

Kirloskar Oil Engines | BUY

Strong growth across segments; LGM transaction positive

Kirloskar Oil Engines (KOEL) quarterly performance was above JMFe and consensus estimates, driven by strong growth across segments. Volume normalisation, stable prices and higher HHP genset revenue resulted in strong growth in the powergen segment. As a strategic move, KOEL has transferred its B2C (Water Management Solutions) business to its wholly-owned subsidiary La-Gajjar Machineries Pvt Ltd (LGM), to create a simplified organisation structure, drive significant operational efficiencies by eliminating redundancies, streamlining go-to-market channels, and amplifying reach to its core customer base. We expect standalone EBITDA margins to improve 30-50bps by FY28 with completion of above transaction. Maintain Buy with revised SoTP of INR 1,240 valuing core business at 25x Sep'27E.

- **Strong revenue growth across segments:** Revenue grew at a healthy 34.3% YoY to INR 16bn (JMFe INR 12.9bn), crossing the INR 16bn mark for 1st time in a quarter. This was led by double-digit growth across segments. Gross margin fell 210bps YoY to 34.7%. EBITDA grew 44.6% YoY to INR 2.1bn with EBITDA margin expanding 90bps YoY to 13.4%, due to operating leverage (JMFe 12.9%). Adj. PAT grew 50% YoY to INR 1.4bn, above JMFe of INR 1.1bn.
- **Strong growth in powergen and exports segment revenue:** Powergen segment reported robust revenue growth of 41% YoY to INR 6.8bn, led by volume recovery and growth in the HHP segment (from the real estate sector). Recently, the Optiprime range genset won orders for 1500KVA (two orders), 2000KVA and 2500KVA gensets from the real estate sector (residential and commercial). On the exports front, revenue grew 39% YoY to INR 1.7bn, with traction witnessed in Middle East and Africa, which account for 60% of export revenue. In North America, the company is still investing in product development, channel partners and expect growth in the near term to be negligible.
- **Defence and Railways led the Industrial segment growth:** Industrial segment revenue grew 47% YoY to INR 3.7bn, with growth witnessed in defence and railways. Defence growth was supported by execution of orders under emergency procurement (likely to continue in 3QFY26 as well). The company has submitted detailed design for the Indian Navy's prestigious 'Make 1' initiative (6MW medium-speed marine diesel engine). Industrial segment outlook continues to remain healthy from defence, and railways, and the expected recovery in the construction sector.
- **Strategic alignment of B2C segment:** KOEL has transferred its B2C business (INR 6.3bn revenue in FY25) to its wholly-owned subsidiary La-Gajjar Machineries Private Limited (LGM) by way of slump sale. The key objective is to maintain dedicated focus on each segment and drive greater efficiency through structures best suited to their respective customer needs. Consequently, we have revised our standalone assumption in line with the restructuring. With this restructuring and consolidation of the Sanand facility we expect LGM margin to expand to 9% by FY28E from 4.2% in FY25 (low base- impact of facility consolidation).
- **Maintain BUY with TP of INR 1,240:** We remain positive on the stock factoring in, market share gain in the HHP segment, new product launches in the high KVA segment, thrust on the aftermarket segment, push on exports, volume recovery in domestic powergen, and healthy industrial segment outlook. The company continues to invest in product enhancement, new product launches and capacity expansion to meet upcoming opportunities. With the transfer of the B2C business and product mix, we expect standalone EBITDA margin to expand c.30-50bps by FY28E (from 13.3% in 1HFY26). Maintain BUY rating on stock with a SoTP-based TP of INR 1,240 (INR 1,220 earlier), valuing core business at 25x Sep'27E (28x FY27E earlier).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,240
Upside/(Downside)	17.1%
Previous Price Target	1,220
Change	1.6%

Key Data – KOEL IN

Current Market Price	INR1,059
Market cap (bn)	INR153.8/US\$1.7
Free Float	57%
Shares in issue (mn)	144.6
Diluted share (mn)	145.2
3-mon avg daily val (mn)	INR385.1/US\$4.3
52-week range	1,196/544
Sensex/Nifty	84,467/25,876
INR/US\$	88.6

