

Kirloskar Oil Engines | BUY

Product development & geographical expansion key focus area

We recently hosted management of Kirloskar Oil Engines (KOEL), where management sounded positive on business opportunity across segment and highlighted company will be focusing on 1) technological advanced products, 2) HHP segment, 3) exports market, 4) expansion in non-ICE products (few products are in prototype stage) and 5) capacity expansion. To achieve this vision, company will be investing in R&D, building teams and looking for inorganic opportunity in similar line. Going forward we believe entry in HHP segment, approved products for CPCB-IV across nodes, expansion in exports markets and service segment will be key growth driver for company.

- 2B2B strategy-2030 focus on all round growth levers:** Ambition to reach revenue of USD 2bn by 2030 at consolidated level. Key strategy includes 1) Increasing manufacturing capability, 2) focus on technology, 3) increase share of business of Arka Retail, 4) exploring inorganic opportunities, 5) increase export revenue, 6) market share improvement of B2C, 7) focus on Defence and Rail, 8) expand in non ICE programs, in line with the core business and 9) product expansion in B2C.
- Re-iterated its focus towards 2x3Y strategy:** KOEL continues its efforts to achieve 2x3Y target starting from FY22, where it target to reach revenue of INR 65bn by FY25 (implying growth of 36% in FY25 vs JMF of 25%), with double digit EBITDA margins. Growth will be mainly driven by 1) introduction of new product in HHP segment, 2) expanding geographical presence and 3) growing service business.
- Domestic power gen market continues to be promising:** Demand for Power genset is likely to remain strong (short term slowdown expected due to CPCB-IV transition). With increasing complexity of product on account of energy norm getting stringent we believe it will be beneficial for company focusing on R&D like KOEL. Entry in HHP segment and approval in place for CPCB-IV product will be key growth driver for company going forward. We expect revenue CAGR of 22% between FY24-26E.
- Industrial segment benefitting from continued capex momentum:** Segment reported a growth of 18% to INR 10bn in FY24, driven mainly by growth in the construction and railways sectors. Going forward, growth will be driven by manufacturing and infrastructure segment in domestic market while international market will be driven by continued momentum in fire-fighting and dewatering products. We expect revenue CAGR of 26% between FY24-26E.
- Maintain BUY with TP of INR 1665:** We continue to remain positive on KOEL factoring in - domestic demand drivers for the Power gen and the Industrial business being very strong due to continued traction in construction activity, private capex and need for backup power in critical sectors (hospitals, real estate, manufacturing etc). KOEL with its new product launches in the HHP segment, is looking to establish its presence which was lacking for company. Focus on exports market will aid revenue and profitability growth going forward. We expect revenue/EPS CAGR of 23%/35% between FY24-26E. Maintain BUY, with TP of INR 1,665 valuing core business at 35x FY26E (30x FY26E earlier).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,665
Upside/(Downside)	25.7%
Previous Price Target	1,455
Change	14.4%

Key Data – KOEL IN

Current Market Price	INR1,325
Market cap (bn)	INR192.2/US\$2.3
Free Float	57%
Shares in issue (mn)	144.6
Diluted share (mn)	145.0
3-mon avg daily val (mn)	INR383.8/US\$4.6
52-week range	1,450/468
Sensex/Nifty	81,184/24,852
INR/US\$	83.9

Price Performance

%	1M	6M	12M
Absolute	13.7	58.7	160.8
Relative*	11.6	44.9	113.9

* To the BSE Sensex

Financial Summary					(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
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)	123.4	64.2	53.1	36.3	28.9
P/B (x)	9.0	8.2	7.3	6.3	5.4
EV/EBITDA (x)	71.7	42.3	34.3	24.7	20.2
Dividend Yield (%)	0.4	0.4	0.3	0.6	0.9

Source: Company data, JM Financial. Note: Valuations as of 06/Sep/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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

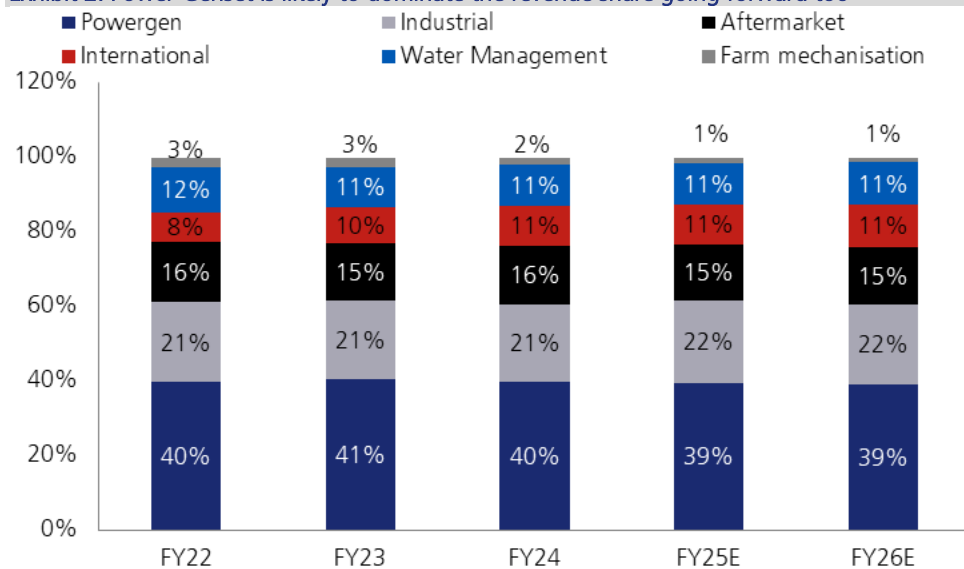
- **Expanding International business a key focus area:** KOEL continues its effort to increase its geographical presence resulting in its revenue growing 32% to INR 5.2bn in FY24. KOEL is working towards establishing exclusives Genset Original Equipment Manufacturers (GOEMs) in key markets worldwide. It has successfully appointed GOEM in two key region; America and Middle East.
- **B2C add on to the exiting core business:** Revenue growth of 15% to INR 6.2bn in FY24 was driven by 23% growth in Water Management Solutions to INR 5.4bn, while it declined for Farm Mechanisation declined 19% to INR 870mn. La-Gajjar Machineries Ltd. reported PAT of INR 241mn vs INR 47mn in FY23.

Exhibit 1. B2B segment is expected to report 24% CAGR over FY24-26E, while B2C segment to report 23% CAGR over same period (Farm mechanisation segment is yet to see an uptick and likely to see modest revenue CAGR of 7%).

Particular	FY22	FY23	FY24	FY25E	FY26E
B2B	27,800	35,300	41,820	52,756	64,010
Powergen	12,970	16,550	19,050	23,813	28,575
growth (%)	47%	28%	15%	25%	20%
Industrial	6,990	8,520	10,080	13,306	15,967
growth (%)	39%	22%	18%	32%	20%
Aftermarket	5,350	6,300	7,490	9,138	11,148
growth (%)	-	18%	19%	22%	22%
International	2,490	3,930	5,200	6,500	8,320
growth (%)	-	58%	32%	25%	28%
B2C	4,880	5,420	6,240	7,617	9,386
Water Management	4,000	4,350	5,370	6,713	8,391
growth (%)	-	9%	23%	25%	25%
Farm mechanisation	880	1,070	870	905	995
growth (%)	-	22%	-19%	4%	10%
Total	32,680	40,720	48,060	60,373	73,396
Other Operating revenue	316	441	445	467	505
Net Revenue	32,996	41,161	48,505	60,840	73,900

Source: Company, JM Financial

Exhibit 2. Power Genset is likely to dominate the revenue share going forward too



