

Kirloskar Oil Engines

Estimate changes



TP change



Rating change



CMP: INR1,054

TP: INR1,220 (+15%)

Buy

Delivering results

Kirloskar Oil Engines' (KOEL's) results were ahead of our estimates with the company reporting a YoY growth of 21%/80%/81% in revenue/EBITDA/PAT for the quarter. For the full year FY24, revenue/EBITDA/PAT grew 18%/32%/34% YoY and export revenue crossed the INR5b mark. The B2B segment revenue growth for the year was aided by industrial, distribution, and export sectors. The B2C segment growth was driven by water management system. We expect KOEL also to continue to benefit from strong demand across segments. We revise our estimates upwards by 6% to factor in improving trends in powergen, exports, and distribution. Consequently, we revise our SOTP-based TP to INR1,220, valuing core business at 25x Mar'26E earnings. KOEL continues to be re-rated due to its consistent delivery on key parameters of improved product mix, increased penetration of HHP (sold 17 models of Opti-prime gensets) as well as a higher share of exports (at 10.8% of sales). We maintain our BUY rating on the stock.

Better-than-expected performance

KOEL's revenue at INR13.9b grew 21% YoY/23% QoQ, led by 28%/19%/70% YoY growth in industrial/distribution/export sectors. Powergen segment growth stood at 11% YoY. In FY24, all segments reported growth in the range of 15-32% YoY. Gross margin expanded ~330bp YoY to 33.8% on a higher share of CPCB IV+ gensets and exports in the overall revenue mix. Other expenses as a percentage of sales declined on improved operating leverage. EBITDA at INR1.8b grew 80% YoY, while margin came in at 12.8% (+420bp YoY and 110bp QoQ), ahead of our estimate. PAT at INR1.2b grew 81% YoY, led by robust operational performance. For FY24, revenue/EBITDA/PAT grew 18%/32%/34%. Export revenue crossed the INR5b mark and cash stands at INR2.6b (net of debt). FCF grew 13% to INR1.6b. Borrowings increased from INR751m to INR2.1b, on higher capex.

B2B segment performance remains strong

KOEL's B2B revenues were up 22%/18.5% YoY in 4QFY24/FY24. Within this, all segments registered healthy growth. Particularly in powergen sales, the momentum was driven by vigorous demand from manufacturing, infrastructure, and data center sectors. Nearly 80% of sales are from CPCB2, while the remaining from CPCB 4+. Industry will be shifting toward CPCB 4+ sales soon as inventories get over for CPCB2. The company is already working on multi-fuel engines and has also seen good traction from the recently launched Opti-prime series. It sold nearly 17 models of Optiprime. Within B2B, industrial segment revenues grew 28%/18% YoY for 4QFY24/FY24, driven by railways, infrastructure, and construction sectors. Future growth areas for KOEL would emerge from mining, railways, defense, construction, fisheries, etc., for the industrial segment. The distribution segment witnessed a revenue increase of 19% for both 4QFY24 and FY24, while exports soared 70%/32% for the same period.

Bloomberg	KOEL IN
Equity Shares (m)	145
M.Cap.(INRb)/(USD\$b)	152.8 / 1.8
52-Week Range (INR)	1170 / 379
1, 6, 12 Rel. Per (%)	22/79/149
12M Avg Val (INR M)	248

Financials Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Net Sales	48.5	56.9	67.4
EBITDA	5.6	7.5	9.5
PAT	3.6	5.0	6.5
EPS (INR)	25.0	34.7	44.6
GR. (%)	33.8	38.7	28.6
BV/Sh (INR)	181.2	206.6	239.2

Ratios

ROE (%)	14.6	17.9	20.0
RoCE (%)	14.0	17.2	19.5

Valuations

P/E (X)	42.1	30.4	23.6
P/BV (X)	5.8	5.1	4.4
EV/EBITDA (X)	27.2	20.0	15.6
Div Yield (%)	0.6	0.9	1.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	41.2	41.2	41.3
DII	25.2	24.4	28.0
FII	9.8	9.1	6.0
Others	23.9	25.4	24.8

FII Includes depository receipts

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Within B2B, exports grew 32% YoY for the full year

Exports have witnessed a notable 32% YoY increase for the full year, with the export share improving to 11% of sales vs. 7.6% in FY22. The company is evaluating geographies carefully with key focus on the Middle East and the US. It has appointed GOEM in both the markets and would look to export CPCB 4+ products along with Optiprime gensets. KOEL has already applied for a certification for CPCB 4+ products in the US and is also foraying into the US market through a 51% stake purchase of Engines LPG LLC (Wildcat), an entity focused on Powergen manufacturing and selling.