Price Performance

%	1M	6M	12M
Absolute	18.8	51.4	-6.9
Relative*	16.0	47.7	-13.3

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	48,505	51,133	55,236	64,956	75,593
Sales Growth (%)	17.8	5.4	8.0	17.6	16.4
EBITDA	5,642	6,537	7,320	8,729	10,290
EBITDA Margin (%)	11.6	12.8	13.3	13.4	13.6
Adjusted Net Profit	3,616	4,110	4,768	5,811	6,943
Diluted EPS (INR)	24.9	28.3	32.8	40.0	47.8
Diluted EPS Growth (%)	20.9	13.5	16.0	21.9	19.5
ROIC (%)	45.1	42.8	39.0	39.9	42.7
ROE (%)	14.6	14.7	15.1	16.2	16.9
P/E (x)	42.4	37.4	32.3	26.5	22.1
P/B (x)	5.9	5.2	4.6	4.0	3.5
EV/EBITDA (x)	27.4	23.2	20.8	17.3	14.6
Dividend Yield (%)	0.3	0.5	0.6	0.8	0.9

Source: Company data, JM Financial. Note: Valuations as of 12/Nov/2025

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Strong quarterly performance

Y/E March (INR mn)	2Q FY25	2Q FY26	YoY (%)	1Q FY26	QoQ (%)	2Q FY26E	Var (%)
Net Sales	11,944	16,045	34.3	14,447	11.1	12,859	24.8
Expenditure	10,461	13,901	32.9	12,545	10.8	11,200	24.1
EBITDA	1,483	2,144	44.6	1,902	12.7	1,659	29.3
EBITDA (%)	12.4	13.4	90bps	13.2	20bps	12.9	50bps
Other income	108	119	10.2	123	-2.9	126	-5.2
Depreciation	266	357	34.3	340	5.0	331	7.8
EBIT	1,326	1,907	43.9	1,685	13.2	1,454	31.2
Interest	24	29	18.0	32	-9.7	25	15.2
PDB before Eol	1,301	1,878	44.4	1,653	13.6	1,429	31.5
Eol	0	0		0		0	
PBT after Eol	1,301	1,878	44.4	1,653	13.6	1,429	31.5
Tax	365	470	28.8	425	10.6	357	31.6
Tax rate (%)	28.1	25.0		25.7		25.0	
PAT	936	1,408	50.4	1,228	14.6	1,072	31.4
EPS (INR)	6.5	9.7	50.4	8.5	14.6	7.4	31.4

Source: Company, JM Financial

Exhibit 2. Cost breakup

Y/E March (INR mn)	2Q FY25	2Q FY26	YoY (%)	1Q FY26	QoQ (%)	2Q FY26E	Var (%)
COGS	7,544	10,471	38.8	9,510	10.1	8,165	28.2
as a % of sales	63.2	65.3	210bps	65.8	-60bps	63.5	180bps
Staff Cost	912	969	6.2	863	12.2	913	6.1
as a % of sales	7.6	6.0	-160bps	6.0	10bps	7.1	-110bps
Other Expenditure	2,004	2,461	22.8	2,172	13.3	2,122	16.0
as a % of sales	16.8	15.3	-140bps	15.0	30bps	16.5	-120bps

Source: Company, JM Financial

Exhibit 3. SoTP valuation

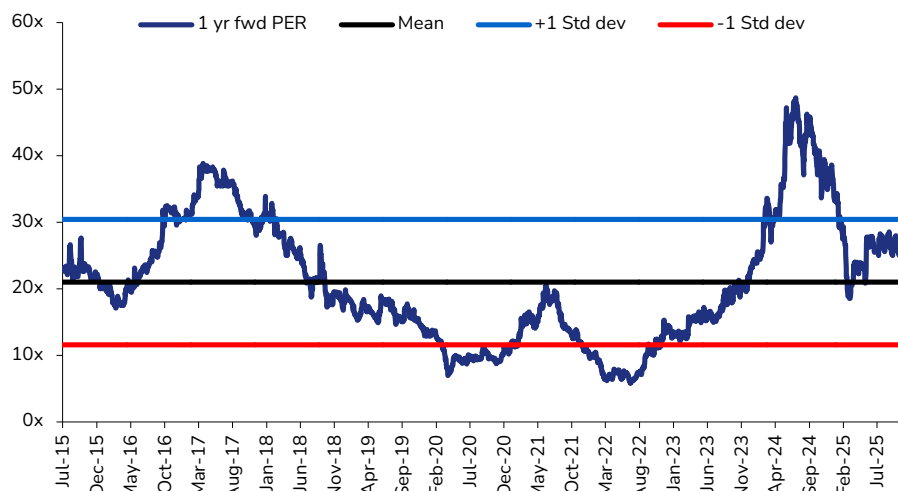
Business	Valuation basis	Multiple	Value (INRmn)	Per share (INR)
Standalone business	25x Sep'27E Core EPS	25.0	148,782	1,025
La-Gajjar Machineries	15x Sep'27E EPS	15.0	13,732	95
ARKA Fincap	P/B	1.0	11,369	78
Cash and liquid investments P/B of 1x		1.0	5,935	41
			179,817	1,240