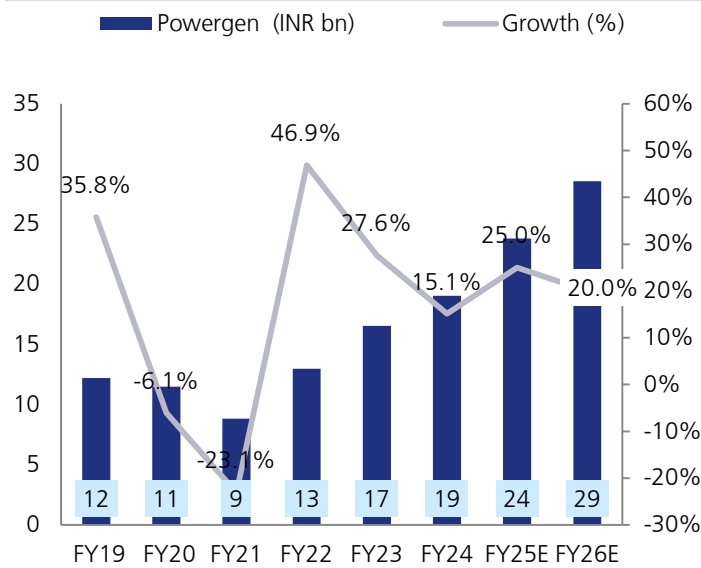
Source: Company, JM Financial

Exhibit 3. KOEL vs Cummins

Particular (INR mn)	Kirloskar Oil Engine					Cummins				
	FY22	FY23	FY24	FY25E	FY26E	FY22	FY23	FY24	FY25E	FY26E
Revenue	32,996	41,161	48,505	60,840	73,900	61,404	77,444	89,586	103,624	124,857
growth (%)	22.5%	24.7%	17.8%	25.4%	21.5%	41.8%	26.1%	15.7%	15.7%	20.5%
EBITDA	2,687	4,550	5,642	7,817	9,466	8,851	12,426	17,614	20,831	25,566
EBITDA margin (%)	8.1%	11.1%	11.6%	12.8%	12.8%	14.4%	16.0%	19.7%	20.1%	20.5%
PAT	1,553	2,983	3,616	5,285	6,636	7,808	11,441	16,623	18,768	22,642
growth (%)	-7%	92%	21%	46%	26%	29%	47%	45%	13%	21%
ROE (%)	7.5%	13.3%	14.6%	18.6%	20.1%	16.8%	22.3%	28.8%	28.6%	30.2%
ROCE (%)	8.0%	13.0%	14.0%	17.6%	19.2%	16.4%	21.0%	28.0%	28.3%	29.9%
PE (x)	123.4	64.2	53.1	36.3	28.9	133.7	91.2	62.8	55.6	46.1

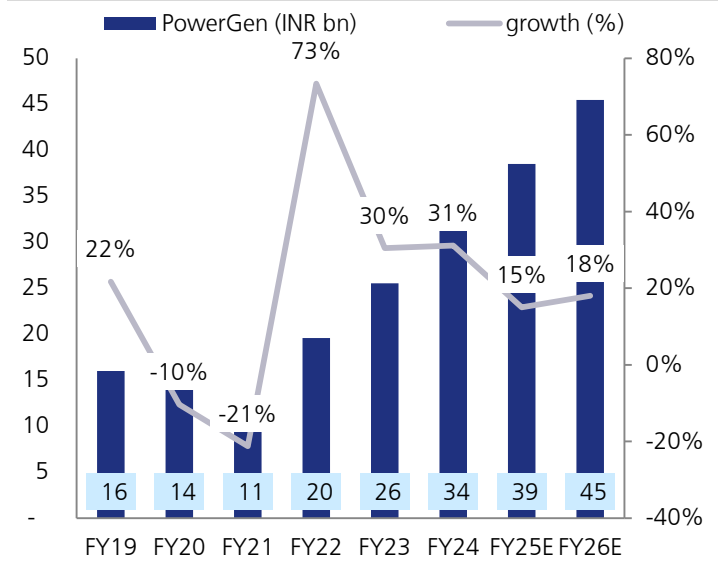
Source: Company, JM Financial

Exhibit 4. KOEL power gen segment is expected to report a 22% CAGR over FY24-26E



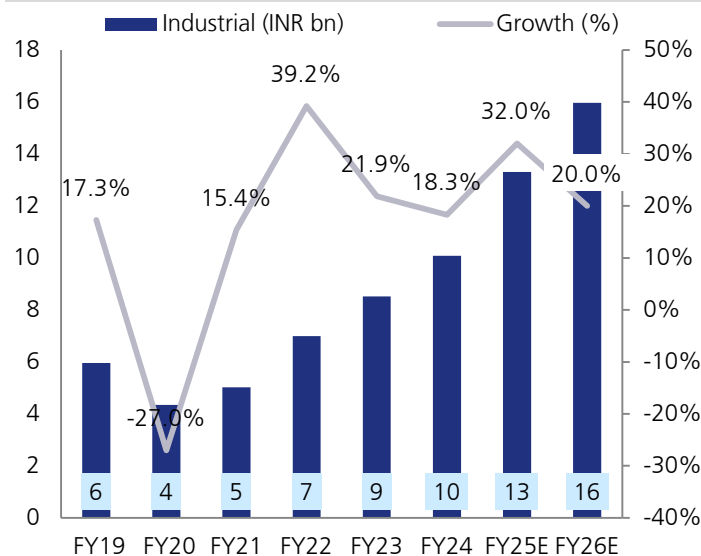
Source: Company, JM Financial

Exhibit 5. Cummins power gen segment is expected to report a 16.5% CAGR over FY25-26E