B2C margins are inching up

In the B2C business, the water management solutions segment (WMS) is growing much faster (+22% YoY), while the farm mechanization segment (FMS) continues to be tepid (-46% YoY). Overall, B2C grew 10% YoY in 4QFY24, while FY24 saw 15% growth. EBIT margin trajectory is on an upswing with 4.6% in FY24 vs. an operating loss of 0.8% in FY22. Management aims for further improvement in the coming years. Notably, LGM PBT jumped 4x YoY from INR80m to INR340m in FY24.

Arka Fincap AUM has crossed INR48b

Arka Fincap's revenue grew 41% YoY to INR1.6b in 4QFY24. PAT grew 129% YoY to INR280m on the back of a reversal of provisions created pertaining to AIF regulations. Its AUM has now increased to INR48b. The company intends to monetize the investment in Arka at an opportune time.

Key technologies under development

KOEL is working on four technology tracks – 1) fuel agnostic internal combustion technology (such as methanol, ethanol, hydrogen, etc.) – all internally developed, 2) energy solutions such as micro grid – synchronization across different energy sources, 3) electrification and battery storage solution and 4) electrolyzers and fuel cells – so most capex over FY24-26 is happening either to create capacity or on R&D for those products.

Financial outlook

We revise our estimates to bake in improved B2B performance across powergen, distribution, and export segments and also factor in the higher margins. We expect a revenue CAGR of 18% over FY24-26, driven by 17%/18%/19%/30%/12% CAGR in powergen/industrial/distribution/exports/B2C. Over FY24-26E, we bake in 230bp improvement in margins to build in operating leverage benefits. We expect a PAT CAGR of 33% over the same period.

Valuation and recommendation

The stock is currently trading at 30.4x/23.6x FY25E/26E earnings. We increase our valuation multiple to 25x for KOEL from 22x earlier and revise TP to INR1,220. This is still at a 45% discount to the industry leader. Enhanced valuation multiples take into account improved product mix, higher export sales, improving margins in B2C operations, and the promising performance of Arka Fincap, which presents ample opportunities for monetization.

Standalone: Quarterly Earning Model

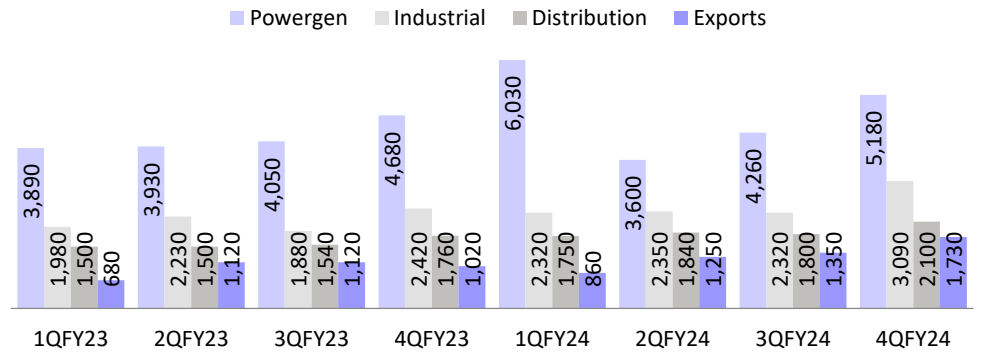
Y/E March	FY23				FY24				FY23	FY24	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	9,530	10,104	10,001	11,526	12,647	10,590	11,352	13,917	41,161	48,505	13,561	3
YoY Change (%)	NA	22.4	19.5	16.4	26.5	4.8	13.5	20.7	24.7	17.8	17.7	
Total Expenditure	8,496	8,950	8,913	10,534	11,102	9,603	10,023	12,135	36,892	42,864	11,884	
EBITDA	1,034	1,154	1,089	992	1,545	986	1,329	1,782	4,269	5,642	1,677	6
Margins (%)	10.8	11.4	10.9	8.6	12.2	9.3	11.7	12.8	10.4	11.6	12.4	
Depreciation	205	213	212	217	213	243	257	257	848	970	219	17
Interest	11	10	19	13	14	16	20	29	54	78	5	492
Other Income	54	47	60	114	70	64	57	85	273	274	75	13
PBT before EO expense	871	978	917	875	1,388	791	1,109	1,581	3,641	4,868	1,528	3
PBT	871	978	917	875	1,388	791	1,109	1,581	3,641	4,868	1,528	3
Tax	225	252	236	226	355	205	287	405	939	1,252	444	
Rate (%)	25.9	25.7	25.7	25.9	25.6	25.9	25.9	25.6	25.8	25.7	29.0	
Reported PAT	646	726	682	649	1,032	586	822	1,176	2,703	3,616	1,085	8
Adj PAT	646	726	682	649	1,032	586	822	1,176	2,703	3,616	1,085	8
YoY Change (%)	NA	80.3	169.8	-40.6	59.9	-19.3	20.5	81.3	29.9	33.8	67.2	
Margins (%)	6.8	7.2	6.8	5.6	8.2	5.5	7.2	8.5	6.6	7.5	8.0	

