

**Weaker margins in the Quarter, Revenue Visibility Remains Strong**
**Est. vs. Actual for Q1FY25:** Revenue – **INLINE** ; EBITDA – **BEAT**; PAT – **BEAT**
**Changes in Estimates post Q1FY25**
**FY25E/FY26E:** Revenue: 0.6%/1.2%; EBITDA: -8.6%/0.4%; PAT: -6.9%/5.9%

**Recommendation Rationale**

- **Margins impacted by short term issues:** KBL has been strategically focusing on increasing the share of value-added products, significantly reducing its exposure to low-margin and lumpy EPC orders. However, during Q1, the company faced delays in orders due to supply chain issues and one-time expenses related to technology upgrades (included in other expenses), which impacted margins. The company expects these supply chain issues to be resolved soon, with the corresponding revenue expected in the next quarter, which should improve profitability in the coming quarters. Additionally, the expenditure on technological upgrades aimed at enhancing operating efficiencies is expected to benefit the long-term profitability of the business.
- **Growing order book, demand uptick in key sectors:** The company received 1,225 new orders, and the order book grew to Rs. 3,050 Cr (up from Rs. 2,999 Cr as of Q4FY24) during the quarter. While positive demand trends are observed across key sectors, the execution of delayed orders is expected to further fuel revenue growth in the coming quarters..

**Sector Outlook: Positive**
**Company Outlook & Guidance:** The management expects continued demand in the domestic business and has maintained guidance for double-digit revenue growth in FY25 (YoY). The overseas business is anticipated to rebound following near-term hurdles.

**Current Valuation:** 30x FY26EPS (30x FY26EPS)

**Current TP:** Rs 1,977/share (Earlier TP: 1,900/share)

**Recommendation:** We downgrade our rating from BUY to HOLD on the stock.

**Financial Performance**

Kirloskar Brothers Ltd. reported a mixed set of Q1FY25 numbers. Revenue reached Rs. 1,031 Cr, increasing 15% YoY in line with our estimates but declining 16% QoQ. Gross margins stood at 49.5%, down by 200 bps compared to the previous quarter. EBITDA was Rs. 127 Cr, missing our estimate of Rs. 149 Cr, with EBITDA margins at 12.3%, down by 52 bps YoY and 627 bps QoQ. The company reported Profit After Tax (PAT) of Rs. 61 Cr, reflecting a 5% decrease YoY and a 60% decrease QoQ, missing our estimate of Rs. 93 Cr.

**Outlook:** We model Revenue/EBITDA/PAT CAGR of 17%/19%/23% over FY24/26E. We have marginally improved our revenue and operating margin estimates for FY26. Strong visibility from value-added products, digitization and upgrade of operations, softening raw material costs, and operational leverage at international subsidiaries are expected to drive improvement in profitability.

**Valuation & Recommendation**

While the company's profitability was impacted by temporary factors during the quarter, the revenue was in line with our expectations. We have marginally revised our estimates to reflect the current quarter's performance and the expectation of steady improvement in profitability and overall revenue mix. We continue to value the stock at 30x FY26 EPS, resulting in a revised target price of Rs. 1,977/share. **However, as valuations have caught up, we are downgrading our rating from BUY to HOLD.**

**Key Financials (Consolidated)**

(Rs Cr)	Q1FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	1,031	15%	-16%	1,043	-1%
EBITDA	127	10%	-44%	149	-15%
EBITDA Margin	12%	-52bps	-627bps	14%	-198bps
Net Profit	61	-5%	-60%	93	-35%
EPS (Rs)	7.6	-5%	-60%	11.7	-35%

Source: Company, Axis Securities Research

(CMP as of 5<sup>th</sup> August, 2024)

CMP (Rs)	1,961
Upside /Downside (%)	1%
High/Low (Rs)	2,684/762
Market cap (Cr)	13,489
Avg. daily vol. (6m)Shrs.	56.8
No. of shares (Cr)	8

