

# Kirloskar Oil Engines | BUY

## Growth outlook intact; maintained 2x3Y strategy

Kirloskar Oil Engines' (KOEL) 3QFY24 quarterly number was broadly in line with JMFe. Revenue grew 13.5% YoY to INR 11.4bn, driven by growth across segment. EBITDA margins expanded 80bps YoY to 11.7% due to favourable revenue mix. Demand scenario continues to remain strong in domestic market driven by government focus on Infrastructure spend. Management reiterated its growth strategy of growing revenue by 2x in 3 years (targets revenue of INR 65bn in FY25) with double digit EBITDA margin. Margins are likely to be better than expectation driven by 1) expanding HHP market opportunity with launch of OptiPrime 2) growing aftermarket segment and 3) expanding reach in exports market. Introduction of CPCB-4 norms product is expected to increase the addressable market size in new export geographies (with stringent emission norm) and also drive aftermarket sales due to increasing complexity of products. We transfer coverage to Deepak Agarwal. We expect revenue and earnings CAGR of 20%/27% over FY23-26E. Maintain BUY with SOTP of INR 930 FY26, valuing standalone business at 20x FY26E.

- Strong growth across segment:** Standalone revenue grew 13.5% YoY to INR 11.4bn, in-line with JMFe of INR 11.3bn, driven by growth across segment (except farm mechanisation). Powergen grew up 5.2% YoY to INR 4.3bn, Industrial grew 23% to INR2.3bn, Aftermarket grew 17% YoY to INR 1.8bn and Exports grew 22% YoY to INR 1.4bn. Overall B2B segment grew 13% to INR 9.7bn. B2C segment grew 17% YoY to INR 1.5bn, driven by strong growth in water management system (up 33% YoY to INR 1.3bn).
- Favourable revenue mix drives gross margins:** Gross margins expanded 170bps YoY to 34%, mainly due to higher execution of medium and HHP genset order. EBITDA grew 21.5% YoY to INR 1.3bn, with EBITDA margin expanding 80bps YoY, partly impacted due to higher employee cost as % of sales (7% vs 6.1% last year). PAT grew 21% YoY to INR 822mn.
- Recent acquisition to enhance presence in North America:** KOEL acquired 51% stake in Engines LPG, LLC dba Wildcat Power Gen an America based company engaged in designing, manufacturing, selling and servicing of generators powered by gas, diesel and other environmental fuel and power solutions under the brand name of Wildcat Power gen for all types of applications. This acquisition is step towards business expansion and to enable market development in powergen applications for the North American markets. Company has also appointed GOEM serve and grow our business in the Middle East.
- Maintain BUY with TP of INR 930:** We remain positive on stock given its focus on new product launches in high KVA (launched OptiPrime), thrust on aftermarket segment, push towards exports market and sustained demand in domestic powergen and industrial segment. We expect revenue and earnings CAGR of 20%/27% over FY23-26E. Maintain BUY rating on stock with SOTP of INR 930, valuing standalone business at 20x FY26E (16x Sep'25E earlier).



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	930
Upside/(Downside)	13.8%
Previous Price Target	630
Change	47.6%

### Key Data – KOEL IN

Current Market Price	INR817
Market cap (bn)	INR118.4/US\$1.4
Free Float	57%
Shares in issue (mn)	144.6
Diluted share (mn)	144.6
3-mon avg daily val (mn)	INR189.6/US\$2.3
52-week range	884/305
Sensex/Nifty	71,555/21,743
INR/US\$	83.0