E: MOFSL Estimates

INR m	FY23				FY24				FY23	FY24	YoY (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Segmental revenue											
Powergen	3,890	3,930	4,050	4,680	6,030	3,600	4,260	5,180	16,550	19,050	15.1
Industrial	1,980	2,230	1,880	2,420	2,320	2,350	2,320	3,090	8,510	10,080	18.4
Distribution & After Market	1,500	1,500	1,540	1,760	1,750	1,840	1,800	2,100	6,300	7,490	18.9
Exports	680	1,120	1,120	1,020	860	1,250	1,350	1,730	3,940	5,200	32.0
Total B2B	8,050	8,780	8,590	9,880	10,960	9,040	9,730	12,100	35,300	41,820	18.5
WMS	1,140	960	1,010	1,250	1,340	1,160	1,330	1,530	4,360	5,370	23.2
FMS	250	240	300	280	260	270	190	150	1,070	870	-18.7
Total B2C	1,390	1,200	1,310	1,530	1,600	1,430	1,520	1,680	5,430	6,240	14.9
Total revenue (B2B+B2C)	9,440	9,980	9,900	11,410	12,560	10,470	11,250	13,780	40,730	48,060	18.0

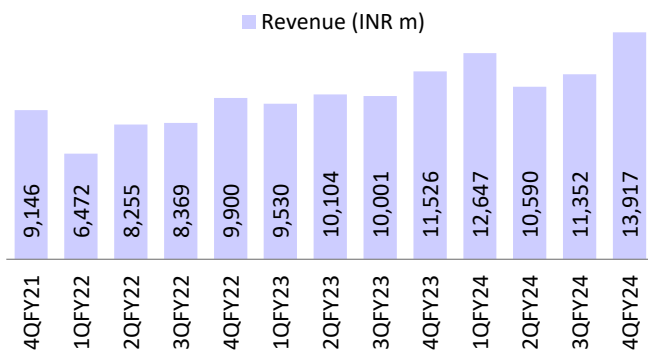
Key Exhibits

Exhibit 1: Segmental revenue breakup (INR m)



