

# Kirloskar Oil Engines

Estimate changes



TP change



Rating change



**CMP: INR817**

**TP: INR940 (+15%)**

**Buy**

## Export and distribution segments growing well

KOEL's 3QFY24 results came in ahead of our estimates. The company reported a growth of 14%/22%/21% YoY in revenue/EBITDA/PAT. In the B2B segment, revenue growth was driven mainly by the industrial, distribution, and export segments. The powergen segment's 3Q growth was impacted by a high base of last year; however, its 9MFY24 sales grew at a healthy pace of 17% YoY. B2C segment growth was driven by water management system. We expect KOEL to continue to benefit from strong demand across segments. We raise our margin estimates to factor in improving trends in exports and distribution. We revise our SOTP-based TP to INR940, valuing the core business at 20x Mar'26E EPS. KOEL is currently trading at a sharp discount to Cummins and we expect this discount to narrow further in the future once KOEL achieves an improved product mix, improved penetration of HHP, and a higher share of exports. We maintain our BUY rating on the stock.

## Results beat estimates on better margins

KOEL's revenue at INR11.3b grew by 14% YoY/7% QoQ, led by 23%/17%/21% YoY growth in industrial/distribution/exports. Powergen segment growth stood at 5% YoY. In 9MFY24, all segments reported growth in the range of 15-19% YoY. Gross margin expanded by ~200bp YoY to 34% on the back of a higher share of CPCB IV+ gensets, exports, and distribution in the overall revenue mix. EBITDA at INR1.3b grew 22% YoY, while margin came in at 11.7% (+80bp YoY and 240bp QoQ). PAT at INR822m grew by 21% YoY, led by robust operational performance. The company has declared a dividend of INR2.5 per share for FY24. In Jan'24, the company also secured an order worth INR7.7b from NPCIL for the supply, erection & commissioning, and hand over of 10 units of 6.3 MWe emergency diesel gensets to be executed in 68 months. This is the largest order in KOEL's history.

## Demand environment remains strong in domestic market

The company continues to see strong demand for both CPCB II and CPCB IV+ gensets in the domestic markets. CPCB II forms a dominant share of 80-85% of powergen segment sales and will continue to form a higher share for the next 1-2 quarters until the emission norm change happens. KOEL is ready with its portfolio of products in CPCB IV+. Demand for the powergen segment is mainly driven by residential, commercial realty, hospitals, and data centers. For the industrial business, the company witnessed strong demand from the construction and railway segments. KOEL has been able to grow its distribution and exports by 17%/21% YoY via improved penetration of products across markets in the domestic and export regions.

Bloomberg	KOEL IN
Equity Shares (m)	145
M.Cap.(INRb)/(USDb)	118.4 / 1.4
52-Week Range (INR)	884 / 305
1, 6, 12 Rel. Per (%)	17/58/136
12M Avg Val (INR M)	243

### Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	48.1	56.5	65.6
EBITDA	5.5	7.1	8.9
PAT	3.6	4.8	6.1
EPS (INR)	24.9	32.8	42.0
GR. (%)	33.6	31.7	28.0
BV/Sh (INR)	179.4	203.4	234.2

### Ratios

ROE (%)	14.7	17.2	19.2
RoCE (%)	14.4	17.0	19.1

### Valuations

P/E (X)	32.7	24.8	19.4
P/BV (X)	4.5	4.0	3.5
EV/EBITDA (X)	21.1	16.1	12.4
Div Yield (%)	0.8	1.0	1.3

### Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	41.2	41.2	59.4
DII	24.4	24.3	14.7
FII	9.1	7.8	3.6
Others	25.4	24.0	22.3

FII Includes depository receipts

**Eyeing to grow exports by penetrating more markets**

On the international front, the company has appointed key GOEM partners in the MENA and North America regions during the quarter. KOEL has already applied for certification for CPCB 4+ products in the US and is also foraying into the US market through a 51% stake purchase in Engines LPG LLC, an entity focused on powergen manufacturing and selling. We expect exports to grow at a much faster CAGR of 25% over FY23-26 through improved penetration across markets. An improved share of exports will also drive margin improvements.

