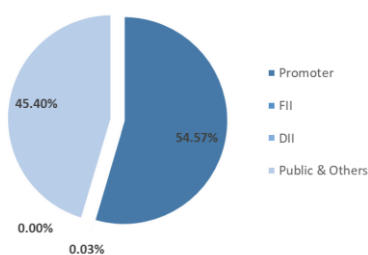


Key Share Data

Face Value (INR)	10
Equity Capital (INR million)	376.4
Market Cap (INR million)	13,090
52w k high/low	358/88
Daily Volume (1yr avg) (NSE)	1,19,970
BSE Code	522101
NSE Code	KILBURN

Shareholding Pattern (December 31, 2023)



Key Financials (INR Millions)

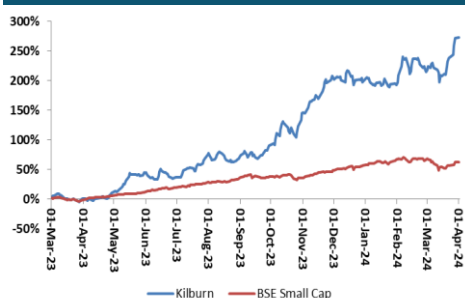
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,227.5	2,215.3	3,212.2	5,011.0	6,113.4
Growth(%)	38.9%	80.5%	45.0%	56.0%	22.0%
EBITDA	129.6	346.8	690.6	1,052.3	1,314.4
PAT	15.5	301.4	419.6	731.8	939.6
Growth(%)	-	1844.5%	39.2%	74.4%	28.4%
EPS(INR)	0.5	8.4	10.0	16.2	19.0
BVPS(INR)	21.4	29.5	59.9	71.3	84.2

Key Financials Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	-	43.0	34.7	21.5	18.3
P/BVPS (x)	0.7	2.3	5.8	4.9	4.1
Mcap/Sales(x)	1.8	1.6	4.5	3.1	2.8
EV/EBITDA (x)	22.9	15.8	20.8	15.2	13.0
ROE (%)	2.6%	33.0%	16.8%	22.7%	22.6%
EBITDA Mar (%)	11.0%	16.5%	21.5%	21.0%	21.5%
PAT Mar(%)	1.3%	13.6%	13.1%	14.6%	15.4%

Source: Company, SKP Research

Price Performance Kilburn vs S&P BSE Small Cap



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Company Background

Kilburn Engineering Limited (KEL), incorporated in 1987, is engaged in designing, manufacturing and commissioning of customised equipment and systems viz. industrial drying system, packaged system, fabricated and large critical process equipment systems for diverse applications in industries such as Chemicals, Petrochemicals, Oil & Gas, Refineries, Power, Steel, Cement, Fertilizer, Pharmaceuticals, Mining, Sewage Treatment, FMCG, Tea, Food Processing, Metal Recycling etc. Recently KEL has completed acquisition of M.E. Energy Pvt Ltd. (MEPL), a leading player in waste heat recovery and reutilisation systems. KEL has two manufacturing facilities in Kalyan and Pune (MEPL) in Maharashtra and has done above 3,000 installations globally. It derives ~15% of its revenues from exports.

Investment Rationale

Favourable Industry tailwinds with management focus on catering to growing industries

➤ KEL is well positioned for 3 dimensional benefits amidst China+1 strategy, GOI's PLI scheme and cost pressures in Europe. Multi sectoral capex is set to spark up demand for customised equipments, going forward.

➤ The company caters to 15+ sectors including growth sectors like Carbon Black, Soda Ash, API's, Petrochemicals, Metal recycling and Sewage Treatment which are expected to grow at high teens CAGR over the next 5-6 years, backed by enduring demand driven by huge capacity expansion in these sectors. The export market is worth ~\$ 2-3 bn and the company is thriving hard to increase its export revenues to 25% from the current 15%.

