

## Robust Revenue & Margin Visibility; Upgrade to BUY

**Est. vs. Actual for Q2FY25:** Revenue: **MISS**; EBITDA: **BEAT**; PAT: **BEAT**

### Changes in Estimates post Q2FY25

**FY25E/FY26E:** Revenue: -2%/2%; EBITDA: 9%/6%; PAT: 12%/6%

### Recommendation Rationale

- Improving Margin Trajectory:** KBL reported a significant improvement in gross margins and EBITDA during the quarter. This margin improvement was primarily driven by strong performance in the domestic segment, which led to operating leverage from higher volumes, cost control initiatives, and the softening of raw material prices. The company is also strategically focusing on increasing the share of value-added products, significantly reducing its exposure to low-margin and lumpy EPC orders. Additionally, KBL has been investing in technological upgrades aimed at enhancing operational efficiencies and increasing the value of its offerings.
- Robust Revenue Visibility:** With Rs 1,162 Cr in new orders, KBL maintained a robust order book of Rs 3,057 Cr (vs. Rs 3,053 Cr in Q1FY25) during the quarter. The company also launched a new product, "Petro Turbo," a submersible turbine pump for fuel stations, alongside 13 new models for dewatering, solar, and water transfer applications. KBL is also focusing on expanding across geographies and improving its product mix, expecting continued traction in the overseas market. A strong order book, coupled with product launches aimed at addressing specific customer needs, provides clear revenue visibility for KBL.

### Sector Outlook: Positive

**Company Outlook & Guidance:** The management expects sustained demand in both domestic and international business and has maintained guidance for double-digit revenue growth in FY25 (YoY). While the company noted strong performance in most overseas markets, it anticipates resolving issues in the remaining markets over the next few quarters. Additionally, the management is optimistic about continued improvement in EBITDA margins going forward.

**Current Valuation:** 25x FY27E EPS (30x FY26E EPS)

**Current TP:** Rs 2,100/share (Earlier TP: 1,977/share)

**Recommendation:** We upgrade our rating from HOLD to BUY on the stock considering the improvement in margin profile and current valuation levels.

**Financial Performance:** KBL reported revenue of Rs 1,036 Cr for Q2FY25, up 13% YoY, flattish QoQ, and missing our estimate by 3%. The company positively surprised on the EBITDA front which stood at Rs 142 Cr, up 50%/27% YoY/QoQ, beating our estimate by 25%. EBITDA margins improved by 334bps/288bps on a YoY/QoQ basis. The company's PAT stood at Rs 96 Cr (88%/58% YoY/QoQ) against our estimate of Rs 80 Cr.

**Outlook:** With sustained demand from key end markets and a robust order book, KBL is expected to achieve double-digit revenue growth in FY25. Strategic initiatives taken by the company are likely to support the growth trajectory into FY26 and FY27. Furthermore, the focus on cost optimization and an improved product mix should facilitate additional profitability improvements.

### Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	1,036	13%	0%	1,063	-3%
EBITDA	142	50%	27%	113	25%
EBITDA Margin	13.7%	334bps	288bps	10.7%	304bps
Net Profit	96	88%	58%	80	20%
EPS (Rs)	12.0	88%	58%	10.1	20%

Source: Company, Axis Securities Research

(CMP as of 30<sup>th</sup> October 2024)

CMP (Rs)	1,812
Upside /Downside (%)	16%
High/Low (Rs)	2,685/805
Market cap (Cr)	14,390
Avg. daily vol. (1m) Shrs.	2,04,964
No. of shares (Cr)	7.94

### Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	66.0	66.0	66.0
FIIs	4.1	5.0	5.1
DIIIs	7.7	7.9	10
Others	22.3	21.1	18.8

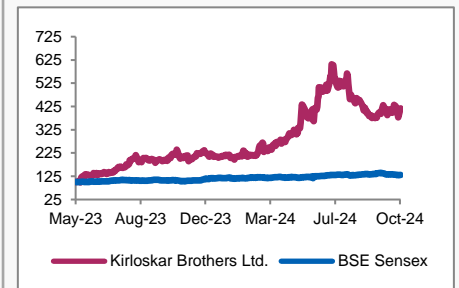
### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	4,001	4,608	5,543
EBITDA	520	631	809
Net Profit	342	423	556
EPS (Rs)	44	53	70
PER (x)	42	35	26
EV/ EBITDA (x)	27	22	17
P/BV (x)	8	7	5
ROE (%)	22	22	23

