

Kirloskar Oil Engines | BUY

Domestic powergen volumes picking up, strong outlook

Kirloskar Oil Engines (KOEL) reported a revenue growth of 1.5% YoY to INR 14.1bn, which is below our estimate. 4QFY24 was a high base quarter due to pre-buying impact before emission norm change. EBITDA margin contracted 80bps YoY to 12.1% and PAT decline 10% YoY to INR 1bn. Domestic volume for LHP and MHP has picked up sequentially and expected to further pickup to reach pre-emission change level (KOEL has a major presence in this space). HHP market continues to witness healthy demand traction, driven by infrastructure and Data Center sector. Miss on company 2X3Y strategy was on account of slower than expected exports pickup. Company focus will be on strengthening channels and expanding global sales & service network to grow exports revenue. We believe company focus on HHP segment and expanding exports market reach will result in healthy revenue growth going forward. On Industrial side demand stands strong from construction and defence sector.

- **Revenue growth driven by Powergen and Aftermarket:** Std. revenue reported growth of 1.5% YoY to INR 14.1bn (JMFe INR 15.5bn) with powergen revenue growing 5% YoY to INR 5.4bn (despite high base) and aftermarket reported a growth of 11.9% YoY to INR 2.4bn. Industrial segment declined 5.8% YoY to INR 2.9bn and exports market declined 15% YoY to INR 1.5bn. Within the B2C segment, the water management system segment grew 11.9% YoY to INR 1.6bn. EBITDA declined 4.5 YoY to INR 1.7bn (JMFe INR 1.7bn), EBITDA margin contracted 80bps YoY to 12.1% (JMFe 11.2%). Adj. PAT fell 10.1% YoY to INR 1.1bn (JMFe of INR 1.2bn). For FY25 HHP powergen reported revenue of 1.1bn, up 20% YoY.
- **Consolidation of LGM facility completed:** The company had consolidated LGM's five manufacturing plants located at Ahmedabad into a single newly constructed unit in Sanand Gujarat at end of 3QFY25 for total capex of INR 1.4bn. This resulted in strong performance for consolidated B2C segment with revenue growing 14.8% YoY to INR 3bn and EBIT margins of 11% vs 5.2% YoY. This facility has 30% higher capacity and will help the company in cost optimisation and improving delivery time. Apart from this in FY25 company incurred capex of INR 3.8bn in standalone business towards product development, capacity enhancement and digitalisation.
- **Maintain BUY with TP of INR 1,220:** We believe new product launches in the high KVA segment, thrust on the aftermarket segment, push on exports, demand recovery in domestic powergen, and healthy industrial segment outlook augur well for the company in the medium to long run. Company continue to invest in product enhancement, new product launch and capacity expansion to meet the upcoming opportunity. The stock is currently trading at 26.1x/21.7x FY26/27E. We maintain BUY rating on stock with SoTP of INR 1,220, valuing core business at 28x FY27E.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,220
Upside/(Downside)	36.2%
Previous Price Target	1,220
Change	0.0%

Key Data – KOEL IN

Current Market Price	INR896
Market cap (bn)	INR130.0/US\$1.5
Free Float	59%
Shares in issue (mn)	144.6
Diluted share (mn)	145.2
3-mon avg daily val (mn)	INR538.6/US\$6.3
52-week range	1,450/544
Sensex/Nifty	82,331/25,020
INR/US\$	85.5

Price Performance

%	1M	6M	12M
Absolute	20.0	-21.3	-30.6
Relative*	14.5	-25.8	-37.6

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	48,505	51,133	60,148	70,645	82,844
Sales Growth (%)	17.8	5.4	17.6	17.5	17.3
EBITDA	5,642	6,537	7,489	8,870	10,479
EBITDA Margin (%)	11.6	12.8	12.5	12.6	12.6
Adjusted Net Profit	3,616	4,110	4,990	6,001	7,186
Diluted EPS (INR)	24.9	28.3	34.4	41.3	49.5
Diluted EPS Growth (%)	20.9	13.5	21.4	20.3	19.7
ROIC (%)	45.1	42.8	40.4	40.4	42.9
ROE (%)	14.6	14.7	15.7	16.6	17.3
P/E (x)	35.9	31.7	26.1	21.7	18.1
P/B (x)	5.0	4.4	3.9	3.4	2.9
EV/EBITDA (x)	23.2	19.6	17.2	14.4	12.1
Dividend Yield (%)	0.4	0.6	0.8	0.9	1.1

Source: Company data, JM Financial. Note: Valuations as of 16/May/2025

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Exhibit 1. Change in estimates

INR mn	Revised Estimates		Previous Estimates		Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Net Sales	60,148	70,645	60,939	71,242	-1.3	-0.8
EBITDA	7,489	8,870	7,539	8,868	-0.7	0.0
EBITDA Margin (%)	12.5	12.6	12.4	12.4	10bps	10bps
Adj PAT	4,990	6,001	5,061	6,054	-1.4	-0.9