**B2C business growth is mainly driven by water management solutions**

In the B2C business, the water management solutions segment (WMS) is growing much faster, while the farm mechanization segment (FMS) is weak. In WMS, pump/small engine sales grew 25%/30% YoY, with EBITDA margin of 8-9%. Weak margins in the FMS segment dragged down overall profitability of the B2C segment. On the consolidated basis, B2C segment margin stood at 4.7%/2.4%/1.4% for 3QFY24/2QFY24/3QFY23. This was much weaker than B2B segment margin, and hence a drag on overall margins of KOEL.

**Arka Fincap performance is continuously improving**

Arka Fincap's revenue grew 52% YoY to INR1.5b in 3QFY24. Arka's PAT declined 76% YoY to INR44m in 3QFY24 on provisions of INR309m for investments in Arka's alternate investment fund as per regulatory changes. Its AUM has now increased to INR44.75b.

**Financial outlook**

We expect a revenue CAGR of 17% over FY23-26, driven by 18%/17%/17%/25%/11% CAGR in powergen/industrial/distribution/exports/B2C. We increase our margin estimates to factor in a higher share of exports, improved product mix and hence improved gross margins. Over FY23-26E, we bake in a 300bp improvement in margins to build in gross margin improvements and operating leverage benefits. We expect a PAT CAGR of 31% over the same period.

**Valuation and recommendation**

The stock is currently trading at 24.8x/19.4x FY25/FY26E EPS. Genset market players are witnessing improved and sustainable demand levers. We increase our margin estimates to factor in improving trends in exports and distribution. We revise our SOTP-based TP to INR940, valuing the core business at 20x Mar'26E EPS. KOEL is currently trading at a sharp discount to Cummins and we expect this discount to narrow further in the future once KOEL achieves an improved product mix, improved penetration of HHP, and a higher share of exports. We maintain our BUY rating on the stock.

## Standalone - Quarterly Earning

(INR m)

