the Corner Office
Interaction with the MD

Multiple growth levers

We recently hosted KOEL management, represented by Ms. Gauri Kirloskar, Vice Chairperson & Managing Director, and her team, for a meeting with a group of investors. We remain positive on the overall demand environment in the segments in which KOEL is currently operating such as powergen, industrial and even exports. Recent large order win from one of the hyperscalers is also positive for the company, with execution to be completed during this fiscal. We believe that the successful and timely completion of this order will open up opportunities from other data centre projects. Ongoing capex of the company will also enable it to capitalize on the strong demand in the powergen and industrial segments as highlighted in our previous note. The company's initiatives on new product development will also yield results over time. We bake in execution of this order and raise our FY27/FY28 estimates by 3%/10%. We maintain BUY with a revised TP of INR2,750. Key risks to our estimates would come from delays in execution and lower margins going forward.

Kirloskar Oil Engines

Ms. Gauri Kirloskar, Vice Chairperson & Managing Director

Ms. Gauri has served on the Board of Kirloskar Oil Engines since 2014 and has played an active role across the Kirloskar Group, contributing both at the governance level and in key operational capacities. Under her leadership, Kirloskar Oil Engines has seen a significant business transformation journey, covering all areas of the company, including leadership, products and technology roadmap, resulting in a significant jump in revenue, profits and market share of the company.

Powergen segment has many growth levers for future

We expect KOEL's powergen segment to benefit from 1) volume and pricing-led growth in below-750kVA gensets; 2) scale-up of demand in HHP products across user segments which is coming from data centers and infrastructure sectors, including real estate, hospitality, hospitals and industrial customers; 3) future order wins in HHP/Optiprime from data centers as the company is scaling up across colocation, edge and hyperscalers; and 4) capacity expansion for scaling up engine capacity. The company has a gross block of INR26b and is incurring a capex of INR21b over the next two years. This indicates the confidence of management in the overall demand scenario going forward. We, thus, believe that the powergen segment can potentially grow at a much faster pace, as the demand environment remains strong and the company is preparing itself with capex as well as with its work on bigger projects to target future opportunities. We bake in execution of HyperNext order for 96 units of 2500kVA Optiprime product in powergen segment and expect this segment's revenues to clock 35% CAGR over FY26-29E.

Industrial segment targeting new applications using existing platforms

The company continues to expand its industrial business by developing application-specific engine solutions for sectors such as railways, defense, construction and mining, using its existing engine platforms and in-house engineering expertise. Management indicated that the transition to BS-V emission norms not only helped retain existing customers but also enabled the company to win new customer accounts through deeper engagement during the product validation process. Looking ahead, execution of the NPCIL order worth INR7.7b is expected to commence in FY27 and continue over the next couple of years. Execution of the Navy's Make-I category 6MW Medium Speed Marine Diesel engine order worth INR2.7b will begin from FY28-29 onward. Management believes the successful delivery of these strategic prototypes could unlock significantly larger opportunities in the nuclear and defense segments.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exports gaining transition beyond niche markets

KOEL is building a dedicated international business by investing in local talent, distribution, service capabilities and regional partnerships to establish a sustainable global presence. While exports were historically concentrated in niche applications such as mining engines in South Africa and firefighting pump engines in the Middle East, the company's strategy has shifted toward expanding its core powergen portfolio across international markets. The Middle East and Africa remain the primary growth regions, supported by a local GOEM assembly model that enhances cost competitiveness, while Southeast Asia is another key focus market. The US remains a long-term strategic opportunity despite barriers related to regulations and customer preferences. Optiprime has also started gaining traction in export markets, alongside broader growth across the company's powergen portfolio.

Financial outlook

We raise our estimates for the powergen segment to factor in execution of hyperscaler order. We thus expect revenue/EBITDA/PAT to post a CAGR of 28%/34%/38% over FY26-29E, with margin of 14%/15%/15% for FY27/FY28/FY29. We expect improved revenue to result in operating leverage gains, thereby driving margin expansion over FY27-29E.

Valuation and view

The stock is currently trading at 55.1x/38.5x/29.3x P/E on FY27/FY28/FY29E earnings. Adjusted for subsidiary valuation, KOEL is trading at 51.3x/35.9x/27.3x P/E on FY27/FY28/FY29E earnings. We reiterate our **BUY rating with a revised SoTP-based TP of INR2,750.**

Key risks and concerns

Any slowdown in demand in key segments, aggressive competition from other players, and a surge in commodity prices could adversely impact overall earnings for the company.