**Shareholding (%)**

	Dec-23	Mar-24	Jun-24
Promoter	66.0	66.0	66.0
FIs	3.9	4.1	5.0
MFs / UTI	7.3	7.7	7.9
Banks / FIs	0.0	0.0	0.0
Others	22.9	22.3	21.1

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	4,001	4,705	5,440
EBITDA	520	578	766
Net Profit	342	379	524
EPS (Rs)	44	48	66
PER (x)	40	46	42
EV/ EBITDA (x)	26	30	28
P/BV (x)	8	9	8
ROE (%)	22	22	19

**Change in Estimates (%)**

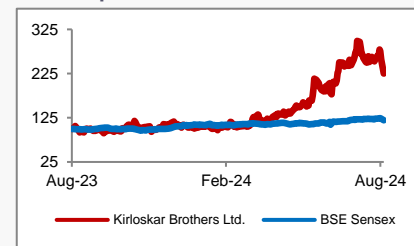
Y/E Mar	FY25E	FY26E
Revenue	0.6%	1.2%
EBITDA	-8.6%	0.4%
PAT	-6.9%	5.9%

**ESG disclosure Score\*\***

Environmental Disclosure	53.4
Social Disclosure Score	32.6
Governance Disclosure Score	72.3
<b>Total ESG Disclosure Score</b>	<b>52.8</b>
<b>Sector Average</b>	<b>44.4</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

**Relative performance**


Source: Ace Equity, Axis Securities

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## Key Concall Highlights

- Financial Performance:** In Q1, revenue increased by 15%, and EBITDA grew by 10%, with margins at 12.3%. The increase in other expenses was related to investments in technology and system upgrades aimed at long-term growth, along with some rise in employee expenses due to annual salary revisions. EBITDA margins were also impacted by order delays, with expenses accounted for during the quarter, though execution is expected to occur in the coming quarters..
- Domestic Performance:** During the quarter, KBL delivered a strong performance in the domestic market, driven by robust demand in key sectors and a decline in raw material prices, which contributed to year-over-year gross operating margin expansion. The company continues to expect double-digit growth in domestic revenues. The order book stands at Rs. 1,956 Cr (compared to Rs. 1,914 Cr in Q1FY24 and Rs. 1,826 Cr in Q4FY24). Growth in demand was observed in key segments, including Marine and Defence, Construction, and Industry.
- International Business:** KBL's International Business grew by 9%. Revenue growth was impacted by delays in order execution due to supply chain issues at a key subsidiary in the UK, with expectations to fulfill these orders in the next quarter. In Thailand, a previously delayed large order was executed during the quarter. SPP USA revenue grew by 14%. The international order book stands at Rs. 1,031 Cr, and the company expects continued traction in the overseas market.
- Initiatives:** The management mentioned that KBL is investing in technological advancement, digitization, and automation of projects. These investments are aimed at enhancing capabilities to handle a larger number of projects more efficiently.
- Challenges:** Execution delays in SPP UK are due to supply chain issues with a major American engine supplier. Manufacturing at their end is expected to resume, and the orders are anticipated to be fulfilled in the next quarter. Additionally, there were supply constraints with bought-out components in the domestic oil and gas segment due to required approvals, causing a delay in the execution of a Rs 100 Cr order, which is not expected to be fulfilled in the coming quarters.

## Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,705	5,440	4,678	5,376	0.6%	1.2%
EBITDA	613	811	671	808	-8.6%	0.4%
PAT	379	524	407	495	-6.9%	5.9%

