Kirloskar Oil Engines Limited (KIRENG)

CMP: ₹1593 | Target ₹ 2110(33%) | Target Period: 12 months | BUY

November 5, 2026

Healthy growth trajectory; margin recovery key to earnings upside ...

About the stock: 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. B2B (~73.8% of FY26 consolidated revenue), B2C (~14.8% of FY26 consolidated revenue) & Financial Services (~11.4% of FY26 consolidated revenue)

Q2FY27 performance: Kirloskar oil engines (KOEL) reported a mixed performance in Q2FY27, with standalone revenue from operations increasing 19.1% YoY to ₹1,738.9 crore from ₹1,459.5 crore in Q2FY26 and 18.2% QoQ. However, operating profitability remained under pressure, with Operating EBITDA declining 6.3% YoY to ₹191.1 crore compared with ₹204.0 crore in Q2FY26, while EBITDA margin contracted 300 bps to 11.0% from 14.0%. PAT declined 18.2% YoY to ₹115.2 crore.

Investment Rationale:

- **PowerGen growth and export opportunities to drive growth:** KOEL delivered a heathy revenue growth with standalone revenue growing 19% YoY to ₹1,722 crore, supported by PowerGen revenue growth of 17% to ₹792 crore and Distribution & Aftermarket growth of 29% to ₹293 crore. International business remained a key growth driver, registering 59% YoY growth to ₹413 crore on a gross consolidated basis, with PowerGen contributing over 45% of international revenue. The company is strengthening its export presence through channel expansion across Africa, the Middle East and East Asia, alongside its strategic partnership with Deutz for global distribution of its 1.6-litre engine platform, initially targeting the Americas. Management reiterated its ambition to increase international revenue contribution to 30% by FY30, providing strong visibility for export-led growth.
- **Strong demand outlook with potential margin recovery to drive earnings growth:** KOEL is witnessing sustained demand across domestic PowerGen, higher horsepower gensets and data centre applications, supported by market share gains and increasing customer acceptance of its OptiPrime range. Despite strong topline growth, standalone EBITDA declined 6% YoY to ₹191 crore, with margins contracting 300 bps to 11% due to sharp inflation in copper, aluminum, pig iron, and crude-linked costs. However, management is undertaking calibrated price hikes, value engineering, and cost optimization to protect profitability. With a significant portion of capability-building costs already incurred, incremental revenue is expected to drive operating leverage from H2FY27/FY28. If commodity inflation stabilizes, management expects directional margin improvement, providing scope for earnings recovery alongside sustained revenue growth.

Rating and Target Price: We expect Revenue and PAT to grow at 20.4% and 23.5% CAGR over FY26-FY29E. We recommend **BUY** on **KOEL** with a target price of **₹2110 per share (based on SOTP FY29E).**

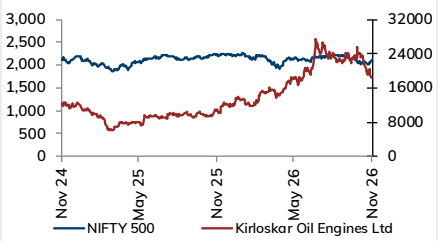
Particulars

	Rs. (in crore)
Market Cap	31614
Gross Debt (FY26)	139
Cash (FY26)	553
EV (₹crore)	31200
52-week H/L	2720/933
Equity capital	29
Face value	2

Shareholding pattern

Particular	Dec-25	Mar-26	Jun-26	Sept-26
Promoter	41.1	41.1	41.1	41.1
FII	8.5	10.8	11.3	11.0
DII	28.2	26.7	26.0	27.0
Others	22.3	21.4	21.6	20.8

Price Chart



Key risks

(i)Steep increase in raw material cost can impact margins;

(ii)) Increase in competitive intensity from established global players.