Other highlights from the call

- **Strategic priorities**
  - Target remains to become a USD2b organization by FY30.
  - Focus remains on HHP Powergen, exports and aftermarket to drive margin expansion, while industrial growth will be led by application engineering.
  - Future growth of powergen to be driven by HHP and exports.
  - Industrial business operates through dedicated teams for railways, defence, construction and mining, with focus on expanding into new applications.
- **Data center order**
  - Secured 192MW order comprising 96 units of 2,500kVA Optiprime gensets, along with a long-term service contract.
  - Delivery committed by end-FY27, subject to customer readiness.
  - Successful execution remains the immediate priority and is expected to strengthen qualification for future hyperscale opportunities.
- **Optiprime platform**
  - Modular platform combines multiple existing engines under one canopy, enabling faster commercialization than developing a new large engine.
  - Key advantages include better fuel efficiency, lower total cost of ownership, improved space utilization and the flexibility to operate only the required number of engines at partial loads.
  - Product is uptime certified for data center applications.
  - Initial adoption was slow due to the new concept, but management expects traction to improve as installations increase.
- **Capex**
  - Investing INR14b in a dedicated HHP Powergen facility at Kagal.
  - Capex excludes NPCIL and Navy engines, which will be produced from Nashik.
  - Capacity utilization expected to be supported by infra, data centres and exports.
- **Technology**
  - Continues to invest in alternative fuels, battery-hybrid solutions and conventional diesel platforms.
  - Alternative fuel capability includes gas, hydrogen blends, ethanol, methanol and HVO, although diesel remains the dominant fuel.
  - Battery-hybrid solutions currently targeted at remote and defence applications.
- **Margins & competition**
  - HHP is a solution business with project-specific margins rather than standardized product margins.
  - The company is ok to sacrifice margins on select projects to establish a track record, but it expects the current OptiPrime order to be margin accretive over the medium term.
  - Key strengths include fully in-house engine development, indigenous engineering, Optiprime technology and a nationwide service network.
- **Key Risks**
  - Simultaneous execution of NPCIL, Navy and data center projects remains the biggest execution risk.
  - Commodity inflation and geopolitical events may create margin pressure.
  - Current data center order does not guarantee follow-on orders, with future wins dependent on execution and competitive positioning.

Key exhibits

Exhibit 1: KOEL has a vast range of CPCB4+-compliant diesel gensets

Range	No. of models
<7.5KVA	2 (3.5, 5.5 kVA)
7.5-20kVA	4 (7.5, 10, 15, 20kVA)
25-58.5kVA	4 (25, 30, 40, 58.5kVA)
82.5-160kVA	3 (82.5, 125, 160kVA)
200-250kVA	2 (200, 250kVA)
180-250kVA	3 (180, 200, 250kVA)
320-750kVA	5 (320, 400, 500, 625, 750kVA)
1000-1500kVA	3 (1010, 1250, 1500kVA)
>1500kVA	2 (1500, 2020kVA)

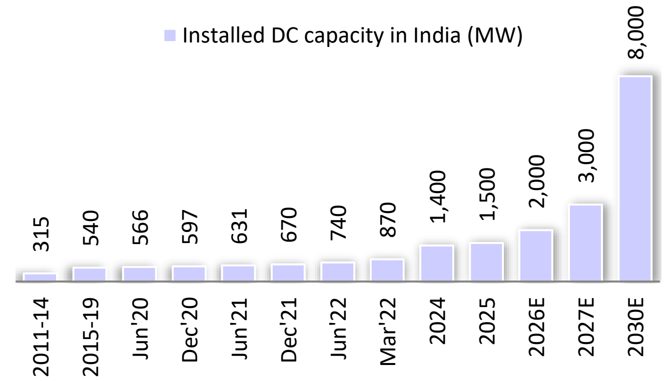
Source: Company, MOFSL

Exhibit 2: KOEL's Optiprime gensets offer products up to 3000kVA

Node	In the configuration of…
117kVA	(58.5 x 2) kVA
320kVA	(160 x 2) kVA
400kVA	(200 x 2) kVA
500kVA	(250 x 2) kVA
640kVA	(320 x 2) kVA
1000kVA	(500 x 2) kVA
1500kVA	(750 x 2) kVA
2020kVA	(1010 x 2) kVA
2500kVA	Dual and Quad Core
3000kVA	Dual and Quad Core