Source: Axis Securities Research

**Results Review (Consolidated)**
**(Rs Cr)**

Particulars (Rs Cr)	Q1FY24	Q4FY24	Axis Est.	Q1FY25	YoY Growth (%)	QoQ Growth (%)	Axis Variance
Revenue	900	1,224	1,034	1,031	14.6%	-15.8%	-0.3%
Less:							
Net Raw Material consumed	468	581	471	509	8.7%	-12.3%	8.1%
Employee	152	189	175	175	14.5%	-7.5%	-0.3%
Other Expenses	179	250	211	224	25.6%	-10.3%	6.1%
Total Expenditure	790	1,033	895	919	16.4%	-11.0%	2.7%
EBITDA	116	228	149	127	10.0%	-44.2%	-14.8%
EBITDA %	12.8%	18.6%	14.3%	12.3%	-52 bps	-627 bps	-198 bps
Less: Depreciation	18	21	20	21	17.7%	2.9%	8.8%
EBIT	97	207	128	106	8.5%	-48.9%	-17.6%
Less: Net Interest	8	8	5	6	-22.7%	-23.7%	16.3%
Less: Extraordinary Expense (net)							
Profit Before Tax	90	199	125	100	11.1%	-49.8%	-20.1%
Less: Total Tax	29	56	32	29	1.0%	-48.0%	-8.8%
Profit After Tax	61	143	93	71	15.9%	-50.6%	-24.0%
Shares Outstanding (Mn)							
Reported EPS (Rs.)	8	19	12	8	-4.9%	-60.5%	-34.9%

Source: Company, Axis Securities Research

Sector (Rs Cr)	FY23			FY24		FY25
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
<b>Order Book</b>	<b>1,820</b>	<b>1,914</b>	<b>1,955</b>	<b>1,944</b>	<b>2,057</b>	<b>1,956</b>
Irrigation + Water Resource Management	851	879	916	913	840	887
Power	504	503	484	456	492	497
Oil & Gas	71	84	83	75	46	41
Marine & Defence	42	59	38	45	27	27
Industry	102	112	133	151	136	152
Building & Construction	90	106	121	128	137	155
Customer Support & ESD	91	105	111	118	88	110
Valves	69	66	69	58	60	87
<b>KBL Standalone</b>						
Orders Recd	828	796	740	731	947	943
<b>KBL Consol</b>						
	1324	1157	1070	1111	1282	1225
<b>Pending Orders</b>	<b>2,888</b>	<b>3,020</b>	<b>3,084</b>	<b>3,111</b>	<b>2,999</b>	<b>3,053</b>

Source: Company, Axis Securities Research

**Financials (Consolidated)**
**Profit & Loss**
**(Rs Cr)**

Y/E Dec	FY23	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>3,730</b>	<b>4,001</b>	<b>4,705</b>	<b>5,440</b>
Growth (%)	22.0	7.3	17.6	15.6
Other Operating Income	0	0	0	0
<b>Total Income</b>	<b>3,730</b>	<b>4,001</b>	<b>4,705</b>	<b>5,440</b>
Raw Material Expense	1,955	1,983	2,338	2,677
Employee Expense	565	673	791	898
Power & Fuel Expenses	58	0	0	0
Other Operating Expense	753	826	997	1,099
<b>Operating Profit</b>	<b>399</b>	<b>520</b>	<b>578</b>	<b>766</b>
Growth (%)	94	30	11	33
Operating Margin (%)	<b>10.7</b>	<b>13.0</b>	<b>12.3</b>	<b>14.1</b>
Other Income	27	59	35	45
<b>EBITDA</b>	<b>426</b>	<b>578</b>	<b>613</b>	<b>811</b>
Growth (%)	78.8	35.6	6.0	32.3
EBITDA Margin (%)	<b>11.4</b>	<b>14.5</b>	<b>13.0</b>	<b>14.9</b>
Depreciation	69	78	81	86
<b>EBIT</b>	<b>358</b>	<b>500</b>	<b>532</b>	<b>726</b>
Interest Cost	35	26	21	27
<b>Profit Before Tax</b>	<b>322</b>	<b>474</b>	<b>511</b>	<b>699</b>
Tax	93	141	140	184
<b>Profit After Tax</b>	<b>229</b>	<b>333</b>	<b>370</b>	<b>515</b>
Growth (%)	181.2	45.2	11.2	39.2
Share of Profit of an associate/OCI	<b>10</b>	<b>9</b>	<b>9</b>	<b>9</b>
<b>Net Profit (Adjusted)</b>	<b>239</b>	<b>342</b>	<b>379</b>	<b>524</b>
<b>EPS</b>	<b>30</b>	<b>44</b>	<b>48</b>	<b>66</b>