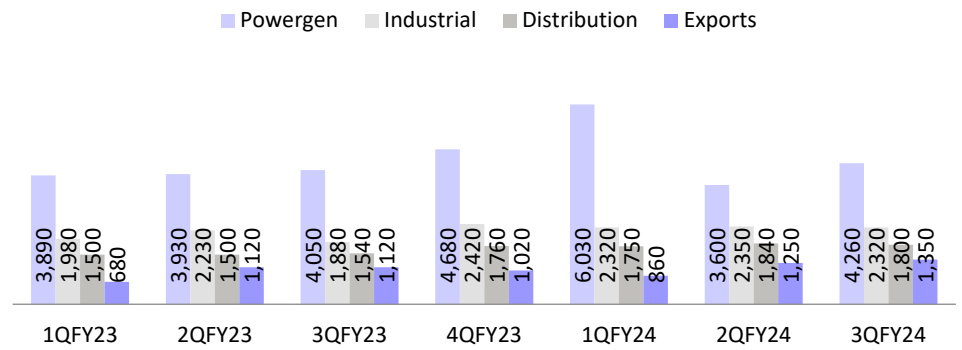
Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>9,530</b>	<b>10,104</b>	<b>10,001</b>	<b>11,526</b>	<b>12,647</b>	<b>10,590</b>	<b>11,352</b>	<b>13,561</b>	<b>41,161</b>	<b>48,150</b>	<b>11,529</b>	<b>(2)</b>
YoY Change (%)	NA	22.4	19.5	16.4	26.5	4.8	13.5	NA	24.7	17.0	15.3	
Total Expenditure	8,496	8,950	8,913	10,534	11,102	9,603	10,023	11,884	36,892	42,612	10,272	
<b>EBITDA</b>	<b>1,034</b>	<b>1,154</b>	<b>1,089</b>	<b>992</b>	<b>1,545</b>	<b>986</b>	<b>1,329</b>	<b>1,677</b>	<b>4,269</b>	<b>5,537</b>	<b>1,257</b>	<b>6</b>
Margins (%)	10.8	11.4	10.9	8.6	12.2	9.3	11.7	12.4	10.4	11.5	10.9	
Depreciation	205	213	212	217	213	243	257	170	848	883	213	20
Interest	11	10	19	13	14	16	20	5	54	54	12	61
Other Income	54	47	60	114	70	64	57	75	273	265	65	(14)
<b>PBT before EO expense</b>	<b>871</b>	<b>978</b>	<b>917</b>	<b>875</b>	<b>1,388</b>	<b>791</b>	<b>1,109</b>	<b>1,578</b>	<b>3,641</b>	<b>4,865</b>	<b>1,097</b>	<b>1</b>
Extra-Ord expense												
<b>PBT</b>	<b>871</b>	<b>978</b>	<b>917</b>	<b>875</b>	<b>1,388</b>	<b>791</b>	<b>1,109</b>	<b>1,578</b>	<b>3,641</b>	<b>4,865</b>	<b>1,097</b>	<b>1</b>
Tax	225	252	236	226	355	205	287	456	939	1,254	276	
Rate (%)	25.9	25.7	25.7	25.9	25.6	25.9	25.9	28.9	25.8	25.8	25.2	
<b>Reported PAT</b>	<b>646</b>	<b>726</b>	<b>682</b>	<b>649</b>	<b>1,032</b>	<b>586</b>	<b>822</b>	<b>1,121</b>	<b>2,703</b>	<b>3,611</b>	<b>820</b>	<b>0</b>
<b>Adj PAT</b>	<b>646</b>	<b>726</b>	<b>682</b>	<b>649</b>	<b>1,032</b>	<b>586</b>	<b>822</b>	<b>1,121</b>	<b>2,703</b>	<b>3,611</b>	<b>820</b>	<b>0</b>
YoY Change (%)	NA	80.3	169.8	-40.6	59.9	-19.3	20.5	72.8	29.9	33.6	20.3	
Margins (%)	6.8	7.2	6.8	5.6	8.2	5.5	7.2	8.3	6.6	7.5	7.1	

## Segmental break-up

INR m	FY23				FY24E				9MFY23	9MFY24	YoY (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
<b>Segmental revenue</b>											
Powergen	3,890	3,930	4,050	4,680	6,030	3,600	4,260	5,970	11,870	13,890	17.0
Industrial	1,980	2,230	1,880	2,420	2,320	2,350	2,320	2,808	6,090	6,990	14.8
Distribution & After Market	1,500	1,500	1,540	1,760	1,750	1,840	1,800	2,170	4,540	5,390	18.7
Exports	680	1,120	1,120	1,020	860	1,250	1,350	1,453	2,920	3,460	18.5
<b>Total B2B</b>	<b>8,050</b>	<b>8,780</b>	<b>8,590</b>	<b>9,880</b>	<b>10,960</b>	<b>9,040</b>	<b>9,730</b>	<b>12,401</b>	<b>25,420</b>	<b>29,730</b>	<b>17.0</b>
WMS	1,140	960	1,010	1,250	1,340	1,160	1,330	1,173	3,510	3,830	9.1
FMS	250	240	300	280	260	270	190	297	830	720	-13.3
<b>Total B2C</b>	<b>1,390</b>	<b>1,200</b>	<b>1,310</b>	<b>1,530</b>	<b>1,600</b>	<b>1,430</b>	<b>1,520</b>	<b>1,469</b>	<b>4,340</b>	<b>4,550</b>	<b>4.8</b>
<b>Total revenue (B2B+B2C)</b>	<b>9,440</b>	<b>9,980</b>	<b>9,900</b>	<b>11,410</b>	<b>12,560</b>	<b>10,470</b>	<b>11,250</b>	<b>13,870</b>	<b>29,760</b>	<b>34,280</b>	<b>15.2</b>