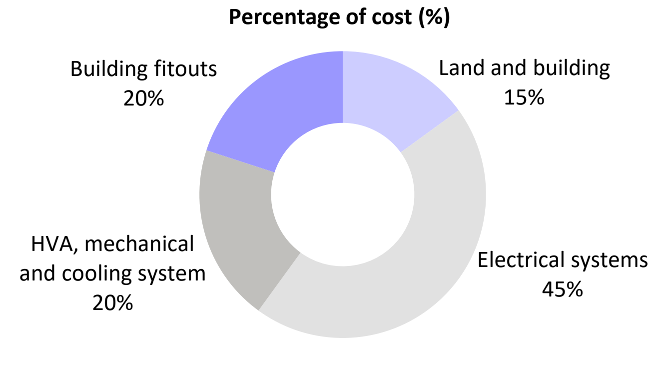
Source: Company, MOFSL

Exhibit 3: Data centre market is witnessing strong growth with multiple projects already under development



Source: Industry, MOFSL

Exhibit 4: KOEL is ramping up its portfolio to cater to power backup demand in setting up of data centres



Source: Industry, MOFSL

Exhibit 5: Existing and upcoming data center capacities in India where KOEL can potentially target opportunities across various co-location DC as well as hyperscalers

Company	Stakeholders	Built capacity (MW)	Upcoming capacity (MW)	Clientele	Powergen providers
NTT	NTT Data Inc (Japan)	275	280	Hyperscale, Enterprise	Cummins, Caterpillar, Kohler (Rehlko)
ST Telemedia Global Data Centers	KKR & Singtel (74%), Tata Comm. (26%)	249	230	Hyperscale, Enterprise	Cummins, Sterling Green, Rolls-Royce, Caterpillar
nxtra	Airtel (61%), Carlyle (24%), Alpha Wave (14%)	230	170	Large TelCos, Technology MNCs, SMEs	Powerica, Cummins
CtrlS	Promoter Group	193	150	Hyperscale, Enterprise	Cummins, Caterpillar, Mitsubishi
Sify	Sify / HoldCo (88%), Kotak DC Fund (12%)	188	210	Hyperscale, Enterprise	Caterpillar, Powerica
Yotta	Hiranandani Group	60	70	Hyperscale, Enterprise, AI Start-ups	NA
Princeton DG	Warburg Pincus, OTPP, Mubadala	52	195	Hyperscale	Cummins, Caterpillar
CapitaLand	CLINT (80%), CapitaLand India DC Fund (20%)	34	125	Hyperscale	Cummins, Caterpillar
Airtrunk	Blackstone	31	90	Hyperscale	Caterpillar, Rolls-Royce
ESR	Starwood Capital, Sixth Street, SSW Partners, QIA, Warburg	23	23	DC Operator	Cummins, Caterpillar, Rolls-Royce
Bridge Data Centres	Bain Capital, S K Group, Keppel	20	0	-	Rolls-Royce, Cummins
Everyondr	Everstone Group	0	60	-	NA
ACX	Adani Enterprises, EdgeConnex (EQT backed)	46	180	E-commerce, Tech Enterprises	Cummins, Caterpillar
Colt	Fidelity Investments	28	172	Enterprise	Cummins Rolls-Royce
Iron Mountain	Iron Mountain Inc.	22	57	-	Kohler
Digital Connexion	Reliance Jio, Digital Realty, Brookfield Infrastructure	20	100	-	NA
Digital Edge	NIIF, AGP, Digital Edge DC (Stonepeak backed)	19	135	Hyperscale	Cummins, Kohler
Equinix	Equinix Pacific LLC	9	27	Enterprise	Kohler, Caterpillar, and Cummins
L&T-Cloudfiniti	Larsen and Toubro	33	41	-	Cummins, Caterpillar
Anant Raj Cloud	Anant Raj Ltd (Listed)	28	79	-	Cummins, KOEL
NetWeb Technologies India	Promoters (39%), L&T (18%), Public & Others (43%)	10	0	-	NA
Techno Electric & Engineering Co. Ltd.	Techno Electric's Digital Infrastructure Arm	10	55	-	
ESDS	Promoter (46%), HNIs (54%)	7	30	-	Cummins, KOEL
NxtGen	Promoter, Intel Capital, IFC, Iron Mountain	7	8	-	Cummins, KOE, Caterpillar
Total		**1,594**	**2,487**		