Source: JM Financial

Key Conference Call Highlights

- **Powergen segment:** Revenue grew at a robust 41% YoY to INR 6.8bn. Growth was largely led by volume recovery and growth in the HHP segment.
 - Volume growth for LHP & MHP segments was broad-based across sectors, while HHP segment growth was largely driven by real estate (residential and commercial).
 - Domestic demand for powergen is likely to continue; however, management remains cautiously optimistic.
 - Recently, the Optiprime range genset won orders for 1500KVA (two orders), 2,000KVA and 2,500KVA genset from the real estate sector (residential and commercial).
 - The company will be launching products in 3QFY26, further strengthening its position in the HHP segment.
 - Price hike post emission norm changes has settled at 25-40%.
- **Industrial:** Witnessed healthy traction in both Defence and Railways segments.
 - The company has submitted detailed design for the Indian Navy's prestigious 'Make 1' initiative (6MW medium-speed marine diesel engine).
 - Launched new product in the Railways segment for the 400HP engine for a rail maintenance application.
 - Momentum for industrial segment will continue from defence, railways, and pickup in the construction sector.
- **Exports:** Middle East and Africa is the largest market for the company with 60% exports revenue contribution.
 - North America market: Still in the investment phase and expects growth in the near term to be negligible.
 - America: Currently, the focus is on building product portfolio and channel partner.
- **After market:** Implemented a revised field structure with an increased focus on key account management and advanced service offerings, which will continue to drive the service segment growth.

Exhibit 4. One-year forward PE valuation



Source: JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	48,505	51,133	55,236	64,956	75,593
Sales Growth	17.8%	5.4%	8.0%	17.6%	16.4%
Other Operating Income	0	0	0	0	0
Total Revenue	48,505	51,133	55,236	64,956	75,593
Cost of Goods Sold/Op. Exp	32,439	33,368	35,766	42,059	48,946
Personnel Cost	3,069	3,441	3,865	4,425	5,018
Other Expenses	7,355	7,787	8,285	9,743	11,339
EBITDA	5,642	6,537	7,320	8,729	10,290
EBITDA Margin	11.6%	12.8%	13.3%	13.4%	13.6%
EBITDA Growth	24.0%	15.9%	12.0%	19.2%	17.9%
Depn. & Amort.	970	1,170	1,324	1,401	1,441
EBIT	4,672	5,367	5,996	7,328	8,849
Other Income	274	344	503	572	571
Finance Cost	78	121	100	100	100
PBT before Excep. & Forex	4,868	5,590	6,400	7,799	9,320
Excep. & Forex Inc./Loss(-)	0	209	0	0	0
PBT	4,868	5,799	6,400	7,799	9,320
Taxes	1,252	1,480	1,632	1,989	2,377
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	3,616	4,319	4,768	5,811	6,943
Adjusted Net Profit	3,616	4,110	4,768	5,811	6,943
Net Margin	7.5%	8.0%	8.6%	8.9%	9.2%
Diluted Share Cap. (mn)	145.0	145.2	145.2	145.2	145.2
Diluted EPS (INR)	24.9	28.3	32.8	40.0	47.8
Diluted EPS Growth	20.9%	13.5%	16.0%	21.9%	19.5%
Total Dividend + Tax	507	822	954	1,162	1,389
Dividend Per Share (INR)	3.5	5.7	6.6	8.0	9.6

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	4,868	5,799	6,400	7,799	9,320
Depn. & Amort.	970	1,170	1,201	1,286	1,350
Net Interest Exp. / Inc. (-)	16	33	0	0	0
Inc (-) / Dec in WCap.	-441	-270	-1,883	-559	-612
Others	11	-505	0	0	0
Taxes Paid	-1,084	-1,331	-1,632	-1,989	-2,377
Operating Cash Flow	4,339	4,897	4,086	6,537	7,681
Capex	-2,765	-2,445	-2,000	-2,500	-2,500
Free Cash Flow	1,574	2,453	2,086	4,037	5,181
Inc (-) / Dec in Investments	-1,417	-690	-1,500	-2,000	-3,000
Others	0	0	0	0	0
Investing Cash Flow	-4,182	-3,135	-3,500	-4,500	-5,500
Inc / Dec (-) in Capital	1	0	0	0	0
Dividend + Tax thereon	-724	-871	-954	-1,162	-1,389
Inc / Dec (-) in Loans	1,338	-797	-400	-400	-400
Others	-114	-259	0	0	0
Financing Cash Flow	500	-1,927	-1,354	-1,562	-1,789
Inc / Dec (-) in Cash	657	-164	-768	475	393
Opening Cash Balance	323	3,226	3,062	2,294	2,769
Closing Cash Balance	980	3,062	2,294	2,769	3,161

