

Kirloskar Oil Engines | BUY

Next 5 year plan aims USD 2bn revenue by FY30

Kirloskar Oil Engines (KOEL) reported quarterly number in line with our estimates with revenue of INR 13.4bn (up 6.2% YoY) vs JMFe of INR 13.3bn. Reported EBITDA appears to be higher at 14.7%, However, 1QFY25 has reversal of provision to tune of INR 240mn. Adjusting to this EBITDA grew 12.4% YoY to INR 1.7bn, inline with JMFe of INR 1.7bn. Adjusted EBITDA margins expanded 70bps YoY to 12.9% (JMFe 12.7%). Overall demand from domestic power gen segment continues to remain strong, with no sign of softness. On international front focus on expanding geographical presence is yielding results (exports grew 15% YoY) and will drive growth momentum going forward. KOEL is fully committed to 2x3Y despite delays in CPCB-IV norm implementation. KEOL has also released its new 5 year ambition plan called "2B2B" - which indicates to reach USD 2bn revenue by FY30.

- **Revenue growth driven by Industrial and aftermarket segment:** Std. revenue up 6%YoY to INR 13.4bn inline with JMFe INR 13.3bn. Export grew 15% YoY to INR 1.1bn. Industrial segment revenue grew 38% YoY to INR 3.2bn, Aftermarket up 14% YoY to INR 2bn, international business up 23% YoY to INR 1bn, while power gen segment declined 12.7% YoY to INR 5.3bn (due to high base). CPCB-IV variant product accounted for 40% of revenue in 1QFY25. Sold 250 units of 2000kva optiprime products. Expanding genset
- **Favourable mix drives gross margins:** Gross margins expanded 240bps YoY to 34%, mainly driven by increasing contribution from HHP segment and exports market. However Adj. EBITDA margins expanded only 70 bps YoY to 12.9% (JMFe 12.7%), due to higher employee cost as % of sales (up 100bps YoY) and other expenses as % of sales (up 70 bps YoY).
- **2B2B strategy by FY30:** Grow the Kirloskar Oil Engines business to USD 2bn in the next 5 years at a consolidated level. Key strategy includes 1) Execution of manufacturing strategy, 2) complete execution of the technology roadmap, 3) increase share of business of Arka Retail, 4) inorganic growth opportunities in line with core strategy, 5) increase international market share, 6) market share improvement of B2C, 7) improve share of business in Defence and Rail, 8) expand to non ICE programs, but in line with the core business, 9) complete B2C product portfolio and 10) reach USD 2bn by FY2030.
- **Maintain BUY with TP of INR 1,455:** New product launches in high KVA segment (launched OptiPrime), thrust on aftermarket segment, push towards exports market, sustained demand in domestic powergen & industrial segment and improving margins in B2C segment augurs well for company in medium to long run. We expect margins to expand driven by 1) increasing HHP segment opportunity with launch of OptiPrime for sector like Data Center 2) growing aftermarket segment and 3) expanding reach in exports market. We expect revenue and earnings CAGR of 23%/35% over FY24-26E. Maintain BUY rating on stock with SOTP of INR 1,455, valuing standalone business at 30x FY26E (25x FY26E earlier).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,455
Upside/(Downside)	25.8%
Previous Price Target	1,325
Change	9.8%

Key Data – KOEL IN

Current Market Price	INR1,156
Market cap (bn)	INR167.7/US\$2.0
Free Float	57%
Shares in issue (mn)	144.6
Diluted share (mn)	145.0
3-mon avg daily val (mn)	INR428.5/US\$5.1
52-week range	1,450/433
Sensex/Nifty	78,886/24,117
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	-16.6	40.3	156.2
Relative*	-15.1	27.3	114.3