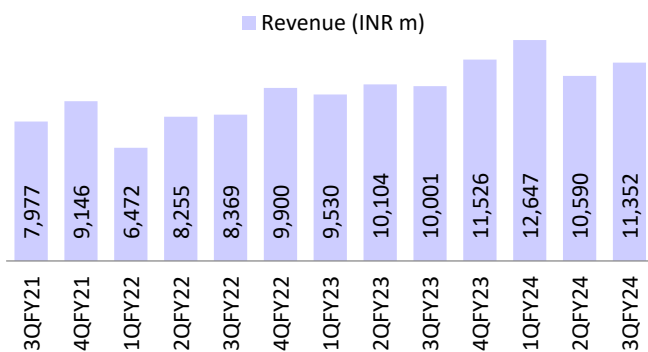
## Key Exhibits

**Exhibit 1: Segmental revenue breakup (INR m)**



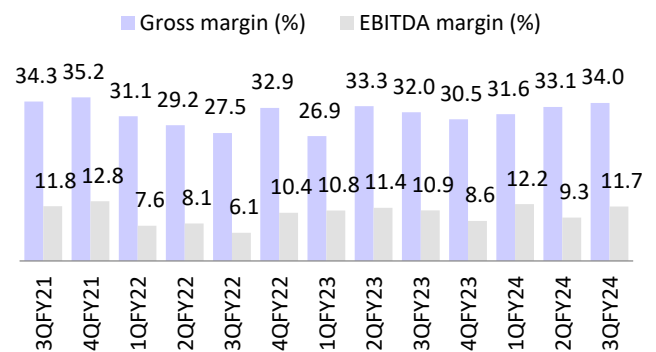
Source: Company, MOFSL

**Exhibit 2: 3QFY24 revenue grew by 14% YoY**



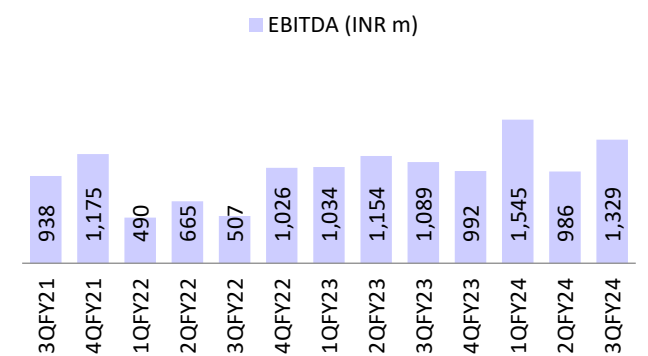
Source: Company, MOFSL

**Exhibit 3: Margin improved sequentially and YoY to 11.7%**



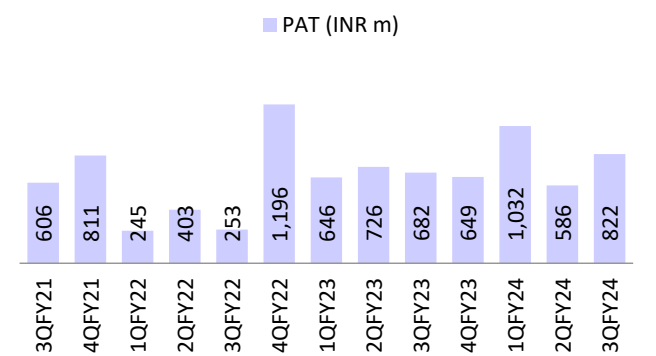
Source: Company, MOFSL

**Exhibit 4: EBITDA grew by 22% YoY (INR m)**

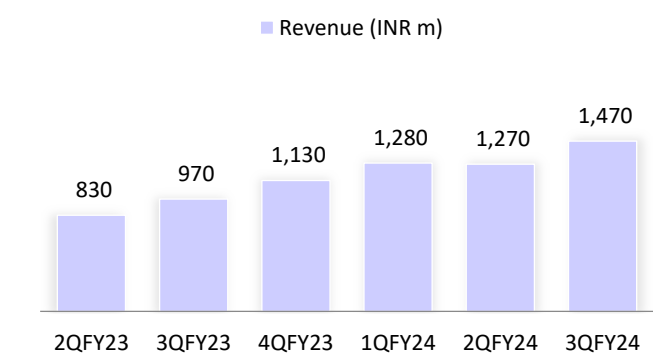


Source: Company, MOFSL

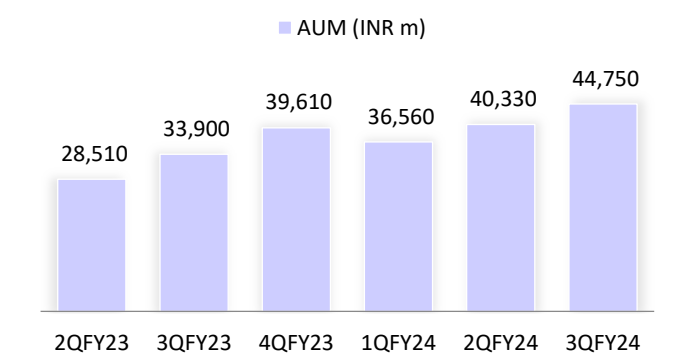
**Exhibit 5: PAT Improved by 21% YoY (INR m)**



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: We tweak our estimates upward to factor in stronger demand and better profitability**

(INR M)	FY24E			FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	48,150	48,036	0.2	56,548	56,006	1.0	65,594	64,441	1.8
EBITDA	5,537	5,332	3.8	7,068	6,497	8.8	8,855	7,862	12.6
EBITDA (%)	11.5	11.1	40 bps	12.5	11.6	90 bps	13.5	12.2	130 bps
Adj. PAT	3,611	3,458	4.4	4,753	4,327	9.9	6,086	5,344	13.9
EPS (INR)	24.9	23.9	4.4	32.8	29.9	9.9	42.0	36.9	13.9

Source: MOFSL

## Financials and Valuation

Income Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
<b>Net Sales</b>	<b>28,775</b>	<b>26,944</b>	<b>32,997</b>	<b>41,161</b>	<b>48,150</b>	<b>56,548</b>	<b>65,594</b>	
