

Kirloskar Oil Engines

BSE SENSEX
76,803

S&P CNX
24,013

CMP: INR1,992

TP: INR2,350 (+18%)

Buy



Bloomberg	KOEL IN
Equity Shares (m)	145
M.Cap.(INRb)/(USD\$b)	289.5 / 3.1
52-Week Range (INR)	2053 / 826
1, 6, 12 Rel. Per (%)	18/68/141
12M Avg Val (INR M)	724

Financials & Valuations (INR b)

Y/E MARCH	FY27E	FY28E	FY29E
Net Sales	68.5	84.4	104.9
EBITDA	9.6	12.7	15.7
PAT	6.3	8.4	10.6
EPS (INR)	43.2	57.8	73.1
GR. (%)	35.3	33.9	26.5
BV/Sh (INR)	265.2	311.4	369.8

Ratios

ROE (%)	17.4	20.0	21.5
RoCE (%)	17.1	19.8	21.3

Valuations

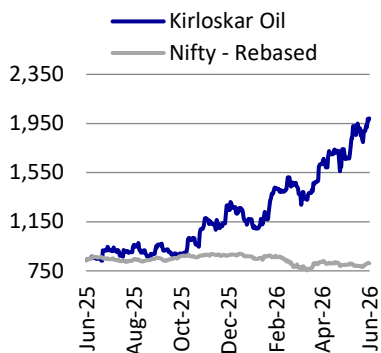
P/E (X)	46.1	34.5	27.2
P/BV (X)	7.5	6.4	5.4
EV/EBITDA (X)	29.7	22.3	17.5
Div Yield (%)	0.4	0.6	0.7

Shareholding pattern (%)

As On	Mar-26	Dec-25	Mar-25
Promoter	41.1	41.1	41.2
DII	26.7	28.2	26.6
FII	10.8	8.5	9.1
Others	21.5	22.3	23.1

FII includes depository receipts

Stock's performance (one-year)



Growing HHP at a fast pace

KOEL has announced a large order win from one of the hyperscalers in the data center space, HyperNext, for the supply of 96 units (192 MW) of 2,500kVA optiprime dual core power systems. This indicates the growing traction of KOEL's HHP products in the fast-growing data center market in India. We expect the ongoing capex (INR7b announced in FY25) and upcoming capex (INR14b announced in May'26) to enable the company to continue to participate in high-growth opportunities in the DC market, along with non-HHP products. We also expect industrial segment growth to get the boost from deliveries of large orders over the next two years, which can more than offset any weakness in the segment due to overall weak construction activity in the country. With improving volumes, we expect operating leverage to also start playing out. We raise our estimates for the powergen segment and expect slightly better margins. KOEL's entry into hyperscalers as well as its fast-growing overall powergen and industrial business is resulting in a further reduction in the valuation discount vs. Cummins, which we believe will play out as such orders increase. We roll forward our TP to Sep'28, valuing the core business at 33x. We maintain BUY with a revised SoTP-based TP of INR2,350. (INR1,900 earlier)

Powergen segment: Getting the boost from data center orders

KOEL's powergen segment posted 32% YoY growth in FY26, outperforming the market, largely aided by market share improvement and a sharp scale-up in HHP product sales. KOEL now has announced a large order win from one of the hyperscalers in data center space, HyperNext, for the supply of 96 units (192MW) of KOEL's 2,500kVA optiprime dual core power systems. This indicates growing traction of KOEL's HHP products in the fast-growing data center market in India. The company is continuously targeting projects across Edge, co-location and hyperscaler data center projects. We expect a similar traction to continue over the next few years for the company. KOEL is also scaling up capacities to cater to the fast-growing HHP and data center markets. We increase our estimates for the powergen segment and expect a revenue CAGR of 26% over FY26-29.

Ongoing capex to benefit volumes further as demand remains strong

In May'26, KOEL also announced a capex of INR14b for expanding engine capacity by 20,000 engines, targeted to be completed by FY28. This capex is targeted to cater to demand coming from HHP and Optiprime, industrial, and exports. This follows the earlier INR7b investment announced for the addition of 50,000 engine capacity, which is expected to come online by Apr'28. As per the company, the current capex can potentially give incremental revenue worth INR50-56b at peak utilization (by around FY30) at an asset turnover of nearly 4x. We expect this capex to enable the company to target opportunities from high-growth segments too beyond the non-HHP segments.

