Kirloskar Oil Engines Limited (KIRENG)

CMP: Rs. 2230 | Target: Rs. 2850 (28%) | Target Period: 12 month | BUY

September 11, 2026

Powergen, Defence and Data Centre drive the next leg...

About the company- Kirloskar Oil Engines Limited (KOEL), the flagship company of the Kirloskar Group, KOEL is one of India's largest diesel and gas engine manufacturers, with gensets ranging from 3 kVA to 12,000 kVA and industrial engines spanning 20 hp to 1,100 hp catering to 85+ applications across construction, mining, agriculture, defence, marine, railways and oil & gas. KOEL operates four advanced manufacturing facilities across Pune, Kagal (Kolhapur), Nashik and Rajkot.

- B2B (~73.8% of FY26 consolidated revenue), B2C (~14.8% of FY26 consolidated revenue) & Financial Services (~11.4% of FY26 consolidated revenue)

Investment Rationale

- **2X3Y Execution creates a strong foundation for the next 2B2B Growth strategy:** KOEL is entering a new phase of structural growth after delivering strong execution under its **2X3Y strategy, with consolidated revenue increasing 1.6x from ₹4,022 crore in FY22 to ₹6,329 crore in FY25, while EBITDA and PAT grew 2.9x and 2.8x, respectively**. The company's next leg of growth is anchored by its **2B2B strategy, targeting a ₹16,000+ crore business by FY30**, supported by higher capacity utilisation, market-share gains in high-horsepower (HHP) engines, international expansion and increasing presence in Defence, Railways and non-ICE businesses. The announced Kagal expansion further strengthens the growth runway, with total engine capacity expected to rise from ~**135,000 to ~205,000 units (~48% addition),** including specialised HHP capacity. We believe this capacity-led strategy, combined with KOEL's established manufacturing capabilities and extensive distribution/aftermarket ecosystem, should enable the company to participate meaningfully in the rising demand across industrial, infrastructure, defence and mission-critical power applications. Consequently, we estimate standalone **Revenue/EBITDA/PAT to grow at ~23%/~25%/~26% CAGR during FY26–29E,** respectively, with **EBITDA margin improving towards ~14%,** driving healthy operating leverage and earnings compounding.

- **HHP Premiumisation and Mission-Critical Power Can Drive a Structural Re-rating:** KOEL is progressively moving up the value chain from a conventional engine/genset manufacturer towards an engineered power-solutions provider, with HHP, nuclear and data-centre applications emerging as key growth and premiumisation drivers. **The ₹768 crore NPCIL order for 10×6.3MW emergency diesel generator sets, with a 68-month execution period**, demonstrates KOEL's ability to address complex, high-value and mission-critical applications, while its nuclear-grade qualification and application-engineering capabilities create meaningful entry barriers. More importantly, its **192MW hyperscale data-centre order comprising 96×2,500 kVA OptiPrime Dual Core** systems provide a marquee reference customer in a segment historically dominated by established players and includes a 5–6-year O&M opportunity, enhancing recurring aftermarket revenue. With India's data-centre capacity projected to expand from ~**1.8GW in FY26 to ~10GW by FY30 (~54% CAGR)**, we see significant scope for KOEL to scale its HHP franchise, supported by the planned specialised HHP capacity addition. This shift towards higher-value products, coupled with premium product mix, operating leverage and recurring service revenues, should improve earnings quality.

Rating and Target Price: We expect Revenue and PAT to grow at **22.7% and 26.3% CAGR over FY26-FY29E**. We initiate **BUY** on **KOEL** with a Target Price of **₹2850 (based on SOTP FY29E)**

Kirloskar Oil Engines

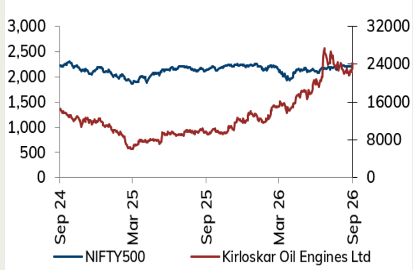
Particulars

Particular	₹ crore
Market Cap	31614
Gross Debt (FY26)	139
Cash (FY26)	553
EV (₹crore)	31200
52-week H/L	2720/857
Equity capital	29
Face value	2

Shareholding pattern (%)

Particular	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	41.1	41.1	41.1	41.1
FII	8.3	8.5	10.8	11.3
DII	28.2	28.2	26.7	26.0
Others	22.3	22.3	21.4	21.6

Price Chart



Key risks

- Steep increase in raw material cost can impact margins.
- Increase in competitive intensity from established global players.

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Conviction Pick

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials (₹ Crore)	FY24	FY25	FY26	2-year CAGR (FY24-26)	FY27E	FY28E	FY29E	3-year CAGR (FY26-29E)
Revenues	4851	4521	5647	7.9	6848	8573	10429	22.7
EBITDA	567	594	737	14.1	883	1123	1439	25.0
EBITDA margin (%)	11.7	13.1	13.1		12.9	13.1	13.8	
Net Profit	362	369	471	14.1	569	731	948	26.3
EPS (Rs)	24.9	25.4	32.4		39.1	50.3	65.2	
P/E (x)	89.6	87.9	68.8		57.0	44.4	34.2	
P/B (x)	12.5	11.0	9.7		8.5	7.3	6.1	
RoCE (%)	16.4	15.0	16.8		18.2	20.3	22.5	
RoE (%)	13.7	12.3	13.9		14.7	16.3	17.8	

Source: Company, ICICI Direct Research

Company Background

Incorporated in 1946 (as Kirloskar Engines India Limited, renamed Kirloskar Oil Engines Limited in 2010) tracing its engineering lineage back 137 years to the founding of the Kirloskar Group, KOEL is one of India's largest diesel and gas engine manufacturers, with gensets ranging from **3 kVA to 12,000 kVA** and industrial engines spanning **20 hp to 1,100 hp**. The Company serves construction, railways, marine, defence, agriculture, data centres, healthcare, manufacturing and retail end-markets, and operates across five broad lines of business: Powergen, Industrial engines and solutions, Distribution & Aftermarket, and Alternators, through a wholly owned subsidiary Fluid Dynamics.

Business Model — How KOEL Makes Money
Kirloskar Oil Engines Limited (KOEL), part of the Kirloskar Group, is one of India's largest manufacturers of internal combustion (IC) engines and generator sets, with a presence in over 70 countries. The Company earns revenue through three distinct, separately reported operating segments:

- **B2B** (~73.8% of FY26 consolidated revenue): Sale of diesel/gas/dual-fuel engines and gensets **(3 kVA to 12,000 kVA)** for power generation (Powergen); engines for construction, earth-moving, marine, mining, rail, defence and fluid-handling applications (Industrial); and spares, annual maintenance contracts and after-sales service through a direct and retail distribution network.
- **B2C** (~14.8% of FY26 consolidated revenue): Farm mechanisation equipment under the Arka brand (power tillers, rotary tillers, hand-held tools) and Water Management Solutions (WMS) diesel and electric pumpsets for agriculture, industrial and retail use.
- **Financial Services** (~11.4% of FY26 consolidated revenue): Arka Fincap Limited, a wholly owned NBFC subsidiary, earns interest income by financing dealers and end-customers purchasing KOEL and other equipment a captive-financing model that supports conversion in the core product businesses.

Revenue on product sales is recognised at the point control transfers to the customer (Ind AS 115); service/AMC revenue is recognised over the contract period; and financial-services income is recognised using the effective-interest-rate method on the loan book.

