

Kirloskar Oil Engines

Estimate changes	
TP change	
Rating change	

CMP: INR1,337 **TP: INR1,600 (+20%)** **Buy**

Retains strong performance

Kirloskar Oil Engines' (KOEL) 3QFY26 revenue, adjusted for the transfer of its B2C division, was once again ahead of our expectations, driven by strong growth in the powergen, industrial, and export segments. The company is benefitting from strong growth in both LHP and HHP segments, followed by industrial segment. Over the next few years, we expect KOEL to gain from 1) incremental sales from HHP too in overall powergen segment, 2) further ramp-up in industrial segment from large orders won in previous years in nuclear and defense segments, 3) CPCB 4+ products coming up for warranty renewal, which can ramp up distribution segment growth, and 4) further penetration in export markets. This improved revenue mix can result in margin improvement from current levels, with B2C too now being transferred from standalone business. We incorporate the transfer of B2C segment to its subsidiary and cut our EPS estimates by 6%/9%/3% for FY26/27/28. We increase our core business multiple for KOEL from 25x to 28x after we reduce the discounting vs. the market leader as KOEL has been continuously gaining market share. We arrive at a revised SoTP-based TP of INR1,600 on Mar'28E EPS. Retain BUY.

Bloomberg	KOEL IN
Equity Shares (m)	145
M.Cap.(INRb)/(USDb)	194.3 / 2.1
52-Week Range (INR)	1436 / 544
1, 6, 12 Rel. Per (%)	19/44/67
12M Avg Val (INR M)	599

Financials Snapshot (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Net Sales	56.8	65.1	76.9
EBITDA	7.6	9.1	11.2
PAT	4.8	5.9	7.4
EPS (INR)	33.3	40.8	50.8
GR. (%)	15.8	22.4	24.6
BV/Sh (INR)	231.3	263.9	304.5

Ratios

ROE (%)	15.2	16.5	17.9
RoCE (%)	14.9	16.2	17.7

Valuations

P/E (X)	40.1	32.8	26.3
P/BV (X)	5.8	5.1	4.4
EV/EBITDA (X)	25.1	20.5	16.4
Div Yield (%)	0.5	0.6	0.8

Shareholding pattern (%)

As On	Dec-25	Sep-25	Dec-24
Promoter	41.1	41.1	41.2
DII	28.2	28.0	25.0
FII	8.5	8.3	11.0
Others	22.3	22.6	22.8

FII Includes depository receipts

Strong performance for B2B

The company completed the transfer of its B2C segment to its wholly owned subsidiary through a slump sale. As a result, YoY growth rates are not comparable. On restated financials, revenue grew 35% YoY to INR13.8b, reflecting an entirely B2B revenue base and coming in ~10% ahead of our estimated B2B revenue of INR12.7b. Gross margin declined by 40bp YoY and 50bp QoQ, and EBITDA margin stood at 12.2% in 3QFY26 vs. 10.3% in 3QFY25 (restated) and 14.0% in 2QFY26, with the sequential decline driven by elevated other expenses. Adjusted PAT came in at INR1,022m vs. our est. of INR1,227m. For 9MFY26, revenue/EBITDA/PAT grew 16%/17%/15% to INR43b/INR5.6b/INR3.6b, with EBITDA margins at 13.1% and net cash of INR3b.

Powergen segment performance remained healthy

The powergen segment grew 44% YoY to INR6b in 3QFY26 (11% higher vs. est), supported by a low base of last year. KOEL's powergen revenue growth for 9MFY26 stood at 33% YoY vs. 17% for Cummins, indicating that KOEL has gained market share in this period. Powergen segment growth was largely driven by the LHP segment, supported by incentive schemes at channel and retail levels. The HHP segment also delivered strong 235% YoY growth in 3QFY26. Demand momentum remained healthy from infrastructure, real estate, manufacturing and data centers. Improving market share and traction across products ranging from 1,000 kVA to 3,000 kVA was also supported by ongoing sales and service capability building and consultant-led selling for HHP gensets. We expect powergen revenue to grow at a 20% CAGR over FY25-28.