Industrial segment to benefit too from execution of large orders

The industrial segment of KOEL has delivered a 20% CAGR over FY22-26, much better than its immediate peer Cummins, which saw a 16% CAGR in industrial revenue over the same period. We also expect industrial segment growth to get the boost from deliveries of large orders over the next two years, which can more than offset any weakness in the segment due to overall weak construction activity in the country. The company is also expanding into advanced system integration opportunities through the newly incorporated, subsidiary, Kirloskar Advanced Systems, focusing on defense and other critical sectors. We thus marginally increase our estimates for the industrial segment too and expect a revenue CAGR of 26% over FY26-29.

Exports to improve as West Asia crisis nears resolution

Over the past few years, KOEL has taken initiatives to expand its presence in export markets. It has a presence in the Middle East, Africa and the Americas. With the ongoing capex, the company plans to increase exports going forward. With the resolution of the West Asia crisis, we expect export revenue to start improving from 2QFY27 onward. A higher share of exports in total revenue can further boost margins for KOEL. We expect export a 17% CAGR in revenue over FY26-29.

Financial outlook

Over FY26-29E, we expect a revenue CAGR of 23%. We bake in a 190bp improvement in margins considering a better product mix and operating leverage benefits. We expect a CAGR of 29%/32% in EBITDA/PAT over FY26-29.

Valuation and view

KOEL is currently trading at 42x/31.5x EPS for the core business, adjusting for subsidiary valuations. We raise our estimates for the powergen segment and expect slightly better margins. KOEL's entry into hyperscalers as well as its fast-growing overall powergen and industrial business should result in a further reduction in the valuation discount vs. Cummins, which we believe will play out as such orders increase. We roll forward our TP to Sep'28, valuing core business at 33x. We maintain BUY with a revised SoTP-based TP of INR2,350 (INR1,900 earlier).

Key risks and concerns

Any slowdown in demand in key segments, aggressive competition from other players, and a surge in commodity prices could adversely impact overall earnings for the company.

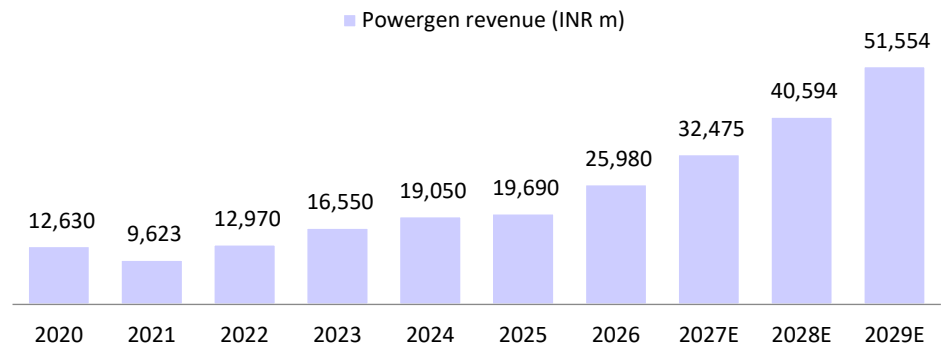
Key exhibits

Exhibit 1: KOEL capacity expansion plan to cater to improved demand for HHP, Optiprime and export markets

Details	Nos.	Year	Amount (INR b)	Purpose
Existing capacity (engines)	1,35,000			❖ Capacity utilisation reached 70%
Capex announced in Kagal		Aug, 24	7	❖ Expanding manufacturing capacity by 50,000 engines
Time of commissioning		Apr, 28		
Capacity post expansion	1,85,000			
Further capex in Kagal	20,000	May, 26	14	❖ Expanding capacity to cater to HHP, Optiprime and export demand
Time of commissioning		May, 28		
Total capacity post both expansion (engines)	2,05,000		21	

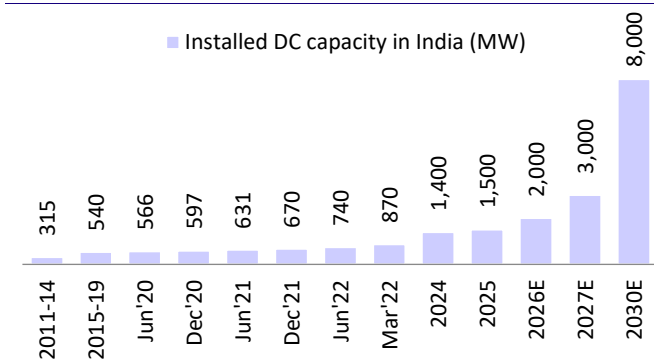
Source: Company, MOFSL

Exhibit 2: KOEL's powergen revenue growth has outperformed other players in the industry



