency, and efficiency ratios, along with assessment of order book strength, business diversification, and multi-year performance trends. Valuation techniques including EV/EBITDA, EV/Sales, and Discounted Cash Flow (DCF) are applied to estimate the intrinsic value of both companies. Findings indicate that BHEL is supported by robust order inflows across thermal, hydro, nuclear, and renewable segments, while KEC International benefits from strong domestic and global T&D opportunities, improved execution, and a healthy order pipeline. Both firms demonstrate solid growth visibility driven by rising government capex and expanding infrastructure needs. Based on the combined fundamental and valuation insights, the study recommends a **BUY** rating for both BHEL and KEC International, highlighting their favourable long-term prospects within the evolving engineering and EPC landscape of India.

Keywords: Capital Goods Sector, BHEL, KEC International, Fundamental Analysis, Financial Ratios, Order Book, Infrastructure Development, Valuation Models, DCF, EV/EBITDA, EPC Sector, Investment Recommendation, Indian Engineering Industry.

1. Introduction

The Engineering & Capital Goods sector plays a central role in India's economic growth, supporting expansion in power generation, transmission, railways, and large-scale infrastructure. With rising government capex and increasing demand for high-quality engineering solutions, the sector has become a key driver of national development.

This research focuses on two major companies in the sector—Bharat Heavy Electricals Limited (BHEL) and KEC International Limited. BHEL is one of India's largest engineering and manufacturing firms, known for its role in power equipment and national energy projects. KEC International is a diversified

global EPC company engaged in transmission and distribution, railways, civil construction, and other infrastructure verticals. Both companies have strong order books and operate in high-growth segments of the economy.

Using a fundamental analysis approach, the study evaluates their financial performance, profitability, liquidity, solvency, efficiency, and long-term sustainability. Secondary data from annual reports, investor presentations, and industry sources form the basis of this assessment. By analysing BHEL and KEC within the broader sector context, this research aims to provide a clear understanding of their competitive position and future potential in India's evolving infrastructure landscape.

Objectives

1. To analyse the financial performance of BHEL and KEC International using key fundamental parameters such as profitability, liquidity, solvency, and efficiency ratios.
2. To evaluate multi-year trends in revenue, margins, and operational performance of both companies based on secondary data sourced from annual reports and investor presentations.
3. To examine the order book strength and business diversification of BHEL and KEC International to understand their long-term growth visibility.
4. To apply fundamental valuation techniques such as P/E, EV/EBITDA, EV/Sales, and DCF to estimate the fair value of both companies.

Literature Review

1. **Oberoi, R. (2012).** This study examines the corporate governance practices of Bharat Heavy Electricals Limited (BHEL) as a major Central Public Sector Enterprise. It highlights the importance of transparency, accountability, and ethical management in public sector organizations. The research notes that BHEL follows strong governance standards aligned with Department of Public Enterprises (DPE) guidelines, supported by internal controls, independent board committees, and regular disclosures. The study also emphasizes the role of the Board of Directors in strategic decision-making and safeguarding stakeholder interests. Although challenges such as bureaucratic processes and limited board autonomy exist, BHEL is presented as a model CPSE with effective governance that enhances operational efficiency and stakeholder trust.
2. **Ramteke and Pramanik (2025).** This study examines how automation at KEC International's Butibori warehouse improves operational efficiency. Technologies like barcode scanning and real-time tracking reduce errors, speed up processes, and cut costs. Key factors for success include employee training and digital integration. Despite challenges like resistance to change and high costs, automation enhances safety, space use, and overall productivity, proving vital for competitive in EPC operations.
3. **Sharma, K. D., & Bhardwaj, A. (2025).** This study examines the role of e-learning in enhancing workforce capability at KEC International Limited. It highlights how digital training methods improve accessibility, consistency, and retention of technical, safety, and project management

skills. E-learning enables upskilling of remote and site-level employees with minimal disruption. Key advantages include cost-effectiveness and scalability, while challenges involve digital literacy gaps and resistance to change. The study concludes that e-learning is a strategic enabler of operational excellence in the power and EPC sector.