Industrial segment growth trajectory remains strong

Industrial segment revenue grew 41% YoY/5% QoQ to INR4b in 3QFY26, 17% ahead of our estimate, supported by strong demand from the defense, nuclear, and marine segments. Growth was broad-based across these segments, while the construction and mining segment remained subdued during the quarter due to a temporary phase of inventory correction at OEMs. We expect industrial segment to further benefit in FY27 from volume ramp-up from large-sized nuclear and defense orders bagged in previous years. We bake in 24% revenue CAGR for FY25-28.

Distribution & aftermarket segment positioned for steady growth

Distribution and aftermarket segment grew 14% YoY to INR2b in 3QFY26, largely in line with our estimate. Growth was driven by higher spare parts sales and service contracts, supported by an expanding installed base. The segment mainly comprises spare parts and services, while overhauls under the 'New Life' brand remain a small part of the mix. The company continues to improve service penetration through higher AMC coverage and stronger service capabilities. We expect this segment to clock revenue CAGR of 14% over FY25-28, supported by a growing installed base and continued focus on services.

Exports to see gradual scale up

Exports grew 25% YoY to INR1.4b in 3QFY26. Growth was supported by continued traction in international markets, particularly in the Middle East and Africa, with a sustained focus on building capability, capacity, and coverage across regions. The company strengthened its presence in South Africa by setting up its own entity and continues to invest in the US market through its Americas subsidiary, though the business remains at an early stage. Across regions, the company is evaluating different go-to-market models based on market requirements. We expect export revenue to clock a 17% CAGR over FY25-28.

Margin expansion expected over the medium term

EBITDA margin improved ~190bp YoY to 12.2% in 3QFY26 (on restated financials), supported by better operational efficiency. Sequentially, margins declined by ~180bp due to product mix and operating leverage loss. Gross margins remained stable at ~35%, with no material pressure from commodity costs. The transfer of the B2C business to LGM is expected to result in a slight improvement in standalone margins going ahead. We expect EBITDA margins of 14%/14.5% for FY27/28.

Arka Fincap (AFHPL) business scaling gradually

AFHPL's revenue increased 7% YoY to INR2b in 3QFY26, with total AUM at ~INR77b as of Dec'25. The wholesale book stood at ~INR26b, while the rest comprised retail and SME lending, including used vehicle financing and small-ticket loans against property. The company continues to build a more granular portfolio, supported by ~110 branches and ~1,600 employees. Asset quality remained stable, with gross NPAs at ~1.2% and net NPAs at ~0.3%. We expect Arka Fincap to scale up steadily over the medium term, supported by portfolio diversification and disciplined risk management.

Financial outlook

We cut our estimates by 6%/9%/3% for FY26/FY27/FY28E to factor in 3Q performance and transfer of B2C segment to its wholly owned subsidiary. We thus expect a revenue CAGR of 15% over FY25-28, driven by 20%/24%/14%/17% CAGR in powergen/industrial/distribution/exports. Over FY25-28E, we bake in a 170bp improvement in margins to build in better product mix and operating leverage benefits. We expect an EBITDA/PAT CAGR of 19%/21% over the same period.

Valuation and recommendation

The stock is currently trading at 32.8x/26.3x P/E on FY27/28E earnings. Adjusted for subsidiary valuation, KOEL is trading at 28.8x/23.1x P/E on FY27/FY28E earnings, which is still at a significant discount to the market leader. We increase our core business multiple for KOEL from 25x to 28x after we reduce the discounting vs. the market leader as KOEL has been continuously gaining market share. We arrive at a revised SoTP-based TP of INR1,600 on Mar'28E earnings. Retain BUY.