Proven experience with diverse product profile and market leadership

➤ KEL has over 3 decades of experience in manufacturing of Rotary Dryers, Calciners, Fluid Bed Dryers, Flash Dryers, Spray Dryers, Band Dryers, Vibrating Fluid Bed Dryers, Tea Dryers, Coconut Dryers and Coolers. The product range are majorly customised like Air/Gas/Liquid Drying systems, Solvent/Vapour Recovery Systems, Instrument Utility Gas Drying Systems, Gas Conditioning Systems, Pneumatic conveyors, Silos, Vibratory Conveyors and Feeders, Pressure Vessels, Heat Exchangers and Reactors. KEL is a market leader in solid, liquid and gas drying systems and its core strength lies in the successful assimilation of new technologies through continuous R&D and development of innovative products that comply with international standards for end-user industries.

Transformation into a professionally run company

➤ Post Covid, KEL has transitioned itself into a professionally managed organisation. This has resulted in faster decision-making, strong internal processes like documentation and a foray into additional product areas, leading to a substantial improvement in its performance. In its new avatar, KEL is supplying a full packaged solution instead of supplying only machinery earlier, resulting in bidding for high value orders and earning better margins. The acquisition of MEPL has also inducted highly skilled workforce coupled with experienced key managerial persons on board from various reputed companies.

Strong order book, robust pipeline, shorter execution cycle and strong clientele bodes well

➤ KEL's and MEPL's current order book stands at a robust Rs 2,360 mn and Rs 1,190 mn as of 9MFY24 and has an enquiry pipeline of ~Rs 12 bn and ~Rs 10 bn out of which management expects 25% to get converted. The execution cycle is between 8-14 months with ~90% of opening orders in a particular year being executed in that year itself, leaving no or negligible backlog. The raw materials (mainly various grades of steel) risk is also negated as company books ~80% of requirement at the time of receiving order, thereby limiting the raw material risk.

➤ The company's key clients include Reliance Industries, Philips Carbon Black, Birla Carbon, Continental Carbon, Nirma, Gujarat Heavy Chemicals, Tata Chemicals, DCW, Gujarat Fluorochemicals, Sudarshan Chemicals, Rasthriya Chemicals and Fertilizers, Jindal Steel and Power, National Aluminium, ACC, Dr. Reddy's Laboratories, Granules India, Torrent Pharma, Indian Oil, ONGC, etc. The company derives ~30% of revenue from replacement demand.

Technological tie-up holds the key for the company

➤ Apart from in-house R&D, the management is continuously looking for technology partnership with foreign companies to remain ahead of competition and cater to more end user industries thereby expanding the geographical presence. One such milestone was achieved recently; KEL has signed a technological partnership with "Nara" a Japanese company for Paddle Dryers. Technological advancements will not only expand the addressable markets but will also improve the company as an engineering powerhouse, going forward.

Capital raising, acquisition and capex plan

➤ KEL Acquired MEL for Rs 990 mn through a combination of cash consideration and preferential allotment of equity shares to MEL's erstwhile promoters. This acquisition is a decisive step for KEL to emerge as a comprehensive solution provider in the field of thermal engineering and heat recovery systems with sizeable market opportunities going ahead. It also complements KEL's existing product portfolio. Going forward, KEL is open to further acquisitions to achieve its growth plans and expand its product offering and client base.

Strong financial performance in Q3FY24 and Guidance

➤ During Q3FY24, revenue and EBITDA improved by 35.3% and 90.5% y-o-y at Rs 728 mn and Rs 172.4 mn respectively. EBITDA margins improved by 687 bps to 23.7% mainly due to execution of high margin projects. Long Term debt is NIL. The management aspires to achieve a combined (KEL and MEPL) turnover of ~Rs. 5 bn by FY25 with an EBITDA margin of 20%+. The company has accumulated deferred tax assets which will get adjusted by FY25, resulting in negligible tax (from cash flow perspective) and strong cash flow generation.