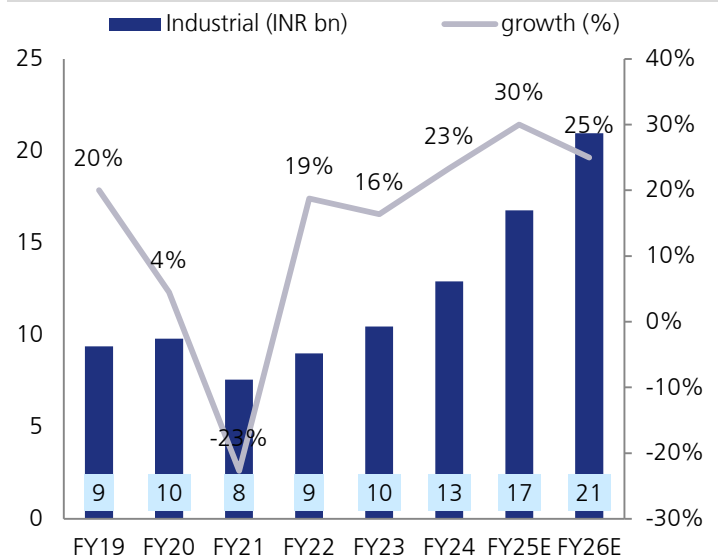
Source: Company, JM Financial

Exhibit 6. KOEL Industrial segment to report 26% CAGR over FY24-26E



Source: Company, JM Financial

Exhibit 7. Cummins Industrial segment to report 27% CAGR over FY24-26E



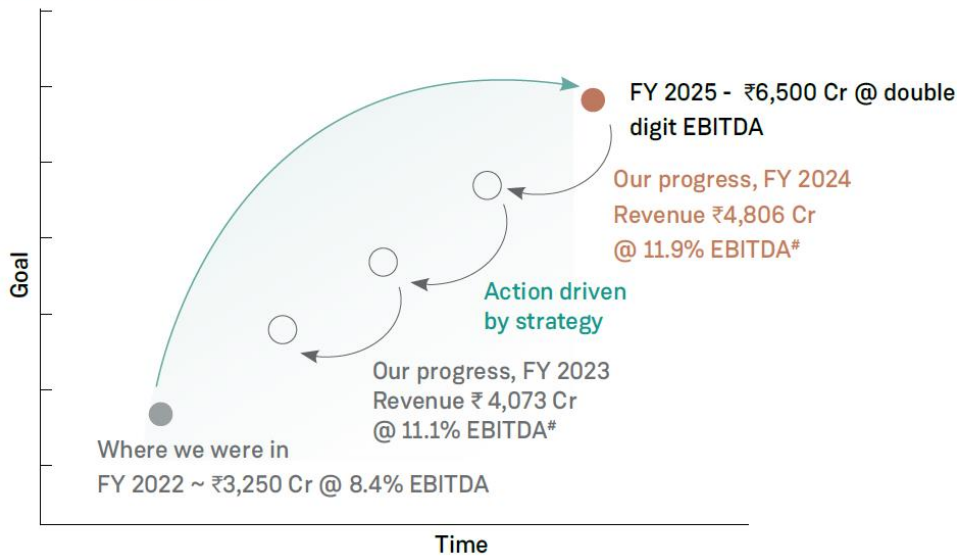
Source: Company, JM Financial

KOEL re-iterated its ambition to meet 2x3Y strategy

KOEL continues its efforts to achieve its aim of 2X3Y strategy starting from FY22, where it target to reach revenue of INR 65bn, with double digit EBITDA margins. Growth will be mainly driven by 1) introduction of new product in HHP segment, 2) expanding geographical presence and 3) focusing on growing service business. KOEL is on its way to achieve the targets despite few challenges faced in FY24, due to delay in implementation of CPCB-IV emission norms, though it has reported double digit growth across its business vertical like Power gen, Industrial, water management solutions, distribution, exports etc.

Exhibit 8. KOEL's 2x3Y ambition

2X3Y framework

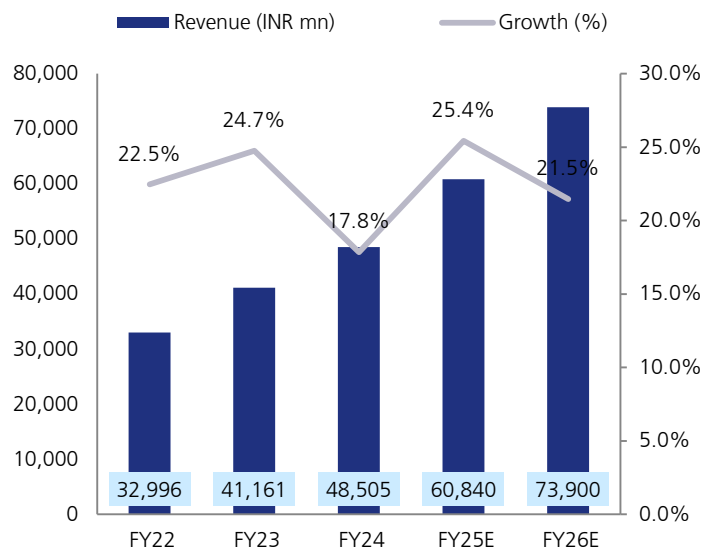


Revenue target of INR 65bn, implies growth of 34% for FY25.

We expect revenue growth of c.25% for FY25.

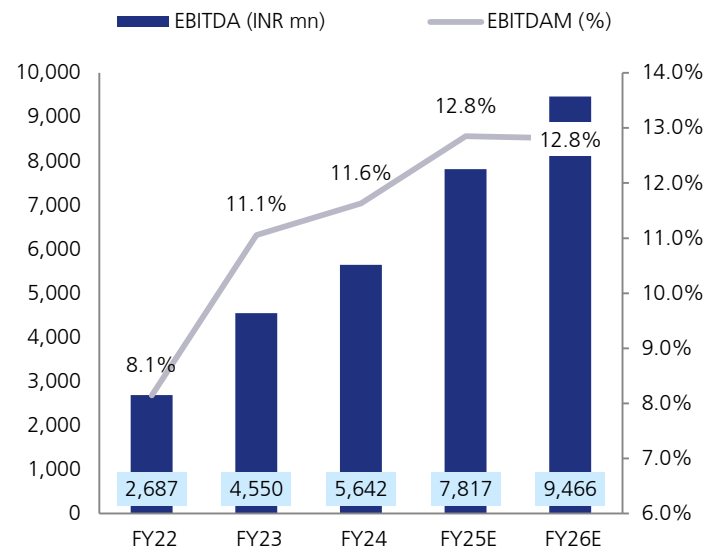
Source: Company, JM Financial

Exhibit 9. We expect overall revenue CAGR of 23% YoY between FY24-26E, with increasing focus on new product launches and exports



Source: Company, JM Financial

Exhibit 10. Increasing HHP segment and export revenue to drive overall EBITDA margin expansion to 12.8% by FY26.



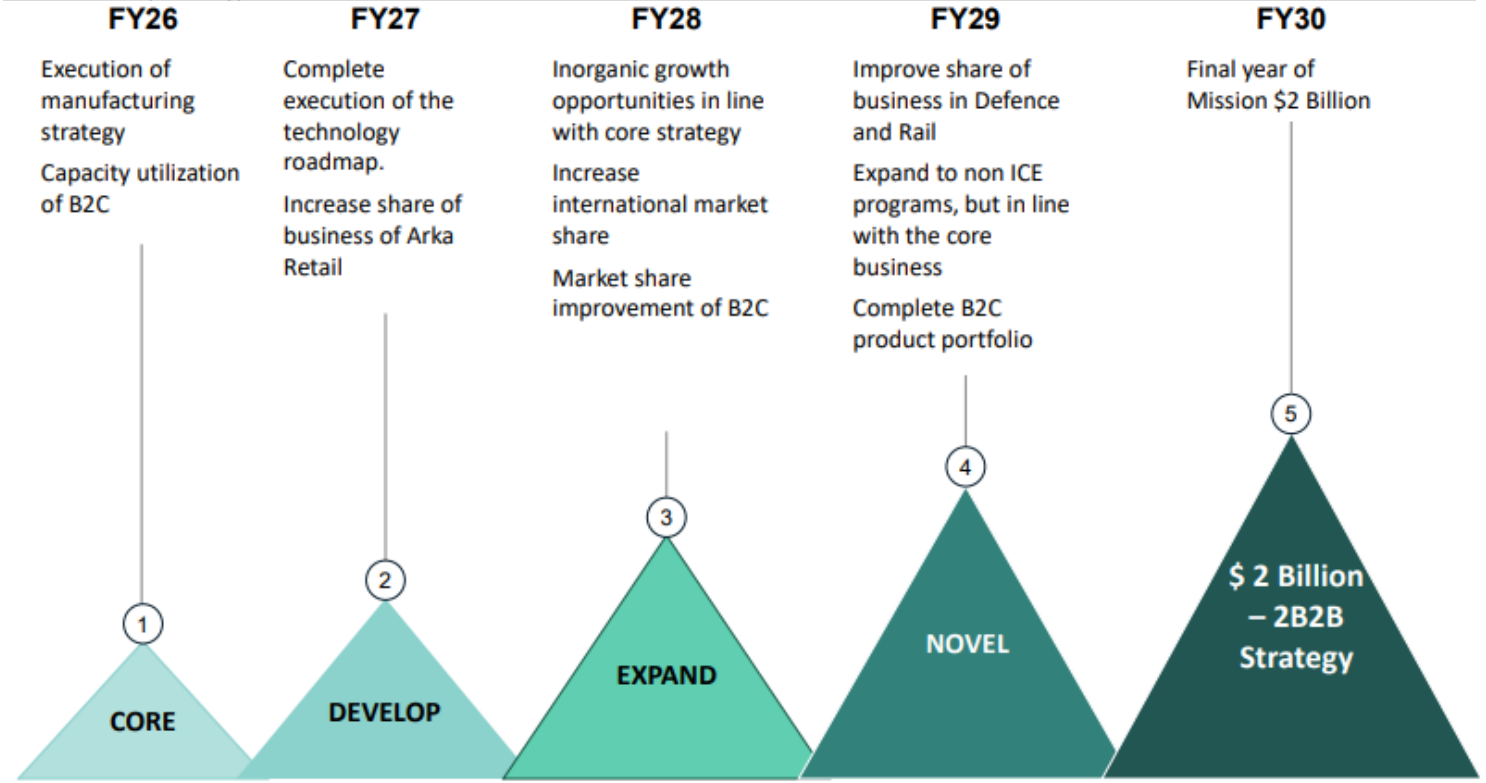
Source: Company, JM Financial

2B2B strategy by 2030 focus on all round growth levers

The Ambition: 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.