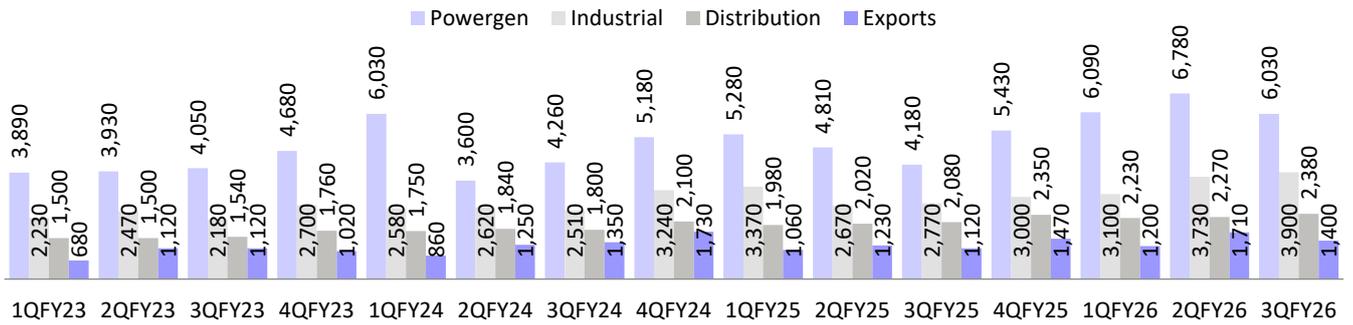
Standalone - Quarterly earnings model

Y/E March	FY25				FY26E				FY25	FY26E	FY26E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	13,429	11,944	11,636	14,125	14,447	14,595	13,806	13,960	51,133	56,808	14,319	(4)
YoY Change (%)	6.2	12.8	2.5	1.5	7.6	22.2	18.6	(1.2)	5.4	11.1	23.1	
Total Expenditure	11,452	10,294	10,466	12,384	12,545	12,555	12,118	12,035	44,596	49,252	12,415	
EBITDA	1,977	1,650	1,170	1,741	1,902	2,040	1,688	1,925	6,537	7,555	1,904	(11)
YoY Change (%)	28.0	67.3	(12.0)	(2.3)	(3.8)	23.7	44.3	10.6	15.9	15.6	62.8	
Margins (%)	14.7	13.8	10.1	12.3	13.2	14.0	12.2	13.8	12.8	13.3	13.3	
Depreciation	247	266	320	337	340	348	361	349	1,170	1,398	343	5
Interest	27	26	31	37	32	28	22	14	121	96	15	45
Other Income	108	118	68	52	123	116	80	92	344	411	101	(21)
PBT before EO expense	1,810	1,476	887	1,419	1,653	1,780	1,385	1,654	5,590	6,472	1,647	(16)
Extra-Ord expense				(209)	-	-	201	-	(209)	201	-	
PBT	1,810	1,476	887	1,628	1,653	1,780	1,184	1,654	5,799	6,272	1,647	(28)
Tax	462	365	236	416	425	445	311	420	1,480	1,601	420	
Rate (%)	25.5	24.7	26.7	25.6	25.7	25.0	26.2	25.4	25.5	25.5	25.5	
Profit/Loss from Disc. Operations							-	-				
Reported PAT	1,347	1,111	650	1,211	1,228	1,335	874	1,234	4,319	4,671	1,227	(29)
Adj PAT	1,347	1,111	650	1,056	1,228	1,335	1,022	1,236	4,164	4,821	1,227	(17)
YoY Change (%)	30.5	89.6	(20.9)	(10.2)	(8.8)	20.2	57.1	17.1	15.1	15.8	88.7	
Margins (%)	10.0	9.3	5.6	7.5	8.5	9.1	7.4	8.9	8.1	8.5	8.6	