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	26,227	29,756	33,571	38,219	43,774
Share Capital	290	290	290	290	290
Reserves & Surplus	25,937	29,466	33,280	37,929	43,483
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	2,091	1,294	894	494	94
Def. Tax Liab. / Assets (-)	100	250	250	250	250
Total - Equity & Liab.	28,418	31,301	34,715	38,963	44,118
Net Fixed Assets	7,334	9,071	9,870	11,085	12,235
Gross Fixed Assets	17,988	22,224	24,224	26,724	29,224
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	12,676	13,846	15,047	16,333	17,683
Capital WIP	2,023	693	693	693	693
Investments	18,762	17,873	19,373	21,373	24,373
Current Assets	13,115	16,131	18,789	22,166	25,736
Inventories	5,235	4,931	6,053	7,118	8,284
Sundry Debtors	5,684	6,511	6,810	8,008	9,320
Cash & Bank Balances	980	3,062	2,294	2,769	3,161
Loans & Advances	108	0	1,816	2,136	2,485
Other Current Assets	1,107	1,627	1,816	2,136	2,485
Current Liab. & Prov.	10,793	11,774	13,317	15,661	18,225
Current Liabilities	7,274	6,506	9,080	10,678	12,426
Provisions & Others	3,519	5,268	4,237	4,983	5,799
Net Current Assets	2,322	4,357	5,472	6,506	7,511
Total - Assets	28,418	31,301	34,715	38,963	44,118

Source: Company, JM Financial

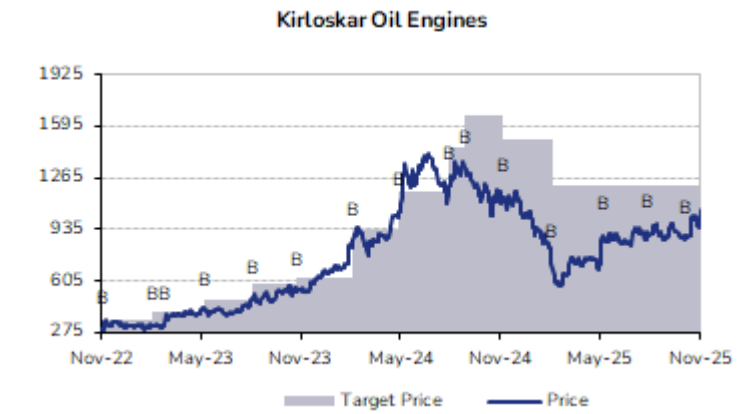
Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	7.5%	8.0%	8.6%	8.9%	9.2%
Asset Turnover (x)	1.8	1.7	1.7	1.8	1.8
Leverage Factor (x)	1.1	1.1	1.0	1.0	1.0
RoE	14.6%	14.7%	15.1%	16.2%	16.9%
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	180.9	204.9	231.2	263.2	301.5
ROIC	45.1%	42.8%	39.0%	39.9%	42.7%
ROE	14.6%	14.7%	15.1%	16.2%	16.9%
Net Debt/Equity (x)	0.0	-0.1	0.0	-0.1	-0.1
P/E (x)	42.4	37.4	32.3	26.5	22.1
P/B (x)	5.9	5.2	4.6	4.0	3.5
EV/EBITDA (x)	27.4	23.2	20.8	17.3	14.6
EV/Sales (x)	3.2	3.0	2.8	2.3	2.0
Debtor days	43	46	45	45	45
Inventory days	39	35	40	40	40
Creditor days	62	53	69	69	69

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
31-Oct-21	Buy	320	
12-Feb-22	Buy	225	-29.7
22-May-22	Buy	225	0.0
11-Aug-22	Buy	250	11.1
24-Aug-22	Buy	250	0.0
14-Nov-22	Buy	360	44.0
13-Feb-23	Buy	400	11.1
6-Mar-23	Buy	400	0.0
19-May-23	Buy	480	20.0
16-Aug-23	Buy	580	20.8
5-Nov-23	Buy	630	8.6
14-Feb-24	Buy	930	47.6
9-May-24	Buy	1,175	26.3
9-Aug-24	Buy	1,455	23.8
8-Sep-24	Buy	1,665	14.4
14-Nov-24	Buy	1,510	-9.3
13-Feb-25	Buy	1,220	-19.2
18-May-25	Buy	1,220	0.0
8-Aug-25	Buy	1,220	0.0
15-Oct-25	Buy	1,220	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return \geq 15% over the next twelve months.
ADD	Expected return \geq 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return \geq -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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