Exhibit 11. Key strategy to meet its 2B2B ambition



Source: Company, JM Financial

B2B business propelling new heights (84% of total sales)

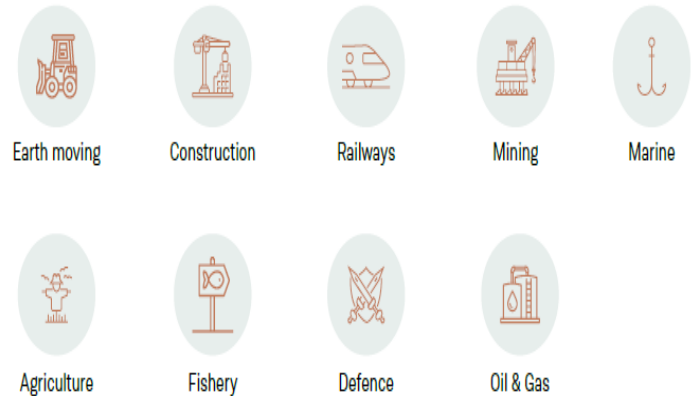
The B2B business comprises of the Powergen, Industrial, Distribution and Aftermarket businesses which operate both domestically and globally.

Exhibit 12. Power gen segment target sectors



Source: Company, JM Financial

Exhibit 13. Industrial segment target sector



Source: Company, JM Financial

Exhibit 14. Distribution and Internal business key offerings

Distribution and Aftermarket



International Business

Our offerings

- ▶ Engines and Gensets
- ▶ Industrial Engines
- ▶ Power solutions for large/ Institutional project clients (Marine, Defence, among others)
- ▶ After-sales support
- ▶ Retail channel — Tractor spares, Oil, Batteries

Source: Company, JM Financial

New Launches in HHP segment to drive Power Genset business (40% of total sales)

Segment revenue grew 15% to INR 19bn in FY24. KOEL is one of the largest genset manufacturer in India in volumes term (as KOEL has major presence in LHP power genset segment) and one of the leading manufacturers globally, with expertise in building high-quality fuel-agnostic engines as well as power generation sets (Petrol, Diesel, Natural Gas, Ethanol, Methanol and Dual Fuel (diesel and gas)) to meet power requirements.

Entire range of CPCBIV+ products were developed in-house and KOEL is 1st company to get the entire range certified. Import content in CPCB-IV variant product is 15% vs 8% in CPCB2 products.

Demand scenario continues to remain healthy across sector, from sectors such as infrastructure, real estate, etc.

Key highlights of Powergen segment

- Foray into HHP segment will drive the growth and focus over here is to increase market share.
- Researching and developing products on non-ICE power generation technology like fuel cells, hybrid products, batteries and micro grids. Focus is on introduction of technologically advanced product and not just a commoditized diesel genset.
- Bagged one larger order from Nuclear Power Corporation of India Ltd (NPCIL) worth INR 7.7bn to supply, install, commission and handing over 10 emergency diesel generators, each with capacity of 6.3MWe for 5th and 6th units of Kundankulam project.

- Power genset market grew 15% YoY to INR 19bn from INR 16.6bn. The growth was mainly led by expansion of manufacturing, real estate and infrastructure sectors. Additionally, the advent of 5G telecom with its high-power demands, the growth of data centres and expanding healthcare facilities are all contributing to the need for reliable backup power solutions.

We believe focus on HHP segment, exports market and product development augurs well for KOEL powergen segment and likely to report 22% CAGR over FY24-26E.

Exhibit 15. 750KVA CPCB-4 power genset product comparison between

Particulars	KOEL	Cummins
Engine Capacity (Ltrs) / displacement	19	19
Dimensions (LxWxH) mm	6800x2300x2715	6800x20650x2900
Fuel Tank Capacity	990	990
Weight (kg)	9100	10200
Coolant Capacity (ltr)	193	179
Lube oil sump capacity	73	72
Number of Cylinder	12	6
Class of Insulation	Class-H	Class-H

Source: Company, JM Financial

Exhibit 16. Key Features of Optiprime Gensets

Particulars		CPCB IV+ 1500	2020 (Containerized)
Prime Rating at rated rpm (as per ISO8528) (KVA)	KVA	750x2	1010x2
Voltage (v)		415	415
Frequency (Hz)		50	50
Noise level (dBA)		<75 dBA @1Mtr	88 dBA @1Mtr
Weight of Genset with canopy (approx.) (kg)	Dry	18500	25170
	Wet	18900	26000
Overall dimensions of Genset (mm)	Length	12000	12192
	Width	2300	2438
	Height (without silencer)	2713	2895
	Height (with silencer)	3381	4002
Engine Model		DV12ETA 4G2	DV16 ETA G3
Rated output (HP)		900.6X2	1210X2

Source: Company, JM Financial

Exhibit 17. Optiprime Key Features

OPTIPRIME

FEATURES



Patented Hybrid Technology



Optimum Power



Optimal Efficiency



Optimised Fuel Consumption



Reduced Ownership Cost



Twin-Hybrid Power Packs and In-built Synchronisation



Reduced Carbon Dioxide Emissions by 40%



Reduced Nitrous Oxide Emissions by 50%



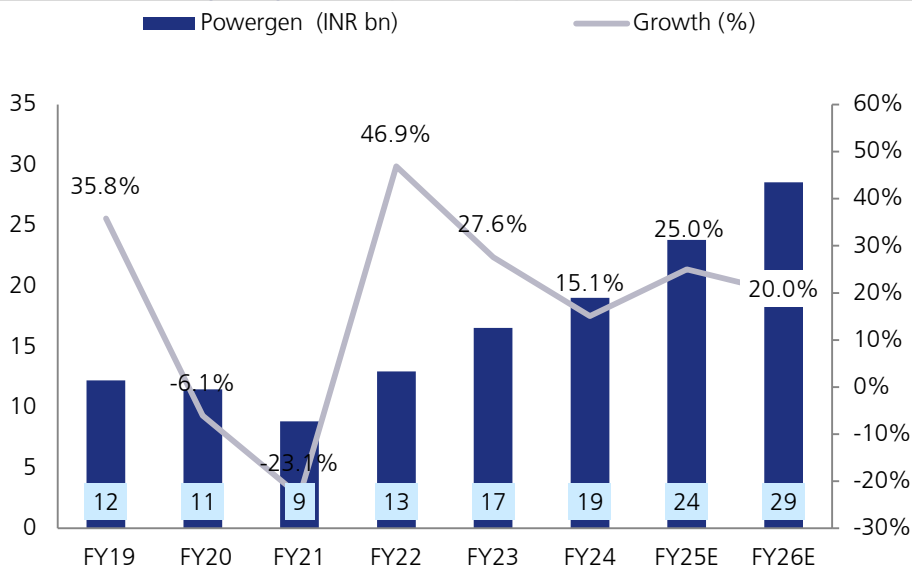
Better Flexibility



Lower Product Footprint - 20% Reduction in Space

Source: Company, JM Financial

Exhibit 18. KOEL Powergen segment is expected to report 22% CAGR from FY24 to FY26E