Exhibit 1: KIRLOSKAR OIL ENGINES — GROWTH JOURNEY

Year	Key milestone
1946	Established Engines Company for manufacturing diesel engines.
1979	Established strategic ties and collaborated with SEMT Pielstick, France for manufacturing.
1992	Received ISO 9001 certification for manufacturing operations.
1998	Received ISO 9000 certification.
1999	Received ISO 14001 certification for environmentally friendly manufacturing facilities.
2004	Received TS16949 accreditation.
2010	Commencement of Kagal Plant in Kirloskar Oil Engines.
2011	Introduced its first Corporate Sustainability Report.
2012	Chhota Chilli – initiative for residential genset business.
2013	Recognized in the Limca Book of Records for a 1 km engine wagon train.
2014	Launch of KOEL brand identity for KOEL gensets; widened KOEL's first CPCB II-compliant genset range.
2015	Signed MoU with MTU Friedrichshafen for engine supply to NTPC; integrated ethanol and battery-based solar generator technologies; Elan Bank Award for Business Excellence; ABS International IMS Certification for three years in a row.
2016	Diversified into genset electrical space with control panels and switchgear range; launch of HSK/HDX gensets 750/940; launch of 100 kVA KOEL gensets; incorporation of Kirloskar Americas in the United States.
2018	Introduced technologically IoT-enabled gensets; showcased the 3000 RPM FML freight engines.
2019	KOEL wins CII-EXIM Bank Award for Business Excellence.
2020	Achieved Golden Peacock Award for Energy Efficiency for the second consecutive year.
2021	Brand refresh to new Kirloskar logo; Kirloskar FastTrack Partner; BS VI transition and EPA Tier V final compliance.
2022	Launch of B550 series and large K4300 engines.
2023	Strategic roadmap 2.0Y; CPCB IV+ transition; alternative fuel engines (Natural Gas, Ethanol, Methanol); acquisition of 40% stake in La-Gajjar Machineries Pvt. Ltd.; National Energy Conservation Award 2022 (Nashik plant).
2024	Launch of Optima gensets; international expansion in Middle East & Africa; NPCIL order worth ₹768 crore; acquisition of Engines LPG LLC via Wildcat Powergen through a wholly owned subsidiary, Kirloskar Americas Corporation.
2025	Incorporation of Kirloskar International FZE (UAE); development of 6 MW Marine Diesel Engine for Indian Navy; new condition testing facility at Sanand for KOEL Fluid Dynamics; BS VI transition; announcement of ₹700 crore capex plan for expansion in Kagal.
2026	KOEL Fluid Dynamics launched, consolidating new B2B business; incorporated a wholly owned subsidiary, Kirloskar Advanced Systems Pvt. Ltd. (KASPL); announcement of ₹1,400 crore capex plan for further expansion in Kagal.

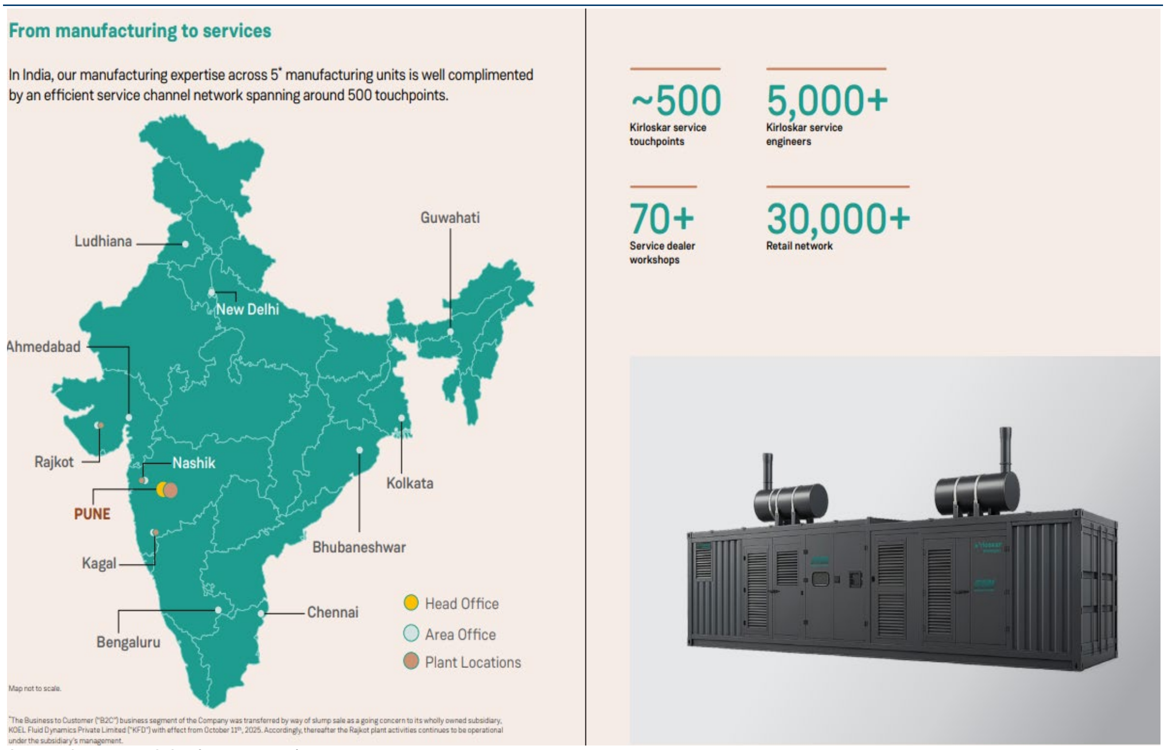
Source: Company, ICICI Direct Research

Exhibit 2: KOEL Presence

Kirloskar Oil Engines (KOEL) is a diversified engine and power solutions company with an established presence across domestic and international markets. The company has evolved from a traditional engine manufacturer into an integrated power solutions player, with capabilities spanning engines, gensets, distributed power solutions and related services. KOEL has a strong manufacturing footprint in India, supported by five manufacturing units, while its global operations extend across the US, UAE and South Africa, enabling it to serve both developed and emerging markets.

Source: Company, ICICI Direct Research

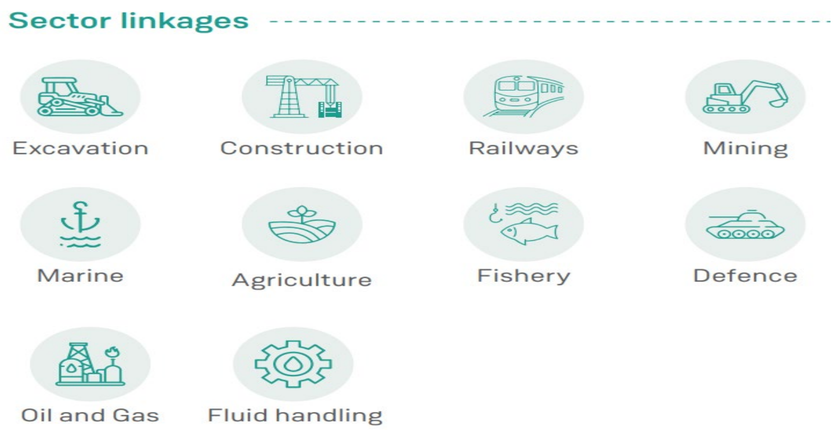
KOEL's key competitive strength lies in its extensive after-sales service and distribution ecosystem, which provides a significant installed-base advantage. In India, the company has around 500 service touchpoints, **5,000+ service engineers, 70+ service dealer** workshops and a **30,000+ retail network**, providing broad customer reach and supporting recurring service and replacement demand. Its international manufacturing and operating presence, including facilities in Wichita and Houston in the US, Dubai and Johannesburg, further enhances its ability to cater to global customers.



Source: Company, ICICI Direct Research

Exhibit 3: KOEL Business offerings

Kirloskar Industrial: Versatile engine solutions built to power critical industrial applications, with proven performance across sectors and emission-compliant engine and product platforms.



Industrial engines ranging **20 hp to 1,100** hp Built to power needs of customers who require products from 20 hp to 1,100 hp in the industrial engine space globally, with 85 Industrial applications across sectors.

Source: Company, ICICI Direct Research

Distribution and aftermarket: Ensuring uptime through a strong distribution footprint and reliable aftermarket solutions.