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Revenue	-2%	2%
EBITDA	9%	6%
PAT	12%	6%

### Relative performance



Source: Ace Equity, Axis Securities

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## Valuation & Recommendation

We have revised our revenue and operating margin estimates for FY25E and FY26E, reflecting the anticipated improvement in profitability, and have also rolled forward our estimates to FY27E. Our projections incorporate strong visibility from the order book, increased contributions from value-added products, digitization, operational upgrades, softening raw material costs, and efficiencies leading to continued profitability improvements. We value the stock at 25x FY27E EPS (previously 30x FY26E EPS), resulting in a revised target price of Rs 2,100/share, implying an upside of 16% from CMP. **Accordingly, we are upgrading our rating from HOLD to BUY.**

## Key Concall Highlights

- Financial Performance:** Q2FY25 revenue increased by 13% YoY on the back of strong demand in both domestic and international markets. EBITDA grew by 61% YoY, with margins at 13.7% (vs. 10.7% in Q2FY24). The margin improvement was driven by robust performance in the domestic segment, resulting in operating leverage from higher volumes, cost control initiatives, and softening raw material prices. Going forward, the management expects to sustain current margin levels and sees further scope for achieving additional operating efficiencies.
- Order Intake:** KBL received orders worth Rs 1,162 Cr (up 9% YoY) during the quarter, with approximately 65% of orders coming from the domestic market. The company's overall order book now stands at Rs 3,057 Cr (vs. Rs 3,084 Cr in Q2FY24). Key orders included 2,000+ split case pumps, 2,100+ solar pump sets, 1,450+ multistage pumps, and 80+ vertical turbine pumps for various water supply projects. Other significant orders included 60 large-size butterfly valves for water projects in Uttar Pradesh, a repeat order for concrete volute pumps for a thermal power plant, as well as highly engineered canned motor pumps and ballast pumps for defence projects.
- Domestic Performance:** During the quarter, KBL delivered a strong performance in the domestic market, driven by robust demand across key sectors. The company continues to anticipate solid growth in domestic revenues. The order book stands at Rs 1,877 Cr (compared to Rs 1,956 Cr in Q1FY25). Despite slower order book growth relative to a strong Q1, the backlog remains healthy across sectors. Some order executions were delayed and subsequently delivered in October, which will be reflected in Q3.
- International Business:** KBL's International Business grew by 9%, with SPP UK posting a strong performance driven by improved execution. However, supply chain issues persist at SPP Inc (USA) and in Thailand, resulting in order delays. Management expects these delayed orders to be executed in the coming quarters. Sluggish performance in the USA is partly attributed to the upcoming US elections, with improvement anticipated post-elections. The international order book stands at Rs 1,103 Cr (vs. Rs 1,031 Cr in Q1FY25). The company continues to focus on geographic expansion and enhancing its product mix, expecting sustained traction in the overseas market.
- Initiatives:** The management has been investing in technological advancements, digitization, and automation of projects to enhance capabilities for handling a larger volume of projects more efficiently. The company successfully commissioned KirloSmart devices on pump sets at a canal pumping station in Uttar Pradesh, enabling centralized pump monitoring for farmland irrigation. Additionally, KBL secured solar power by signing a "Power Purchase Agreement" (PPA) and a "Share Subscription and Shareholders' Agreement" (SSSHA), which is expected to reduce energy costs going forward.

## Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,608	5,543	4,705	5,440	-2%	2%
EBITDA	631	809	578	766	9%	6%
PAT	423	556	379	524	12%	6%

Source: Axis Securities Research

**Results Review (Consolidated)**
**(Rs Cr)**

Particulars (Rs Cr)	Q2FY24	Q1FY25	Axis Est.	Q2FY25	YoY Growth (%)	QoQ Growth (%)	Axis Variance
Revenue	913	1,031	1,063	1,036	13%	0%	-3%
Less:							
Net Raw Material consumed	437	509	515	476	9%	-7%	-8%
Employee	167	175	182	176	6%	1%	-3%
Other Expenses	192	224	225	222	16%	-1%	-1%
Total Expenditure	818	919	949	894	9%	-3%	-6%
EBITDA (Excl. Other Income)	95	112	113	142	50%	27%	25%
EBITDA %	10.4%	10.8%	10.7%	13.7%	334bps	288bps	304bps
Less: Depreciation	19	21	19	22	16%	3%	16%
EBIT	76	90	94	120	58%	33%	27%
Less: Net Interest	6	6	5	6	-2%	-3%	11%
Less: Extraordinary Expense (net)							
Profit Before Tax	72	100	101	129	78%	29%	27%
Less: Total Tax	25	29	28	34	35%	15%	21%
Profit After Tax	48	71	80	96	88%	58%	20%
Shares Outstanding (Mn)							
Reported EPS (Rs.)	6	8	10	12	88%	58%	20%

Source: Company, Axis Securities Research

Sector (Rs Cr)	FY24				FY25	
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
<b>Order Book</b>	<b>1,914</b>	<b>1,955</b>	<b>1,944</b>	<b>2,057</b>	<b>1,956</b>	<b>1,877</b>
Irrigation + Water Resource Management	879	916	913	840	887	873
Power	503	484	456	492	497	473
Oil & Gas	84	83	75	46	41	48
Marine & Defence	59	38	45	27	27	37
Industry	112	133	151	136	152	132
Building & Construction	106	121	128	137	155	131
Customer Support & ESD	105	111	118	88	110	104
Valves	66	69	58	60	87	80
<b>KBL Standalone</b>						
Orders Recd	796	740	731	947	943	<b>754</b>
<b>KBL Consol</b>						
	1157	1070	1111	1282	1225	1162
<b>Pending Orders</b>	<b>3,020</b>	<b>3,084</b>	<b>3,111</b>	<b>2,999</b>	<b>3,053</b>	<b>3,057</b>

Source: Company, Axis Securities Research

**Financials (Consolidated)**
**Profit & Loss**
**(Rs Cr)**

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>3,730</b>	<b>4,001</b>	<b>4,608</b>	<b>5,543</b>	<b>6,708</b>
Growth (%)	22.0	7.3	15.2	20.3	21.0
Other Operating Income	0	0	0	0	0
<b>Total Income</b>	<b>3,730</b>	<b>4,001</b>	<b>4,608</b>	<b>5,543</b>	<b>6,708</b>
Raw Material Expense	1,955	1,983	2,235	2,677	3,240
Employee Expense	565	673	775	920	1,113
Power & Fuel Expenses	58	0	0	0	0
Other Operating Expense	753	826	968	1,136	1,375
<b>EBITDA (Excl. Other Income)</b>	<b>399</b>	<b>520</b>	<b>631</b>	<b>809</b>	<b>979</b>
Growth (%)	94	30	21	28	21
EBITDA Margin (Excl. Other Income - %)	<b>10.7</b>	<b>13.0</b>	<b>13.7</b>	<b>14.6</b>	<b>14.6</b>
Other Income	27	59	60	75	80
<b>EBITDA (Incl. Other Income)</b>	<b>426</b>	<b>578</b>	<b>691</b>	<b>884</b>	<b>1,059</b>
Growth (%)	78.8	35.6	19.5	28.0	19.8
EBITDA Margin (Incl. Other Income - %)	<b>11.4</b>	<b>14.5</b>	<b>15.0</b>	<b>16.0</b>	<b>15.8</b>
Depreciation	69	78	93	103	114
<b>EBIT</b>	<b>358</b>	<b>500</b>	<b>598</b>	<b>781</b>	<b>946</b>
Interest Cost	35	26	26	38	56
<b>Profit Before Tax</b>	<b>322</b>	<b>474</b>	<b>572</b>	<b>743</b>	<b>889</b>
Tax	93	141	157	195	231
<b>Profit After Tax</b>	<b>229</b>	<b>333</b>	<b>415</b>	<b>548</b>	<b>658</b>
Growth (%)	181.2	45.2	24.5	32.1	20.2
Share of Profit of an associate/OCI	<b>10</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>10</b>
<b>Net Profit (Adjusted)</b>	<b>239</b>	<b>342</b>	<b>423</b>	<b>556</b>	<b>668</b>
<b>EPS</b>	<b>30</b>	<b>44</b>	<b>53</b>	<b>70</b>	<b>84</b>