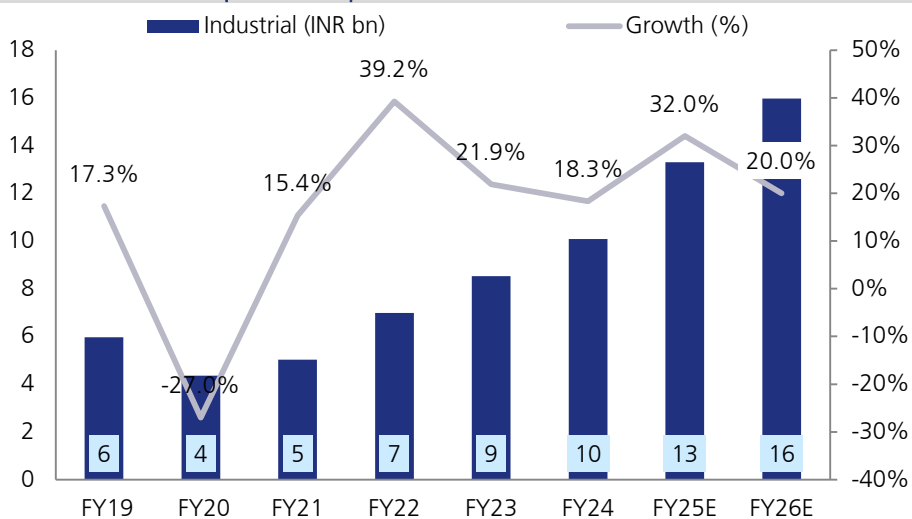


Source: Company, JM Financial

Industrial segment benefitting from continues capex momentum (21% of total sales)

Segment reported strong growth of 18.3% YoY to INR 10bn in FY24, driven mainly by growth in the construction and railways sectors in India. Going forward growth in manufacturing, infrastructure and housing sectors in domestic market are expected to aid growth in the industrial business. While international market growth will be driven by continued momentum in fire-fighting and dewatering products. We expect revenue CAGR of 26% over FY24-26E.

Exhibit 19. Industrial is expected to report 26% CAGR from FY24 to FY26E



Source: Company, JM Financial

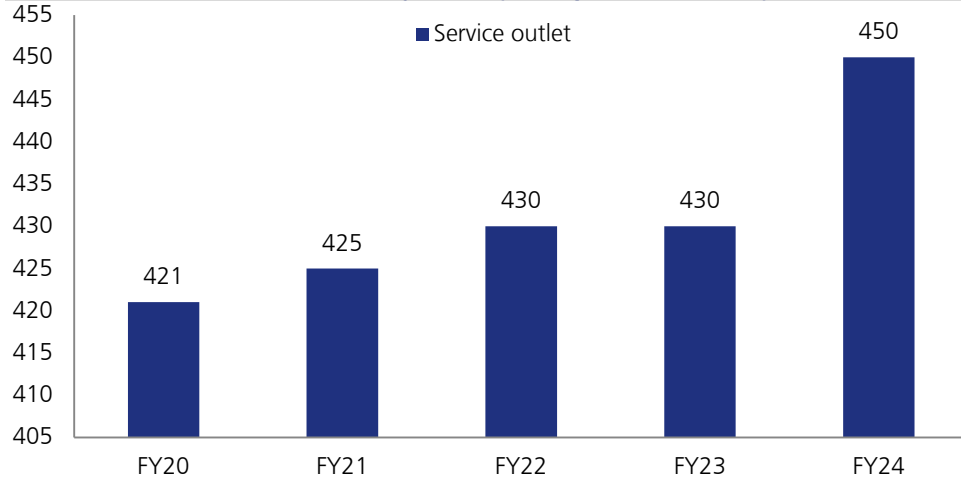
Distribution and Aftermarket (16% of total sales)

With CPCB-IV variant product have more of electronic components which are currently being sourced from outside. However KOEL is looking to build in-house capability to manufacture electronics in-house which will results in increased opportunity for service which will be more of proprietary. We believe this will drive strong growth for service segment going forward. We expect segment to report a revenue CAGR of 22% over FY24-26E. For FY24 revenue grew 18.9% YoY to INR 7.5bn. Segment can be sub-divided into 1) Service Channel and 2) Retail channel.

Service Channel

- Under the Kirloskar CARE brand, company has generated a revenue of INR 6bn in FY24 (up 19% YoY).
- With the introduction of electronic products across the Powergen and Industrial portfolio, Kirloskar Care will be focusing on up-skilling the service capabilities of the channel partners while improving response & repair times.

Exhibit 20. KOEL has been continuously been expanding its service touch points

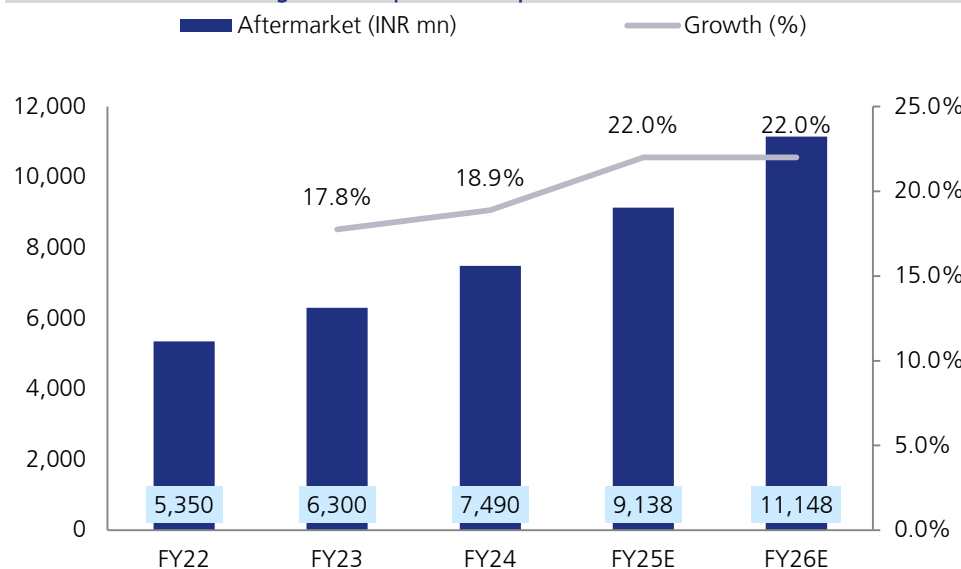


Source: Company, JM Financial

Retail Channel

- Reported revenue of INR 1.5bn up 24% YoY.
- KOEL has a retail distribution channel, which was originally named Tractor Parts and Oil (TPO) with presence in rural as well as urban region.
- KOEL has undertaken initiatives to bolster its retail channel with new products.
- Retail distribution channel is poised for expansion, focusing on a wider product portfolio catering to both urban and rural needs, by introducing complementary products through this channel as well as by establishing structured channels for each product line, ensuring efficient distribution and improved reach across all customer segments.
- Also plans to improve engagement with the retail channel through loyalty programmes.

Exhibit 21. Aftermarket segment is expected to report 22% CAGR



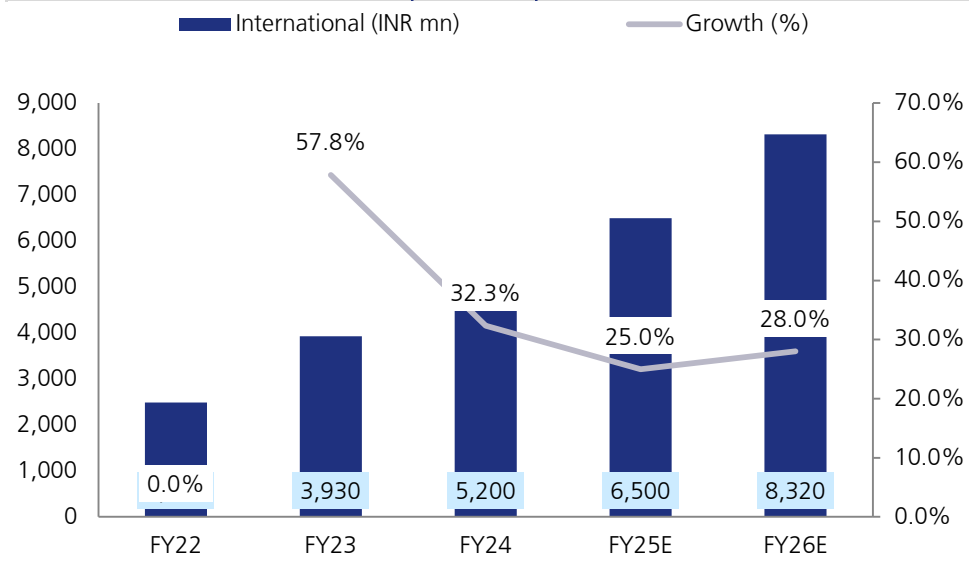
Source: Company, JM Financial

International business forms significant priority for 2x3Y as well as 2B2B strategy (11% of total sales)