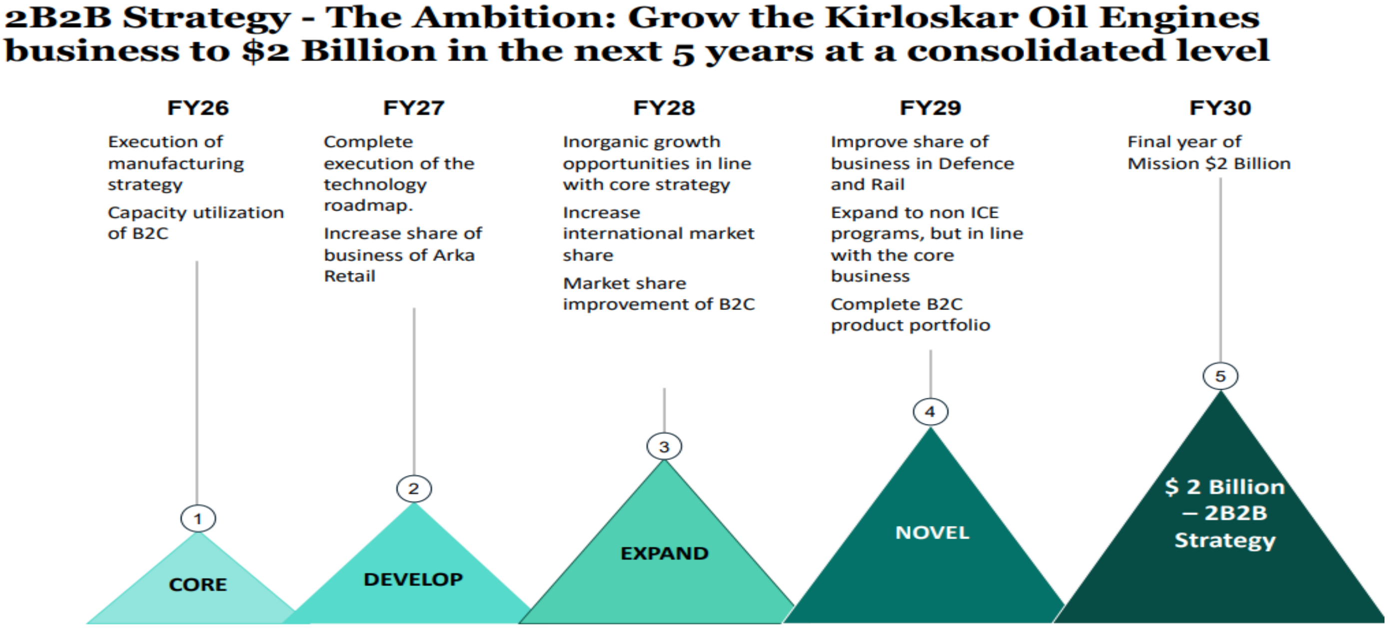
Source: Industry, MOFSL

Exhibit 6: We raise our estimates by 3%/10% for FY27/FY28 to factor in execution of the recently awarded data center order

(INR M)	FY27E			FY28E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	70,064	68,477	2.3	91,357	84,366	8.3
EBITDA	9,809	9,587	2.3	13,703	12,655	8.3
EBITDA (%)	14.0	14.0	0 bps	15.0	15.0	0 bps
Adj. PAT	6,446	6,272	2.8	9,217	8,399	9.7
EPS (INR)	44.3	43.2	2.8	63.4	57.8	9.7