INR m	FY25				FY26E				FY25	FY26E	FY26E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Segmental revenue												
Powergen	5,280	4,810	4,180	5,430	6,090	6,780	6,030	6,303	19,690	25,203	5,434	11
Industrial	3,370	2,670	2,770	3,000	3,100	3,730	3,900	3,772	11,810	14,502	3,323	17
Distribution & After Market	1,980	2,020	2,080	2,350	2,230	2,270	2,380	2,646	8,430	9,526	2,392	(1)
Exports	1,060	1,230	1,120	1,470	1,200	1,710	1,400	1,546	4,880	5,856	1,512	(7)
Total B2B	11,690	10,730	10,150	12,250	12,620	14,490	13,710	14,268	44,810	55,088	12,661	8
WMS	1,650	1,110	1,390	1,760	1,720	-	-	-	5,910	1,720	1,658	
FMS	170	140	90	90	-	-	-	-	480	-	-	
Total B2C	1,650	1,110	1,390	1,760	1,720	-	-	-	5,910	1,720	1,658	
Total revenue (B2B+B2C)	13,340	11,840	11,540	14,010	14,340	14,490	13,710	14,268	50,720	56,808	14,319	-4

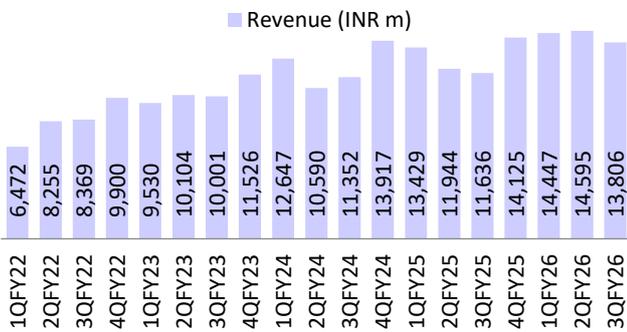
Key Exhibits

Exhibit 1: Segmental revenue breakup (INR m)



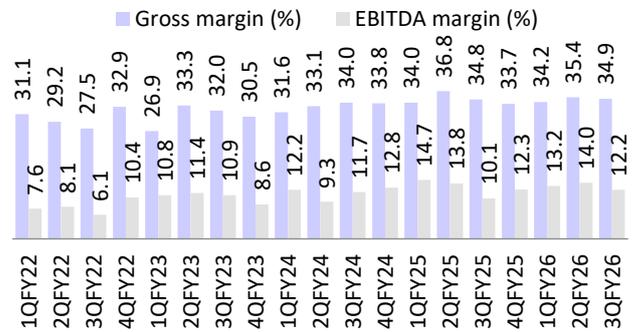
Source: Company, MOFSL

Exhibit 2: 3QFY26 revenue grew 35% YoY; adjusted for the B2C business in 3QFY25



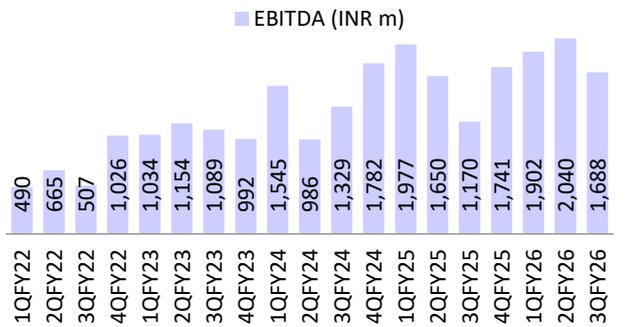
Source: Company, MOFSL

Exhibit 3: Margin improved 190bp YoY to 12.2%; adjusted for the B2C business in 3QFY25



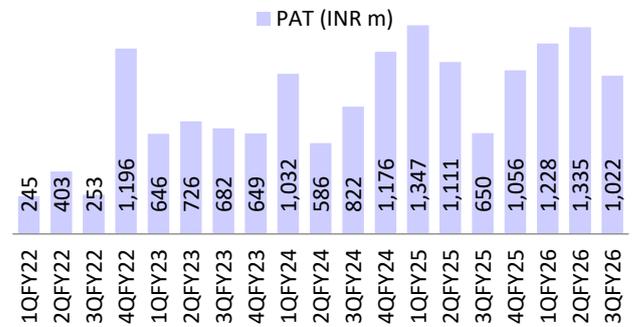
Source: Company, MOFSL

Exhibit 4: EBITDA rose 59% YoY; adjusted for B2C business



Source: Company, MOFSL

Exhibit 5: PAT increased 57% YoY (INR m)