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	32,996	41,161	48,505	60,840	73,900
Sales Growth (%)	22.5	24.7	17.8	25.4	21.5
EBITDA	2,687	4,550	5,642	7,817	9,466
EBITDA Margin (%)	8.1	11.1	11.6	12.8	12.8
Adjusted Net Profit	1,553	2,983	3,616	5,285	6,636
Diluted EPS (INR)	10.7	20.6	24.9	36.5	45.8
Diluted EPS Growth (%)	-7.2	92.1	20.9	46.1	25.6
ROIC (%)	29.4	46.4	45.1	50.7	50.5
ROE (%)	7.5	13.3	14.6	18.6	20.1
P/E (x)	107.6	56.0	46.3	31.7	25.3
P/B (x)	7.8	7.2	6.4	5.5	4.7
EV/EBITDA (x)	62.6	36.9	29.9	21.5	17.6
Dividend Yield (%)	0.5	0.4	0.3	0.6	1.0

Source: Company data, JM Financial. Note: Valuations as of 08/Aug/2024

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

Exhibit 1. SoTP Valuation

Business	Valuation basis	Multiple	Value (INRmn)	Per share (INR)
Standalone business	30x Mar'26E Core EPS	30.0	185,390	1,279
La-Gajjar Machineries	10x Mar'26E EPS	12.0	5,074	35
ARKA Fincap	P/B	1.0	10,735	74
Cash and liquid investments	P/B of 1x	1.0	9,375	65
			210,574	1,455

Source: Company, JM Financial

Exhibit 2. Quarterly performance

Y/E March (INR mn)	1Q FY24	1Q FY25	YoY (%)	1Q FY24	QoQ (%)	1Q FY25E	Var (%)
Net Sales	12,647	13,429	6.2	12,647	6.2	13,300	1.0
Expenditure	11,102	11,693	5.3	11,102	5.3	11,611	0.7
EBITDA	1,545	1,736	12.4	1,545	12.4	1,689	2.8
EBITDA (%)	12.2	12.9	70bps	12.2	70bps	12.7	20bps
Other income	70	108	54.7	70	54.7	88	21.7
Depreciation	213	247	16.2	213	16.2	234	5.6
EBIT	1,401	1,597	13.9	1,401	13.9	1,543	3.5
Interest	14	27	102.2	14	102.2	20	36.5
PDB before Eol	1,388	1,569	13.1	1,388	13.1	1,523	3.0
Eol	0	0		0		0	
PBT after Eol	1,388	1,569	13.1	1,388	13.1	1,523	3.0
Tax	355	462	30.4	355	30.4	384	20.4
Tax rate (%)	25.5	29.5		25.5		25.2	
PAT	1,033	1,107	7.1	1,033	7.1	1,139	-2.8
EPS (INR)	7.1	7.7	7.1	7.1	7.1	7.9	-2.8
Adj PAT	1,033	1,107	7.1	1,033	7.1	1,139	-2.8
Adj EPS (INR)	7.1	7.7	7.1	7.1	7.1	7.9	-2.8

Source: Company, JM Financial

Exhibit 3. Cost breakup

Y/E March (INR mn)	1Q FY24	1Q FY25	YoY (%)	1Q FY24	QoQ (%)	1Q FY25E	Var (%)
COGS	8,653	8,864	2.4	8,653	2.4	8,911	-0.5
as a % of sales	68.4	66.0	-240bps	68.4	-240bps	67.0	-100bps
Staff Cost	658	830	26.2	658	26.2	838	-0.9
as a % of sales	5.2	6.2	100bps	5.2	100bps	6.3	-10bps
Other Expenditure	1,791	1,999	11.6	1,791	11.6	1,862	7.4
as a % of sales	14.2	14.9	70bps	14.2	70bps	14.0	90bps

Source: Company, JM Financial

Key Concall Highlights

- KEOL has released its new ambition plan called 2B2B- which indicates to reach USD 2bn revenue by FY30.
- Guidance: Fully committed to 2x3Y despite delays due to CPCB-IV implementation.
- Demand continues to remain strong and didn't witness any softness.
- Will also look for inorganic opportunities.
- Spare: KOEL is ramping up on service channel capability in order to service the customer on time. With tech becoming more complicated on with CPCB-IV norms coming will drive services segment for company.
- Investment in WildCat: It was part of US strategy to expand geographical footprints.
- Focus is on expanding international business.
- Demand remains strong from infrastructure, construction, railway and Defence for industrial business.
- Optiprime – Seeing healthy traction for the products. Sold 250 units of 2000kva optiprime products. Expanding genset
- CPCB-IV accounted for 40% of revenue in 1QFY25. KOEL has largest portfolio of CPCB-IV compliant product in industry.