### Price Performance

%	1M	6M	12M
Absolute	15.9	70.2	158.6
Relative*	17.5	55.4	118.4

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	32,996	41,161	48,083	59,232	70,733
Sales Growth (%)	22.5	24.7	16.8	23.2	19.4
EBITDA	2,687	4,550	5,436	7,104	8,822
EBITDA Margin (%)	8.1	11.1	11.3	12.0	12.5
Adjusted Net Profit	1,553	2,983	3,539	4,785	6,094
Diluted EPS (INR)	10.7	20.6	24.5	33.1	42.1
Diluted EPS Growth (%)	-7.2	92.1	18.6	35.2	27.3
ROIC (%)	29.4	45.3	46.9	57.2	64.4
ROE (%)	7.5	13.3	14.5	17.8	20.2
P/E (x)	76.1	39.6	33.4	24.7	19.4
P/B (x)	5.5	5.1	4.6	4.2	3.7
EV/EBITDA (x)	44.3	26.1	21.8	16.6	13.2
Dividend Yield (%)	0.7	0.6	1.2	1.6	2.1

Source: Company data, JM Financial. Note: Valuations as of 13/Feb/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
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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	20x FY26E Core EPS	20.0	114,001	788
La-Gajjar Machineries	10x FY26E EPS	10.0	960	7
ARKA Fincap	P/B	1.0	10,474	72
Cash and liquid investments	P/B of 1x	1.0	8,895	62
			<b>134,331</b>	<b>930</b>

Source: Company, Company, JM Financial

**Exhibit 2. Change in estimates**

Particulars	Actual	Revised Estimates			Previous Estimates			% chg		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Sales	41,161	48,083	59,232	70,733	48,042	56,161	65,691	0.1	5.5	7.7
EBITDA	4,550	5,436	7,104	8,822	5,429	6,735	8,029	0.1	5.5	9.9
EBITDA Margin (%)	11.1	11.3	12.0	12.5	11.3	12.0	12.2	<b>0bps</b>	<b>0bps</b>	<b>20bps</b>
Adj PAT	2,983	3,539	4,786	6,094	3,534	4,511	5,532	0.1	6.1	10.2
Adj EPS (INR)	20.6	24.5	33.1	42.1	24.4	31.2	38.3	0.1	6.1	10.2

Source: Company, JM Financial

**Exhibit 3. Quarterly Performance**

Y/E March (INR mn)	3Q FY23	3Q FY24	YoY (%)	2Q FY24	QoQ (%)	3Q FY24E	Var (%)	9M FY23	9M FY24	YoY (%)
<b>Net Sales</b>	<b>10,001</b>	<b>11,352</b>	<b>13.5</b>	<b>10,590</b>	<b>7.2</b>	<b>11,339</b>	<b>0.1</b>	<b>29,635</b>	<b>34,589</b>	<b>16.7</b>
Expenditure	8,907	10,023	12.5	9,603	4.4	10,108	-0.8	26,354	30,743	16.7
<b>EBITDA</b>	<b>1,094</b>	<b>1,329</b>	<b>21.5</b>	<b>986</b>	<b>34.7</b>	<b>1,231</b>	<b>7.9</b>	<b>3,281</b>	<b>3,845</b>	<b>17.2</b>
EBITDA (%)	10.9	11.7	80bps	9.3	240bps	10.9	80bps	11.1	11.1	0bps
Other income	55	57	3.1	64	-11.3	90	-37.2	156	204	31.0
Depreciation	212	257	20.9	243	5.5	251	2.3	631	713	13.0
EBIT	936	1,129	20.5	807	39.9	1,070	5.5	2,806	3,337	18.9
Interest	19	20	4.2	16	23.8	16	23.8	40	49	22.3
PBT before Eol	917	1,109	20.9	791	40.3	1,054	5.2	2,766	3,287	18.8
Eol	0	0		0		0		0	0	
PBT after Eol	917	1,109	20.9	791	40.3	1,054	5.2	2,766	3,287	18.8
Tax	236	287	21.9	205	40.2	269	6.8	713	846	18.8
Tax rate (%)	25.7	25.9		25.9		25.5		25.8	25.7	
<b>PAT</b>	<b>682</b>	<b>822</b>	<b>20.5</b>	<b>586</b>	<b>40.3</b>	<b>785</b>	<b>4.6</b>	<b>2,054</b>	<b>2,441</b>	<b>18.9</b>
<b>EPS (INR)</b>	<b>4.7</b>	<b>5.7</b>	<b>20.5</b>	<b>4.1</b>	<b>40.3</b>	<b>5.4</b>	<b>4.6</b>	<b>14.2</b>	<b>16.9</b>	<b>18.9</b>
<b>Adj PAT</b>	<b>682</b>	<b>822</b>	<b>20.5</b>	<b>586</b>	<b>40.3</b>	<b>785</b>	<b>4.6</b>	<b>2,054</b>	<b>2,441</b>	<b>18.9</b>
<b>Adj EPS (INR)</b>	<b>4.7</b>	<b>5.7</b>	<b>20.5</b>	<b>4.1</b>	<b>40.3</b>	<b>5.4</b>	<b>4.6</b>	<b>14.2</b>	<b>16.9</b>	<b>18.9</b>