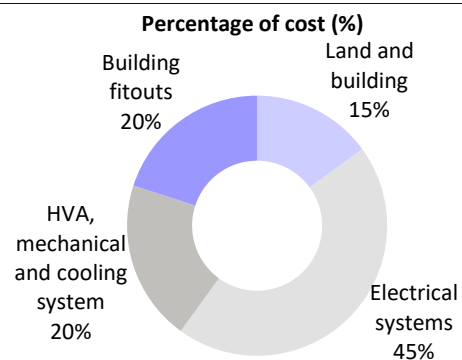
Source: Company, MOFSL

Exhibit 3: Data centre market is witnessing sharp growth with multiple projects already under development



Source: Industry, MOFSL

Exhibit 4: KOEL is ramping up its portfolio to cater to power backup demand in setting up of data centres



Source: Industry, MOFSL

Exhibit 5: Existing and upcoming data center capacities in India where KOEL can potentially target opportunities across various co-location DC as well as hyperscalers

Company	Stakeholders	Built capacity (MW)	Upcoming capacity (MW)	Clientele
NTT	NTT Data Inc (Japan)	275	280	Hyperscale, Enterprise
ST Telemedia Global Data Centres	KKR & Singtel (74%), Tata Comm. (26%)	249	230	Hyperscale, Enterprise
nextra	Airtel (61%), Carlyle (24%), Alpha Wave (14%)	230	170	Large TelCos, Technology MNCs, SMEs
CtrlS	Promoter Group	193	150	Hyperscale, Enterprise
Sify	Sify / HoldCo (88%), Kotak DC Fund (12%)	188	210	Hyperscale, Enterprise
Yotta	Hiranandani Group	60	70	Hyperscale, Enterprise, AI Start-ups
Princeton DG	Warburg Pincus, OTPP, Mubadala	52	195	Hyperscale
CapitaLand	CLINT (80%), CapitaLand India DC Fund (20%)	34	125	Hyperscale
AIRTRUNK	Blackstone	31	90	Hyperscale
ESR	Starwood Capital, Sixth Street, SSW Partners, QIA, Warburg	23	23	DC Operator
Bridge Data Centres	Bain Capital, S K Group, Keppel	20	0	-
Everyondr	Everstone Group	0	60	-
ACX	Adani Enterprises, EdgeConnex (EQT backed)	46	180	E-commerce, Tech Enterprises
Colt	Fidelity Investments	28	172	Enterprise
Iron Mountain	Iron Mountain Inc.	22	57	-
Digital Connexion	Reliance Jio, Digital Realty, Brookfield Infrastructure	20	100	-
Digital Edge	NIIF, AGP, Digital Edge DC (Stonepeak backed)	19	135	Hyperscale
Equinix	Equinix Pacific LLC	9	27	Enterprise
L&T-Cloudfiniti	Larsen and Toubro	33	41	-
Anant Raj Cloud	Anant Raj Ltd (Listed)	28	79	-
NetWeb Technologies India Ltd.	Promoters (39%), L&T (18%), Public & Others (43%)	10	0	-
Techno Electric & Engineering Co. Ltd.	Techno Electric's Digital Infrastructure Arm	10	55	-
ESDS	Promoter (46%), HNIs (54%)	7	30	-
NxtGen	Promoter, Intel Capital, IFC, Iron Mountain	7	8	-
Total		1,594	2,487	

Source: Industry, MOFSL

Exhibit 6: We expect industrial segment to benefit from execution of NPCIL order which will enter into execution from FY27/28 onwards

Particulars	Details of NPCIL order
Customer	❖ Nuclear Power Corporation of India Limited (NPCIL)
Order	❖ 10 Emergency Diesel Generators of 6.5 MW each.
Capacity	❖ 6.3 MW per genset
Order size	❖ INR7.7b
Execution tenure	❖ 68 months from receipt of order
Scope of work	❖ Supply, Installation, commissioning, and handover
Usage	❖ These gensets will serve as backup power for the 5 th and 6 th units of the Kudankulam nuclear power project.