change%	(10.2)	(6.4)	22.5	24.7	17.0	17.4	16.0	
<b>Gross Profit</b>	<b>2,418</b>	<b>2,838</b>	<b>2,688</b>	<b>4,269</b>	<b>5,537</b>	<b>7,068</b>	<b>8,855</b>	
Gross margin%	8.4	10.5	8.1	10.4	11.5	12.5	13.5	
Total Expense	26,357	24,106	30,309	36,892	42,612	49,479	56,739	
<b>EBITDA</b>	<b>2,418</b>	<b>2,838</b>	<b>2,688</b>	<b>4,269</b>	<b>5,537</b>	<b>7,068</b>	<b>8,855</b>	
EBITDA Margin%	8.4	10.5	8.1	10.4	11.5	12.5	13.5	
Depreciation	666	622	772	848	883	935	992	
EBIT	1,752	2,217	1,915	3,422	4,654	6,134	7,864	
Interest and finance charge	38	64	62	54	54	40	24	
other income	374	245	248	273	265	311	361	
<b>PBT Before EO</b>	<b>2,087</b>	<b>2,398</b>	<b>2,101</b>	<b>3,641</b>	<b>4,865</b>	<b>6,405</b>	<b>8,200</b>	
<b>PBT after EO</b>	<b>2,252</b>	<b>2,314</b>	<b>2,627</b>	<b>3,641</b>	<b>4,865</b>	<b>6,405</b>	<b>8,200</b>	
Total Tax	548	617	547	939	1,254	1,651	2,114	
Tax Rate%	24.3	26.6	20.8	25.8	25.8	25.8	25.8	
Minority Interest	-	-	-	-	-	-	-	
<b>Reported PAT</b>	<b>1,704</b>	<b>1,697</b>	<b>2,080</b>	<b>2,703</b>	<b>3,611</b>	<b>4,753</b>	<b>6,086</b>	
<b>Adjusted PAT</b>	<b>1,704</b>	<b>1,697</b>	<b>2,080</b>	<b>2,703</b>	<b>3,611</b>	<b>4,753</b>	<b>6,086</b>	
change%	(29.8)	11.4	(5.4)	62.5	33.6	31.7	28.0	
margin%	5.9	6.3	6.3	6.6	7.5	8.4	9.3	