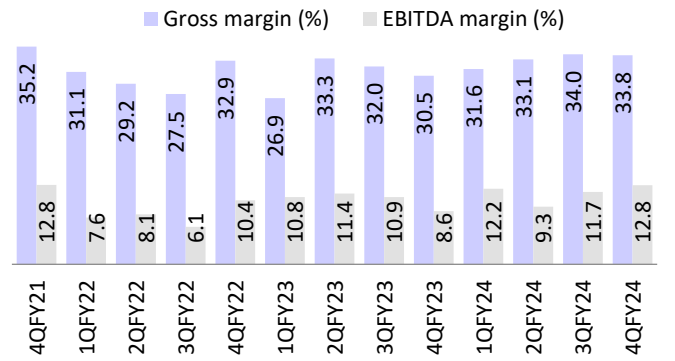
Source: Company, MOFSL

Exhibit 2: 4QFY24 revenue grew 21% YoY



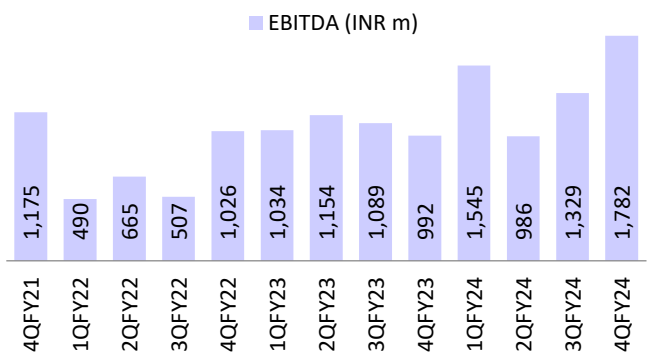
Source: Company, MOFSL

Exhibit 3: Margin improved sequentially and YoY to 12.8%



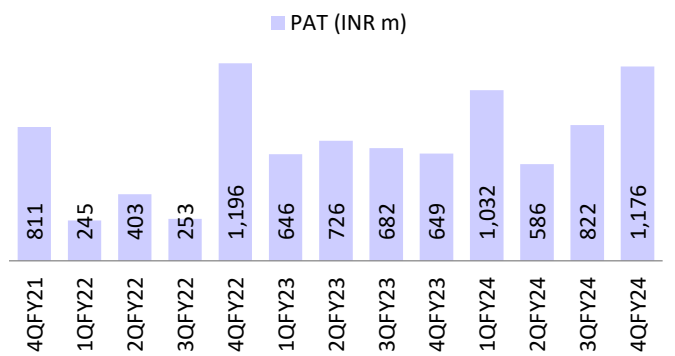
Source: Company, MOFSL

Exhibit 4: EBITDA grew 80% YoY (INR m)

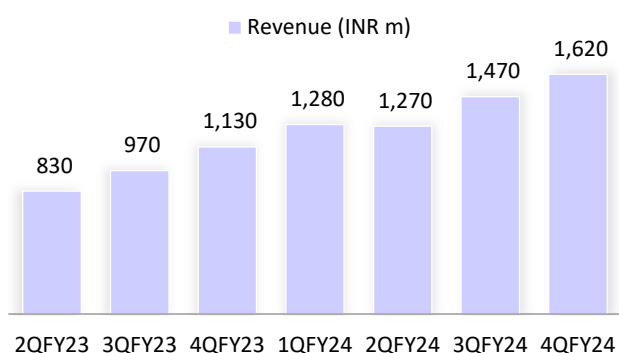


Source: Company, MOFSL

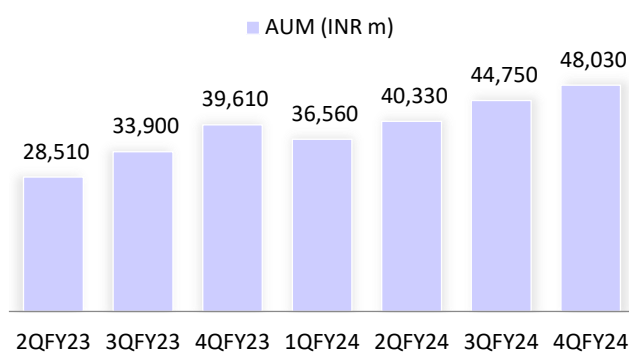
Exhibit 5: PAT improved 81% YoY (INR m)



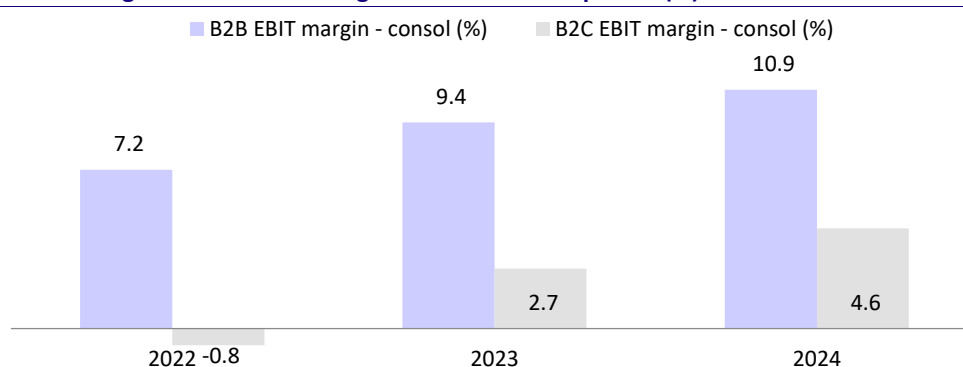
Source: Company, MOFSL

Exhibit 6: Arka Fincap revenue has been growing steadily

Source: Company, MOFSL

Exhibit 7: Healthy growth in Arka Fincap AUM (INR m)