Source: Company, MOFSL

Exhibit 7: KOEL's '2B2B'strategy – To be USD2b (revenue) by FY30



Source: Company

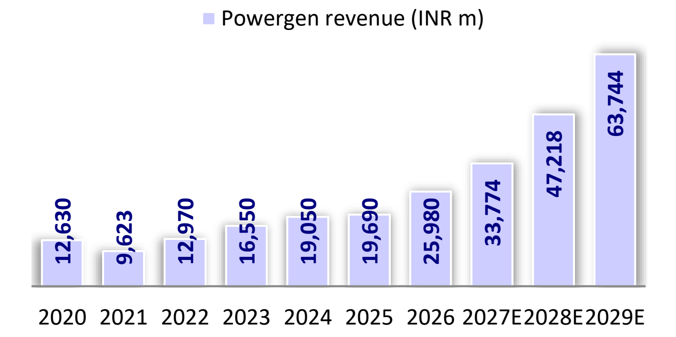
Exhibit 8: We arrive at SoTP based TP of ~INR2,750

	Earnings/ book (INR m)	Valn multiple (X)	Value (INR m)	KOEL's share (%)	Value for KOEL's share (INR m)	Per share value (INR)	Valuation basis
KOEL valuation							
Core business	10,662	35	3,73,181	100	3,73,181	2,575	❖ 35X two-year fwd EPS
Investments							
La Gajjar Machineries	821	12	9,855	100	9,855	68	❖ 12X P/E two-year forward earnings
Arka Fincap	11,100	1.3	14,541	100	14,541	100	❖ 1.3X P/BV on expanded two-year forward book
Total					**3,97,577**	**2,743**	

Source: Company, MOFSL

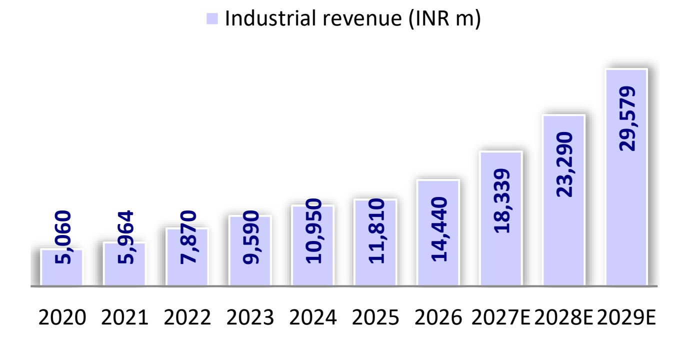
Financial outlook

Exhibit 9: We expect powergen revenue to clock 35% CAGR over FY26-29E



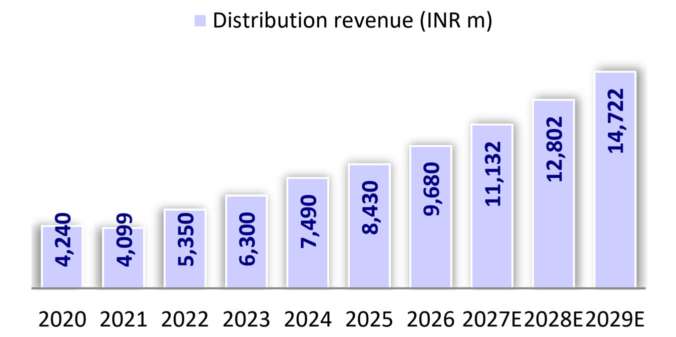
Source: Company, MOFSL

Exhibit 10: We expect industrial revenue to record a CAGR of 27% over FY26-29E due to strong demand



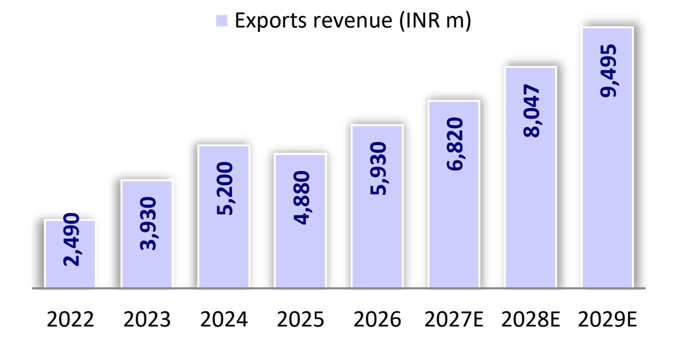
Source: Company, MOFSL

Exhibit 11: We expect distribution revenue CAGR to remain strong at 15% over FY26-29E