- Annual Maintenance Contracts (AMC): KOEL's Annual Maintenance Contracts (AMCs) ensure reliable genset performance through nationwide service support, trained engineers, genuine spares and cost-efficient maintenance solutions.
- Spares: KOEL Genuine Spares optimise engine performance, improve fuel efficiency, minimise downtime, reduce operating costs and enhance overall engine life.
- After sales support: KOEL's "No-Compromise" after-sales support ensures timely service, technical expertise, genuine spares and dependable customer assistance across India.

KOEL Fluid Dynamics (FD) segment: KOEL Fluid Dynamics (FD) is the water-management and pumping solutions business of Kirloskar Oil Engines (KOEL), focused on providing pumping and fluid-handling solutions across agriculture, residential/commercial and industrial applications. The segment has a broad product portfolio spanning diesel engine-driven pumps, electric pumps, engine-based pumps, alternators and allied products, supported by an established distribution and after-sales service network.

- **1. Diesel Engines:** The business caters primarily to the agricultural sector through compact diesel engines used for irrigation and farming applications. Its diesel engine portfolio ranges from 1.5 HP to 28 HP, offering farmers reliable motive power for various agricultural requirements. The products are positioned around durability, operating efficiency and suitability for demanding field conditions.
- **2. Electric Pumps:** KOEL FD offers electric pumps for domestic, agricultural and commercial water-management applications. These pumps are designed to provide efficient and reliable water movement, while the company's service network supports installation, maintenance and customer service. This segment gives KOEL exposure to both rural/agricultural demand and urban water-management requirements.

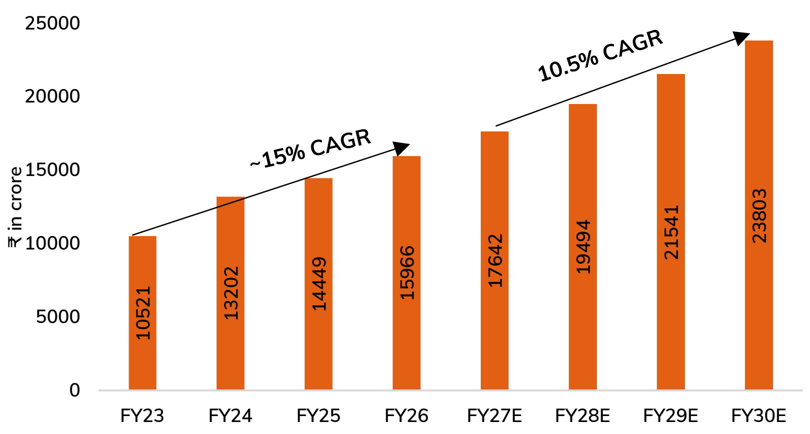
- **3. Engine-based Pumps:** Engine-based pumps are a key offering within the Fluid dynamics portfolio, particularly for agricultural irrigation where grid-electricity availability can be inconsistent. The business produces more than 1.45 lakh units annually. Its pumps have a global installed base exceeding 1.5 million units, highlighting the scale of the franchise and its established presence in irrigation markets. The products are designed for reliable operation across diverse agricultural and water-pumping applications.
- **4. Alternators:** The alternator portfolio complements KOEL's engine and power-generation offerings. It includes aluminium-body, cast-iron (CI)-body and brushless alternators, catering to different power-generation requirements. The products are positioned on performance, efficiency and reliability, with applications across multiple power-generation environments.
- **5. Allied Products:** The company also offers a range of allied products that complement its core pump and engine portfolio. These products enhance system efficiency, control and durability and provide customers with integrated solutions for water distribution and management across domestic, agricultural and commercial applications.

Industry overview – India power and DG market

Indian DG Market:

India's diesel generator (DG) market is positioned for sustained growth, with market size estimated at **₹14,449 crore in FY25 and projected to reach ₹23,803 crore** by FY30E, implying **a ~10.5% CAGR**. The market is supported by industrial and commercial expansion, infrastructure development, telecom, data centres and the continued requirement for reliable standby power. The FY24–FY25 period saw unusually strong demand around the CPCB II transition, followed by normalization; however, the underlying growth trajectory remains intact.

Exhibit 4: Indian DG market trend

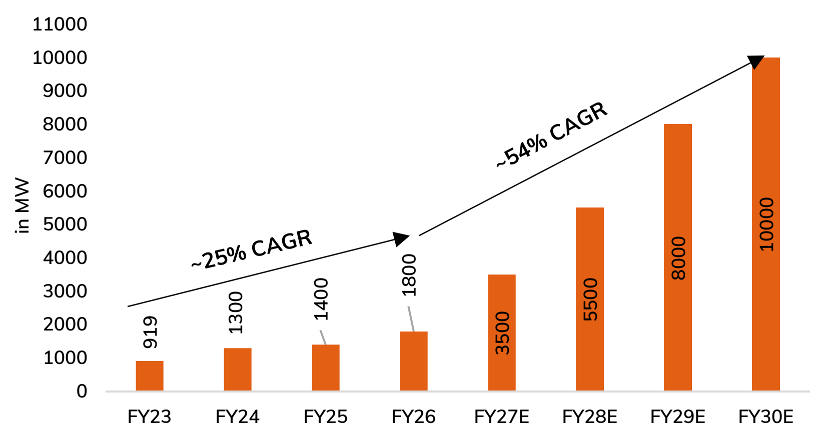


Source: Powerica PPT. Industry research, ICICI Direct Research

Key structural driver:

Data Centre: Data-centre capacity in India is projected to increase from ~**1.8 GW in FY26 to ~10 GW by FY30E, implying a ~54% CAGR**. Mission-critical data-centre operations require high availability and resilient backup systems, making reliable gensets an important part of the power architecture. In addition, peak power demand from the IT/data-centre segment is projected to rise sharply, reinforcing the need for dependable and uninterrupted power supply.

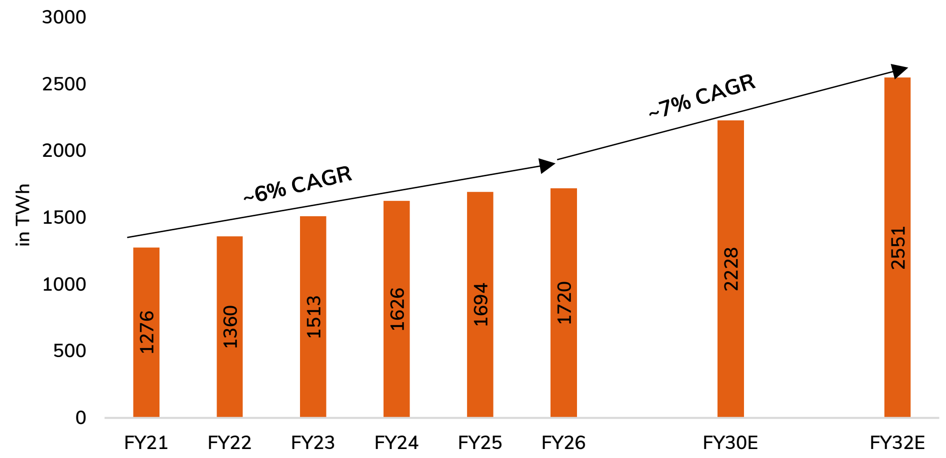
Exhibit 5: Indian Data centre capacity trend



Source: Industry research, ICICI Direct Research

Power Demand & Reliability: India's electricity demand continues to expand alongside economic activity, industrialisation and electrification. Power demand is projected to rise from **~1,720 TWh in FY26 to ~2550 TWh by FY32E**. At the same time, India's per-capita electricity consumption remains substantially below developed economies, indicating significant headroom for long-term demand growth. Rising peak demand and the increasing concentration of mission-critical loads strengthen the requirement for localized backup and power-quality solutions.