Source: JM Financial

Exhibit 2. SoTP Valuation

Business	Valuation basis	Multiple	Value (INRmn)	Per share (INR)
Standalone business	28x Mar'27E Core EPS	28.0	157,124	1,082
La-Gajjar Machineries	10x Mar'27E EPS	10.0	2,683	18
ARKA Fincap	P/B	1.0	11,369	78
Cash and liquid investments	P/B	1.0	5,935	41
			177,111	1,220

Source: JM Financial

Exhibit 3. Quarterly Performance

Y/E March (INR mn)	4Q FY24	4Q FY25	YoY (%)	3Q FY25	QoQ (%)	4Q FY25E	Var (%)
Net Sales	13,917	14,125	1.5	11,636	21.4	15,509	-8.9
Expenditure	12,129	12,417	2.4	10,466	18.6	13,775	-9.9
EBITDA	1,788	1,708	-4.5	1,170	45.9	1,734	-1.5
EBITDA (%)	12.8	12.1	-80bps	10.1	200bps	11.2	90bps
Other income	79	85	8.2	68	25.6	88	-3.7
Depreciation	257	337	31.2	320	5.4	317	6.4
EBIT	1,610	1,455	-9.6	918	58.6	1,505	-3.3
Interest	29	37	28.4	31	17.7	26	43.5
PDB before Eol	1,581	1,419	-10.3	887	60.0	1,480	-4.1
Eol	0	209		0		0	
PBT after Eol	1,581	1,628	3.0	887	83.6	1,480	10.0
Tax	405	416	2.9	236	76.1	272	53.3
Tax rate (%)	25.6	25.6		26.7		18.4	
PAT	1,176	1,211	3.0	650	86.3	1,208	0.3
EPS (INR)	8.1	8.4	3.2	4.5	86.3	8.4	0.3
Adj PAT	1,176	1,057	-10.1	650	62.5	1,208	-12.5
Adj EPS (INR)	8.1	7.3	-9.9	4.5	62.5	8.4	-12.5

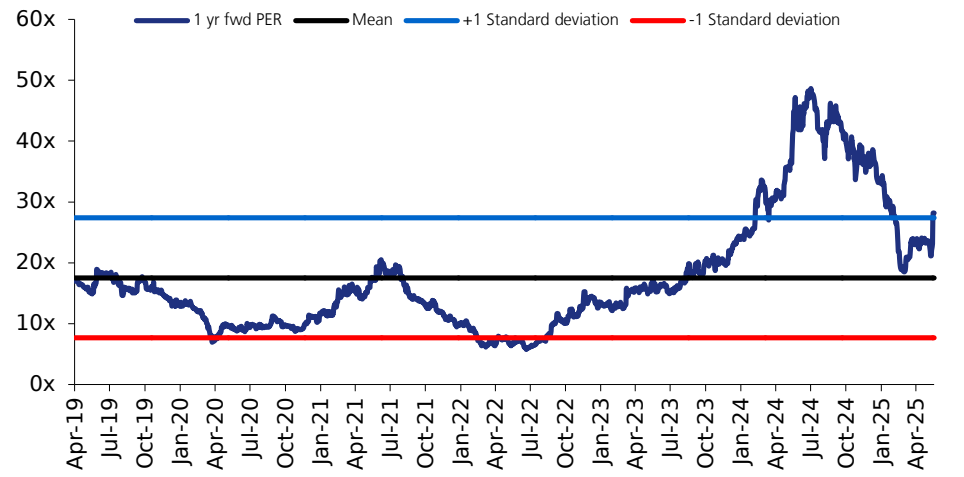
Source: Company, JM Financial

Exhibit 4. Cost Breakup

Y/E March (INR mn)	4Q FY24	4Q FY25	YoY (%)	3Q FY25	QoQ (%)	4Q FY25E	Var (%)
COGS	9,212	9,370	1.7	7,591	23.4	10,243	-8.5
as a % of sales	66.2	66.3	10bps	65.2	110bps	66.0	30bps
Staff Cost	869	880	1.2	844	4.3	900	-2.3
as a % of sales	6.2	6.2	0bps	7.3	-100bps	5.8	40bps
Other Expenditure	2,048	2,168	5.9	2,032	6.7	2,632	-17.6
as a % of sales	14.7	15.3	60bps	17.5	-210bps	17.0	-160bps

