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Kirloskar Oil Engines Limited

(Rs. 265, FY08E - P/E 15x, HOLD with Target Price of Rs. 298)

Key Financials –

(Rs Mn)	Q3FY07	Q3FY06	YoY%	9MFY07	9MFY06	YoY%
Net Sales	4,564.2	3,431.1	33.0	13,841.6	10,087.9	37.2
Other Income	28.6	25.9	10.4	344.8	231.7	48.8
Total Income	4,592.8	3,457.0	32.9	14,186.4	10,319.6	37.5
Total Expenditure	4,154.0	3,046.9	36.3	12,424.5	9,093.0	36.6
EBIDTA	410.2	384.2	6.8	1,417.1	994.9	42.4
EBIDTA (%)	9.0	10.9	(17.6)	10.2	9.9	3.8
Interest	24.7	26.8	(7.8)	90.5	68.8	31.5
Depreciation	73.2	69.1	5.9	222.0	203.4	9.1
PBT	340.9	314.2	8.5	1,449.4	954.4	51.9
Provision for Tax	127.5	101.5	25.6	353.0	262.7	34.4
PAT	213.4	212.7	0.3	1,096.4	691.7	58.5
Extra ordinary items	(140.4)	-	-	(140.4)	(974.9)	(85.6)
Adjusted PAT	353.8	212.7	66.3	1,236.8	1,666.6	(25.8)
Equity Capital	194.2	194.2	-	194.2	194.2	-
EPS (Rs)	3.6	2.2	66.3	12.7	17.2	(25.8)

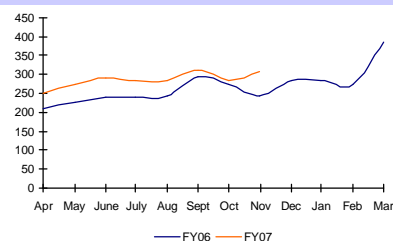
Source: Company

Net sales grew 33% YoY for Q3FY07

EBITDA margins declined by 192bps YoY

Net profit remained flat for Q3FY07

IIP Capital Goods



Source:CSO

EBITDA margins declined due to unfavorable product mix

KOEL is a market leader in non-auto diesel engines segment

IIP growth continues to support top line growth in Q3FY07 –

Kirloskar Oil Engines Ltd (KOEL) reported robust sales growth of 33% YoY for Q3FY07 to Rs4564.2mn backed by robust IIP growth 11.5% for the period of Apr-Nov 2006. Another indicative parameter i.e. IIP capital goods index has reported growth of 16.1% YoY for the period Apr-Nov 2006 compared to the same period last year which according to us mainly drove the sales growth of KOEL. We gather that KOEL's medium and large segment engines continue to support top line growth for Q3FY07. For 9MFY07, net sales grew by 37% YoY to Rs13841.6mn compared to same period last year backed by strong IIP capital goods growth.

EBITDA margins improves for 9MFY07 -

KOEL reported EBITDA growth of 7% YoY for Q3FY07 to Rs410mn compared to Rs384mn for Q3FY06. We assess that EBITDA margins for Q3FY07 declined by 192bps YoY to 9% mainly because of unfavorable product mix tilted towards small engines and booking of raw material for large engines. We believe KOEL to report improvement in EBITDA margins on a sequential basis in Q4FY07 which would also be backed by robust sales growth. For 9MFY07, KOEL's EBITDA increased by 42% YoY to Rs1417mn and EBITDA margins improved by 38bps YoY to 10.2%. We believe KOEL would achieve overall margins of 10.5% for the full year FY07E.

Net profit remains flat for Q3FY07 -

KOEL's net profit for Q3FY07 remained flat at Rs213mn mainly because of unfavorable product mix and higher interest costs. The company booked extraordinary income of Rs140mn from profit on sale of shares of G G Dandekar Machine Works Ltd during the quarter. For 9MFY07, KOEL's net profit after tax grew by 59% YoY to Rs1096mn. KOEL reported EPS of Rs3.6 and Rs12.7 for Q3FY07 and 9MFY07 respectively.

Business Outlook and Valuation –

Kirloskar Oil Engines is a market leader in the non-automotive engines segment, which has been growing at around 17-18% in the previous two years. We believe that rising demand from user segments like industrial, power generation, Industrial and marine applications coupled with an increase in exports would drive the top line and profitability growth for KOEL.