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	32,996	41,161	48,505	60,840	73,900	
Sales Growth	22.5%	24.7%	17.8%	25.4%	21.5%	
Other Operating Income	0	0	0	0	0	
Total Revenue	32,996	41,161	48,505	60,840	73,900	
Cost of Goods Sold/Op. Exp	22,912	27,897	32,439	40,763	49,587	
Personnel Cost	2,070	2,365	3,069	3,256	3,762	
Other Expenses	5,327	6,349	7,355	9,004	11,085	
EBITDA	2,687	4,550	5,642	7,817	9,466	
EBITDA Margin	8.1%	11.1%	11.6%	12.8%	12.8%	
EBITDA Growth	-1.9%	69.3%	24.0%	38.6%	21.1%	
Depn. & Amort.	772	848	970	1,024	1,081	
EBIT	1,915	3,703	4,672	6,793	8,385	
Other Income	248	273	274	381	612	
Finance Cost	62	54	78	80	90	
PBT before Excep. & Forex	2,100	3,922	4,868	7,094	8,907	
Excep. & Forex Inc./Loss(-)	527	0	0	0	0	
PBT	2,627	3,922	4,868	7,094	8,907	
Taxes	547	939	1,252	1,809	2,271	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,080	2,983	3,616	5,285	6,636	
Adjusted Net Profit	1,553	2,983	3,616	5,285	6,636	
Net Margin	4.7%	7.2%	7.5%	8.7%	9.0%	
Diluted Share Cap. (mn)	144.6	144.6	145.0	145.0	145.0	
Diluted EPS (INR)	10.7	20.6	24.9	36.5	45.8	
Diluted EPS Growth	-7.2%	92.1%	20.9%	46.1%	25.6%	
Total Dividend + Tax	795	723	507	1,057	1,659	
Dividend Per Share (INR)	5.5	5.0	3.5	7.3	11.4	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	21,391	23,318	26,227	30,455	35,432	
Share Capital	289	289	290	290	290	
Reserves & Surplus	21,102	23,029	25,937	30,165	35,142	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	968	751	2,091	2,091	1,691	
Def. Tax Liab. / Assets (-)	146	61	100	100	100	
Total - Equity & Liab.	22,505	24,131	28,418	32,646	37,222	
Net Fixed Assets	4,896	4,915	7,334	8,310	9,229	
Gross Fixed Assets	15,934	16,463	17,988	19,988	21,988	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	11,244	11,706	12,676	13,700	14,781	
Capital WIP	206	158	2,023	2,023	2,023	
Investments	16,722	16,925	18,762	19,762	20,762	
Current Assets	8,504	11,557	13,115	19,242	25,048	
Inventories	3,031	4,685	5,235	6,667	8,099	
Sundry Debtors	3,945	4,672	5,684	7,501	9,111	
Cash & Bank Balances	314	338	980	1,407	2,979	
Loans & Advances	373	296	108	2,000	2,430	
Other Current Assets	840	1,566	1,107	1,667	2,430	
Current Liab. & Prov.	7,617	9,267	10,793	14,668	17,817	
Current Liabilities	5,098	6,326	7,274	10,001	12,148	
Provisions & Others	2,519	2,941	3,519	4,667	5,669	
Net Current Assets	887	2,290	2,322	4,574	7,231	
Total - Assets	22,504	24,131	28,418	32,646	37,222	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	2,627	3,641	4,868	7,094	8,907	
Depn. & Amort.	772	848	970	1,024	1,081	
Net Interest Exp. / Inc. (-)	-59	35	16	0	0	
Inc (-) / Dec in WCcap.	-157	-1,025	-441	-1,825	-1,085	
Others	-673	61	11	0	0	
Taxes Paid	-567	-960	-1,084	-1,809	-2,271	
Operating Cash Flow	1,944	2,600	4,339	4,484	6,632	
Capex	-812	-1,213	-2,765	-2,000	-2,000	
Free Cash Flow	1,132	1,387	1,574	2,484	4,632	
Inc (-) / Dec in Investments	-8,182	-343	-1,417	-1,000	-1,000	
Others	0	0	0	0	0	
Investing Cash Flow	-8,994	-1,556	-4,182	-3,000	-3,000	
Inc / Dec (-) in Capital	0	0	1	0	0	
Dividend + Tax thereon	-578	-723	-724	-1,057	-1,659	
Inc / Dec (-) in Loans	7,723	-218	1,338	0	-400	
Others	-75	-79	-114	0	0	
Financing Cash Flow	7,070	-1,021	500	-1,057	-2,059	
Inc / Dec (-) in Cash	19	24	657	427	1,573	
Opening Cash Balance	294	314	323	980	1,407	
Closing Cash Balance	313	338	980	1,407	2,979	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
Net Margin		4.7%	7.2%	7.5%	8.7%	9.0%
Asset Turnover (x)		1.5	1.8	1.8	2.0	2.1
Leverage Factor (x)		1.0	1.0	1.1	1.1	1.1
RoE		7.5%	13.3%	14.6%	18.6%	20.1%