- Company has been focusing on expanding its international footprints and has designed different strategy for different geographies.
- With increased focus on expanding geographical footprint, revenue grew 32% YoY to INR 5.2bn in FY24.
- Expanding international business forms a critical part of 2x3Y as well as 2B2B strategy and KOEL is actively optimising operations in international markets, leveraging extensive experience in the Indian market.
- Working towards establishing exclusives Genset Original Equipment Manufacturers (GOEMs) in key markets worldwide.
- Successfully appointed GOEM in two key region; America and Middle East.
- Appointed MYSPAN POWER SOLUTIONS FZE as first international GOEM for the Middle East and North Africa Region.
- Kirloskar Americas Corporation acquired a 51% stake on Engines LPG, LLC dba Wildcat Power Gen, at an consideration of c.USD 357,000. Engines LPG LLC is engaged in the business of designing, manufacturing, selling, and servicing of generators powered by gas, diesel, other environmental fuel/power solution under the brand name of Wildcat Power Gen for all types of applications.

We believe with introduction of CPCB-IV product opens up opportunity for most advanced international market where emission norms are stringent, additionally KOEL focus on enhancing its presence in exports market will drive the growth going forward.

Exhibit 22. International markets are expected to report a 26% YoY between FY24-26E



Source: Company, JM Financial

B2C add on to the exiting core business (13% of total sales)

Segment reported a growth of 15% YoY to INR 6.2bn, which was partly impacted due to decline in Farm mechanisation segment.

The segment caters to two crucial areas- water management solutions and farm mechanisation.

We believe, Water management solution will be key growth driver for the segment factoring in KOEL focus on establishing a well-organised distribution network across India, with an emphasis on the southern and northern markets. While on International front introduction of new products, the right order mix and deepening and widening distribution reach, is aiding the growth for the segment. While Farm Mechanisation is expected to report muted growth due to demand slowdown.

Key highlight of B2C segment in FY24

- Reported 105% growth in segment profit.
- La-Gajjar Machineries Ltd- PBT grew to INR 250mn vs INR 110mn. Export growth rate at 10% with further margin improvement
- Water Management Solutions: Pumps and small engines are growing at 25% and 30% respectively.

Water Management Solutions (WMS) (11% of total sales)

- Offer products pumps, pump-sets to induction motors, small engines, column pipes and cables. Also provide a onestop shop for efficient water management solutions tailored to fulfill diverse individual needs.
- Domestic pump industry in India is fragmented with c.300 organised players and over 600 unorganised players.
- Registered a significant growth in the domestic and agricultural pump segments, with both diesel and electric options demonstrating strong sales figures.
- In the electric pump sector, KOEL is establishing a well-organised distribution network across India, with an emphasis on the southern and northern markets. This strategy has started yielding results, with increasing sales and market share in FY24
- In small engine segment, company has identified OEM as one of the segment with key opportunity. A focused approach to product, partner and service models resulted in improved sales in FY24.
- On International front introduction of new products, the right order mix and deepening and widening distribution reach, is aiding the growth for the segment.
- To improve local content, KOEL has changed its business model to SKD's in few selected countries.

Sector wise domestic pump market breakup

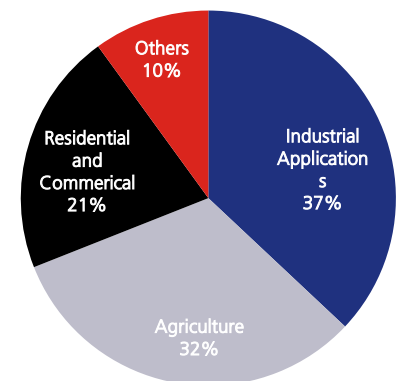
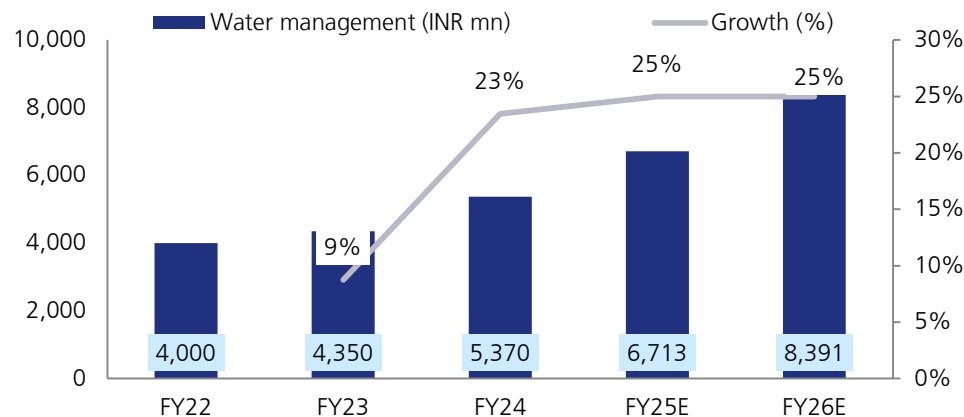


Exhibit 23. WMS is expected to report strong 25% CAGR from FY24-26E

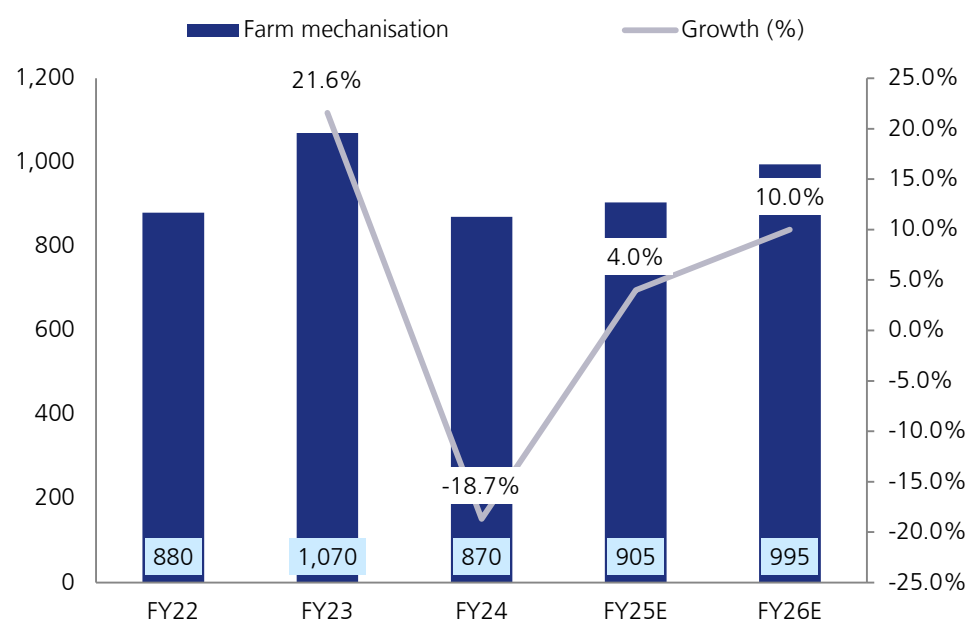


Source: Company, JM Financial

Farm Mechanisation Solutions (FMS) (2% of total sales)

- Segment reported a revenue decline of 19% to INR 870mn in FY24.
- Products provides farmers with solutions for improving agricultural yield by offering a range of cutting-edge equipment, including advanced tillers, weeders and precision planting machinery.
- Favourable government policies, raising farm incomes & private sector innovation are likely to drive the Farm mechanization sector in India.
- The Farm Mechanisation sector is heavily dependent upon the adoption rate of mechanized farming in India. Currently, the rate of mechanization is less than in countries such as China & Brazil.
- As KOEL continues to innovate and address the unique needs of Indian farmers, farm mechanization is expected to gain momentum in the long term.