We believe KOEL to improve margins in Q4FY07

We believe that sustainability of demand from the Agri sector for mid and small sized engines and an equally good demand scenario for higher end engines from the Powergen, Industrial and marine application space, would mean that KOEL is likely to record a healthy 27% CAGR topline growth in its core business over the next 2 years (FY07-08E). We feel KOEL's margins for Q3FY07 do not reflect true picture and expect KOEL to improve them in Q4FY07.

Financial Estimates –

Year Ended	Mar07E	Mar08E
Net Sales (Rs Mn)	18,613	22,373
EBITDA (Rs Mn)	1,949	2,568
EBITDA (%)	10.5	11.5
PAT (Rs Mn)	1,512	1,705
EPS (Rs)	15.6	17.6
P/E (x) At Rs.265	17.0	15.0

Source: Emkay Private Client Research

We had recommended KOEL on 31st July 2006, at Rs182 with a price target of Rs257. The stock achieved our target price of Rs257 and moved up to Rs265. Thereafter we recommended a HOLD with target price of Rs. 298

We are recommending HOLD with a price target of Rs298

We continue to remain positive on the long term prospects of KOEL and expect KOEL to report robust top line and bottom line growth in Q4FY07. At current market price, the KOEL stock trades at 17x and 15x on FY07E and FY08E earnings respectively. We recommend investors to HOLD the stock with a target price of Rs298.