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Result Update

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 (FY26-28E)
Revenues	4850.5	4520.7	5646.8	7.9	6651.3	8120.6	9867.4	20.4
EBITDA	566.8	593.9	737.3	14.1	778.2	1055.7	1361.7	22.7
EBITDA margin (%)	11.7	13.1	13.1		11.7	13.0	13.8	
Net Profit	361.6	368.9	471.2	14.1	488.9	682.5	887.7	23.5
EPS (Rs)	24.9	25.4	32.4		33.6	47.0	61.1	
P/E (x)	64.0	62.8	49.1		47.4	33.9	26.1	
P/B (x)	8.8	7.8	6.9		6.2	5.4	4.5	
RoCE (%)	16.4	15.0	16.8		15.8	19.5	21.8	
RoE (%)	13.7	12.3	13.9		12.9	15.6	17.2	

Source: Company, ICICI Direct Research.

Q2FY27 key results highlights

- **Financial Performance**:
  - Kirloskar oil engines (KOEL) reported a mixed performance in Q2FY27, with standalone revenue from operations increasing 19.1% YoY to ₹1,738.9 crore from ₹1,459.5 crore in Q2FY26 and 18.2% QoQ. However, operating profitability remained under pressure, with Operating EBITDA declining 6.3% YoY to ₹191.1 crore compared with ₹204.0 crore in Q2FY26, while EBITDA margin contracted 300 bps to 11.0% from 14.0%. PAT declined 18.2% YoY to ₹115.2 crore.
  - Segmentally, Powergen revenue grew 17% YoY to ₹792 crore, contributing 48% to total sales, supported by healthy demand. Industrial revenue increased 2% YoY to ₹381 crore, indicating relatively subdued growth. Distribution & Aftermarket delivered strong growth of 29% YoY to ₹293 crore, while international revenue surged 50% YoY to ₹257 crore, reflecting healthy export momentum.
- **Power Generation:**
  - Power generation revenue grew 17% YoY to ₹792 crore in Q2FY27, supported by robust domestic demand and market share gains across product categories.
  - In the 1,010 kVA HHP category, the company has achieved market share of over 30%, reflecting strong traction in its first HHP node. The next focus areas include 1,250–1,500 kVA, 2,000 kVA and higher-capacity gensets.
  - The OptiPrime range is witnessing increasing traction across data centres, real estate, hospitality and manufacturing.
- **International Business:**
  - International business grew 59% YoY to ₹413 crore on a gross consolidated basis, contributing approximately 20% of the company's total sales mix. Power generation now contributes over 45% of international business, marking a shift from the earlier dependence on firefighting OEMs in the Middle East and mining operations in South Africa.
  - Management reiterated its ambition to increase international business contribution to 30% of revenue by FY30. The growth is expected to be supported by investments in overseas teams, distribution channels, partnerships with genset OEMs.
- **Management commentary:**
  - Standalone EBITDA margin declined to 11% from 14% in Q2FY26 due to sharp increases in crude oil and commodity prices, including copper, aluminium and pig iron.
  - Management has adopted a three-pronged approach to mitigate cost pressures: targeted price increases across business units, value engineering and higher power density products, and improved fixed-cost absorption through higher volumes and discretionary cost control.
  - The company is progressing with its announced ₹2,100 crore capex programme, with the first production line expected to become operational in FY28.

Exhibit 1: SOTP Valuation

SOTP	Valuation Metric	Multiple Value	Per share value
KOEL Standalone EPS	P/E on FY29 EPS	31	1,893
Fluid Dynamics	P/E on FY29 EPS	12	99
Arka Fincap	P/B on FY29 Book	1	117
Target Price			**2110**