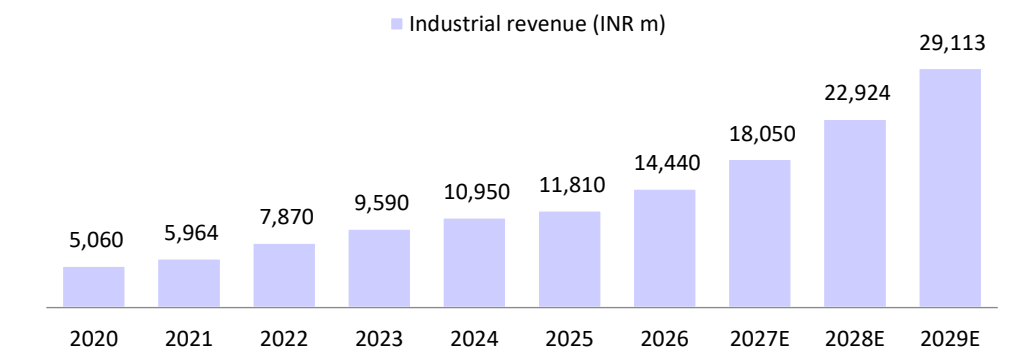
Source: Company, MOFSL

Exhibit 7: We also expect execution of Marine orders received in FY25 to aid industrial segment growth

Particulars	Details of Marine order
Customer	❖ Indian Navy
Scope of work	❖ Project Sanction order for prototype design and development of a 6MW Medium Speed Marine Diesel Engine
Order size	❖ INR2.7b
Execution tenure	❖ 3-4 years from receipt of order
Funding	❖ 70% from the Government of India
Indigenized content	❖ 50%
Additional scope of work	❖ Detailed designs for diesel engines ranging between 3MW and 10MW capacities
Usage	❖ These engines are intended for main propulsion and power generation across vessels
Impact on KOEL	❖ If selected, KOEL will emerge as one of the preferred vendors for Indian Navy for the manufacturing of diesel engines by the Indian Navy and Indian Coast Guard

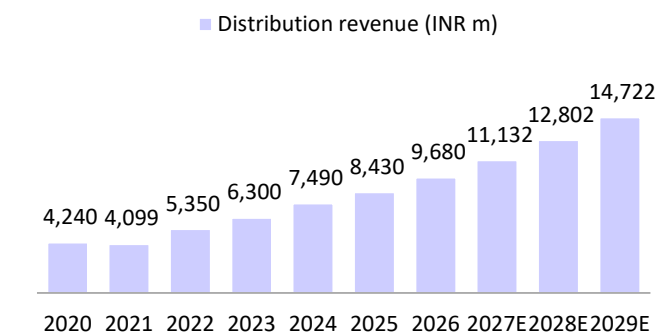
Source: Company, MOFSL

Exhibit 8: We expect industrial revenue to record a CAGR of 26% over FY26-29 due to strong demand



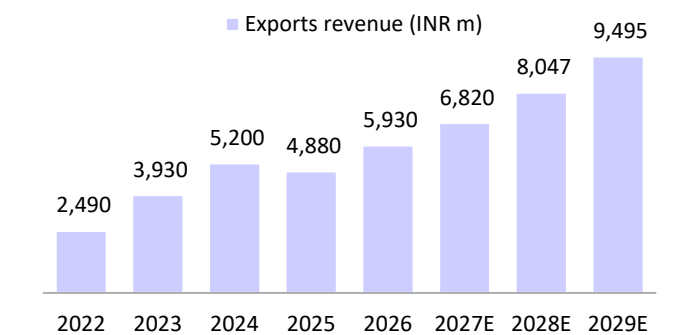
Source: Company, MOFSL

Exhibit 9: We expect distribution revenue CAGR to remain strong at 15% over FY26-28



Source: Company, MOFSL

Exhibit 10: We expect export revenue to clock a 17% CAGR over FY26-28



Source: Company, MOFSL

Exhibit 11: We raise our estimates by 1%/7% for FY27/FY28 to factor in slightly better execution of the powergen segment

(INR M)	FY27E			FY28E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	68,477	67,697	1.2	84,366	82,080	2.8
EBITDA	9,587	9,478	1.2	12,655	11,902	6.3
EBITDA (%)	14.0	14.0	0 bps	15.0	14.5	50 bps
Adj. PAT	6,272	6,187	1.4	8,399	7,827	7.3
EPS (INR)	43.2	42.6	1.4	57.8	53.9	7.3

Source: Company, MOFSL

Exhibit 12: We arrive at our TP of INR2,350 based on SoTP valuation on Sep'28 estimates