Source: Company, MOFSL

Exhibit 8: Segment-wise EBIT margins are also on an uptrend (%)

Source: Company, MOFSL

Exhibit 9: We revise our estimates upward to factor in stronger demand and better profitability

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	56,920	56,548	0.7	67,370	65,594	2.7
EBITDA	7,536	7,068	6.6	9,458	8,855	6.8
EBITDA (%)	13.2	12.5	74 bps	14.0	13.5	54 bps
Adj. PAT	5,016	4,743	5.8	6,450	6,075	6.2
EPS (INR)	34.7	32.8	5.8	44.6	42.0	6.2

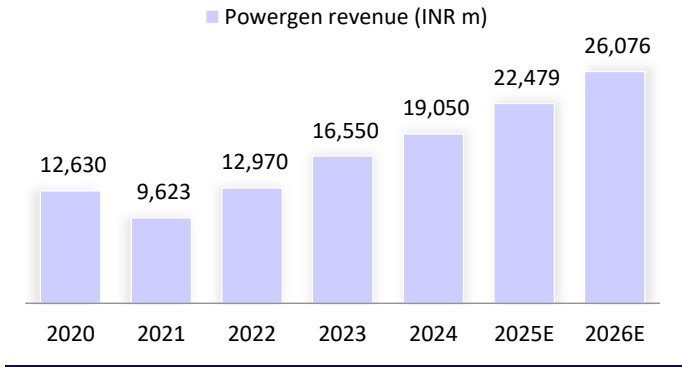
Source: MOFSL

Exhibit 10: SOTP valuation

	Earnings/ book	Valn multiple	Value	KOEL's share	Value for KOEL's share	Per share value	Valuation basis
	(INR m)	(X)	(INR m)	(%)	(INR m)	(INR)	
KOEL valuation							
Core business	6,450	25.0	1,61,250	100.0	1,61,250	1,112	❖ 25X two-year fwd EPS
Investments							
La Gajjar Machineries	104	12.0	1,251	100.0	1,251	9	❖ 12X P/E two-year forward earnings
Arka Fincap	11,100	1.2	13,320	100.0	13,320	92	❖ 1.2X P/BV of investment of INR11b
Total					1,75,821	1,213	

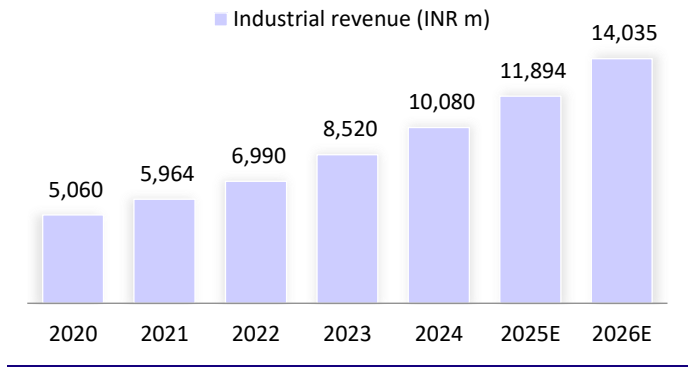
Source: Company, MOFSL

Exhibit 11: We expect powergen revenue to register a CAGR of 17% over FY24-26



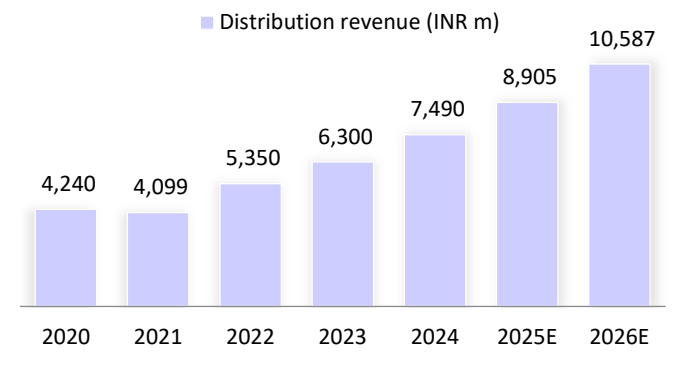
Source: Company, MOFSL

Exhibit 12: We expect industrial revenue to register a CAGR of 18% over FY24-26 on strong demand