Source: Company, Axis Securities Research

**Balance Sheet**
**(Rs Cr)**

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	16	16	16	16	16
Reserves & Surplus	1392	1708	2102	2629	3266
<b>Net Worth</b>	<b>1407</b>	<b>1724</b>	<b>2118</b>	<b>2645</b>	<b>3282</b>
Borrowings	286	192	268	400	579
Other Liabilities	1323	1409	1531	1724	1980
<b>Total Liabilities</b>	<b>1608</b>	<b>1601</b>	<b>1799</b>	<b>2124</b>	<b>2559</b>
<b>Total Equity &amp; Liability</b>	<b>3016</b>	<b>3325</b>	<b>3917</b>	<b>4768</b>	<b>5841</b>
<b>APPLICATION OF FUNDS</b>					
Cash & Bank Balance	253	293	519	974	1578
Investments	317	410	430	450	470
Advances	237	201	201	201	201
Fixed & Other Assets	2209	2421	2767	3143	3592
<b>Total Assets</b>	<b>3016</b>	<b>3325</b>	<b>3917</b>	<b>4768</b>	<b>5841</b>

Source: Company, Axis Securities Research

**Cash Flow**
**(Rs Cr)**

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>PBT</b>	<b>318</b>	<b>481</b>	<b>571</b>	<b>742</b>	<b>889</b>
Depreciation & amortization	69	78	93	103	114
Interest expense	23	26	26	38	56
Interest / Dividend Recd	-16	-50	-51	-66	-71
Other Adjustments	46	3	-20	-15	-10
(Inc)/Dec in working capital	-44	-38	-60	-100	-127
Tax paid	-67	-141	-157	-195	-231
<b>CF from operating activities</b>	<b>329</b>	<b>359</b>	<b>402</b>	<b>507</b>	<b>620</b>
Capital expenditure	-133	-174	-200	-200	-200
(Purchase) / Sale of Investments	13	0	0	0	0
Income from investments and others	44	-5	69	84	89
<b>CF from investing activities</b>	<b>-76</b>	<b>-179</b>	<b>-131</b>	<b>-116</b>	<b>-111</b>
Inc/(Dec) in share capital	0	0	0	0	0
Inc/(Dec) in debt	-123	-94	76	131	180
Dividends & Interest paid	-47	-54	-55	-67	-85
Other Financial Activities	0	0	0	0	0
<b>CF from financing activities</b>	<b>-169</b>	<b>-148</b>	<b>21</b>	<b>64</b>	<b>95</b>
<b>Net cash flow</b>	<b>84</b>	<b>32</b>	<b>292</b>	<b>456</b>	<b>603</b>
Opening balance	134	253	227	519	974
Other Bank Balance	3	0	0	0	0
<b>Closing balance</b>	<b>221</b>	<b>285</b>	<b>519</b>	<b>974</b>	<b>1578</b>