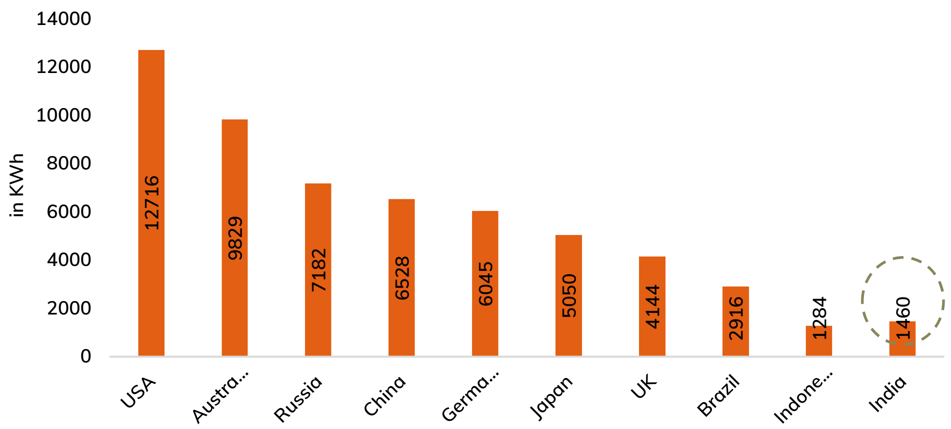
Exhibit 6: Power Demand Trend



Source: Industry research, ICICI Direct Research

The industry outlook remains structurally positive, driven by rising electricity consumption, data-centre and digital-infrastructure expansion, renewable capacity addition and a large power-sector capex cycle. For backup-power companies, the strongest near-to-medium-term demand pockets are expected to be **data centres, industrial and commercial infrastructure, telecom and other mission-critical applications**. The key monitorable are the pace of renewable penetration, adoption of BESS/hybrid solutions, regulatory changes affecting DG usage and the normalisation of demand after the CPCB II transition.

Exhibit 7: Per capita electricity consumption (2024-25): Country-wise



Source: Industry research, ICICI Direct Research

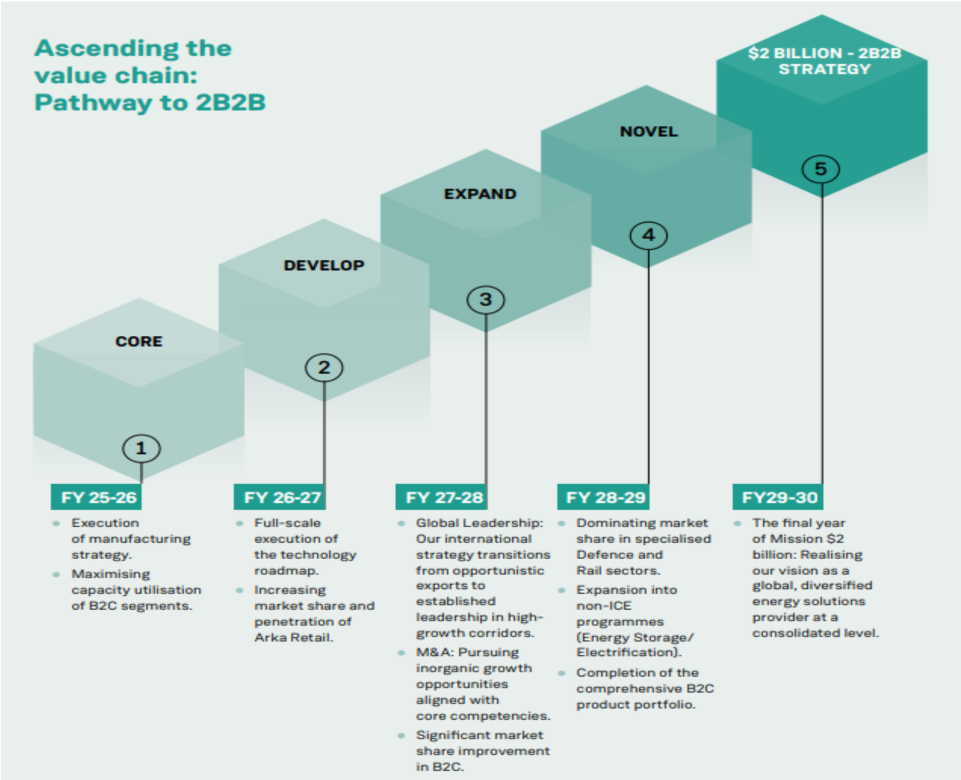
Investment Rationale

➢ Strong 2X3Y Execution Sets the Stage for 2B2B Growth:

KOEL offers a compelling structural growth opportunity as it transitions from a traditional engine/genset manufacturer into a broader power and energy-solutions player. The company has demonstrated strong execution under its earlier **2X3Y strategy (FY22-FY25)**, with consolidated revenue **increasing 1.6x from ₹4022 crore in FY22 to ₹6329 crore in FY25, while EBITDA rose 2.9x from ₹412 crore to ₹1191 crore and PAT increased 2.8x from ₹171 crore to ₹476 crore.**

The next leg of growth is driven by the ambitious **2B2B strategy, targeting $2 billion (₹~16,000+ crore) revenue on consolidated level by FY30.** KOEL plans to build on its strengthened core through higher capacity utilization, increasing market share in high-horsepower engines and international markets, while expanding into Defence, Railways and non-ICE businesses. Importantly, the company is developing four technology platforms—ICE, energy storage, electrification, and fuel cells/electrolysers which should progressively diversify the revenue pool beyond conventional diesel engines. On a consolidated basis, FY26 revenue was already ₹7,701 crore, up 22% from ₹6,329 crore, providing a significantly larger base from which to pursue the $2 billion ambition.

Exhibit 8: The 2B2B vision



Source: Company, ICICI Direct Research

➢ Capacity-Led Growth with a Stronger B2B Franchise:

To support rising demand and strengthen its manufacturing leadership, the Company has announced a phased expansion programme at the Kagal facility. The capacity expansion provides a strong structural growth trigger for KOEL, with total engine manufacturing capacity expected to increase from ~**135,000 engines currently to ~205,000 engines, implying ~48% incremental capacity.** The expansion is being executed in phases, with Phase 1 involving **₹700 crore** investment and addition of **50,000 engines Expected to be operational by April 2027**, followed by Phase 2 investment **of ₹1,400 crore** over two years and another **20,000 engines** of specialized HHP capacity. This expansion should enable KOEL to address rising demand across data centres, industrial applications, defence and other high-horsepower segments, while reducing capacity constraints and supporting sustained double-digit revenue growth. Importantly, the capex is being directed toward higher-value HHP and specialised engines, which should improve product mix and operating leverage as utilisation ramps up. Overall, the move from 135k to 200k units represents ~1.5x capacity over the existing base, providing a multi-year runway for volume growth without requiring another major capacity intervention in the near term.