Source: Company, MOFSL

Exhibit 13: We expect distribution revenue CAGR to remain strong at 19% over FY24-26



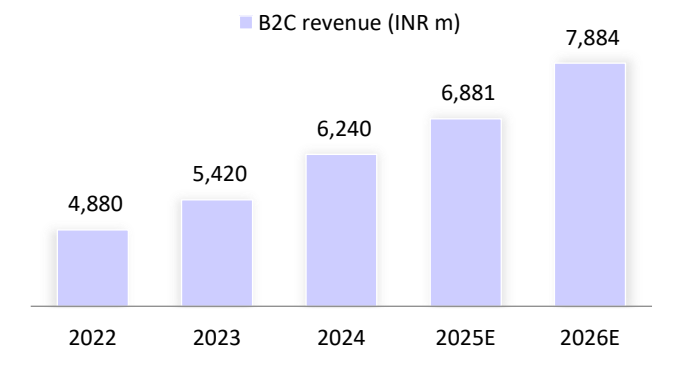
Source: Company, MOFSL

Exhibit 14: We expect exports revenue to register a steady CAGR of 30% over FY24-26



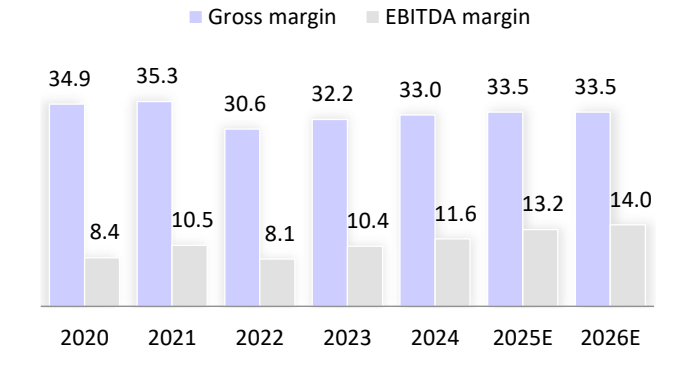
Source: Company, MOFSL

Exhibit 15: We expect B2C revenue to register a CAGR of 12% over FY24-26 with expanding footprint



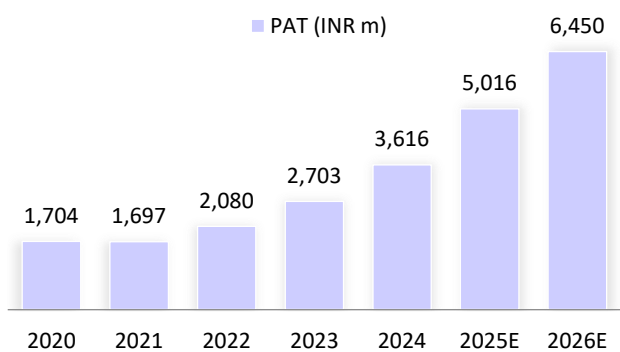
Source: Company, MOFSL

Exhibit 16: We expect margin expansion to be driven by price hikes and higher share of exports (%)