Outlook

➤ Favourable industry tailwinds, R&D backed product portfolio, strong order book with robust pipeline, superior execution cycle, transition to a professional management, technological tie-ups coupled with skew towards new age industries augurs well for KEL. Over the medium term the company is targeting setting up Waste Heat Recovery System for cement industry, which if happens, will be a game-changer.

➤ We have valued the stock at a PE multiple of 25x on FY26E EPS and maintain a 'Buy' recommendation on the stock with a target price of Rs 475 (~36% upside) in 15 months. KEL is undergoing a transformational change witnessing a period of high growth, which if sustains could result in further re-rating.

Consolidated Q3FY24 & 9MFY24 Result Review

Figures in Rs Million

Particulars	Q3FY24	Q3FY23	YoY %	Q2FY24	QoQ %	9MFY24	9MFY23	YoY%
Total Income	728.0	538.2	35.3%	684.8	6.3%	2,079.6	1,548.5	34.3%
Expenditure	555.6	447.7	24.1%	516.9	7.5%	1,622.0	1,317.2	23.1%
Material Consumed	364.4	335.2	8.7%	315.5	15.5%	980.8	897.6	9.3%
(asa % of Total Income)	50.1%	62.3%	(1,223)Bps	46.1%	398 Bps	47.16%	58.0%	(1,080)Bps
Subcontracting Charges	55.5	43.7	27.0%	76.6	-27.5%	191.8	102.5	87.1%
(asa % of Total Income)	7.6%	8.1%	(50)Bps	11.2%	(356)Bps	9.22%	6.6%	260 Bps
Employees Cost	67.4	47.3	42.5%	67.6	-0.3%	198.4	132.1	50.2%
(asa % of Total Income)	9.3%	8.8%	47 Bps	9.9%	(61)Bps	9.5%	8.5%	101 Bps
Changes in Inventories & WIP	9.8	(40.3)	-124.3%	(13.7)	-171.5%	49.0	(20.0)	-345.0%
(asa % of Total Income)	1.3%	-7.5%	883 Bps	-2.0%	335 Bps	2.4%	-1.3%	365 Bps
Other Expenses	58.5	61.8	-5.3%	70.9	-17.5%	202.0	205.0	-1.5%
(asa % of Total Income)	8.0%	11.5%	(345)Bps	10.4%	(232)Bps	9.7%	13.2%	(353)Bps
EBITDA	172.4	90.5	90.5%	167.9	2.7%	457.6	231.3	97.8%
EBITDA Margin (%)	23.7%	16.8%	687 Bps	24.5%	(84)Bps	22.0%	14.9%	707 Bps
Depreciation	8.4	7.0	20.0%	9.6	-12.5%	25.0	19.8	26.3%
EBIT	164.0	83.5	96.4%	158.3	3.6%	432.6	211.5	104.5%
Other Income	8.0	41.6	-80.8%	9.5	-15.8%	24.0	101.2	-76.3%
Interest Expense	23.8	19.3	23.3%	25.6	-7.0%	71.4	58.7	21.6%
Profit Before Tax	148.2	105.8	40.1%	142.2	4.2%	385.2	254.0	51.7%
Income Tax	45.1	30.8	46.4%	41.9	7.6%	110.9	76.0	45.9%
Effective Tax Rate (%)	30.4%	29.1%	132 Bps	29.5%	97 Bps	28.8%	29.9%	(46)Bps
Profit After Tax (PAT)	103.1	75.0	37.5%	100.3	2.8%	274.3	178.0	54.1%
PAT Margins (%)	14.2%	13.9%	23 Bps	14.6%	(48)Bps	13.2%	11.5%	170 Bps
Diluted EPS	2.8	2.2	27.2%	2.7	2.2%	7.4	5.2	43.0%

Source: Company Data, SKP Research

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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Disclosure of Interest Statement

Analyst ownership of the stock	NIL
Served as an officer, director or employee	NIL

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