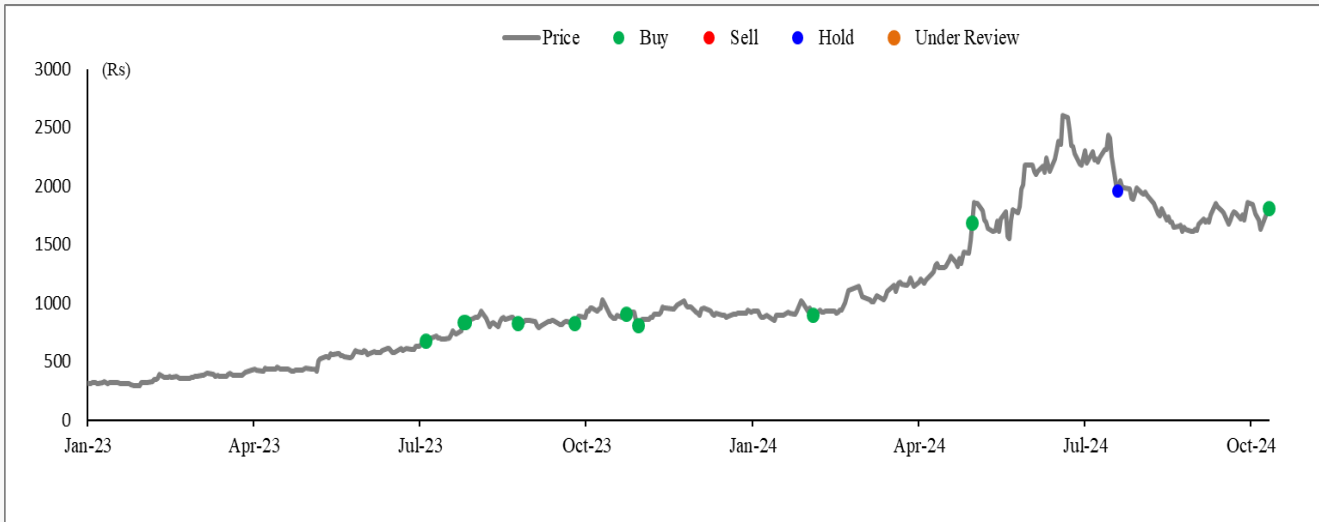
Source: Company, Axis Securities Research

**Ratio Analysis**
**(x) / (%)**

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share data</b>					
No. of shares (Cr)	8.0	8.0	8.0	8.0	8.0
BVPS (INR)	177.0	216.9	266.4	332.7	412.8
CEPS (INR)	36.9	52.6	63.7	81.8	97.0
DPS (INR)	3.0	3.0	3.0	3.0	3.0
<b>Financial Ratios</b>					
RoE (%)	17.4	21.7	21.5	23.0	22.2
RoCE (%)	21.9	27.7	27.8	28.7	27.4
Debt/Equity (x)	0.2	0.1	0.1	0.2	0.2
EBIT/Interest (x)	10.1	19.4	22.6	20.3	16.8
<b>Turnover Ratios</b>					
Asset turnover (x)	2.2	2.1	1.9	1.8	1.7
Sales/Net FA (x)	6.1	6.0	6.0	6.4	7.0
Working capital/Sales (x)	0.1	0.1	0.1	0.1	0.1
Receivable days	52.7	53.7	53.0	53.0	53.0
Inventory days	77.2	80.2	87.0	86.0	85.0
Payable days	130.9	132.9	130.0	125.0	120.0
Working capital days	-1.0	1.0	10.0	14.0	18.0
<b>Liquidity Ratios</b>					
Current ratio (x)	1.6	1.6	1.8	2.0	2.2
Quick ratio (x)	1.0	1.0	1.1	1.3	1.5
Interest cover (x)	9.3	17.2	20.1	17.9	14.7
Net debt/Equity (x)	0.0	-0.1	-0.1	-0.2	-0.3
<b>Valuation (x)</b>					
PE	64.2	42.5	34.8	26.3	21.9
PEG (x) YoY growth	0.4	0.8	1.6	0.8	1.1
P/BV	10.2	8.3	6.8	5.4	4.4
EV/EBITDA	35.7	27.0	22.0	16.7	13.3
EV/Sales	3.8	3.5	3.0	2.4	1.9
EV/EBIT	39.8	28.1	23.2	17.3	13.8

Source: Company, Axis Securities Research

## Kirloskar Brothers Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
12-Jul-23	BUY	850	Initiating Coverage
01-Aug-23	BUY	850	Top Picks
03-Aug-23	BUY	880	Company Update
01-Sep-23	BUY	975	Top Picks
03-Oct-23	BUY	975	Top Picks
01-Nov-23	BUY	995	Top Picks
09-Nov-23	BUY	960	Result Update
16-Feb-24	BUY	1,000	Result Update
16-May-24	BUY	1,900	Result Update
06-Aug-24	HOLD	1,977	Result Update
31-Oct-24	BUY	2,100	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.