Source: Company, MOFSL

Exhibit 6: AFHPL's revenue increased 7% YoY

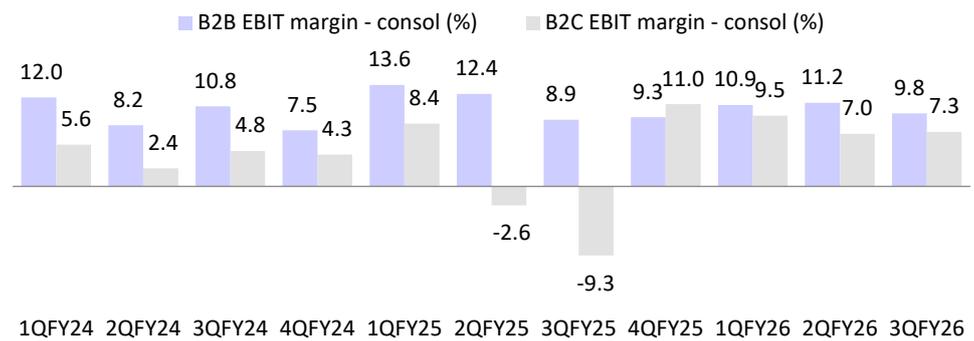


Source: Company, MOFSL

Exhibit 7: Healthy growth in AFHPL's AUM



Source: Company, MOFSL

Exhibit 8: B2B margin improved YoY, while B2C margin's positive momentum continued


Source: Company, MOFSL

Exhibit 9: We arrive at a TP of INR1,600 based on SoTP valuation

	Earnings/ book (INR m)	Valn multiple (X)	Value (INR m)	KOEL's share (%)	Value for KOEL's share (INR m)	Per share value (INR)	Valuation basis
KOEL valuation							
Core business	7,356	28	2,05,959	100	2,05,959	1,421	❖ 28X two-year fwd EPS; @35% discount to KKC
Investments							
La Gajjar Machineries	760	12	9,125	100	9,125	63	❖ 12X P/E two-year forward earnings
Arka Fincap	11,100	1.3	14,541	100	14,541	100	❖ 1.3X P/BV on expanded two-year forward book
Total					2,29,626	1,584	

Source: Company, MOFSL

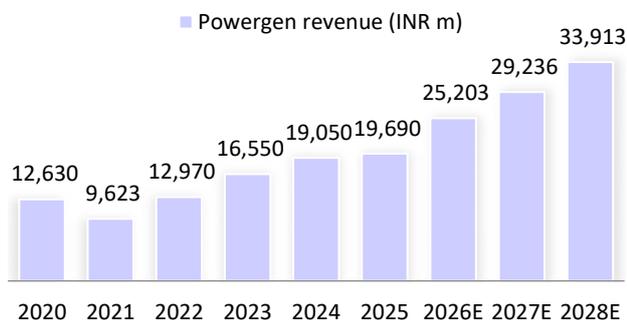
Exhibit 10: We cut our estimates by 6%/9%/3% for FY26/FY27/FY28E to factor in transfer of B2C segment

(INR M)	FY26E			FY27E			FY28E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	56,808	59,894	(5.2)	65,053	70,106	(7.2)	76,916	81,510	(5.6)
EBITDA	7,555	7,966	(5.2)	9,107	9,815	(7.2)	11,153	11,411	(2.3)
EBITDA (%)	13.3	13.3	0 bps	14.0	14.0	0 bps	14.5	14.0	50 bps
Adj. PAT	4,821	5,144	(6.3)	5,901	6,454	(8.6)	7,356	7,569	(2.8)
EPS (INR)	33.3	35.5	(6.3)	40.8	44.6	(8.6)	50.8	52.3	(2.8)