E: MOFSL estimates

Balance Sheet								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Equity Share Capital	289	289	289	290	290	290	290	
Total Reserves	18,013	19,542	21,105	23,028	25,672	29,153	33,610	
<b>Net worth</b>	<b>18,302</b>	<b>19,832</b>	<b>21,394</b>	<b>23,318</b>	<b>25,962</b>	<b>29,443</b>	<b>33,900</b>	
Other Liability + Def Tax Liabilities	52	125	146	61	61	61	61	
Minority Interest	-	-	-	-	-	-	-	
<b>Capital Employed</b>	<b>18,510</b>	<b>20,749</b>	<b>22,516</b>	<b>24,130</b>	<b>26,624</b>	<b>29,905</b>	<b>34,162</b>	
Gross Block	14,904	16,281	16,990	17,425	18,425	19,525	20,735	
Less: Accum Dep	11,281	11,826	12,488	13,174	14,057	14,991	15,983	
<b>Fixed Asset (Net Block)</b>	<b>3,623</b>	<b>4,455</b>	<b>4,502</b>	<b>4,251</b>	<b>4,368</b>	<b>4,533</b>	<b>4,752</b>	
CWIP	744	549	393	664	664	664	664	
Goodwill	-	-	-	-	-	-	-	
<b>Total Investment</b>	<b>11,014</b>	<b>15,340</b>	<b>16,722</b>	<b>16,925</b>	<b>16,925</b>	<b>16,925</b>	<b>16,925</b>	
<b>Curr. Assets Loans &amp; Advances</b>	<b>9,031</b>	<b>7,798</b>	<b>8,190</b>	<b>11,219</b>	<b>13,612</b>	<b>15,809</b>	<b>18,177</b>	
Inventory	3,003	2,652	3,031	4,685	6,139	7,210	8,364	
Account Receivables	3,628	3,558	3,945	4,672	5,465	6,419	7,445	
Cash and Bank	171	294	314	338	1,895	4,704	8,411	
Loans and Advances	1,349	872	656	852	996	1,170	1,357	
<b>Current Liab and Provision</b>	<b>6,073</b>	<b>7,686</b>	<b>7,606</b>	<b>9,267</b>	<b>10,840</b>	<b>12,731</b>	<b>14,767</b>	
Account Payables	4,798	6,419	6,175	6,326	7,400	8,691	10,081	
Other current liabilities	696	646	729	1,700	1,988	2,335	2,708	
Provision	-	-	-	-	-	-	-	
<b>Net Current Assets</b>	<b>2,958</b>	<b>112</b>	<b>585</b>	<b>1,952</b>	<b>2,772</b>	<b>3,079</b>	<b>3,410</b>	
<b>Application of Funds</b>	<b>18,510</b>	<b>20,749</b>	<b>22,517</b>	<b>24,131</b>	<b>26,625</b>	<b>29,906</b>	<b>34,162</b>	