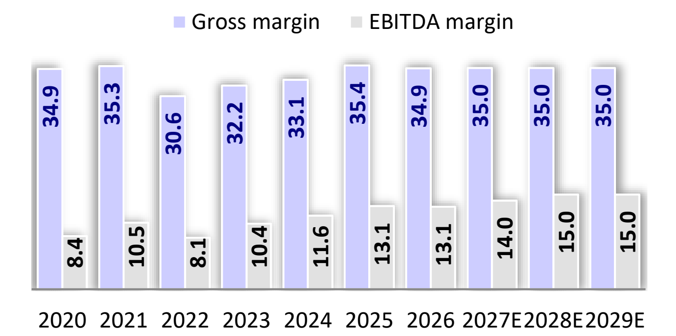
Source: Company, MOFSL

Exhibit 12: We expect export revenue to clock a 17% CAGR over FY26-29E



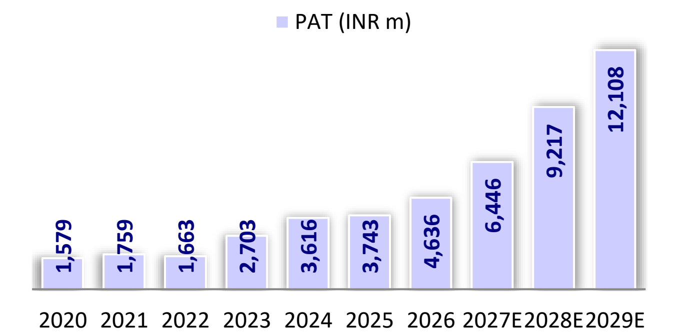
Source: Company, MOFSL

Exhibit 13: Better product mix to improve margins (%)



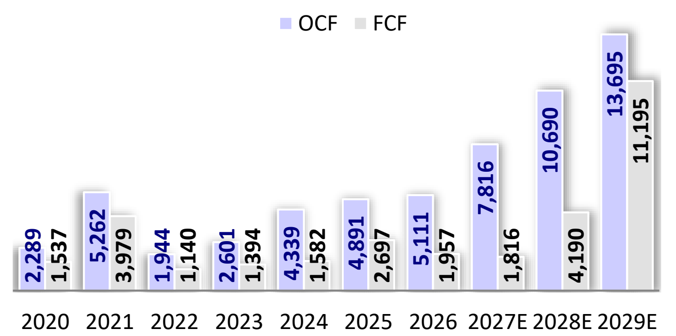
Source: Company, MOFSL

Exhibit 14: We expect PAT to post 38% CAGR over FY26-29E



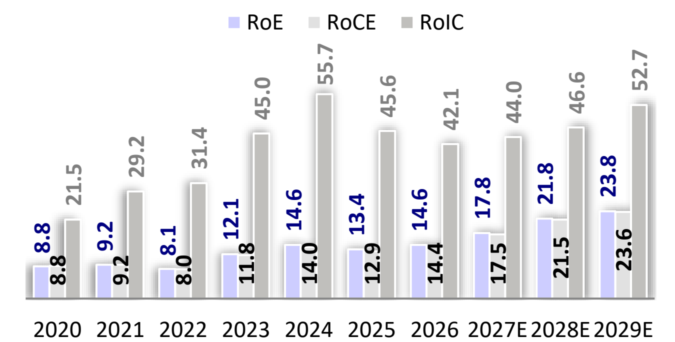
Source: Company, MOFSL

Exhibit 15: We expect OCF & FCF to improve further (INR m)



Source: Company, MOFSL

Exhibit 16: Return ratios to remain comfortable (%)