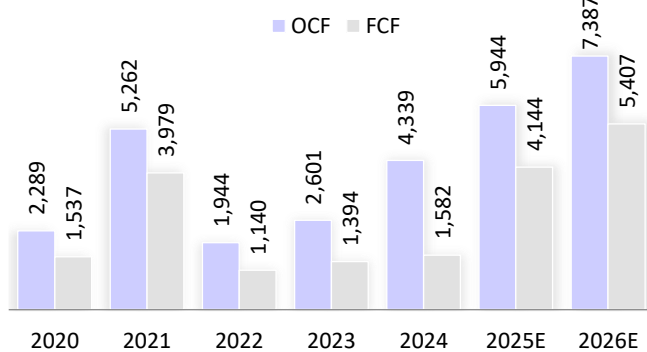
Source: Company, MOFSL

Exhibit 17: We expect PAT to post 33% CAGR over FY24-26



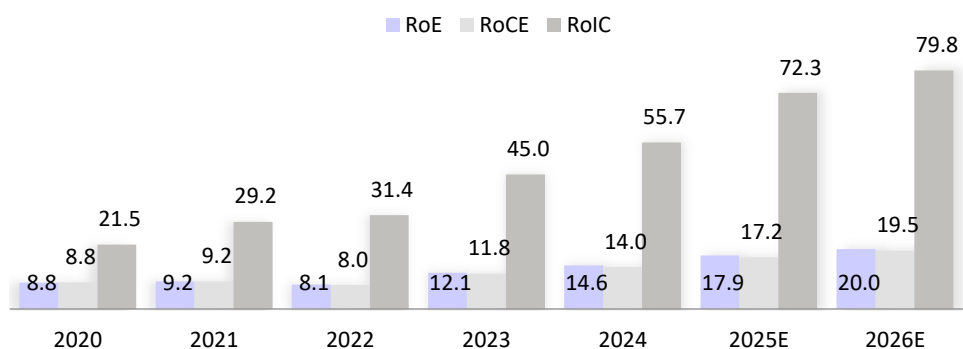
Source: Company, MOFSL

Exhibit 18: We expect OCF & FCF to improve further (INR m)



Source: Company, MOFSL

Exhibit 19: Return ratios to improve with improved profitability (%)



Source: Company, MOFSL

Financials and Valuation

Income Statement							(INR m)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Total Income from Operations	28,775	26,944	32,997	41,161	48,505	56,920	67,370	
Change (%)	-10.2	-6.4	22.5	24.7	17.8	17.3	18.4	
Total Expenditure	26,357	24,106	30,309	36,892	42,864	49,384	57,912	
% of Sales	91.6	89.5	91.9	89.6	88.4	86.8	86.0	
EBITDA	2,418	2,838	2,688	4,269	5,642	7,536	9,458	
Margin (%)	8.4	10.5	8.1	10.4	11.6	13.2	14.0	
Depreciation	666	622	772	848	970	958	1,048	
EBIT	1,752	2,217	1,915	3,422	4,672	6,578	8,410	
Int. and Finance Charges	38	64	62	54	78	132	90	
Other Income	374	245	248	273	274	313	371	
PBT bef. EO Exp.	2,087	2,398	2,100	3,641	4,868	6,759	8,691	
EO Items	165	-84	527	0	0	0	0	
PBT after EO Exp.	2,252	2,314	2,627	3,641	4,868	6,759	8,691	
Total Tax	548	617	547	939	1,252	1,743	2,241	
Tax Rate (%)	24.3	26.6	20.8	25.8	25.7	25.8	25.8	
Reported PAT	1,704	1,697	2,080	2,703	3,616	5,016	6,450	
Adjusted PAT	1,579	1,759	1,663	2,703	3,616	5,016	6,450	
Change (%)	-29.8	11.4	-5.4	62.5	33.8	38.7	28.6	
Margin (%)	5.5	6.5	5.0	6.6	7.5	8.8	9.6	

Balance Sheet							(INR m)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Equity Share Capital	289	289	289	290	290	290	290	
Total Reserves	18,013	19,542	21,105	23,028	25,937	29,610	34,334	
Net Worth	18,302	19,832	21,395	23,318	26,227	29,900	34,624	
Total Loans	156	793	976	751	2,091	1,219	1,019	
Deferred Tax Liabilities	52	125	146	61	100	100	100	
Capital Employed	18,510	20,749	22,517	24,131	28,418	31,219	35,742	
Gross Block	14,904	16,281	16,990	17,425	19,052	20,852	22,832	
Less: Accum. Deprn.	11,281	11,826	12,488	13,174	14,144	15,101	16,150	
Net Fixed Assets	3,623	4,455	4,502	4,251	4,908	5,751	6,682	
Capital WIP	744	549	393	664	2,426	2,426	2,426	
Total Investments	11,014	15,340	16,722	16,925	18,762	18,762	18,762	
Curr. Assets, Loans & Adv.	9,203	8,092	8,505	11,557	13,115	16,945	22,863	
Inventory	3,003	2,652	3,031	4,685	5,235	6,143	7,271	
Accounts Receivable	3,628	3,558	3,945	4,672	5,684	6,670	7,895	
Cash and Bank Balance	171	294	314	338	980	2,776	6,167	
Loans and Advances	1,349	872	656	852	808	948	1,122	
Other Assets	1,051	716	558	1,011	408	408	408	
Curr. Liability & Prov.	6,073	7,686	7,606	9,267	10,793	12,665	14,991	
Accounts Payable	4,798	6,419	6,175	6,326	7,274	8,536	10,103	
Other Current Liabilities	696	646	729	1,700	2,223	2,609	3,087	
Provisions	580	622	702	1,241	1,296	1,521	1,800	
Net Current Assets	3,129	406	899	2,291	2,322	4,280	7,872	
Appl. of Funds	18,510	20,749	22,517	24,131	28,418	31,218	35,742	