Source: MOFSL

Financial outlook

Exhibit 11: We expect powergen revenue to clock 20% CAGR over FY25-28



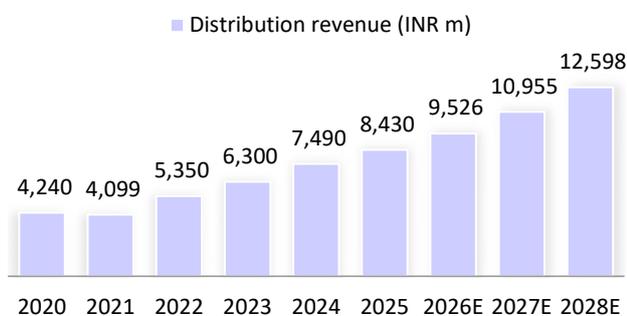
Source: Company, MOFSL

Exhibit 12: We expect industrial revenue to record a CAGR of 24% over FY25-28 due to strong demand



Source: Company, MOFSL

Exhibit 13: We expect distribution revenue growth to remain strong at 14% CAGR over FY25-28



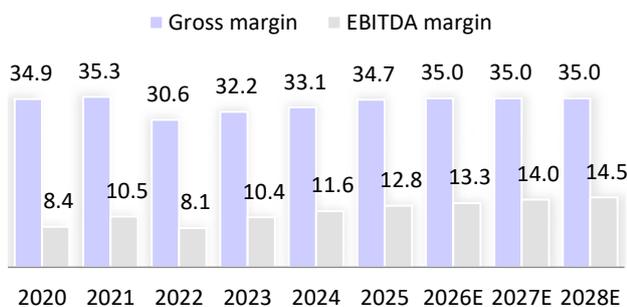
Source: Company, MOFSL

Exhibit 14: We expect export revenue to clock a 17% CAGR over FY25-28



Source: Company, MOFSL

Exhibit 15: Better product mix to improve margins (%)



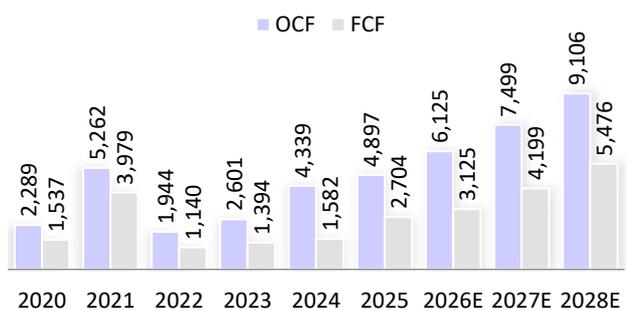
Source: Company, MOFSL

Exhibit 16: We expect PAT to post 21% CAGR over FY25-28



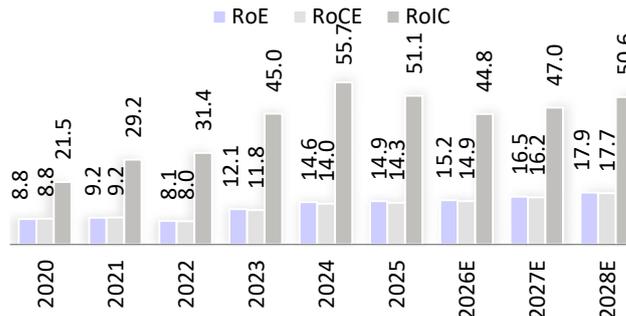
Source: Company, MOFSL

Exhibit 17: We expect OCF & FCF to improve further (INR m)



Source: Company, MOFSL

Exhibit 18: Return ratios to remain comfortable (%)