Exhibit 24. We expect muted 7% revenue CAGR from FY24-26.



Source: Company, JM Financial

Other Observations from Annual Report

Exhibit 25. KOEL continue to invest in R&D for new product development

Particulars	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Capital Expenditure	474	187	91	55	685	308	53	706
Revenue Expenditure	653	891	832	737	606	694	794	1,018
Total	1,126	1,078	923	792	1,291	1,001	846	1,724
% of net sales	4.2%	3.8%	2.9%	2.8%	4.8%	3.0%	2.1%	3.6%
Capital	1.8%	0.7%	0.3%	0.2%	2.5%	0.9%	0.1%	1.5%
Revenue	2.4%	3.1%	2.6%	2.6%	2.2%	2.1%	1.9%	2.1%

Source: Company, JM Financial

Exhibit 26. New Product launch/market expansion over last couple of years

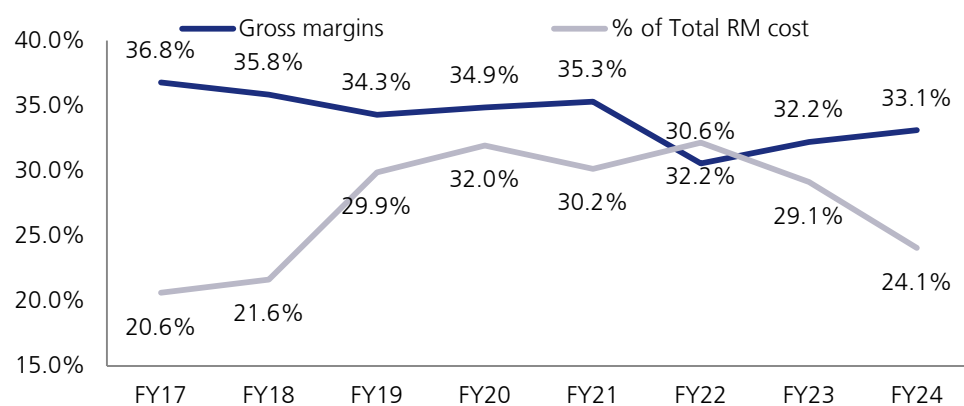
Year	Products launched/markets entered
FY22	K4300 and R550 series in power generation market Mega T 12 and 15 LV power tiller Min T power weeder High Efficiency 3-Phase L.V. Electric Motor Organic waste decomposer
FY23	KCool products that catered to the market demand in the 15HP and 12HP space KCool engine-based MEGA 15, MEGA T12 and their respective variants for farm mechanisation Engine range to include higher HP engines with the K4300 platform 100% Ethanol fuel (E100) in power generation application and installed one set of 62.5kVA in field
FY24	Launch of Opti-Prime across 1000 kVA, 1500 kVA and 2020 kVA Acquisition of Engines LPG LLC through a wholly owned subsidiary Kirloskar Americas Corporation which is a step towards business expansion and to enable market development in Powergen applications for the North American markets.

Source: Company, JM Financial

Exhibit 27. Despite strong revenue growth of 17.8% in FY24, growth on Purchase of traded goods was merely 1% YoY.

Particulars	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Engines and Gensets	97	551	1,496	2,059	2,345	2,919	2,322	2,552
K-Oil	1,096	1,052	1,152	1,097	919	1,162	1,549	1,558
Alternators, Batteries, Panel and Switchgear	2,289	2,326	3,539	2,832	1,992	3,291	4,258	4,093
Total Traded Goods	3,482	3,930	6,187	5,988	5,256	7,371	8,128	8,203
% YoY	8%	13%	57%	-3%	-12%	40%	10%	1%
% of Total RM	21%	22%	30%	32%	30%	32%	29%	25%

Source: Company, JM Financial

Exhibit 28. Purchase of trade growth is inversely related to gross margins

Source: Company, JM Financial

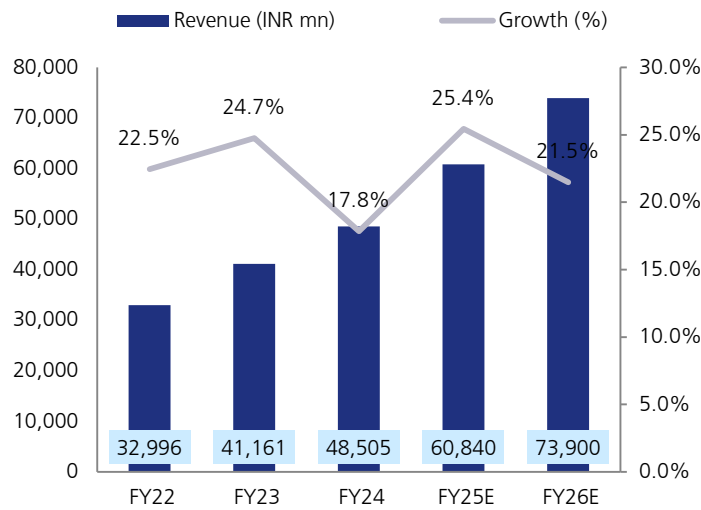
Exhibit 29. Improved Net margins and better leverage factors resulted in improvement in RoE

Du-Pont analysis	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Net Margin (%)	6.4	5.2	6.0	5.2	6.2	4.7	7.2	7.5
Asset Turnover (x)	1.7	1.7	1.8	1.6	1.4	1.5	1.8	1.8
Leverage factor (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1
RoE (%)	11.1	9.1	11.0	8.3	8.8	7.5	13.3	14.6

Source: Company, JM Financial

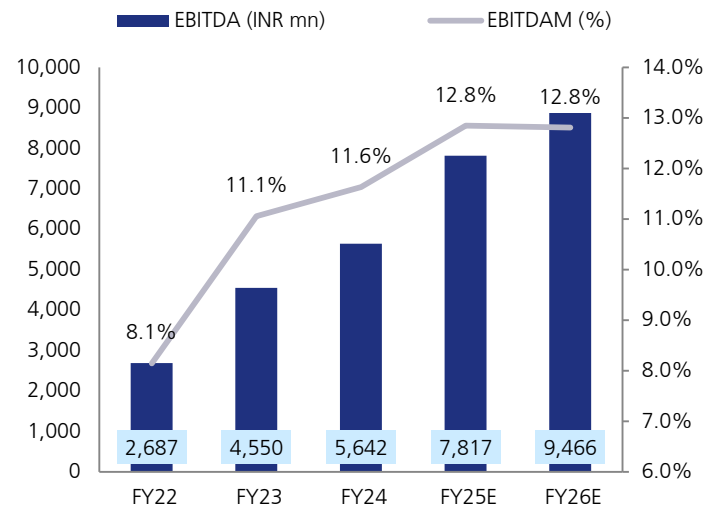
Financial Charts

Exhibit 30. We expect revenue CAGR of 23% YoY between FY24-26E, with increasing focus on new product launches and exports



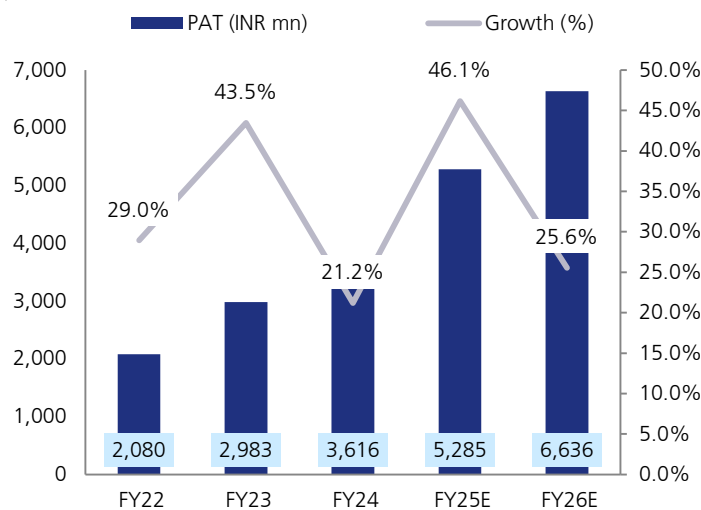
Source: Company, JM Financial

Exhibit 31. Increasing HHP segment and export revenue to drive EBITDA margin expansion to 12.8% by FY26.