	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	9,514	33	3,13,968	100	3,13,968	2,166	❖ 33X two-year fwd EPS; @25% discount to KKC
Investments							
La Gajjar Machinerics	821	12	9,855	100	9,490	68	❖ 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					3,38,365	2,334	

Source: Company, MOFSL

Financials and Valuation

Standalone - Income Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Total Income from Operations	32,997	41,161	48,505	45,207	56,468	68,477	84,366	1,04,884
Change (%)	22.5	24.7	17.8	-6.8	24.9	21.3	23.2	24.3
Raw Materials	22,912	27,897	32,439	29,202	36,741	44,510	54,838	68,175
Gross Profit	10,085	13,264	16,066	16,005	19,728	23,967	29,528	36,710
Employees Cost	2,070	2,365	3,069	3,220	3,569	4,327	5,331	6,628
Other Expenses	5,327	6,630	7,355	6,847	8,786	10,053	11,542	14,349
Total Expenditure	30,309	36,892	42,864	39,269	49,096	58,890	71,711	89,152
% of Sales	91.9	89.6	88.4	86.9	86.9	86.0	85.0	85.0
EBITDA	2,688	4,269	5,642	5,938	7,373	9,587	12,655	15,733
Margin (%)	8.1	10.4	11.6	13.1	13.1	14.0	15.0	15.0
Depreciation	772	848	970	1,139	1,433	1,569	1,906	2,149
EBIT	1,915	3,422	4,672	4,799	5,940	8,018	10,749	13,583
Int. and Finance Charges	62	54	78	112	110	76	60	44
Other Income	248	273	274	341	407	495	610	758
PBT bef. EO Exp.	2,100	3,641	4,868	5,028	6,236	8,437	11,299	14,298
EO Items	527	0	0	209	-297	0	0	0
PBT after EO Exp.	2,627	3,641	4,868	5,237	5,939	8,437	11,299	14,298
Total Tax	547	939	1,252	1,338	1,524	2,165	2,900	3,669
Tax Rate (%)	20.8	25.8	25.7	25.6	25.7	25.7	25.7	25.7
Reported PAT	2,080	2,703	3,616	3,898	4,415	6,272	8,399	10,629
Adjusted PAT	1,663	2,703	3,616	3,743	4,636	6,272	8,399	10,629
Change (%)	-5.4	62.5	33.8	3.5	23.9	35.3	33.9	26.5
Margin (%)	5.0	6.6	7.5	8.3	8.2	9.2	10.0	10.1

Standalone - Balance Sheet

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Equity Share Capital	289	290	290	290	291	291	291	291
Total Reserves	21,105	23,028	25,937	29,466	33,254	38,262	44,968	53,455
Net Worth	21,395	23,318	26,227	29,756	33,545	38,553	45,259	53,745
Total Loans	976	751	2,091	1,294	1,044	844	644	444
Deferred Tax Liabilities	146	61	100	250	432	432	432	432
Capital Employed	22,517	24,131	28,418	31,301	35,021	39,829	46,335	54,622
Gross Block	16,990	17,425	19,052	23,397	26,052	32,052	38,552	41,052
Less: Accum. Deprn.	12,488	13,174	14,144	15,283	16,716	18,285	20,191	22,340
Net Fixed Assets	4,502	4,251	4,908	8,114	9,336	13,767	18,360	18,711
Capital WIP	393	664	2,426	957	1,444	1,444	1,444	1,444
Total Investments	16,722	16,925	18,762	17,873	16,478	16,478	16,478	16,478
Curr. Assets, Loans & Adv.	8,505	11,557	13,115	16,131	21,114	24,282	29,940	42,712
Inventory	3,031	4,685	5,235	4,931	6,034	7,317	9,015	11,208
Accounts Receivable	3,945	4,672	5,684	6,511	7,825	9,489	11,691	14,534
Cash and Bank Balance	314	338	980	3,062	5,526	5,665	7,210	14,671
Loans and Advances	656	852	808	686	837	918	1,131	1,407
Other Assets	558	1,011	408	942	892	892	892	892
Curr. Liability & Prov.	7,606	9,267	10,793	11,774	13,350	16,141	19,887	24,723
Accounts Payable	6,175	6,326	7,274	6,506	7,686	9,320	11,483	14,276
Other Current Liabilities	729	1,700	2,223	3,756	3,954	4,795	5,908	7,345
Provisions	702	1,241	1,296	1,512	1,710	2,025	2,495	3,102
Net Current Assets	899	2,291	2,322	4,357	7,764	8,141	10,053	17,989
Appl. of Funds	22,517	24,131	28,418	31,301	35,021	39,829	46,336	54,622