Emkay's Network

<p>AHMEDABAD 079-26448727/29</p> <p>ALLAHABAD 0532-2452388</p> <p>ALWAR 9414454123</p> <p>AURANGABAD 09860498897</p> <p>BANGALORE Cunninghum Road 080-41220915</p> <p>Malleswaram 080-23464173</p> <p>Vijaynagar 9341327222</p> <p>BHOPAL 09301189603</p> <p>BARODA Alkapuri 0265 6640551</p> <p>Sayaji Gung 0265-3918069 - 74</p> <p>Karelibaug 0265-3918021 - 24</p> <p>Manjalpur 0265-3206663</p> <p>BHAVNAGAR 9898001945</p> <p>CHEENAI Adyar 044-42300788</p> <p>Anna Nagar 044-42127298</p> <p>Ramarao Street 044- 42605604</p> <p>T Nagar 044- 42605604</p> <p>044-42024672</p> <p>Gandhi Nagar 044-42607611</p> <p>Thiruvanniyur 044-42178646</p> <p>Nanganallur 044-42056685</p> <p>North Usman Road 044-45502496</p> <p>Sowcarpet 044-30966268</p> <p>CHANDIGARH 0172-5052424</p> <p>Chandigarh - Sec47 0172-5072123</p> <p>COCHIN 0484-3949749</p> <p>COIMBATORE 100 Feet Rd 0422-2493536</p> <p>R.S Puram 0422-4370489</p> <p>DELHI Nehru Place 011-32474709</p> <p>SSK 011 42267259</p> <p>Barakhamba Road 11 43575757</p> <p>Dehradun 9219698600</p> <p>DIBRUGARH 0373-2322607</p> <p>DIMAPUR 03862-225832</p> <p>DINDORI 07644-234261</p> <p>ERODE 0424-22212823</p> <p>Brough Road 09894719071</p> <p>FARIDABAD 0129-4068303</p> <p>GANGANAGAR 9351793000</p>	<p>GOA 0832 - 6650770</p> <p>GULBARGA 08472 321850</p> <p>GUWAHATI 9954070377</p> <p>GURGAON Old Railway Rd. 0124-3250629</p> <p>Sheetla Mata Rd. 0124-4081346</p> <p>HARYANA Rohtak 01262-268701</p> <p>Jhajjar 01251-253028</p> <p>HOSHIARPUR 01882-326767</p> <p>HYDERABAD Ameerpet 040- 23731230/31</p> <p>Banjara Hill 040- 6553 4261</p> <p>HARIDWAR 01334-329563</p> <p>INDORE Racecourse Road 0731-3918624/ 9893894415</p> <p>R. N. T. Marg 0731-4068098</p> <p>JABALPUR Agga Chowk 0761-4067239</p> <p>Vikas Bazaar 0761-4031955</p> <p>JAIPUR Bhawani Singh Lane 0141-2361438</p> <p>JAIPUR 0141-2378661</p> <p>Modi Nagar 0141-2811118, 2810501</p> <p>Sardar Patel Marg 0141 2376886</p> <p>M.I. Road 0141- 4022256</p> <p>JAMNAGAR 0288-2561522</p> <p>JAMMU 0191-2454764</p> <p>JHARIA 0326-2361720</p> <p>JHARKHAND DHANBAD 0326 2361720</p> <p>JODHPUR 0291-5101900</p> <p>Jalori Gate 0291-2627749</p> <p>Paota 0291-3209090</p> <p>Mandore Mandi 0291-5121134</p> <p>Mandore Mandi 0291-5100995</p> <p>MORADABAD 05912424090</p> <p>JUNAGADH 0285-2629489</p> <p>KARNAL 9255248404</p> <p>KOTTAYAM 04812563033/44</p> <p>KARAIKUDI 04565-224221</p> <p>KAYAMKULAM 0479-3953222</p> <p>KOLKATA 033-39511666</p> <p>C.B. Street 033-22428734</p> <p>Weston Street 033-22118369</p>	<p>Tagore Street 033 - 22597938</p> <p>Tarachand Dutta Street, 033- 26501114</p> <p>Grant Lane 09830667686</p> <p>Mukherjee Road 033 24668300</p> <p>KOTA 0744-2502877</p> <p>LUCKNOW 9839552211</p> <p>MADURAI 0452-3018691/92/93/94/ 0452- 4379688</p> <p>MYSORE 0821 4250696</p> <p>MUMBAI Borivali 022-28334629</p> <p>Borivali 022-56610312</p> <p>Borivali 9867697105</p> <p>Borivali 9867129422</p> <p>Dadar 022-32605528</p> <p>Dhobi Talao 022-56023723</p> <p>Fort 022-22653471/22875805</p> <p>Fort 022-22704710</p> <p>Ghatkopar 022-25122448</p> <p>Goregaon 022-28770991</p> <p>J B Nagar 9892343344</p> <p>Khar 022-26049302</p> <p>Lokhandwala 022-56778638/39</p> <p>Malad (E) 022-28820352</p> <p>Malad (W) 022-28891770</p> <p>Malad (W) 022-28777679</p> <p>Masjid Bunder 022-56357597</p> <p>Masjid Bunder 9224575600</p> <p>Mulund 022-25614154</p> <p>Mumbadevi 23460060 / 61 /62</p> <p>Oshiwara 9821233777</p> <p>Powai 022-28573098</p> <p>Santacruz 9869102930</p> <p>Santacruz (w) 26616085 / 7075</p> <p>Ulhasnagar 95251-3952746</p> <p>Versova 022-26360617-18</p> <p>Vile Parle 022-26714805</p> <p>NAGPUR 0712-2538191</p> <p>NELLORE 0861-2330841</p> <p>Sitabuldi 0712-2558455</p> <p>NASHIK 0253-5607814/15</p> <p>Gangapur Rd 9326173938</p>	<p>Raviwar Peth 0253- 3203888</p> <p>60 ft. Rd 0253-2598310</p> <p>NAMAKKAL 04286 - 275494/ 95</p> <p>PANIPAT 0180-6451645</p> <p>PERUMBAVOOR 0484-2640046</p> <p>PUNE D.P. Road 9850818986</p> <p>Karve Road 9325505031</p> <p>Rasta Peth 020-26123351</p> <p>Satara Rd. 9520-24220031</p> <p>Sadashiv Peth 9520-30947224</p> <p>Shaniwar peth 020- 255303387</p> <p>RAJAHMUNDRY 9396456406</p> <p>RAJKOT Dr. Yagnik Rd 0281 - 2464535</p> <p>Phulchab Chowk 0281-2452875</p> <p>Rampur 9837605847</p> <p>RATLAM 07412-329878</p> <p>SRINAGAR 9419074424/ 9906679327</p> <p>SALEM 0427-2336881</p> <p>SAGAR 0758-2401647</p> <p>SANGLI 0233- 6616010/11</p> <p>SARDARSHAHAR 01564-512108</p> <p>SONIPAT 9812059933</p> <p>SIRSSA 09888333639</p> <p>SURAT 0261-2369996</p> <p>Ghod Dod Road 0261- 3993010</p> <p>THENI 9362113579</p> <p>TRICHY 0431- 4220713/14/15</p> <p>Srirangam 0431-6454377/88/99</p> <p>Thiruverumbur 0431-2511787 / 6453898</p> <p>TIRUPUR 0421-4336995</p> <p>THRISSUR Kokalai 0487 2428793</p> <p>Patturakkal 0487 6450233</p> <p>TRIVANDRUM 04713257010</p> <p>UDAIPUR 0294-2415405</p> <p>VISAKHAPATNAM 0891 2730730</p> <p>VARANASI 0542-5521383</p> <p>VIJAYAWADA 0866-2579266</p> <p>WARANGAL 0870-6450793/94/95</p> <p>YAVATMAL 09422892827</p>
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