Source: Company, MOFSL

Financials and Valuation

Standalone - Income Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Total Income from Operations	**32,997**	**41,161**	**48,505**	**45,207**	**56,468**	**70,064**	**91,357**	**1,17,540**
Change (%)	22.5	24.7	17.8	-6.8	24.9	24.1	30.4	28.7
Raw Materials	22,912	27,897	32,439	29,202	36,741	45,542	59,382	76,401
Gross Profit	**10,085**	**13,264**	**16,066**	**16,005**	**19,728**	**24,523**	**31,975**	**41,139**
Employees Cost	2,070	2,365	3,069	3,220	3,569	4,428	5,773	7,428
Other Expenses	5,327	6,630	7,355	6,847	8,786	10,286	12,498	16,080
Total Expenditure	**30,309**	**36,892**	**42,864**	**39,269**	**49,096**	**60,255**	**77,653**	**99,909**
% of Sales	91.9	89.6	88.4	86.9	86.9	86.0	85.0	85.0
EBITDA	**2,688**	**4,269**	**5,642**	**5,938**	**7,373**	**9,809**	**13,703**	**17,631**
Margin (%)	8.1	10.4	11.6	13.1	13.1	14.0	15.0	15.0
Depreciation	772	848	970	1,139	1,433	1,569	1,906	2,149
EBIT	**1,915**	**3,422**	**4,672**	**4,799**	**5,940**	**8,240**	**11,797**	**15,482**
Int. and Finance Charges	62	54	78	112	110	76	60	44
Other Income	248	273	274	341	407	507	660	850
PBT bef. EO Exp.	**2,100**	**3,641**	**4,868**	**5,028**	**6,236**	**8,671**	**12,398**	**16,288**
EO Items	527	0	0	209	-297	0	0	0
PBT after EO Exp.	**2,627**	**3,641**	**4,868**	**5,237**	**5,939**	**8,671**	**12,398**	**16,288**
Total Tax	547	939	1,252	1,338	1,524	2,225	3,182	4,180
Tax Rate (%)	20.8	25.8	25.7	25.6	25.7	25.7	25.7	25.7
Reported PAT	**2,080**	**2,703**	**3,616**	**3,898**	**4,415**	**6,446**	**9,217**	**12,108**
Adjusted PAT	**1,663**	**2,703**	**3,616**	**3,743**	**4,636**	**6,446**	**9,217**	**12,108**
Change (%)	-5.4	62.5	33.8	3.5	23.9	39.1	43.0	31.4
Margin (%)	5.0	6.6	7.5	8.3	8.2	9.2	10.1	10.3

Standalone - Balance Sheet

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Equity Share Capital	289	290	290	290	291	291	291	291
Total Reserves	21,105	23,028	25,937	29,466	33,254	38,401	45,760	55,427
Net Worth	**21,395**	**23,318**	**26,227**	**29,756**	**33,545**	**38,692**	**46,050**	**55,718**
Total Loans	976	751	2,091	1,294	1,044	844	644	444
Deferred Tax Liabilities	146	61	100	250	432	432	432	432
Capital Employed	**22,517**	**24,131**	**28,418**	**31,301**	**35,021**	**39,968**	**47,126**	**56,594**
Gross Block	16,990	17,425	19,052	23,397	26,052	32,052	38,552	41,052
Less: Accum. Deprn.	12,488	13,174	14,144	15,283	16,716	18,285	20,191	22,340
Net Fixed Assets	**4,502**	**4,251**	**4,908**	**8,114**	**9,336**	**13,767**	**18,360**	**18,711**
Capital WIP	393	664	2,426	957	1,444	1,444	1,444	1,444
Total Investments	**16,722**	**16,925**	**18,762**	**17,873**	**16,478**	**16,478**	**16,478**	**16,478**
Curr. Assets, Loans & Adv.	**8,505**	**11,557**	**13,115**	**16,131**	**21,114**	**24,795**	**32,379**	**47,667**
Inventory	3,031	4,685	5,235	4,931	6,034	7,487	9,762	12,560
Accounts Receivable	3,945	4,672	5,684	6,511	7,825	9,709	12,660	16,288
Cash and Bank Balance	314	338	980	3,062	5,526	5,767	7,840	16,351
Loans and Advances	656	852	808	686	837	940	1,225	1,576
Other Assets	558	1,011	408	942	892	892	892	892
Curr. Liability & Prov.	**7,606**	**9,267**	**10,793**	**11,774**	**13,350**	**16,515**	**21,534**	**27,706**
Accounts Payable	6,175	6,326	7,274	6,506	7,686	9,537	12,435	15,999
Other Current Liabilities	729	1,700	2,223	3,756	3,954	4,907	6,398	8,231
Provisions	702	1,241	1,296	1,512	1,710	2,072	2,702	3,477
Net Current Assets	**899**	**2,291**	**2,322**	**4,357**	**7,764**	**8,279**	**10,844**	**19,961**
Appl. of Funds	**22,517**	**24,131**	**28,418**	**31,301**	**35,021**	**39,968**	**47,127**	**56,594**