Source: Company, Axis Securities Research

**Balance Sheet**
**(Rs Cr)**

Y/E Dec	FY23	FY24	FY25E	FY26E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	16	16	16	16
Reserves & Surplus	1392	1708	2058	2554
<b>Net Worth</b>	<b>1407</b>	<b>1724</b>	<b>2074</b>	<b>2570</b>
Borrowings	286	192	172	237
Other Liabilities	1323	1409	1629	1826
<b>Total Liabilities</b>	<b>1608</b>	<b>1601</b>	<b>1802</b>	<b>2063</b>
<b>Total Equity &amp; Liability</b>	<b>3016</b>	<b>3325</b>	<b>3876</b>	<b>4632</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	253	293	612	1067
Investments	317	410	430	450
Advances	237	201	201	201
Fixed & Other Assets	2209	2421	2633	2914
<b>Total Assets</b>	<b>3016</b>	<b>3325</b>	<b>3876</b>	<b>4632</b>

Source: Company, Axis Securities Research

**Cash Flow**
**(Rs Cr)**

Y/E Dec	FY23	FY24	FY25E	FY26E
<b>PBT</b>	<b>318</b>	<b>481</b>	<b>511</b>	<b>699</b>
Depreciation & amortization	69	78	81	86
Interest expense	23	26	21	27
Interest / Dividend Recd	-16	-50	-26	-36
Other Adjustments	46	3	-20	-20
(Inc)/Dec in working capital	-44	-38	33	-47
Tax paid	-67	-141	-140	-184
<b>CF from operating activities</b>	<b>329</b>	<b>359</b>	<b>460</b>	<b>524</b>
Capital expenditure	-133	-174	-82	-82
(Purchase) / Sale of Investments	13	0	0	0
Income from investments and others	44	-5	19	4
<b>CF from investing activities</b>	<b>-76</b>	<b>-179</b>	<b>-63</b>	<b>-78</b>
Inc/(Dec) in share capital	0	0	0	0
Inc/(Dec) in debt	-123	-94	-20	64
Dividends & Interest paid	-47	-54	-50	-55
Other Financial Activities	0	0	0	0
<b>CF from financing activities</b>	<b>-169</b>	<b>-148</b>	<b>-69</b>	<b>9</b>
<b>Net cash flow</b>	<b>84</b>	<b>32</b>	<b>327</b>	<b>456</b>
Opening balance	134	253	285	612
Other Bank Balance	3	0	0	0
<b>Closing balance</b>	<b>221</b>	<b>285</b>	<b>612</b>	<b>1067</b>