4. **Khatik, S. K. (2016).** This study examines the Corporate Social Responsibility (CSR) practices of BHEL, a leading public sector enterprise in India. It highlights BHEL's commitment to social development beyond statutory requirements, focusing on education, healthcare, rural development, and environmental sustainability. BHEL adopts a needs-based approach aligned with local community priorities and integrates CSR into its core business strategy. The study emphasizes stakeholder engagement, long-term impact, and transparent reporting, presenting CSR as a tool for inclusive growth and nation-building in public sector firms.

Other Resources

1. Screener – Consolidated Balance Sheet : BHEL & KEC International Limited
2. Bharat Heavy Electricals Limited. (2025). Annual Report 2024–25.
3. Bharat Heavy Electricals Limited. (2025). Investor Presentation Q4 FY25.
4. Bharat Heavy Electricals Limited. (2025). Q4 FY25 Earnings Call Transcript.
5. KEC International Limited. (2025). Annual Report 2024–25.
6. KEC International Limited. (2025). Investor Presentation Q4 FY25.
7. KEC International Limited. (2025). Q4 FY25 Earnings Call Transcript.
8. Regulatory filings on NSE/BSE portals.
9. Financial websites such as Money control, Yahoo Finance, TradingView.
10. Policy documents from SEBI.

Research Methodology

This study adopts a quantitative and fundamental research approach to analyse the financial and investment attractiveness of two companies from India's Capital Goods & Engineering sector — BHEL and KEC International Ltd. The methodology is based exclusively on secondary data.

Data was collected from company annual reports, investor presentations, earnings call transcripts, BSE/NSE filings, financial databases (Screener.in, Moneycontrol, Yahoo Finance), and brokerage/analyst reports. The study covers a four-year period (FY 2021–22 to FY 2024–25) to evaluate financial performance trends during India's post-pandemic capex revival.

The analysis includes:

- Financial Statement Analysis of income statements, balance sheets, and cash flows
- Ratio Analysis to assess liquidity, profitability, solvency, leverage, and return efficiency
- Trend and Comparative Analysis of revenue growth, margins, order book and earnings trajectory
- Valuation Modelling using Relative Multiples (EV/EBITDA, EV/Sales, P/E) and Discounted Cash Flow (DCF) to estimate fair value and derive investment recommendations

All computations, projections, and valuations were carried out using Microsoft Excel. No primary data

collection or survey-based methods were used.

This methodology enables systematic and objective evaluation of the long-term investment potential of the selected companies based on financial fundamentals and valuation metrics.

DATA ANALYSIS

Bharat Heavy Electricals (BHEL IN)

Capital Goods

Market Data				
Market Cap (Rs.cr)		1,00,283		
Bloomberg Code		BHEL IN		
Reuters Code		BHEL.BO		
52-week High (INR)		291		
52-week Low (INR)		176		
Free Float (%)		36.8		
Dividend Yield		0.2		
Shareholding Pattern (%)				
Promoter's		63.17		
Foreign		6.23		
Domestic Institution		18.62		
Public & Others		11.98		
Price Performance (%)		3m	6m	12m
Absolute		29	14.1	27.7
Relative to Nifty		23.6	10.9	18.2

About the Stock:

BHEL is one of India's largest engineering and manufacturing enterprises, involved in the design, engineering, construction, testing, commissioning, and servicing of a diverse portfolio of more than 180 products. These offerings cater to the critical infrastructure needs of the nation's core sectors.

The company primarily operates in the Power sector (approximately 76% of revenue) and the Industrial segment (around 24%), with a major focus on the domestic market.