Financials and Valuation

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Basic (INR)								
EPS	**11.4**	**18.6**	**24.9**	**25.7**	**31.9**	**44.3**	**63.4**	**83.3**
Cash EPS	16.8	24.4	31.6	33.6	41.8	55.1	76.5	98.1
BV/Share	147.2	160.4	180.4	204.7	230.8	266.2	316.8	383.3
DPS	4.7	5.0	5.0	6.0	6.5	8.9	12.8	16.8
Payout (%)	32.6	26.8	20.0	22.3	21.4	20.2	20.2	20.2
Valuation (x)								
P/E	213.5	131.4	98.2	94.9	76.6	55.1	38.5	29.3
Cash P/E	145.8	100.0	77.4	72.7	58.5	44.3	31.9	24.9
P/BV	16.6	15.2	13.5	11.9	10.6	9.2	7.7	6.4
EV/Sales	10.8	8.6	7.3	7.8	6.2	5.0	3.8	2.9
EV/EBITDA	132.4	83.3	63.1	59.5	47.6	35.7	25.4	19.2
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.7
FCF per share	7.8	9.6	10.9	18.6	13.5	12.5	28.8	77.0
Return Ratios (%)								
RoE	8.1	12.1	14.6	13.4	14.6	17.8	21.8	23.8
RoCE	8.0	11.8	14.0	12.9	14.4	17.5	21.5	23.6
RoIC	31.4	45.0	55.7	45.6	42.1	44.0	46.6	52.7
Working Capital Ratios								
Fixed Asset Turnover (x)	1.9	2.4	2.5	1.9	2.2	2.2	2.4	2.9
Asset Turnover (x)	1.5	1.7	1.7	1.4	1.6	1.8	1.9	2.1
Inventory (Days)	34	42	39	40	39	39	39	39
Debtor (Days)	44	41	43	53	51	51	51	51
Creditor (Days)	68	56	55	53	50	50	50	50
Leverage Ratio (x)								
Current Ratio	1.1	1.2	1.2	1.4	1.6	1.5	1.5	1.7
Interest Cover Ratio	30.7	63.8	60.0	42.7	53.8	109.1	198.2	355.8
Net Debt/Equity	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	-0.5	-0.6

Standalone - Cash Flow Statement (INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
OP/(Loss) before Tax	2,627	3,641	4,868	5,799	6,200	8,671	12,398	16,288
Depreciation	772	848	970	1,170	1,450	1,569	1,906	2,149
Interest & Finance Charges	50	35	78	114	113	76	60	44
Direct Taxes Paid	-567	-960	-1,084	-1,331	-1,535	-2,225	-3,182	-4,180
(Inc)/Dec in WC	-157	-1,025	-441	-270	-922	-274	-492	-605
CF from Operations	**2,726**	**2,539**	**4,391**	**5,483**	**5,305**	**7,816**	**10,690**	**13,695**
Others	-782	61	-52	-592	-193	0	0	0
CF from Operating incl EO	**1,944**	**2,601**	**4,339**	**4,891**	**5,111**	**7,816**	**10,690**	**13,695**
(Inc)/Dec in FA	-804	-1,206	-2,757	-2,194	-3,155	-6,000	-6,500	-2,500
Free Cash Flow	**1,140**	**1,394**	**1,582**	**2,697**	**1,957**	**1,816**	**4,190**	**11,195**
(Pur)/Sale of Investments	680	3,235	-1,091	1,339	1,849	0	0	0
Others	-8,870	-3,585	-334	-2,280	-1,905	0	0	0
CF from Investments	**-8,994**	**-1,556**	**-4,182**	**-3,135**	**-3,210**	**-6,000**	**-6,500**	**-2,500**
Inc/(Dec) in Debt	172	-236	1,338	-797	-250	-200	-200	-200
Interest Paid	-53	-50	-107	-141	-86	-76	-60	-44
Dividend Paid	-578	-723	-724	-871	-944	-1,299	-1,858	-2,441
Others	7,529	-12	-21	2,134	1,842	0	0	0
CF from Fin. Activity	**7,070**	**-1,021**	**486**	**326**	**562**	**-1,575**	**-2,117**	**-2,684**
Inc/Dec of Cash	**20**	**23**	**643**	**2,082**	**2,464**	**241**	**2,073**	**8,511**
Opening Balance	294	314	338	980	3,062	5,526	5,767	7,840
Closing Balance	**314**	**338**	**980**	**3,062**	**5,526**	**5,767**	**7,840**	**16,351**

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SELL	< - 10%
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