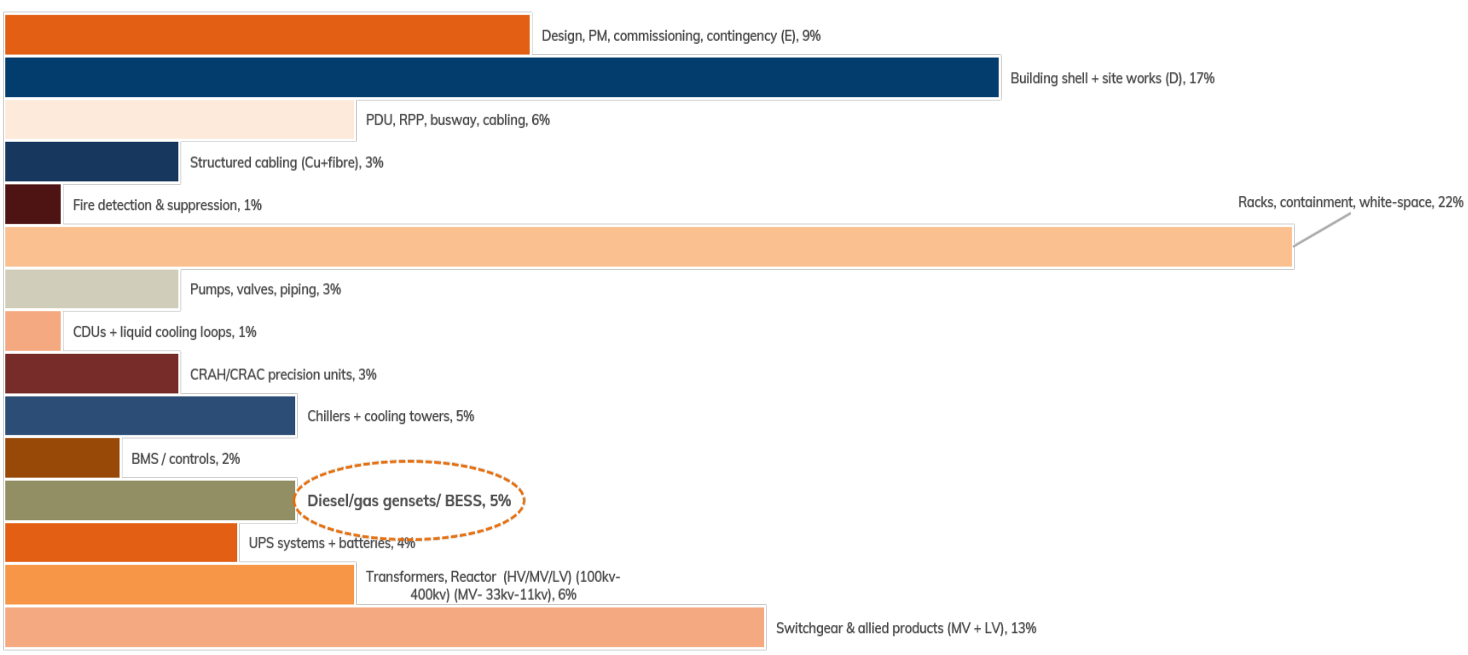
➢ **Moving Up the Value Chain in Mission-Critical Power:**

KOEL is increasingly transitioning from a conventional genset supplier to a high-value, engineered power-solutions provider, with the **nuclear and mission-critical segments offering strong revenue visibility and margin-accretive growth. The ₹768 crore NPCIL order for 10 × 6.3MW emergency diesel generator sets**, highlighting the significant value addition in large, customised power systems versus standard gensets. The 68-month execution period provides multi-year revenue visibility, while the project's nuclear-grade qualification and NPCIL-certified Nashik manufacturing facility create meaningful entry barriers. KOEL's ability to undertake application engineering—including exhaust and ventilation design, room acoustics, multi-point synchronisation and complete fuel-system integration—strengthens its positioning in complex, mission-critical applications spanning nuclear, metro, data centres, industrial and real estate. The company's development of **6.3MW-class** indigenous engines, alongside its **1,250kVA premium industrial genset portfolio**, should enable further movement toward higher-value products and larger-ticket projects.

➢ **Data Centres – KOEL's Entry into Hyperscale Creates a New HHP Growth Engine:**

KOEL's entry into the hyperscale data-centre market is a key structural growth opportunity, with the company securing its **first large hyperscale order from HyperNext for 192 MW, comprising 96 units of 2,500 kVA OptiPrime Dual Core power systems**. The order is among the largest high-capacity standby-power deployments for Indian data centres and provides KOEL with a marquee reference customer in a segment historically dominated by legacy players. The contract is more valuable strategically than its immediate revenue contribution, as it includes genset supply plus a 5–6-year O&M component, creating a recurring aftermarket/service revenue stream. KOEL expects genset revenue to be recognized in FY27, while O&M revenue will continue over the following 5–6 years.

Exhibit 9: Data centre capex breakdown in component (%)



Source: industry research, ICICI Direct Research

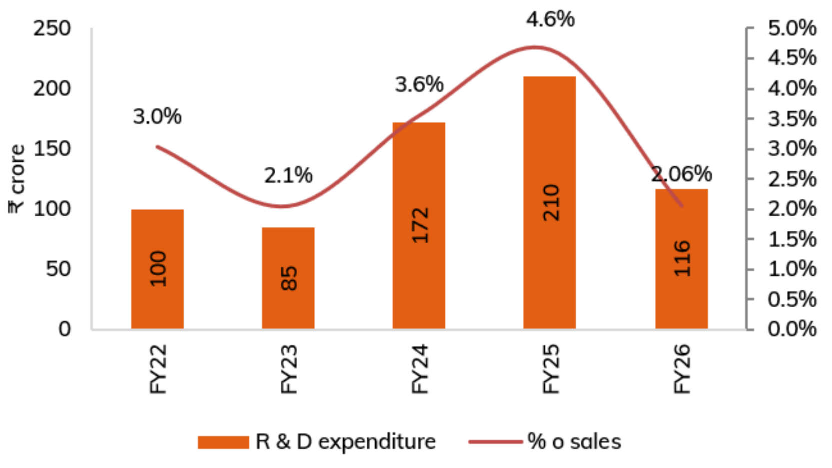
India's data-centre capacity is poised to rise ~5.5x from 1.8GW in FY26 to 10GW by FY30: India's accelerating data-centre build-out is likely to emerge as a key growth driver for KOEL's Powergen business. **Assuming ~8200 MW of incremental data-centre capacity by 2030, at an average capex of ₹60 crore/MW**, the total incremental investment pool would be **~₹5.0 lakh crore**. With **diesel gensets estimated to account for ~5% of total project capex, the addressable genset market translates into an opportunity of ~₹25,000 crore through 2030**. The 5% assumption is supported by industry research, which indicates that diesel gensets typically account for ~4–5% of data-centre project capex. Given the critical requirement for reliable and uninterrupted backup power in data centres, increasing deployment of high-capacity gensets should support demand for KOEL's Powergen portfolio and provide a meaningful avenue for medium-term growth., creating a sizeable structural opportunity for high-capacity, mission-critical backup power.

- **R&D-led product diversification and technology leadership:**

KOEL has maintained a strong and sustained R&D investment cycle over FY22–FY26, with R&D intensity averaging around **3.1% of sales** over the five-year period. R&D intensity increased from 3.0% in FY22 to 3.6% in FY24 and peaked at 4.6% in FY25, reflecting heightened investments in high-horsepower engines, alternate fuels such as gas and hydrogen, emission-compliant technologies, digital controls and new engine platforms.

Kirloskar Oil Engines (KOEL) has significantly strengthened its R&D and application-engineering capabilities, enabling the company to diversify beyond its traditional diesel engine and genset business. Its product development has expanded the engine range from **6.6-litre inline platforms to 24-litre V12 engines**, alongside 180-bar peak-cylinder-pressure engines and 32 kVA/litre power-density technology. The company has also developed cleaner-fuel solutions, including biogas, 100% biodiesel-compatible and natural-gas engines. Its power-generation portfolio now spans **7.5 kVA–3,000 kVA gensets, including OptiPrime gensets featuring patented hybrid technology and fuel-saving capabilities**. In industrial engines, KOEL offers products ranging from 20 hp to 750 hp across 85+ applications, supported by customised solutions for construction, defence, marine, mining and firefighting. These R&D capabilities and product innovations strengthen KOEL's positioning in higher-value, application-specific and cleaner-energy segments.

Exhibit 10: R & D expenditure



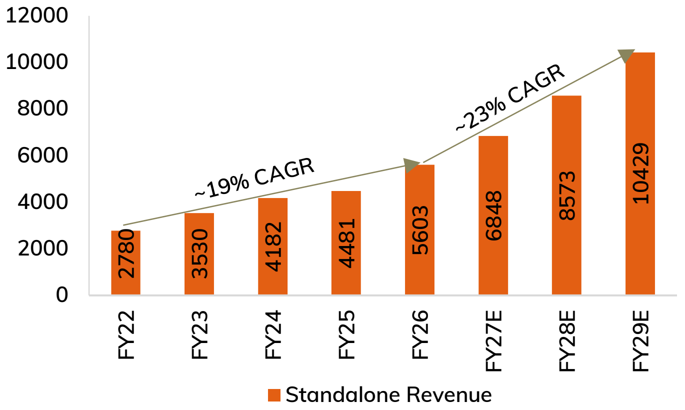
Source: company research, ICICI Direct Research

Key Financial Summary

Revenues to grow at CAGR of 23% over FY26-29E...