Source: Company, MOFSL

Financials and Valuation

Standalone - Income Statement

	(INR m)							
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total Income from Operations	26,944	32,997	41,161	48,505	51,133	56,808	65,053	76,916
Change (%)	-6.4	22.5	24.7	17.8	5.4	11.1	14.5	18.2
Raw Materials	17,431	22,912	27,897	32,439	33,368	36,925	42,284	49,995
Gross Profit	9,513	10,085	13,264	16,066	17,765	19,883	22,769	26,921
Employees Cost	1,989	2,070	2,365	3,069	3,441	3,823	4,378	5,176
Other Expenses	4,686	5,327	6,630	7,355	7,787	8,504	9,283	10,591
Total Expenditure	24,106	30,309	36,892	42,864	44,596	49,252	55,945	65,763
% of Sales	89.5	91.9	89.6	88.4	87.2	86.7	86.0	85.5
EBITDA	2,838	2,688	4,269	5,642	6,537	7,555	9,107	11,153
Margin (%)	10.5	8.1	10.4	11.6	12.8	13.3	14.0	14.5
Depreciation	622	772	848	970	1,170	1,398	1,575	1,769
EBIT	2,217	1,915	3,422	4,672	5,367	6,157	7,533	9,384
Int. and Finance Charges	64	62	54	78	121	96	80	64
Other Income	245	248	273	274	344	411	470	556
PBT bef. EO Exp.	2,398	2,100	3,641	4,868	5,590	6,472	7,923	9,876
EO Items	-84	527	0	0	209	-201	0	0
PBT after EO Exp.	2,314	2,627	3,641	4,868	5,799	6,272	7,923	9,876
Total Tax	617	547	939	1,252	1,480	1,601	2,022	2,521
Tax Rate (%)	26.6	20.8	25.8	25.7	25.5	25.5	25.5	25.5
Reported PAT	1,697	2,080	2,703	3,616	4,319	4,671	5,901	7,356
Adjusted PAT	1,759	1,663	2,703	3,616	4,164	4,821	5,901	7,356
Change (%)	11.4	-5.4	62.5	33.8	15.1	15.8	22.4	24.6
Margin (%)	6.5	5.0	6.6	7.5	8.1	8.5	9.1	9.6

Standalone - Balance Sheet

	(INR m)							
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	289	289	290	290	290	290	290	290
Total Reserves	19,542	21,105	23,028	25,937	29,466	33,195	37,907	43,780
Net Worth	19,832	21,395	23,318	26,227	29,756	33,486	38,197	44,070
Total Loans	793	976	751	2,091	1,294	1,094	894	694
Deferred Tax Liabilities	125	146	61	100	250	250	250	250
Capital Employed	20,749	22,517	24,131	28,418	31,301	34,830	39,342	45,015
Gross Block	16,281	16,990	17,425	19,052	23,428	26,428	29,728	33,358
Less: Accum. Deprn.	11,826	12,488	13,174	14,144	15,314	16,712	18,286	20,056
Net Fixed Assets	4,455	4,502	4,251	4,908	8,114	9,716	11,441	13,302
Capital WIP	549	393	664	2,426	957	957	957	957
Total Investments	15,340	16,722	16,925	18,762	17,873	17,873	17,873	17,873
Curr. Assets, Loans & Adv.	8,092	8,505	11,557	13,115	16,131	19,365	24,051	30,594
Inventory	2,652	3,031	4,685	5,235	4,931	5,478	6,274	7,418
Accounts Receivable	3,558	3,945	4,672	5,684	6,511	7,233	8,283	9,794
Cash and Bank Balance	294	314	338	980	3,062	4,951	7,680	11,410
Loans and Advances	872	656	852	808	686	762	872	1,031
Other Assets	716	558	1,011	408	942	942	942	942
Curr. Liability & Prov.	7,686	7,606	9,267	10,793	11,774	13,081	14,980	17,711
Accounts Payable	6,419	6,175	6,326	7,274	6,506	7,228	8,278	9,787
Other Current Liabilities	646	729	1,700	2,223	3,756	4,172	4,778	5,649
Provisions	622	702	1,241	1,296	1,512	1,680	1,924	2,275
Net Current Assets	406	899	2,291	2,322	4,357	6,285	9,071	12,883
Appl. of Funds	20,749	22,517	24,131	28,418	31,301	34,831	39,342	45,015