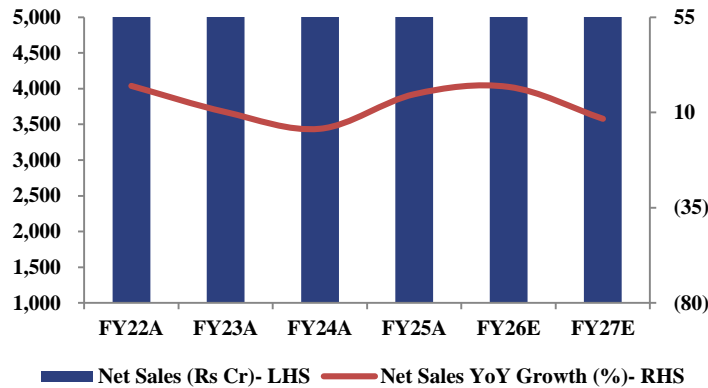
With India's growing requirement for reliable base-load thermal power capacity and a robust pipeline of infrastructure projects, BHEL is strategically positioned to benefit from increasing demand.

Its strong order book ensures healthy revenue visibility over the medium term, supporting sustained growth prospects.

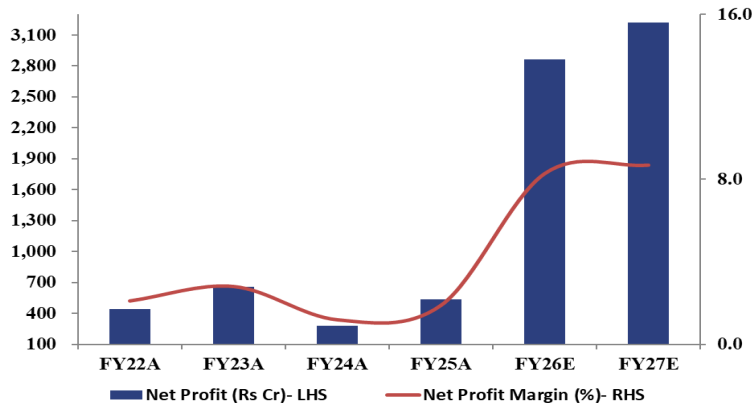
Financial Summary

Y/E Mar (Rs crore)	2022A	2023A	2024A	2025A	2026E	2027E
Net Revenue	21,211.1	23,364.9	23,892.8	28,339.5	34,596.3	37,013.3
Operating expenses	20,475.5	22,412.2	23,280.2	27,097.9	31,146.4	32,651.3
EBITDA	735.6	952.7	612.6	1,241.6	3,449.9	4,362.0
EBITDA Margin	3.5	4.1	2.6	4.4	10.0	11.8
Net Profit	444.7	654.1	282.2	533.9	2,866.7	3,219.6
EPS (INR)	1.3	1.9	0.8	1.5	8.2	9.2
EPS % Chg YoY	-	0.5	(0.6)	0.9	4.4	0.1
P/E	203.6	138.4	320.8	169.6	31.6	28.1
EV/EBITDA	127.1	97.9	157.5	78.8	25.7	19.9
ROCE(%)	0.0	0.0	0.0	0.0	0.1	0.1
ROE	1.7	2.6	1.2	2.2	10.9	11.0

Graphical Data Analysis



Net Sales and YoY Growth (%)



Net Profit and Net Profit Margin (%)

Fair Valuation

Bharat Heavy Electronic Limited Valuation of Equity Shares Fair Value Summary December 3, 2025						
(Amount in Crores)						
Particulars	Enterprise Value	Adjustments		Equity Value (Without	Weights	Weighted Average
		Debt	Cash	Without		
Discounted Cash Flow Method	132,718	2,213	7,612	130,506	50.00%	65,253
EV/EBITDA	67,439			67,439	25.00%	16,860
EV/Sales	48,757	-	-	48,757	25.00%	12,189
Weighted Average Value of Equity (Without Cash)					100.00%	94,302
Less: Contingent Liabilities						-
Fair value of Equity without Cash						94,302
Less: Illiquidity Discount						-
Fair Value of Equity (Post Illiquidity Discount)						94,302
Add: Cash						7,612
Fair Value of Equity						101,914
Number of Equity Shares Outstanding as on the Valuation Date (Count)						348.21
Fair Value of Equity per Share (Amount in INR)						293

Notes :

- The fair value of equity shares has been determined as on December 3, 2025.
- The EV/EBITDA and EV/Sales multiples have been sourced from Professor Aswath Damodaran's industry data available on the NYU Stern website. (Though the context of damodaran and mine may not same which may impact the valuation)
- The final equity value includes ₹7,154 crores of cash, added after applying the valuation methods and adjustments
- The number of equity shares considered for per share valuation is 348.21 crores, based on data available as of the valuation date.