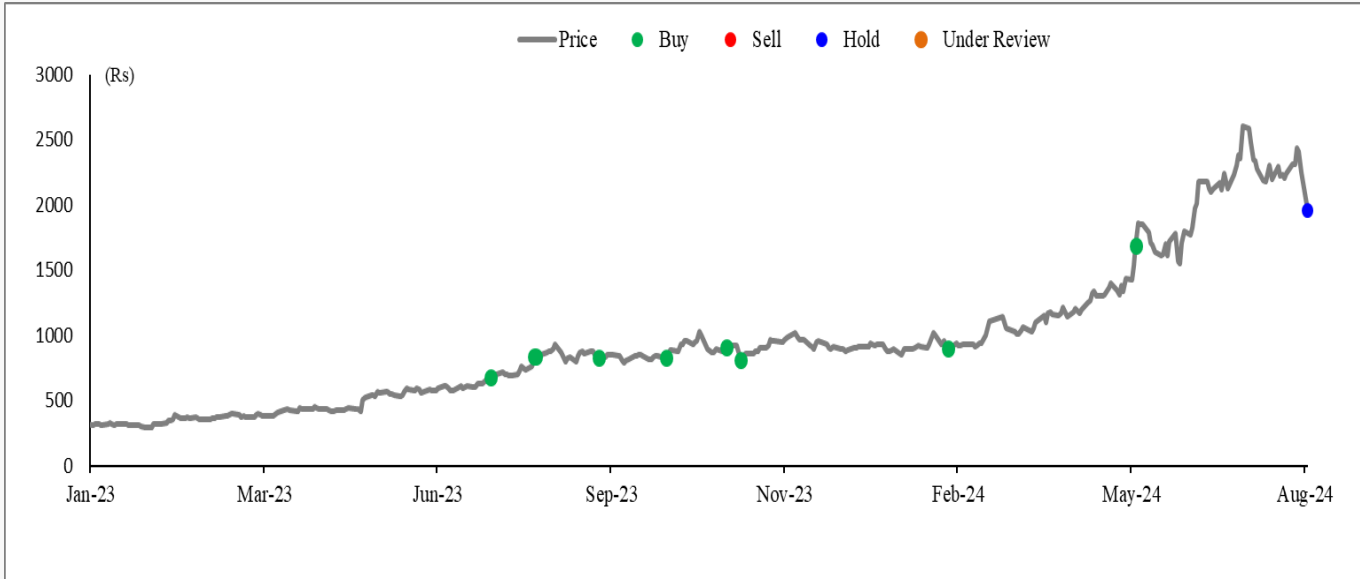
Source: Company, Axis Securities Research

**Ratio Analysis**
**(x) / (%)**

Y/E Dec	FY23	FY24	FY25E	FY26E
<b>Per share data</b>				
No. of shares (Cr)	8.0	8.0	8.0	8.0
BVPS (INR)	177.0	216.9	260.9	323.2
CEPS (INR)	36.9	52.6	56.8	75.6
DPS (INR)	3.0	3.0	3.0	3.0
<b>Financial Ratios</b>				
RoE (%)	17.4	21.7	19.5	22.2
RoCE (%)	21.9	27.7	25.5	28.7
Debt/Equity (x)	0.2	0.1	0.1	0.1
EBIT/Interest (x)	10.1	19.4	25.4	27.3
<b>Turnover Ratios</b>				
Asset turnover (x)	2.2	2.1	2.1	1.9
Sales/Net FA (x)	6.1	6.0	7.1	8.2
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	52.7	53.7	54.7	55.7
Inventory days	77.2	80.2	81.2	82.2
Payable days	130.9	132.9	133.9	134.9
Working capital days	-1.0	1.0	2.0	3.0
<b>Liquidity Ratios</b>				
Current ratio (x)	1.6	1.6	1.7	1.9
Quick ratio (x)	1.0	1.0	1.1	1.3
Interest cover (x)	9.3	17.2	22.5	23.6
Net debt/Equity (x)	0.0	-0.1	-0.2	-0.3
<b>Valuation (x)</b>				
PE	69.2	45.9	42.1	30.2
PEG (x) YoY growth	0.4	0.9	4.7	0.8
P/BV	11.1	9.0	7.5	6.1
EV/EBITDA	38.6	29.2	25.7	18.8
EV/Sales	4.1	3.8	3.2	2.7
EV/EBIT	43.0	30.4	27.9	19.9

Source: Company, Axis Securities Research

## Kirloskar Brothers Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
12-Jul-23	BUY	850	Initiating Coverage
01-Aug-23	BUY	850	Top Picks
03-Aug-23	BUY	880	Company Update
01-Sep-23	BUY	975	Top Picks
03-Oct-23	BUY	975	Top Picks
01-Nov-23	BUY	995	Top Picks
09-Nov-23	BUY	960	Result Update
16-Feb-24	BUY	1,000	Result Update
16-May-24	BUY	1,900	Result Update
06-Aug-24	HOLD	1,977	Result Update

Source: Axis Securities Research

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RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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