Financials and Valuation

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)								
EPS	12.2	11.5	18.7	25.0	28.8	33.3	40.8	50.8
Cash EPS	16.4	16.8	24.5	31.7	36.9	43.0	51.7	63.1
BV/Share	137.0	147.8	161.1	181.2	205.6	231.3	263.9	304.5
DPS	1.5	4.7	5.0	5.0	6.0	6.5	8.2	10.2
Payout (%)	12.8	32.6	26.8	20.0	20.2	20.2	20.2	20.2
Valuation (x)								
P/E	110.0	116.3	71.6	53.5	46.5	40.1	32.8	26.3
Cash P/E	81.3	79.4	54.5	42.1	36.2	31.1	25.8	21.2
P/BV	9.8	9.0	8.3	7.4	6.5	5.8	5.1	4.4
EV/Sales	7.2	5.9	4.7	4.0	3.7	3.3	2.9	2.4
EV/EBITDA	68.3	72.2	45.4	34.5	29.3	25.1	20.5	16.4
Dividend Yield (%)	0.1	0.4	0.4	0.4	0.5	0.5	0.6	0.8
FCF per share	27.5	7.9	9.6	10.9	18.7	21.6	29.0	37.8
Return Ratios (%)								
RoE	9.2	8.1	12.1	14.6	14.9	15.2	16.5	17.9
RoCE	9.2	8.0	11.8	14.0	14.3	14.9	16.2	17.7
RoIC	29.2	31.4	45.0	55.7	51.1	44.8	47.0	50.6
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	1.9	2.4	2.5	2.2	2.1	2.2	2.3
Asset Turnover (x)	1.3	1.5	1.7	1.7	1.6	1.6	1.7	1.7
Inventory (Days)	36	34	42	39	35	35	35	35
Debtor (Days)	48	44	41	43	46	46	46	46
Creditor (Days)	87	68	56	55	46	46	46	46
Leverage Ratio (x)								
Current Ratio	1.1	1.1	1.2	1.2	1.4	1.5	1.6	1.7
Interest Cover Ratio	34.9	30.7	63.8	60.0	44.3	64.5	94.7	147.7
Net Debt/Equity	-0.7	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
OP/(Loss) before Tax	2,314	2,627	3,641	4,868	5,799	6,272	7,923	9,876
Depreciation	622	772	848	970	1,170	1,398	1,575	1,769
Interest & Finance Charges	38	50	35	78	121	96	80	64
Direct Taxes Paid	-324	-567	-960	-1,084	-1,331	-1,601	-2,022	-2,521
(Inc)/Dec in WC	2,654	-157	-1,025	-441	-270	-39	-57	-82
CF from Operations	5,304	2,726	2,539	4,391	5,490	6,125	7,499	9,106
Others	-42	-782	61	-52	-592	0	0	0
CF from Operating incl EO	5,262	1,944	2,601	4,339	4,897	6,125	7,499	9,106
(Inc)/Dec in FA	-1,282	-804	-1,206	-2,757	-2,194	-3,000	-3,300	-3,630
Free Cash Flow	3,979	1,140	1,394	1,582	2,704	3,125	4,199	5,476
(Pur)/Sale of Investments	-2,855	680	3,235	-1,091	1,339	0	0	0
Others	-1,316	-8,870	-3,585	-334	-2,280	0	0	0
CF from Investments	-5,453	-8,994	-1,556	-4,182	-3,135	-3,000	-3,300	-3,630
Inc/(Dec) in Debt	613	172	-236	1,338	-797	-200	-200	-200
Interest Paid	-62	-53	-50	-107	-147	-96	-80	-64
Dividend Paid	-217	-578	-723	-724	-871	-942	-1,190	-1,483
Others	-20	7,529	-12	-21	2,134	0	0	0
CF from Fin. Activity	314	7,070	-1,021	486	319	-1,237	-1,469	-1,746
Inc/Dec of Cash	123	20	23	643	2,082	1,888	2,729	3,730
Opening Balance	171	294	314	338	980	3,062	4,951	7,680
Closing Balance	294	314	338	980	3,062	4,951	7,680	11,410

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SELL	< - 10%
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