KOEL's standalone revenue has scaled from **₹2,780 crore in FY22 to ₹5,604 crore (1.6x) in FY26, implying a strong ~19% CAGR over FY22–26**, going ahead growth expected to accelerate to **~23% CAGR during FY26–29E, reaching ₹10,429 crore**. The next leg of growth is expected to be led by PowerGen, which grew 32% YoY to ₹2,598 crore in FY26 and remains the largest business at ~46% of revenue, supported by strong demand across LHP/MHP/HHP gensets.

Exhibit 11: Revenues to grow at 23% CAGR during FY26-29E

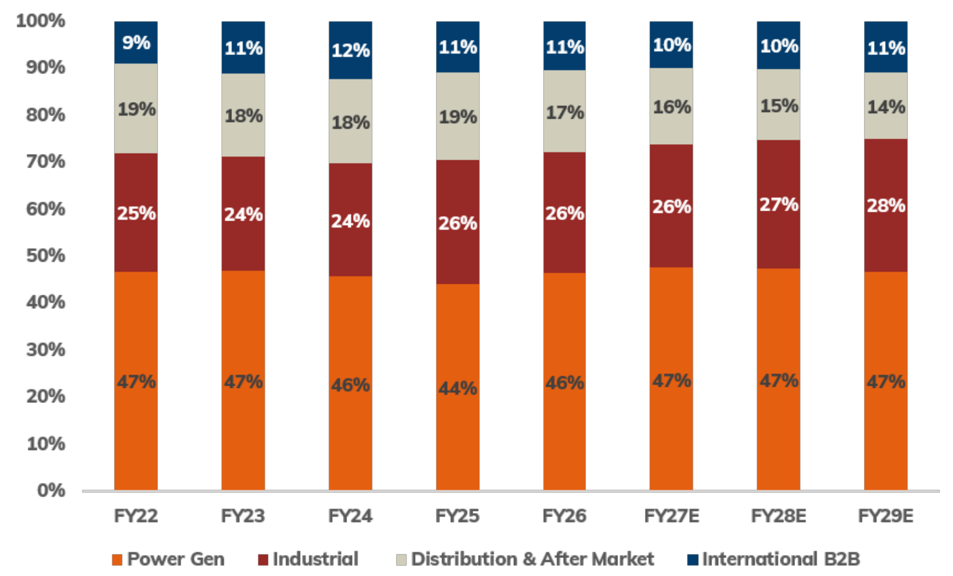


Source: Company, ICICI Direct Research

Standalone revenues mix segment-wise

KOEL's revenue mix has remained largely stable, with PowerGen continuing to be the dominant segment, contributing around 46–47% of standalone revenue over FY22–FY26. The PowerGen share is expected to remain at ~47% over FY27-29E, supported by sustained demand for LHP/MHP/HHP gensets. The Industrial segment is expected to gradually increase its contribution from 25% in FY22 to 28% by FY29E, indicating improving traction in industrial applications, and data centre capex. Distribution & Aftermarket is expected to moderate from 17% in FY26 to 14-16% over FY27-29E, while International B2B remains broadly stable at ~10–12%. Overall, the mix indicates continued traction in PowerGen, with gradual growth in Industrial segment.

Exhibit 12: Standalone revenue mix (%)

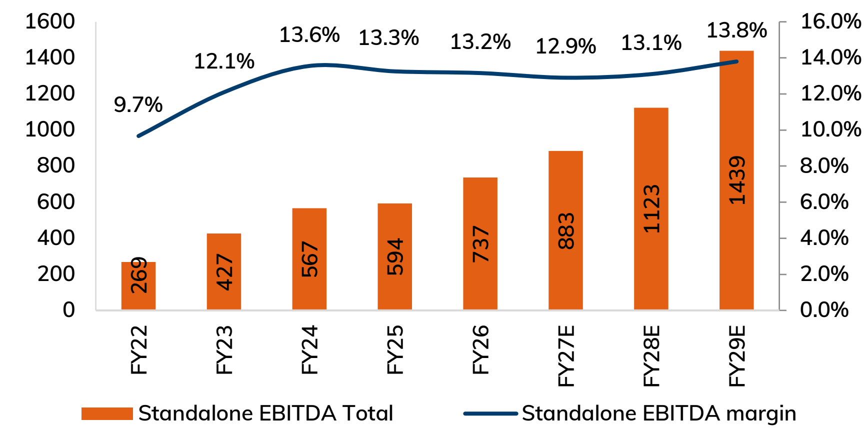


Source: Company, ICICI Direct Research

EBITDA margins to expand to ~14% over medium term...

KOEL's EBITDA has increase ~**2.7X from ₹269 crore in FY22 to ₹737 crore in FY26**, implying a robust ~**28% CAGR**, significantly ahead of revenue growth. The margin profile has also structurally improved **from 9.7% in FY22 to 13.2% in FY26**, despite some moderation from the FY24 peak of 13.6%. Going forward, we expect operating leverage from higher PowerGen volumes, favourable product mix, premiumisation, data-centre demand and scale benefits across the Industrial and Aftermarket businesses to drive further margin expansion. EBITDA is estimated to reach ₹1,439 crore in FY29E from ₹737 crore in FY26, implying ~25% CAGR over FY26–29E, while EBITDA margin is expected to expand to ~14% in medium term. The combination of strong revenue growth and margin expansion should result in faster earnings growth.

Exhibit 13: EBITDA & EBITDA Margin trend

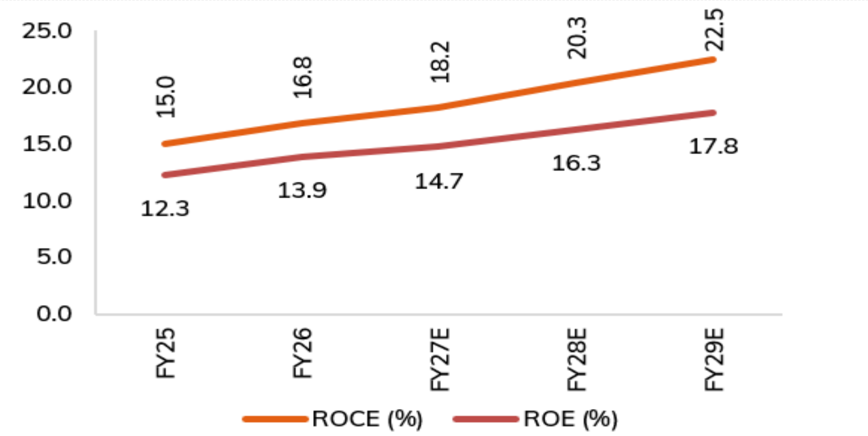


Source: Company, ICICI Direct Research

ROCE & ROE to expand over FY26-29E...

Kirloskar Oil Engines (KOEL) is expected to witness a steady improvement in return ratios over FY25–FY29E, reflecting better profitability, operating leverage and efficient capital utilization. ROCE is projected to improve from **15.0% in FY25 to 22.5% by FY29E,** a **750bps expansion**, supported by higher earnings and improving utilization of the company's asset base. Similarly, ROE is expected to increase from **12.3% to 17.8% over the same period,** indicating stronger returns on shareholders' capital. The consistent improvement in both ROCE and ROE underscores KOEL's improving capital efficiency and supports the sustainability of its earnings-led growth trajectory.