Source of Information for calculating WACC :

- Risk free rate (Rf) - 10-Year G-Sec Par Yield (FBIL)
https://m.rbi.org.in/Scripts/BS_NSDDisplay.aspx?param=4
- Market Risk Premium (Rp) - Market Premium for Indian Markets from Damodaran Database
- Company Specific Risk Premium (CSRP) – 5% - On account of uncertainty on achieving projections, technology obsolescence, government regulations etc.

K E C International Ltd (KECI:IN) Engineering/ Infrastructure

Market Data

Market Cap (Rs Cr)	20,166
Bloomberg Code	KECI IN
Reuters Code	KECL.NS
52-week High (INR)	1,312
52-week Low (INR)	605
Dividend Yield (%)	0.7

ADTV-3M (Mn) (USD) 35.8

Shareholding Pattern (%)

Promoter's	50.1
Foreign	15.9
MF's/ UTI's	22.5
Public & Others	11.4

Price Performance (%)	3m	6m	12m
Absolute	(3.00)	4	(23.00)
Relative to Nifty	(7.00)	1.00	(28.00)

About the stock:

KEC International (KEC) is one of the EPC majors in key infrastructure sectors such as power T&D, railways, civil, urban infrastructure, solar, smart infrastructure, oil & gas pipelines and cables.

A strategic mix in portfolio of T&D (65%) and non-T&D (35%)

Strong T&D prospects in domestic and international markets (35% of backlog from international markets)

Management is targeting 8% EBITDA margin for FY26, requiring >8.5% margins in H2 to achieve this, given H1 margins were 7%.

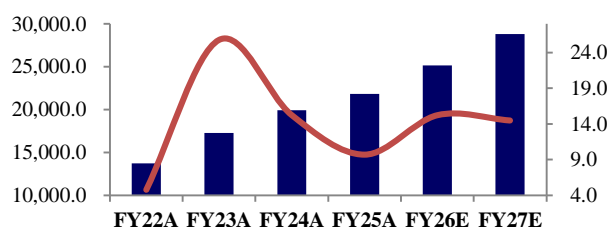
We expect a pickup in order inflows driven by a healthy order pipeline of Rs 1.8tn, largely from domestic and international T&D. early next year.

Financial Summary

Particulars	FY22A	FY23A	FY24A	FY25A	FY26E	FY27E
Net Revenue	13,742.3	17,281.7	19,914.2	21,846.7	25,171.9	28,817.4
Operating expenses	12,838.8	16,452.0	18,699.6	20,342.7	23,087.5	26,357.4
EBITDA	903.5	829.7	1,214.6	1,504.0	2,084.4	2,460.0
EBITDA Margin	6.6	4.8	6.1	6.9	8.3	8.5
Net Profit	332.0	176.1	346.8	570.8	927.7	1,182.5
Shareholders Fund	51.4	51.4	51.4	53.2	53.2	53.2
Face Value of share	2.0	2.0	2.0	2.0	2.0	2.0
EPS (INR)	12.9	6.8	13.5	21.4	34.8	44.4
EPS % Chg YoY	-	(0.5)	1.0	0.6	0.6	0.3
Market Price	877.0	877.0	877.0	877.0	877.0	877.0
P/E	67.9	128.1	65.0	40.9	25.2	19.7
Enterprise Value	25,202.8	25,461.0	22,578.6	23,158.5	23,240.2	22,857.3
EV/EBITDA	27.9	30.7	18.6	15.4	11.1	9.3
Net Worth	3,619.9	3,771.4	4,095.7	5,347.5	6,108.4	7,078.4
ROE(%)	9.17%	4.67%	8.47%	10.67%	15.19%	16.71%