E: MOFSL estimates

## Financials and Valuation

Ratios							
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>10.9</b>	<b>12.2</b>	<b>11.5</b>	<b>18.7</b>	<b>24.9</b>	<b>32.8</b>	<b>42.0</b>
Cash EPS	15.5	16.4	16.8	24.5	31.1	39.3	48.9
Book Value	126.4	137.0	147.8	161.1	179.4	203.4	234.2
DPS	7.8	1.5	4.7	5.0	6.7	8.8	11.3
Payout (incl. div. text)	66.5	12.8	32.6	26.8	26.8	26.8	26.8
<b>Valuation (X)</b>							
P/E	77.6	69.7	73.7	45.3	32.7	24.8	19.4
Cash P/E	54.6	51.5	50.3	34.5	26.2	20.7	16.7
Price/ Book Value	6.7	6.2	5.7	5.3	4.5	4.0	3.5
EV/Sales	4.1	4.4	3.6	2.9	2.4	2.0	1.7
EV/EBITDA	48.8	41.8	44.2	27.7	21.1	16.1	12.4
Div Yield (%)	0.9	0.2	0.6	0.6	0.8	1.0	1.3
<b>Profitability Ratios (%)</b>							
ROE%	8.8	9.2	8.1	12.1	14.7	17.2	19.2
ROCE%	8.8	9.2	8.0	11.8	14.4	17.0	19.1
<b>Turnover Ratios (x)</b>							
Asset Turnover (x)	1.6	1.3	1.5	1.7	1.8	1.9	1.9
Debtors (No. of days)	46	48	44	41	41	41	41
Inventory (No. of days)	38	36	34	42	47	47	47
Creditors (No. of days)	61	87	68	56	56	56	56
<b>Leverage Ratios (%)</b>							
Net Debt/ Equity (x)	(0.6)	(0.7)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)

E: MOFSL estimates

Cash Flow Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Adj EBITDA	2,418	2,838	2,688	4,269	5,537	7,068	8,855	
Non Cash Op. Exp (Inc)	501	98	712	220	211	271	337	
(Inc)/Dec in Wkg Cap	407	2,654	(157)	(1,025)	(819)	(307)	(331)	
Tax Paid	(679)	(324)	(567)	(960)	(1,254)	(1,651)	(2,114)	
Other Operating Activites	(358)	(4)	(732)	96	54	40	24	
<b>CF. From Op Activity</b>	<b>2,289</b>	<b>5,262</b>	<b>1,944</b>	<b>2,601</b>	<b>3,728</b>	<b>5,421</b>	<b>6,771</b>	
(Inc)/Dec in FA & CWIP	(752)	(1,282)	(804)	(1,206)	(1,000)	(1,100)	(1,210)	
<b>Free Cashflows</b>	<b>1,537</b>	<b>3,979</b>	<b>1,140</b>	<b>1,394</b>	<b>2,728</b>	<b>4,321</b>	<b>5,561</b>	
(Pur)/ Sale of inv	4,159	(2,855)	680	3,235	-	-	-	
others	(4,995)	(1,316)	(8,870)	(3,585)	-	-	-	
<b>CF. From Inv Activity</b>	<b>(836)</b>	<b>(4,170)</b>	<b>(8,190)</b>	<b>(350)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
(Inc)/ Dec in net worth	-	-	-	-	-	-	-	
(Inc)/dec in Debt	10	613	172	(236)	(150)	(200)	(200)	
Interest Paid	(38)	(62)	(53)	(50)	(54)	(40)	(24)	
Dividend Paid (Incl.tax)	(940)	(217)	(578)	(723)	(966)	(1,272)	(1,629)	
<b>CF. From Fin Activity</b>	<b>(2,391)</b>	<b>314</b>	<b>7,070</b>	<b>(1,021)</b>	<b>(1,171)</b>	<b>(1,512)</b>	<b>(1,853)</b>	
<b>(Inc)/dec in cash</b>	<b>(1,690)</b>	<b>123</b>	<b>20</b>	<b>24</b>	<b>1,558</b>	<b>2,808</b>	<b>3,708</b>	
Add: Opening Balance	1,861	172	295	314	338	1,895	4,704	
<b>Closing Balance</b>	<b>172</b>	<b>295</b>	<b>314</b>	<b>338</b>	<b>1,895</b>	<b>4,704</b>	<b>8,411</b>	

E: MOFSL estimates

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NOTES



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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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