Financials and Valuation

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Basic (INR)								
EPS	11.4	18.6	24.9	25.7	31.9	43.2	57.8	73.1
Cash EPS	16.8	24.4	31.6	33.6	41.8	53.9	70.9	87.9
BV/Share	147.2	160.4	180.4	204.7	230.8	265.2	311.4	369.8
DPS	4.7	5.0	5.0	6.0	6.5	8.7	11.6	14.7
Payout (%)	32.6	26.8	20.0	22.3	21.4	20.2	20.2	20.2
Valuation (x)								
P/E	174.0	107.1	80.0	77.3	62.4	46.1	34.5	27.2
Cash P/E	118.8	81.5	63.1	59.3	47.7	36.9	28.1	22.6
P/BV	13.5	12.4	11.0	9.7	8.6	7.5	6.4	5.4
EV/Sales	8.8	7.0	6.0	6.4	5.0	4.2	3.4	2.6
EV/EBITDA	107.9	67.9	51.5	48.4	38.6	29.7	22.3	17.5
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.3	0.4	0.6	0.7
FCF per share	7.8	9.6	10.9	18.6	13.5	11.6	24.1	67.7
Return Ratios (%)								
RoE	8.1	12.1	14.6	13.4	14.6	17.4	20.0	21.5
RoCE	8.0	11.8	14.0	12.9	14.4	17.1	19.8	21.3
RoIC	31.4	45.0	55.7	45.6	42.1	42.9	42.7	46.7
Working Capital Ratios								
Fixed Asset Turnover (x)	1.9	2.4	2.5	1.9	2.2	2.1	2.2	2.6
Asset Turnover (x)	1.5	1.7	1.7	1.4	1.6	1.7	1.8	1.9
Inventory (Days)	34	42	39	40	39	39	39	39
Debtor (Days)	44	41	43	53	51	51	51	51
Creditor (Days)	68	56	55	53	50	50	50	50
Leverage Ratio (x)								
Current Ratio	1.1	1.2	1.2	1.4	1.6	1.5	1.5	1.7
Interest Cover Ratio	30.7	63.8	60.0	42.7	53.8	106.2	180.6	312.2
Net Debt/Equity	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	-0.5	-0.6

Standalone - Cash Flow

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
OP/(Loss) before Tax	2,627	3,641	4,868	5,799	6,200	8,437	11,299	14,298
Depreciation	772	848	970	1,170	1,450	1,569	1,906	2,149
Interest & Finance Charges	50	35	78	114	113	76	60	44
Direct Taxes Paid	-567	-960	-1,084	-1,331	-1,535	-2,165	-2,900	-3,669
(Inc)/Dec in WC	-157	-1,025	-441	-270	-922	-238	-367	-474
CF from Operations	2,726	2,539	4,391	5,483	5,305	7,679	9,998	12,347
Others	-782	61	-52	-592	-193	0	0	0
CF from Operating incl EO	1,944	2,601	4,339	4,891	5,111	7,679	9,998	12,347
(Inc)/Dec in FA	-804	-1,206	-2,757	-2,194	-3,155	-6,000	-6,500	-2,500
Free Cash Flow	1,140	1,394	1,582	2,697	1,957	1,679	3,498	9,847
(Pur)/Sale of Investments	680	3,235	-1,091	1,339	1,849	0	0	0
Others	-8,870	-3,585	-334	-2,280	-1,905	0	0	0
CF from Investments	-8,994	-1,556	-4,182	-3,135	-3,210	-6,000	-6,500	-2,500
Inc/(Dec) in Debt	172	-236	1,338	-797	-250	-200	-200	-200
Interest Paid	-53	-50	-107	-141	-86	-76	-60	-44
Dividend Paid	-578	-723	-724	-871	-944	-1,264	-1,693	-2,143
Others	7,529	-12	-21	2,134	1,842	0	0	0
CF from Fin. Activity	7,070	-1,021	486	326	562	-1,540	-1,953	-2,386
Inc/Dec of Cash	20	23	643	2,082	2,464	139	1,545	7,461
Opening Balance	294	314	338	980	3,062	5,526	5,665	7,210
Closing Balance	314	338	980	3,062	5,526	5,665	7,210	14,671

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motalaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motalaloswal.com
Mr. Ajay Menon	022 40548083	am@motalaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motalaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motalaloswal.com

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