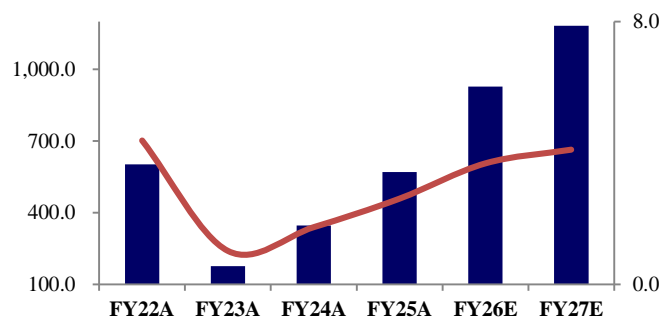
Graphical Data Analysis

Net Sales and YoY Growth (%)



■ Net Sales (Rs Cr)- LHS — Net Sales YoY Growth (%) - RHS

Net Profit and Net Profit Margin (%)



■ Net Profit (Rs Cr)- LHS — Net Profit Margin (%) - RHS

Fair Valuation

<p style="text-align: center;">KEC INTERNATIONAL LIMITED Valuation of Equity Shares Fair Value Summary December 3, 2025</p> <p style="text-align: right;">(Amount in INR Crores)</p>								
Particulars	Enterprise Value	Adjustments				Equity Value (Without Cash)	Weights	Weighted Average
		Debt	Debt Like Items	Surplus Assets (Without Cash)	Cash			
Discounted Cash Flow Method (DCF)	19,274.1	358.5	-	-	261.9	18,915.6	80.00%	15,132.5
EV/EBITDA	40,745	358	-	-	262	40,387	10.00%	4,038.7
EV/Sales	35,475	358	-	-	262	35,116	10.00%	3,511.6
Weighted Average Value of Equity (Without Cash)							100.00%	22,682.8
Less: Contingent Liabilities								-
Fair value of Equity without Cash								22,682.8
Less: Illiquidity Discount							0.00%	-
Fair Value of Equity (Post Illiquidity Discount)								22,682.8
Add: Cash								261.9
Fair Value of Equity								22,944.7
Number of Equity Shares Outstanding as on the Valuation Date (Count)								26.6
Fair Value of Equity per Share (Amount in INR)								862.5

- The fair value of equity shares has been determined as on December 3, 2025
- The EV/EBITDA and EV/Sales multiples have been sourced from industry data available on Professor Aswath Damodaran's dataset published on the NYU Stern website (Though the context of damodaran and mine may not same which may impact the valuation)
- The final equity value includes ₹262 crores of cash, added after applying valuation methods, adjustments, and discounting.
- The number of equity shares considered for per share valuation is 26.603 crores, based on data available as of the valuation date.

Findings

Key concall highlights for BHEL: -

- BHEL received major EPC orders during Q2FY26, including the EPC contract for the 660 MW Unit 6 at the Amarkantak Thermal Power Project and the 660 MW Satpura Unit 12 project at the Satpura Thermal Power Project, underscoring strong new order momentum.
- BHEL secured a BTG supply and supervision E&C contract for the 800 MW Anuppur Thermal Power Project, signalling deeper engagement in larger scale thermal project.
- BHEL won the balance of system package for a 300 MW solar-PV project at Khavda, marking its push into solar-infrastructure solutions beyond conventional power.
- BHEL has secured its first order for the KAVACH train-protection system from Indian Railways (covering a 36 km section, which marks its entry into advanced rail safety electronics).

- New capacity additions of 1630 MW across three projects: Yadadri TPS U#1 (800 MW), Khurja STPP U#2 (660 MW) and Punatsangchhu -II HEP U#5 (170 MW) to boost power generation.
- BHEL extended its MoU with NPCIL for collaboration in implementing nuclear power plants based on PHWR technology, strengthening its long-term participation in India's nuclear energy expansion plans.