Source: Company, JM Financial

**Exhibit 4. Cost Breakup**

Y/E March (INR mn)	3Q FY23	3Q FY24	YoY (%)	2Q FY24	QoQ (%)	3Q FY24E	Var (%)	9M FY23	9M FY24	YoY (%)
<b>COGS</b>	<b>6,771</b>	<b>7,493</b>	<b>10.7</b>	<b>7,081</b>	<b>5.8</b>	<b>7,597</b>	<b>-1.4</b>	<b>20,122</b>	<b>23,227</b>	<b>15.4</b>
as a % of sales	67.7	66.0	-170bps	66.9	-90bps	67.0	-100bps	67.9	67.2	-70bps
<b>Staff Cost</b>	<b>612</b>	<b>792</b>	<b>29.4</b>	<b>744</b>	<b>6.5</b>	<b>753</b>	<b>5.2</b>	<b>1,734</b>	<b>2,194</b>	<b>26.5</b>
as a % of sales	6.1	7.0	90bps	7.0	0bps	6.6	30bps	5.9	6.3	50bps
<b>Other Expenditure</b>	<b>1,525</b>	<b>1,738</b>	<b>14.0</b>	<b>1,778</b>	<b>-2.3</b>	<b>1,758</b>	<b>-1.1</b>	<b>4,498</b>	<b>5,322</b>	<b>18.3</b>
as a % of sales	15.2	15.3	10bps	16.8	-150bps	15.5	-20bps	15.2	15.4	20bps

Source: Company, JM Financial

## Key conference call takeaways

- Demand continues to remain strong in domestic market driven by government focus on Infrastructure.
- Won NPCIL order for supply of gensets for nuclear power plant valued at INR 7.7bn to be executed over 68 months.
- **Gross margin** expansion was due to execution of medium and HHP genset order.
- **Powergen:** Demand continues to remain strong for CPCB-2 norm products. Demand for gas based genset has witnessed uptick.
- **Industrial:** Demand was driven by construction and railway segment during the quarter.
- **B2C business:** Witnessed 25-30% growth in diesel and electric pump. Distributor base grew by 22% YoY and added 26 new channel partners in 3Q.
- **LGM:** Business has been stabilized with margins of 5-6% and is expected grow 10-15% going forward.
- **Exports:** Management targets to scale up exports to 30% of total revenue going forward vs 10% in FY23.
- **Working capital** is currently high due to high level of inventory, which company carried to mitigate risk of supply chain issue. Inventory level is expected to normalize from FY25.
- **Acquisition:** Acquired 51% stake in Engines LPG, LLC dba Wildcat Power Gen an America based company engaged in designing, manufacturing, selling and servicing of generators powered by gas, diesel and other environmental fuel and power solutions under the brand name of Wildcat Power gen for all types of applications.
- **Other Highlights:** 1) CPCB-4 norm product contributed 15-20% of volume in 3QFY24. 2) Seen initial recovery of INR 50mn from customer receivable; the total amount INR 470mn.