Exhibit 14: ROCE & ROE trend

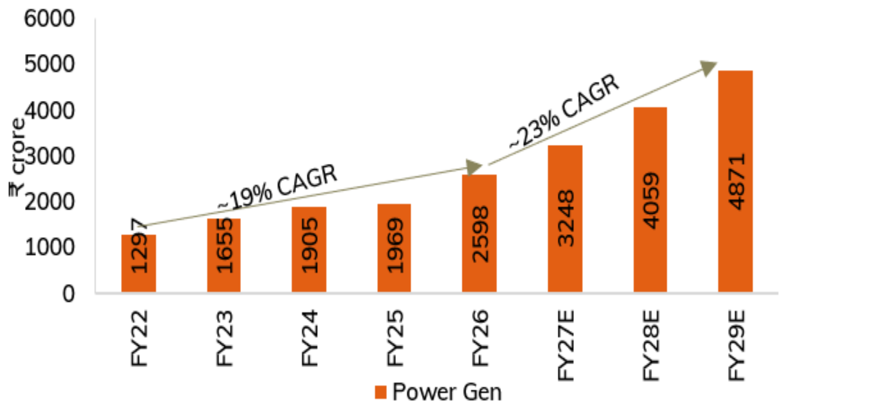


Source: Company, ICICI Direct Research

Segment wise financial summary….

- **The PowerGen** segment is expected to remain a key growth driver, KOEL's revenue increased **~2x from ₹1,297 crore in FY22 to ₹2,598 crore in FY26**, implying a **~19%** CAGR. Going ahead, growth is expected to accelerate further, with revenue projected to reach **₹4,871 crore by FY29E, translating into a ~23% CAGR over FY26-FY29E.** The strong growth outlook is supported by rising demand for backup and prime power solutions, increasing data-centre and infrastructure requirements, and the company's expanding product portfolio and capacity.

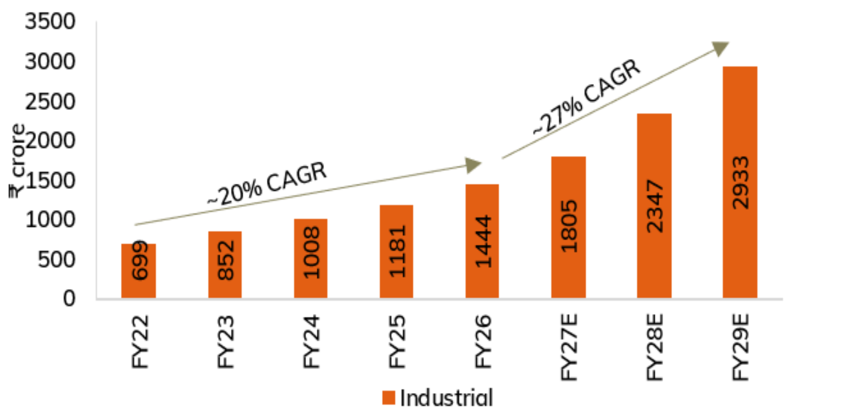
Exhibit 15: PowerGen Segment revenue



Source: Company, ICICI Direct Research

- **The Industrial segment** has witnessed strong and accelerating growth, with revenue rising from **₹699 crore in FY22 to ₹1,444 crore in FY26, registering a ~20% CAGR.** Going ahead Revenue is estimated to reach ₹2,933 crore by FY29E, implying ~ **27% CAGR during FY26-FY29E.** The acceleration is expected to be driven by increasing industrial capex, infrastructure development and greater adoption of engines across construction, mining, agriculture and other industrial applications, supported by the company's expanding product offerings and market penetration.

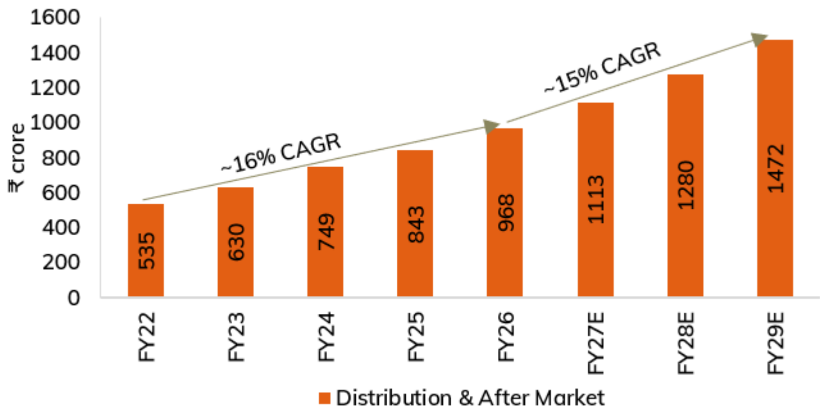
Exhibit 16: Industrial Segment revenue



Source: Company, ICICI Direct Research

- **Distribution & Aftermarket – a strong annuity-led growth engine:** We expect the Distribution & Aftermarket B2B segment to be a key growth pillar for KOEL, with revenue estimated to rise from **₹968 crore in FY26 to ₹1,472 crore by FY29E, translating into ~15% CAGR.** The business benefits from KOEL's large and expanding installed base, which creates a recurring opportunity for spares, service, overhauls and engine replacements. The company's continued focus on strengthening its distribution network and improving customer reach should drive higher wallet share from the existing customer base, while the growing installed base provides visibility to aftermarket revenues. We see the segment's high recurring nature, superior customer stickiness and relatively resilient demand profile as important positives, with aftermarket growth providing stability alongside KOEL's core engine business.

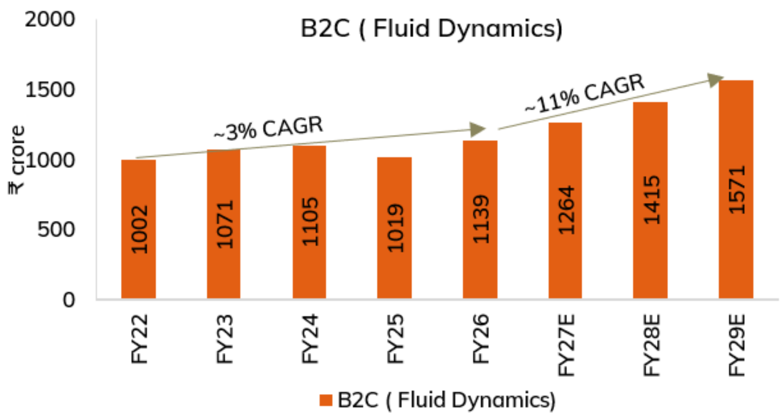
Exhibit 17: Distribution & Aftermarket segment revenue.



Source: Company, ICICI Direct Research

- **Fluid Dynamics – a steady growth opportunity with a strong recovery-led outlook:** The Fluid Dynamics business is expected to witness improvement in growth, with revenue projected to increase from **₹1139 crore in FY26 to ₹1,571 crore by FY29E**. After a relatively muted growth phase during FY22–26, including a decline in FY25, the business is expected to accelerate from FY26 onwards, with **revenue estimated to grow at ~11% CAGR during FY26–29E**. We expect the recovery to be supported by improving industrial activity, higher demand for fluid-handling solutions and greater penetration across end-user industries. The acceleration in the latter part of the forecast period provides a growth trajectory, while the business can benefit from increasing replacement demand and the broader industrial capex cycle.