Key concall highlights for KEC International Limited: -

- Management is targeting 8% EBITDA margin for FY26, requiring >8.5% margins in H2 to achieve this, given H1 margins were 7%.
- They expect a pickup in order inflows driven by a healthy order pipeline of Rs 1.8tn, largely from domestic and international T&D.
- The company is currently executing two large solar projects: a 500MW project in Karnataka scheduled for completion this quarter and another 500MW project in Rajasthan expected to be complete early next year.
- Civil business currently has mid-single-digit margins, with expectations to reach higher single-digits next year and 9- 10% margin in the following year
- Overall T&D business is expected to grow by 20% whereas railways business is expected to see revival by FY27E (this is a deliberate attempt given strong competitive intensity and higher working capital requirement).
- In my view other segments like civil will grow in low double digits.
- The company currently has ₹182000 crore of bidding pipeline and the management expects order inflows of ₹30000 crore, with 70% from T&D business for FY26E. .
- The management expects run rate of margins to be at 8-8.2% in FY26E.
- Hence, I expect revenues to grow by 16% CAGR over FY25- FY27E.

Conclusion

BHEL delivered a steady performance, driven by strong project execution across thermal, hydro and industrial systems, supported by diversification into renewables, rail transportation and defence manufacturing. The management remained focused on improving operational efficiency, expanding the clean energy and nuclear portfolio and leveraging digital solutions for smarter project management.

Strategic initiatives in EV infrastructure, advance train protection systems and aerospace components are poised to drive long-term growth visibility.

Although, continued execution discipline and working capital optimisation are key near-term priorities,

I am positive on the stock to BUY, with a target price of Rs. 292, based on weighted average of Discounted Cash Flow, EV/EBITDA and EV/SALES.

With a strong order pipe line both domestic and international and a steady pickup in execution, I expect revenue to grow at a CAGR of 15% over FY25-FY27E. The prospect of a turnaround in margins owing to higher mix of T&D orders to drive earnings growth in the coming quarters.

I am positive on the stock to BUY, with a target price of Rs. 862.5, based on weighted average of Discounted Cash Flow, EV/EBITDA and EV/SALES.

References

Academic Articles

- Sharma, K. D., & Bhardwaj, A. E-learning in Indian Power Sector: A Study of KEC International Limited.
- Ramteke, N. N., & Pramanik, T. (2025). ROLE OF AUTOMATION IN ENHANCING OPERATIONAL EFFICIENCY IN WAREHOUSING: A STUDY AT KEC INTERNATIONAL LTD., BUTIBORI. *International Journal of Innovation Studies*, 9(1), 547-556.
- Ramteke, N. N., & Pramanik, T. (2025). ROLE OF AUTOMATION IN ENHANCING OPERATIONAL EFFICIENCY IN WAREHOUSING: A STUDY AT KEC INTERNATIONAL LTD., BUTIBORI. *International Journal of Innovation Studies*, 9(1), 547-556.
- Khatik, S. K. (2016). CORPORATE SOCIAL RESPONSIBILITY OF PUBLIC SECTOR COMPANY: A CASE STUDY OF BHEL. *International Journal of Business Ethics in Developing Economies*, 5(1).

Company Publications

- Bharat Heavy Electricals Limited. (2025). *Annual Report 2024–25*.
- Bharat Heavy Electricals Limited. (2026). *Investor Presentation Q2 FY26*.
- Bharat Heavy Electricals Limited. (2026). *Q2 FY26 Earnings Call Transcript*.
- KEC International Limited. (2025). *Annual Report 2024–25*.
- KEC International Limited. (2025). *Investor Presentation Q2 FY26*.
- KEC International Limited. (2025). *Q2 FY26 Earnings Call Transcript*.

Data & Online Resources

- Aswath Damodaran's NYU Stern Website
- Screener.in. BHEL consolidated financials. Retrieved from <https://www.screener.in/company/BHEL/consolidated/>
- Screener.in. KEC International consolidated financials. Retrieved from <https://www.screener.in/company/KEC/consolidated/>
- Moneycontrol. *BHEL and KEC International Stock Data and Financials*. Retrieved from <https://www.moneycontrol.com>
- Yahoo Finance. *Stock Charts and Valuation Data for BHEL & KEC*. Retrieved from <https://finance.yahoo.com>
- NSE India. *Company Disclosures and Quarterly Filings*. Retrieved from <https://www.nseindia.com>
- BSE India. *Corporate Announcements and Financial Reports*. Retrieved from <https://www.bseindia.com>