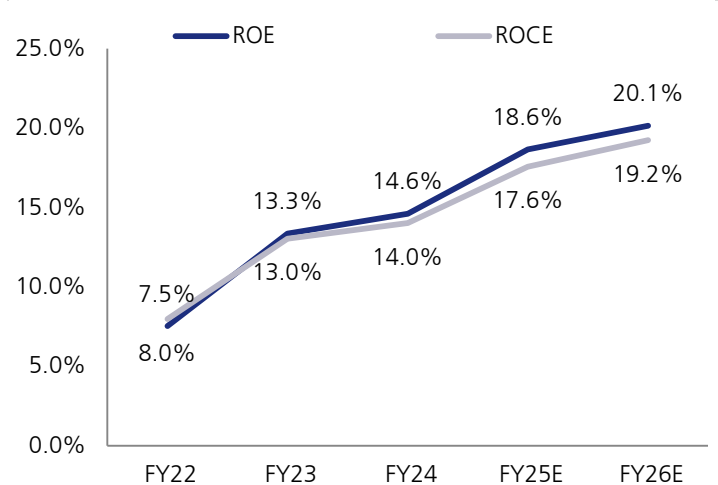
Source: Company, JM Financial

Exhibit 32. We expect PAT CAGR of 33% between FY24-26E



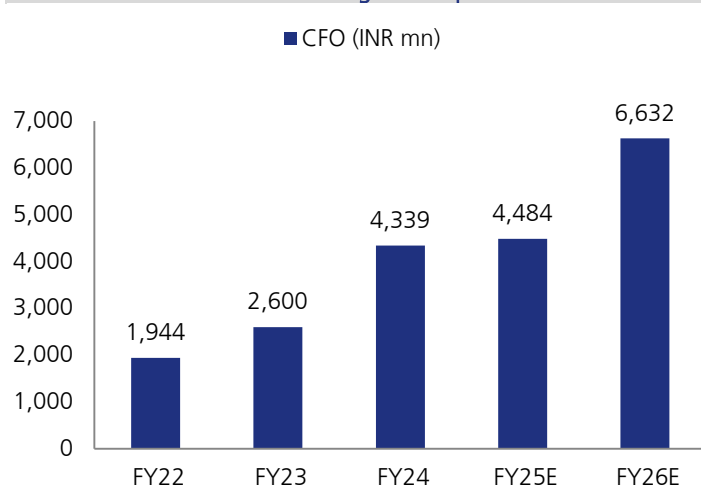
Source: Company, JM Financial

Exhibit 33. ROE and ROCE to expand with increasing profitability



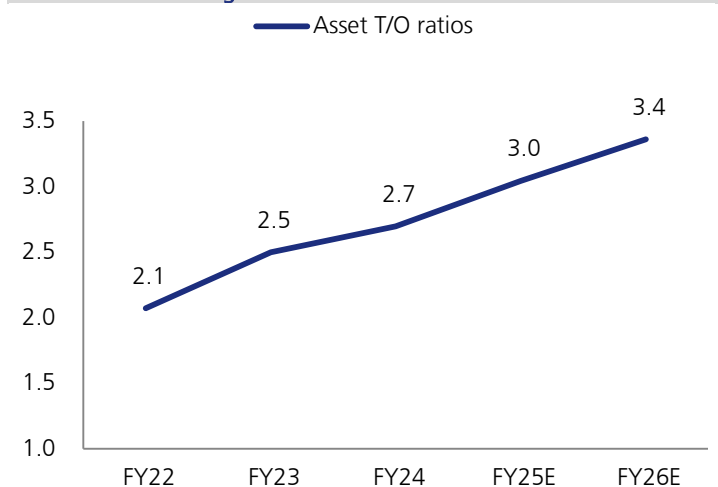
Source: Company, JM Financial

Exhibit 34. KOEL will continue to generate positive CFO



Source: Company, JM Financial

Exhibit 35. Increasing revenue to drive Asset T/O



Source: Company, JM Financial

Outlook and Valuation

We continue to remain positive on KOEL factoring in - Domestic demand drivers for the Power gen and the Industrial business are very strong given pick-up in construction, private capex activities, investment in residential/commercial real estate, defence etc. KOEL is focusing on HHP segment and with its new product launches (launched OptiPrime - range 1,500-3,000 KVa), will look towards gaining market share in the segment. CPCB IV complaint product across nodes witnessed a smooth transition for company and we believe, successful introduction of CPCB-IV variant product in domestic market will open the opportunity in developed international market where emission norms are stringent. Focus on increasing international presence will aid revenue and profitability growth going forward. Management continues to re-iterate its strategy of 2X3Y (starting FY22) implying revenue of INR 65bn in FY25. Its new 5 year vision of 2B2B by 2030, emphasises more on technology driven product, widening product beyond ICE technology and positioning KOEL as tech driven company. We expect revenue/EPS CAGR of 23%/35% between FY24-26E. Maintain BUY rating on stock with TP of INR 1,655 valuing core business at 35x FY26E (30x FY26E earlier).

Exhibit 36. SoTP Valuation

Business	Valuation basis	Multiple	Value (INRmn)	Per share (INR)
Standalone business	35x Mar'26E Core EPS	35.0	216,288	1,492
La-Gajjar Machineries	12x 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
			241,473	1,665

Source: JM Financial

At CMP stock trades at PE of 36.3x/28.9x FY25/26E, while Cummins trades at PE of 55.6x/46.1x FY25/26E.

Exhibit 37. KOEL trades cheaper compared to Cummins despite strong revenue and PAT growth, providing a comfort for stock to further re-rate

Companies	Mcap (INR bn)	CMP	TP	Rating	Revenue CAGR (FY24-26)	EPS CAGR (FY24-26)	P/E		
							FY24	FY25E	FY26E
KOEL	192	1,325	1,665	BUY	23%	35%	53.1	36.3	28.9
Cummins	1,044	3,766	3,875	HOLD	18%	17%	62.8	55.6	46.1

Source: Company, JM Financial

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%	
Deprn. & 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

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	
Deprn. & 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

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: Deprn. & 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

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
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%	

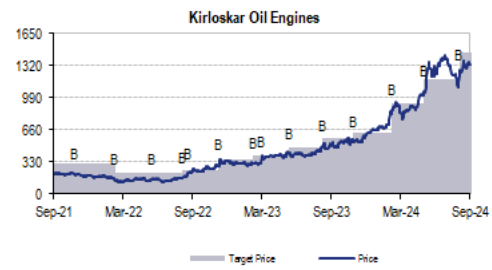
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	147.9	161.2	180.9	210.1	244.4	
ROIC	29.4%	46.4%	45.1%	50.7%	50.5%	
ROE	7.5%	13.3%	14.6%	18.6%	20.1%	
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	
P/E (x)	123.4	64.2	53.1	36.3	28.9	
P/B (x)	9.0	8.2	7.3	6.3	5.4	
EV/EBITDA (x)	71.7	42.3	34.3	24.7	20.2	
EV/Sales (x)	5.8	4.7	4.0	3.2	2.6	
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.
1-Jul-20	Buy	135	
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
9-Aug-24	Buy	1,455	23.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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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