Exhibit 18: B2C Fluid Dynamics revenue



Source: Company, ICICI Direct Research

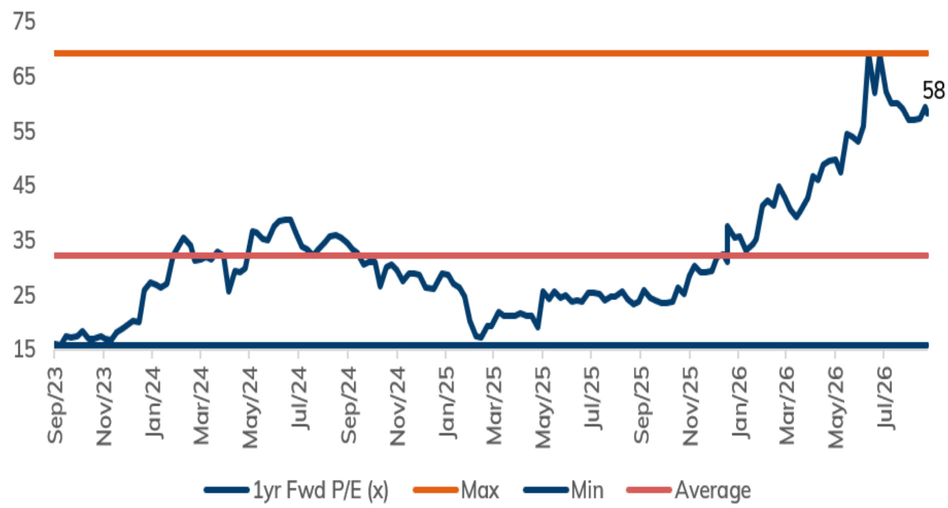
Valuation summary….

- We value **Kirloskar Oil Engines on an SOTP basis**, assigning **40x P/E to FY29 standalone EPS, which yields a value of ₹ 2,610/share,** while the Fluid Dynamics business is valued at **15x FY29 P/E, contributing ₹ 124/share**. The non-core **Arka Fincap business is valued at 1x FY29 P/B, contributing ₹ 116/share. Accordingly, our SOTP-based target price stands at ₹ 2,850/share,** with the core engine business accounting for the bulk of the valuation. The premium multiple for the standalone business reflects KOEL's strong growth prospects, expanding capacity, increasing exposure to data centres and industrial applications, and potential for sustained earnings re-rating as the company scales towards its medium-term growth ambitions.

Exhibit 19: SOTP Valuation

SOTP	Valuation Metric	Multiple Value	Per share value
KOEL Standalone EPS	P/E on FY29 EPS	40	2,610
Fluid Dynamics	P/E on FY29 EPS	15	124
Arka Fincap	P/B on FY29 Book	1	116
Target Price			**2850**

Exhibit 20: KOEL has re-rated recently post data centre order



Source: Company, ICICI Direct Research

Key Risk and Concerns

➢**Input cost and trade-policy volatility**: Raw materials and components (predominantly steel, castings and electronics) form roughly half of standalone revenue as an expense line; commodity price swings and evolving global tariff regimes (referenced explicitly by the company as an area of ongoing monitoring) could pressure margins or export competitiveness.

➢**Emission-norm and technology-transition risk:** While early CPCB IV+/CEV BS-V compliance is currently a competitive advantage, longer-term electrification and grid-decentralisation trends could structurally erode diesel-genset demand; KOEL's parallel investment across hydrogen/methanol/ethanol/electrification tracks mitigates but does not eliminate this multi-year risk.

➢**Order-book/capex-cycle dependence**: A meaningful share of near-term catalysts (data-centre orders, defence ramp-up) are large, lumpy, and dependent on customer capex cycles and government procurement timelines.

Financial Summary

Exhibit 21: Profit and loss statement Rs. crore

(Year-end March)	FY26	FY27E	FY28E	FY29E
Revenue	5,647	6,848	8,573	10,429
% Growth	24.9	21.3	25.2	21.7
Other income	41	45	50	55
Total Revenue	5,687	6,893	8,623	10,484
% Growth	24.9	21.2	25.1	21.6
Raw Material Costs	3,674	4,451	5,572	6,727
Employee Expenses	357	445	549	626
Other expenses	879	1,068	1,329	1,637
Total Operating Exp.	4,910	5,964	7,450	8,990
EBITDA	737	883	1,123	1,439
% Growth	24.1	19.8	27.1	28.2
Interest	11	15	18	23
PBDT	767	913	1,155	1,471
Depreciation	143	155	181	207
PBT before Expl. Items	624	758	974	1,264
Total Tax	152	190	244	316
PAT before MI	471	569	731	948
PAT	471	569	731	948
% Growth	27.7	20.7	28.4	29.8
EPS	32	39	50	65

Source: Company, ICICI Direct Research

Exhibit 22: Cash Flow Statement Rs. crore

(Year-end March)	FY26	FY27E	FY28E	FY29E
Profit after Tax	471	569	731	948
Depreciation	143	155	181	207
Interest	11	15	18	23
Cash Flow before WC changes	748	928	1,173	1,494
Net Increase in Current Assets	(67)	(548)	(481)	(539)
Net Inc in Current Liabilities	(35)	315	322	366
Net CF from Operating activities	511	506	770	1,006
(Purchase)/Sale of Fixed Assets	(175)	(372)	(420)	(420)
Other investing cash flows	(146)	-	-	-
Net CF from Investing activities	(321)	(372)	(420)	(420)
Issue of Equity	0	-	-	-
Inc/(Dec) in loans	(50)	-	-	-
Others	(94)	(117)	(120)	(125)
Net CF from Financing Activities	(143)	(117)	(120)	(125)
Net Cash flow	47	17	230	461
Opening Cash/Cash Equivalent	73	120	137	367
Closing Cash/ Cash Equivalent	120	137	367	828

Source: Company, ICICI Direct Research

Exhibit 23: Balance Sheet Rs. crore

(Year-end March)	FY26	FY27E	FY28E	FY29E
Equity Capital	29	29	29	29
Reserve and Surplus	3,369	3,836	4,465	5,311
Total Shareholders' funds	**3,398**	**3,865**	**4,494**	**5,340**
Total Debt	**139**	**139**	**139**	**139**
Total Liabilities	**3,537**	**4,004**	**4,633**	**5,479**
Gross Block	2,236	2,586	2,986	3,386
Acc: Depreciation	1,252	1,407	1,587	1,794
Net Block	984	1,179	1,398	1,591
Capital WIP	58	80	100	120
Total Fixed Assets	**1,042**	**1,259**	**1,498**	**1,711**
Non-Current Assets	1,616	1,652	1,652	1,652
Inventory	603	976	1,268	1,514
Debtors	783	976	1,198	1,457
Other Current Assets	241	226	248	273
Cash	553	438	588	1,032
Total Current Assets	**2,180**	**2,615**	**3,302**	**4,277**
Current Liabilities	1,129	1,351	1,649	1,990
Provisions	171	171	171	171
Total Current Liabilities	**1,300**	**1,522**	**1,820**	**2,161**
Net Current Assets	879	1,093	1,483	2,116
Total Assets	**3,537**	**4,004**	**4,633**	**5,479**

Source: Company, ICICI Direct Research

Exhibit 24: Ratio Analysis Rs. crore

(Year-end March)	FY26	FY27E	FY28E	FY29E
Per Share Data (₹)				
EPS	32.4	39.1	50.3	65.2
Cash per Share	42.3	49.8	62.8	79.6
Div. per share	6.5	7.0	7.0	7.0
BV	231.0	263.2	306.5	364.8
Operating Ratios (%)				
EBITDA Margin	13.1	12.9	13.1	13.8
PAT Margin	8.3	8.3	8.5	9.1
Asset Turnover (x)	1.6	1.7	1.9	1.9
Return Ratios (%)				
RoE	13.9	14.7	16.3	17.8
RoCE	16.8	18.2	20.3	22.5
Valuation Ratios (x)				
EV / EBITDA	43.8	36.5	28.5	21.9
P/E	68.8	57.0	44.4	34.2
EV / Net Sales	5.7	4.7	3.7	3.0
Sales / Equity	1.7	1.8	1.9	2.0
Market Cap / Sales	5.8	4.8	3.8	3.1
Price to Book Value	9.7	8.5	7.3	6.1
Inventory Days	39.0	52.0	54.0	53.0
Debtor Days	50.6	52.0	51.0	51.0
Creditor Days	49.7	50.0	49.0	49.0
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.7	1.8	2.0
Quick Ratio	1.2	1.1	1.1	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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