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E	FY29E
Revenue	**5,647**	**6,651**	**8,121**	**9,867**
% Growth	24.9	17.8	22.1	21.5
Other income	41	45	50	55
Total Revenue	5,687	6,696	8,171	9,922
% Growth	24.9	17.7	22.0	21.4
Raw Material Costs	3,674	4,390	5,278	6,364
Employee Expenses	357	432	528	592
Other expenses	879	1,051	1,259	1,549
Total Operating Exp.	4,910	5,873	7,065	8,506
EBITDA	**737**	**778**	**1,056**	**1,362**
% Growth	24.1	5.6	35.7	29.0
Interest	11	15	18	23
PBDT	767	808	1,088	1,394
Depreciation	143	156	178	210
PBT before Expl. Items	**624**	**652**	**910**	**1,184**
Total Tax	152	163	228	296
PAT before MI	471	489	683	888
PAT	**471**	**489**	**683**	**888**
% Growth	27.7	3.8	39.6	30.1
EPS	**32**	**34**	**47**	**61**

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E	FY29E
Profit after Tax	471	489	683	888
Depreciation	143	156	178	210
Interest	11	15	18	23
Cash Flow before WC changes	748	823	1,106	1,417
Net Increase in Current Assets	(67)	(530)	(463)	(500)
Net Inc in Current Liabilities	(35)	185	251	321
Net CF from Operating activities	**511**	**315**	**666**	**941**
(Purchase)/Sale of Fixed Assets	(175)	(222)	(520)	(520)
Other investing cash flows	(146)	-	-	-
Net CF from Investing activities	**(321)**	**(222)**	**(520)**	**(520)**
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	(23)	26	296
Opening Cash/Cash Equivalent	73	120	97	123
Closing Cash/ Cash Equivalent	**120**	**97**	**123**	**420**

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY26	FY27E	FY28E	FY29E
Equity Capital	29	29	29	29
Reserve and Surplus	3,369	3,756	4,337	5,123
Total Shareholders' funds	**3,398**	**3,785**	**4,366**	**5,152**
Total Debt	**139**	**139**	**139**	**139**
Total Liabilities	**3,537**	**3,924**	**4,505**	**5,291**
Gross Block	2,236	2,436	2,936	3,436
Acc: Depreciation	1,252	1,408	1,586	1,796
Net Block	984	1,028	1,350	1,640
Capital WIP	58	80	100	120
Total Fixed Assets	**1,042**	**1,108**	**1,450**	**1,760**
Non-Current Assets	1,616	1,652	1,652	1,652
Inventory	603	948	1,201	1,433
Debtors	783	948	1,135	1,379
Other Current Assets	241	226	248	273
Cash	553	529	555	852
Total Current Assets	**2,180**	**2,650**	**3,140**	**3,936**
Current Liabilities	1,129	1,314	1,566	1,887
Provisions	171	171	171	171
Total Current Liabilities	**1,300**	**1,485**	**1,737**	**2,058**
Net Current Assets	879	1,164	1,403	1,879
Total Assets	**3,537**	**3,924**	**4,505**	**5,291**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY26	FY27E	FY28E	FY29E
Per Share Data (₹)				
EPS	32.4	33.6	47.0	61.1
Cash per Share	42.3	44.4	59.2	75.6
DPS	6.5	7.0	7.0	7.0
BV	231.0	257.7	297.7	351.8
Operating Ratios (%)				
EBITDA Margin	13.1	11.7	13.0	13.8
PAT Margin	8.3	7.4	8.4	9.0
Asset Turnover (x)	1.6	1.7	1.8	1.9
Return Ratios (%)				
RoE	13.9	12.9	15.6	17.2
RoCE	16.8	15.8	19.5	21.8
Valuation Ratios (x)				
EV / EBITDA	30.8	29.3	21.5	16.5
P/E	49.1	47.4	33.9	26.1
EV / Net Sales	4.0	3.4	2.8	2.3
Sales / Equity	1.7	1.8	1.9	1.9
Market Cap / Sales	4.1	3.5	2.9	2.3
Price to Book Value	6.9	6.2	5.4	4.5
Working Capital Management Ratios				
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	1.8	1.8	1.9
Quick Ratio	1.2	1.1	1.1	1.2

Source: Company, ICICI Direct Research

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