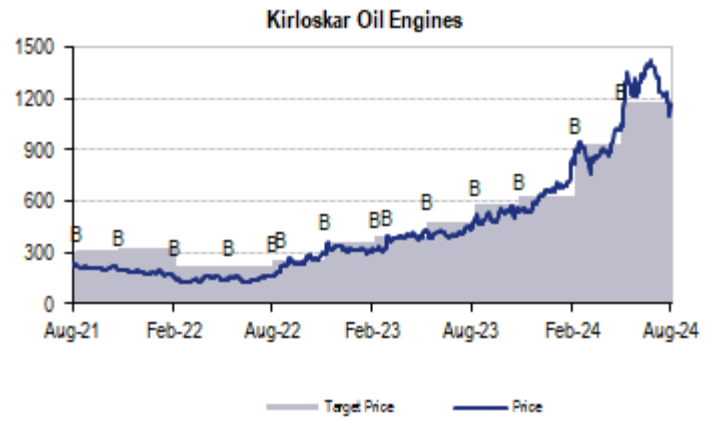
Key Ratios		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
BV/Share (INR)		147.9	161.2	180.9	210.1	244.4
ROIC		29.4%	46.4%	45.1%	50.7%	50.5%
ROE		7.5%	13.3%	14.6%	18.6%	20.1%
Net Debt/Equity (x)		0.0	0.0	0.0	0.0	0.0
P/E (x)		107.6	56.0	46.3	31.7	25.3
P/B (x)		7.8	7.2	6.4	5.5	4.7
EV/EBITDA (x)		62.6	36.9	29.9	21.5	17.6
EV/Sales (x)		5.1	4.1	3.5	2.8	2.3
Debtor days		44	41	43	45	45
Inventory days		34	42	39	40	40
Creditor days		61	63	62	69	69

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Apr-20	Buy	130	
1-Jul-20	Buy	135	3.8
6-Aug-20	Buy	150	11.1
4-Nov-20	Buy	170	13.3
11-Feb-21	Buy	220	29.4
15-May-21	Buy	300	36.4
13-Aug-21	Buy	315	5.0
31-Oct-21	Buy	320	1.6
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

Recommendation History



APPENDIX I

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Rating	Meaning
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