Source: Company, JM Financial

Exhibit 5. Price to Earning 12M FWD – Valuation Charts



Source: JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	48,505	51,133	60,148	70,645	82,844
Sales Growth	17.8%	5.4%	17.6%	17.5%	17.3%
Other Operating Income	0	0	0	0	0
Total Revenue	48,505	51,133	60,148	70,645	82,844
Cost of Goods Sold/Op. Exp	32,439	33,368	39,698	46,626	54,677
Personnel Cost	3,069	3,441	3,940	4,553	5,261
Other Expenses	7,355	7,787	9,022	10,597	12,427
EBITDA	5,642	6,537	7,489	8,870	10,479
EBITDA Margin	11.6%	12.8%	12.5%	12.6%	12.6%
EBITDA Growth	24.0%	15.9%	14.5%	18.4%	18.1%
Depn. & Amort.	970	1,170	1,195	1,258	1,321
EBIT	4,672	5,367	6,294	7,612	9,159
Other Income	274	344	503	522	567
Finance Cost	78	121	100	80	80
PBT before Excep. & Forex	4,868	5,590	6,697	8,055	9,646
Excep. & Forex Inc./Loss(-)	0	209	0	0	0
PBT	4,868	5,799	6,697	8,055	9,646
Taxes	1,252	1,480	1,708	2,054	2,460
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	3,616	4,319	4,990	6,001	7,186
Adjusted Net Profit	3,616	4,110	4,990	6,001	7,186
Net Margin	7.5%	8.0%	8.3%	8.5%	8.7%
Diluted Share Cap. (mn)	145.0	145.2	145.2	145.2	145.2
Diluted EPS (INR)	24.9	28.3	34.4	41.3	49.5
Diluted EPS Growth	20.9%	13.5%	21.4%	20.3%	19.7%
Total Dividend + Tax	507	822	998	1,200	1,437
Dividend Per Share (INR)	3.5	5.7	6.9	8.3	9.9

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	4,868	5,799	6,697	8,055	9,646
Depn. & Amort.	970	1,170	1,174	1,258	1,321
Net Interest Exp. / Inc. (-)	16	33	0	0	0
Inc (-) / Dec in WCap.	-441	-270	-2,166	-604	-702
Others	11	-505	0	0	0
Taxes Paid	-1,084	-1,331	-1,708	-2,054	-2,460
Operating Cash Flow	4,339	4,897	3,998	6,655	7,805
Capex	-2,765	-2,445	-2,000	-2,500	-2,500
Free Cash Flow	1,574	2,453	1,998	4,155	5,305
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	-998	-1,200	-1,437
Inc / Dec (-) in Loans	1,338	-797	-400	-400	-400
Others	-114	-259	0	0	0
Financing Cash Flow	500	-1,927	-1,398	-1,600	-1,837
Inc / Dec (-) in Cash	657	-164	-900	554	468
Opening Cash Balance	323	3,226	3,062	2,162	2,716
Closing Cash Balance	980	3,062	2,162	2,716	3,184

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	26,227	29,756	33,748	38,549	44,297
Share Capital	290	290	290	290	290
Reserves & Surplus	25,937	29,466	33,458	38,258	44,007
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	34,892	39,293	44,642
Net Fixed Assets	7,334	9,071	9,897	11,139	12,319
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	15,021	16,278	17,599
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	20,124	23,813	27,924
Inventories	5,235	4,931	6,592	7,742	9,079
Sundry Debtors	5,684	6,511	7,416	8,710	10,214
Cash & Bank Balances	980	3,062	2,162	2,716	3,184
Loans & Advances	108	0	1,977	2,323	2,724
Other Current Assets	1,107	1,627	1,977	2,323	2,724
Current Liab. & Prov.	10,793	11,774	14,502	17,032	19,973
Current Liabilities	7,274	6,506	9,887	11,613	13,618
Provisions & Others	3,519	5,268	4,614	5,419	6,355
Net Current Assets	2,322	4,357	5,623	6,781	7,950
Total - Assets	28,418	31,301	34,892	39,293	44,642

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	7.5%	8.0%	8.3%	8.5%	8.7%
Asset Turnover (x)	1.8	1.7	1.8	1.9	2.0
Leverage Factor (x)	1.1	1.1	1.0	1.0	1.0
RoE	14.6%	14.7%	15.7%	16.6%	17.3%

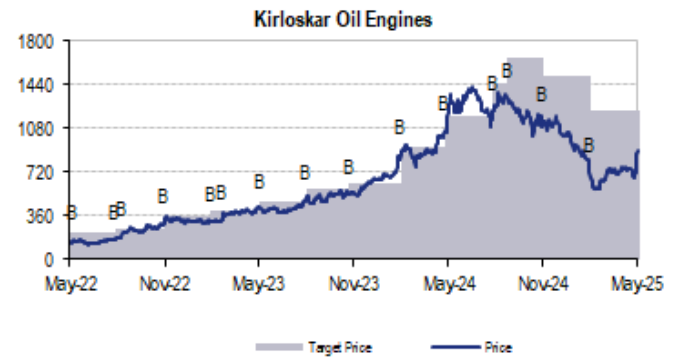
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	180.9	204.9	232.4	265.5	305.1
ROIC	45.1%	42.8%	40.4%	40.4%	42.9%
ROE	14.6%	14.7%	15.7%	16.6%	17.3%
Net Debt/Equity (x)	0.0	-0.1	0.0	-0.1	-0.1
P/E (x)	35.9	31.7	26.1	21.7	18.1
P/B (x)	5.0	4.4	3.9	3.4	2.9
EV/EBITDA (x)	23.2	19.6	17.2	14.4	12.1
EV/Sales (x)	2.7	2.5	2.1	1.8	1.5
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.
11-Feb-21	Buy	220	
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
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

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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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.
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