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	32,996	41,161	48,083	59,232	70,733	
Sales Growth	22.5%	24.7%	16.8%	23.2%	19.4%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>32,996</b>	<b>41,161</b>	<b>48,083</b>	<b>59,232</b>	<b>70,733</b>	
Cost of Goods Sold/Op. Exp	22,912	27,897	32,456	39,981	47,532	
Personnel Cost	2,070	2,365	2,930	3,261	3,768	
Other Expenses	5,327	6,349	7,261	8,885	10,610	
<b>EBITDA</b>	<b>2,687</b>	<b>4,550</b>	<b>5,436</b>	<b>7,104</b>	<b>8,822</b>	
EBITDA Margin	8.1%	11.1%	11.3%	12.0%	12.5%	
EBITDA Growth	-1.9%	69.3%	19.5%	30.7%	24.2%	
Deprn. & Amort.	772	848	967	1,024	1,081	
EBIT	1,915	3,703	4,470	6,081	7,741	
Other Income	248	273	341	423	529	
Finance Cost	62	54	60	80	90	
PBT before Excep. & Forex	2,100	3,922	4,751	6,423	8,180	
Excep. & Forex Inc./Loss(-)	527	-281	0	0	0	
PBT	2,627	3,641	4,751	6,423	8,180	
Taxes	547	939	1,211	1,638	2,086	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,080	2,703	3,539	4,785	6,094	
<b>Adjusted Net Profit</b>	<b>1,553</b>	<b>2,983</b>	<b>3,539</b>	<b>4,785</b>	<b>6,094</b>	
Net Margin	4.7%	7.2%	7.4%	8.1%	8.6%	
Diluted Share Cap. (mn)	144.6	144.6	144.6	144.6	144.6	
<b>Diluted EPS (INR)</b>	<b>10.7</b>	<b>20.6</b>	<b>24.5</b>	<b>33.1</b>	<b>42.1</b>	
Diluted EPS Growth	-7.2%	92.1%	18.6%	35.2%	27.3%	
Total Dividend + Tax	795	723	1,416	1,914	2,438	
Dividend Per Share (INR)	5.5	5.0	9.8	13.2	16.9	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,627	3,641	4,751	6,423	8,180	
Deprn. & Amort.	772	848	967	1,024	1,081	
Net Interest Exp. / Inc. (-)	-59	35	0	0	0	
Inc (-) / Dec in WCap.	-157	-1,025	-554	-580	-599	
Others	-673	61	0	0	0	
Taxes Paid	-567	-960	-1,211	-1,638	-2,086	
<b>Operating Cash Flow</b>	<b>1,944</b>	<b>2,600</b>	<b>3,952</b>	<b>5,229</b>	<b>6,576</b>	
Capex	-812	-1,213	-1,000	-1,500	-1,500	
Free Cash Flow	1,132	1,387	2,952	3,729	5,076	
Inc (-) / Dec in Investments	-8,182	-343	-1,200	-1,000	-1,000	
Others	0	0	0	0	0	
<b>Investing Cash Flow</b>	<b>-8,994</b>	<b>-1,556</b>	<b>-2,200</b>	<b>-2,500</b>	<b>-2,500</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-578	-723	-1,416	-1,914	-2,438	
Inc / Dec (-) in Loans	7,723	-218	800	-500	-500	
Others	-75	-79	0	0	0	
<b>Financing Cash Flow</b>	<b>7,070</b>	<b>-1,021</b>	<b>-616</b>	<b>-2,414</b>	<b>-2,938</b>	
<b>Inc / Dec (-) in Cash</b>	<b>19</b>	<b>24</b>	<b>1,137</b>	<b>315</b>	<b>1,139</b>	
Opening Cash Balance	294	314	338	1,475	1,790	
Closing Cash Balance	313	338	1,475	1,790	2,928	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	21,391	23,315	25,439	28,310	31,967	
Share Capital	289	289	289	289	289	
Reserves & Surplus	21,102	23,026	25,150	28,021	31,677	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	968	751	1,551	1,051	551	
Def. Tax Liab. / Assets (-)	146	61	61	61	61	
<b>Total - Equity &amp; Liab.</b>	<b>22,505</b>	<b>24,128</b>	<b>27,052</b>	<b>29,423</b>	<b>32,579</b>	
Net Fixed Assets	4,896	4,915	4,948	5,424	5,844	
Gross Fixed Assets	15,934	16,463	17,463	18,963	20,463	
Intangible Assets	0	0	0	0	0	
Less: Deprn. & Amort.	11,244	11,706	12,673	13,697	14,778	
Capital WIP	206	158	158	158	158	
Investments	16,722	16,925	18,125	19,125	20,125	
Current Assets	8,504	11,554	15,571	19,154	23,664	
Inventories	3,031	4,685	5,269	6,491	7,752	
Sundry Debtors	3,945	4,672	5,928	7,303	8,720	
Cash & Bank Balances	314	338	1,475	1,790	2,928	
Loans & Advances	373	296	1,581	1,947	2,325	
Other Current Assets	840	1,563	1,317	1,623	1,938	
Current Liab. & Prov.	7,617	9,267	11,593	14,281	17,053	
Current Liabilities	5,098	6,326	7,904	9,737	11,627	
Provisions & Others	2,519	2,941	3,689	4,544	5,426	
Net Current Assets	887	2,287	3,978	4,873	6,610	
<b>Total - Assets</b>	<b>22,504</b>	<b>24,128</b>	<b>27,052</b>	<b>29,423</b>	<b>32,579</b>	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		4.7%	7.2%	7.4%	8.1%	8.6%
Asset Turnover (x)		1.5	1.8	1.9	2.1	2.3
Leverage Factor (x)		1.0	1.0	1.0	1.1	1.0
RoE		7.5%	13.3%	14.5%	17.8%	20.2%