Financials and Valuation

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)							
EPS	10.9	12.2	11.5	18.7	25.0	34.7	44.6
Cash EPS	15.5	16.4	16.8	24.5	31.7	41.3	51.9
BV/Share	126.4	137.0	147.8	161.1	181.2	206.6	239.2
DPS	7.8	1.5	4.7	5.0	6.7	9.3	11.9
Payout (%)	66.5	12.8	32.6	26.8	26.8	26.8	26.8
Valuation (x)							
P/E	96.5	86.7	91.6	56.4	42.1	30.4	23.6
Cash P/E	67.9	64.0	62.6	42.9	33.2	25.5	20.3
P/BV	8.3	7.7	7.1	6.5	5.8	5.1	4.4
EV/Sales	5.3	5.7	4.6	3.7	3.2	2.7	2.2
EV/EBITDA	63.0	53.9	57.0	35.8	27.2	20.0	15.6
Dividend Yield (%)	0.7	0.1	0.4	0.5	0.6	0.9	1.1
FCF per share	10.6	27.5	7.9	9.6	10.9	28.6	37.4
Return Ratios (%)							
RoE	8.8	9.2	8.1	12.1	14.6	17.9	20.0
RoCE	8.8	9.2	8.0	11.8	14.0	17.2	19.5
RoIC	21.5	29.2	31.4	45.0	55.7	72.3	79.8
Working Capital Ratios							
Fixed Asset Turnover (x)	1.9	1.7	1.9	2.4	2.5	2.7	3.0
Asset Turnover (x)	1.6	1.3	1.5	1.7	1.7	1.8	1.9
Inventory (Days)	38	36	34	42	39	39	39
Debtor (Days)	46	48	44	41	43	43	43
Creditor (Days)	61	87	68	56	55	55	55
Leverage Ratio (x)							
Current Ratio	1.5	1.1	1.1	1.2	1.2	1.3	1.5
Interest Cover Ratio	45.9	34.9	30.7	63.8	60.0	49.7	93.9
Net Debt/Equity	-0.6	-0.7	-0.8	-0.7	-0.7	-0.7	-0.7

Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INR m)							
OP/(Loss) before Tax	2,252	2,314	2,627	3,641	4,868	6,759	8,691
Depreciation	666	622	772	848	970	958	1,048
Interest & Finance Charges	38	38	50	35	78	132	90
Direct Taxes Paid	-679	-324	-567	-960	-1,084	-1,743	-2,241
(Inc)/Dec in WC	407	2,654	-157	-1,025	-441	-162	-201
CF from Operations	2,685	5,304	2,726	2,539	4,391	5,944	7,387
Others	-396	-42	-782	61	-52	0	0
CF from Operating incl EO	2,289	5,262	1,944	2,601	4,339	5,944	7,387
(Inc)/Dec in FA	-752	-1,282	-804	-1,206	-2,757	-1,800	-1,980
Free Cash Flow	1,537	3,979	1,140	1,394	1,582	4,144	5,407
(Pur)/Sale of Investments	4,159	-2,855	680	3,235	-1,091	0	0
Others	-4,995	-1,316	-8,870	-3,585	-334	0	0
CF from Investments	-1,588	-5,453	-8,994	-1,556	-4,182	-1,800	-1,980
Inc/(Dec) in Debt	10	613	172	-236	1,338	-200	-200
Interest Paid	-38	-62	-53	-50	-107	-132	-90
Dividend Paid	-940	-217	-578	-723	-724	-1,343	-1,727
Others	-1,422	-20	7,529	-12	-21	-673	0
CF from Fin. Activity	-2,391	314	7,070	-1,021	486	-2,348	-2,016
Inc/Dec of Cash	-1,690	123	20	23	643	1,796	3,391
Opening Balance	1,861	171	294	314	338	980	2,776
Closing Balance	172	294	314	338	980	2,776	6,167

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NOTES

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