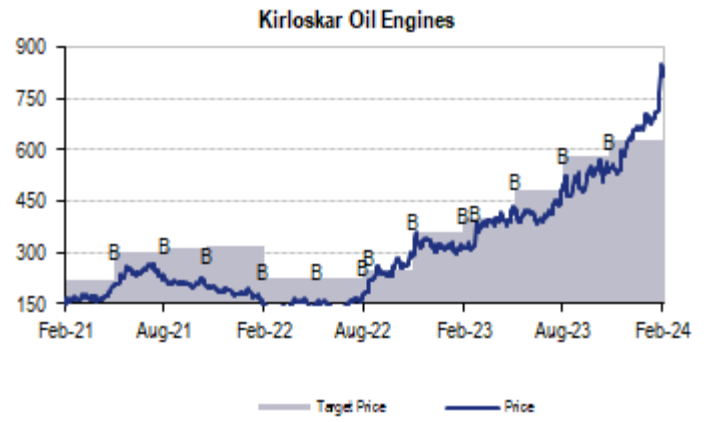
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		147.9	161.2	175.9	195.8	221.0
ROIC		29.4%	45.3%	46.9%	57.2%	64.4%
ROE		7.5%	13.3%	14.5%	17.8%	20.2%
Net Debt/Equity (x)		0.0	0.0	0.0	0.0	-0.1
P/E (x)		76.1	39.6	33.4	24.7	19.4
P/B (x)		5.5	5.1	4.6	4.2	3.7
EV/EBITDA (x)		44.3	26.1	21.8	16.6	13.2
EV/Sales (x)		3.6	2.9	2.5	2.0	1.6
Debtor days		44	41	45	45	45
Inventory days		34	42	40	40	40
Creditor days		61	63	68	68	69

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
3-Feb-20	Buy	210	
9-Apr-20	Buy	130	-38.1
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

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

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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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