

Poor execution; hopes hinged on H2

We maintain Buy on Kirloskar Pneumatic (KPCL) but lower TP to Rs1400 (Rs1600 previously). KPCL reported weak performance in Q2FY26, with execution challenges across CNG, gas, and refrigeration packages impacting revenue and order booking. Margins were under pressure due to delay in offtake and high fixed cost. The management has moderated their growth guidance in FY26 to ~15% and we remain cautious in our estimates at ~11%. While near-term execution remains challenged, KPCL continues to focus on introducing new products like Tyche semi-hermetic compressors, scaling up sales of indigenous offerings like Tezcatlipoca and Khione and working on new patented technology like the compressor for commercial AC (Zephros C). A sharp recovery in H2FY26 and attractive valuation at 27.3x/22.5x FY26e/27e PE drives our Buy Rating.

- Execution challenges drive revenue miss:** KPCL reported 10% yoy decline in revenue at Rs3.9bn impacted by delayed inspections, finalization and clearances to dispatch. New offerings such as Tezcatlipoca (now 100+ units sold) and Tyche have begun contributing, with increasing substitution opportunity from European imports.
- Poor sales and high opex continue to dent margins:** KPCL reported margins at 15.1%; -658bps yoy; dragged by delayed despatches, competent pricing and high employee cost (includes new hires). This translated into a 37.5% yoy degrowth in EBITDA at Rs585mn for 2QFY26. KPCL reported 35.6% decline in PAT at Rs435mn. However, on a sequential basis margins appear to be recovering.
- Near-term headwinds, but strong product pipeline:** KPCL continues to face execution challenges in CNG, refrigeration (delay in deliveries by client), and gas compression segments, with order booking in Q2FY26 significantly lower YoY and sequentially, impacted by loss of market share in the process gas, delayed finalizations, and global uncertainties. KPCL is actively mitigating these challenges: large orders are expected to be finalized and booked in Q3FY26. KPCL has replaced Howden compressors with the Khione product for the small packages. There are several new products which will help in augmenting this growth for next 3years i.e.: i) Tezcatlipoca is expected to hit record Rs1bn order booking mark with new variants ii) semi-hermetic refrigeration compressor Tyche for import substitution where KPCL will have inhouse casting and motor iii) commercial AC (Zephros C system) compressors are expected to drive growth in FY28 and beyond. However, weaker than expected order bookings (Order book: Rs16.7bn, as of 1st Oct'25) and headwinds in the supply chain has led to lower revenue growth (4%/7% cut in FY26/FY27 earnings) and a cut in multiple. The management has moderated their growth guidance in FY26 to ~15% and we remain cautious in our estimates at ~11%.
- Valuation:** We expect KPCL's Revenue/ EBITDA/ PAT to grow at a CAGR of 15%/ 16%/ 16% over FY25-28E. We arrive at a TP of Rs1400 (Rs1600 previously), valuing the stock at 30x Sept'27E PER (previously 34x). The cut in earnings and multiple is to account for the weakness in execution and order booking. Key Risks: supply chain headwinds and pickup of new products.

Y/E Mar (Rs mn)	Q2FY26	Q2FY25	YoY%	Q1FY26	QoQ%
Net sales (inc op inc)	3,864	4,307	(10.3)	2,817	37.2
Raw material	2,022	2,197	(8.0)	1,388	45.7
Employee costs	497	438	13.4	504	(1.4)
Other expenses	760	736	3.3	592	28.4
EBITDA	585	935	(37.5)	333	75.7
EBITDA margin (%/ bps)	15.1	21.7	(658.2)	11.8	331.9
Depreciation	78	78	0.1	75	4.0
Other income	72	62	16.7	84	(14.3)
Exceptional items	0	0		0	
PBT	574	919	(37.6)	340	68.8
Provision for tax	136	244	(44.2)	87	56.3
Adj. PAT	435	675	(35.6)	266	63.5

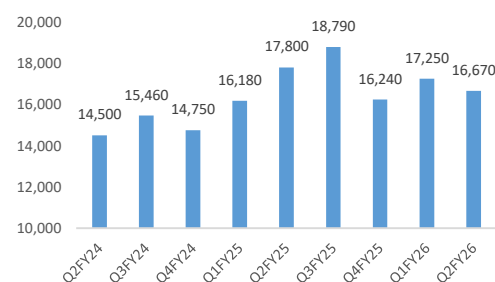
Target Price	1400	Key Data	
		Bloomberg Code	KKPC: IN
CMP	1153	Curr Shares O/S (mn)	64.9
		Diluted Shares O/S(mn)	64.9
Upside	21.4%	Mkt Cap (Rsbn/USDbn)	74.9/0.9
Price Performance (%)		52 Wk H / L (Rs)	1818/952.8
	1M	6M	1YR
KKPC:IN	-3.8	0.0	-25.8
NIFTY 50	5.3	6.6	6.6

Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

	Sep-25	Jun-25	Mar-25	Dec-24
Promoter	38.8	38.8	38.9	38.9
FII	6.8	7.1	7.7	8.0
DII	28.2	28.2	29.1	28.9
Others	26.0	25.9	24.3	24.2

Source: BSE

New order booking remains a key monitorable to ascertain the exact growth trajectory

Source: MNCL Research estimates

Earnings Revision

Particulars	FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	18,156	19,003	-4.5	20,955	22,476	-6.8
EBITDA	3,250	3,402	-4.5	3,772	4,046	-6.8
PAT	2,379	2,486	-4.3	2,739	2,936	-6.7

Source: MNCL Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE	RoCE	P/E (x)	EV/EBITDA (x)
FY24	13,226	6.7%	2,024	15.3%	1,333	30.5%	20.6	15.5%	13.5%	30.5	18.9
FY25	16,402	24.0%	2,919	17.8%	2,112	51.8%	32.5	20.9%	17.9%	39.3	27.3
FY26E	18,156	10.7%	3,250	17.9%	2,379	10.6%	36.7	20.2%	16.8%	31.5	21.6
FY27E	20,955	15.4%	3,772	18.0%	2,739	15.1%	42.2	20.2%	17.0%	27.3	18.5
FY28E	24,691	17.8%	4,519	18.3%	3,326	21.4%	51.3	21.3%	17.7%	22.5	15.1

Source: Company, MNCL Research estimates

Concall key highlights

Industry:

1. Capex spend is very hesitant. Domestic demand is muted from most end user industries.
2. Domestic consumption and localization of supply chain should help KPCL sustain growth.

Operations:

1. Challenging on all fronts: Order booking, sales and execution due to shipping of refrigeration and gas packages.
2. Structural change in gas compressor segment leading to loss of market share. Market shifting to cheaper process gas products; revenue down ~50% in this segment. New entrants offering aggressive pricing unviable for KPCL.
3. Exports at Rs310mn were lower YoY; expected to remain ~7% of total revenue largely from MENA.
4. Large orders expected to be finalized and booked in Q3FY26.
5. Tezcatlipoca crosses 100-unit sales milestone in H1FY26; 118 ordered, 80 commissioned, ~40 awaiting customer acceptance. First year of triple-digit volumes vs <40 units LY.
6. Tyche expected to scale up in Q3FY26 capturing share from imports.
7. Systems & Components revenue at Rs90mn — first profitable quarter.
8. Air compressors: slowdown across industries; Janus ramp-up expected to support revenue.
9. Refrigeration: client delays 3–6 months in large package deliveries; Howden supply normalized.
10. Gas process: weak booking/execution continues; biogas & hydrogen scaling gradual.
11. O&M growing but Rs20mn bad debt write-off in Q2.
12. Revenue mix: Packages vs equipment — 67% : 33%; material cost stable in FY26.
13. Khione gaining strong traction in cold chain, dairy, pharma.
14. Aftermarket contributes ~15% of revenue; margins comparable to OEM.
15. H1FY26 mix: Gas 30%, Refrigeration 35%, Air 20%, Others (Transmission).

New projects & products:

1. Entering Rs50bn commercial AC market — scalable within 18 months post approvals. Zephros C offers zero ozone impact and lowest total ownership cost, fully indigenous.
2. Multiple patents filed; pilot systems operational at KPCL facilities. PLI optional — product viable even without incentives.
3. Suitable for mid-sized applications: malls, banquets, etc.
4. Competes with imported systems lacking green refrigerants.
5. Order finalizations expected post-Diwali — Q3FY26 order intake targeted at Rs5–6bn securing FY27 growth.

Financials & Guidance:

1. Net cash: Rs4.24bn.
2. Capex: Rs290mn H1; Rs900mn targeted in FY26. Annual capex run-rate: Rs700mn–1bn. Utilization ~70% — capacity for growth.
3. Margins impacted YoY due to higher packages contribution in Q2FY25 base.
4. Revenue growth guidance: ~15% for FY26; core business margins at 18–20%.

Valuation

KPCL is well-poised to deliver robust and sustainable growth on revenue, margin expansion (ramp up in deliveries of CNG stations) and outperform its competition due to: i) a discernible inflection in growth trajectory backed by robust order book ii) pickup in new products like Tezcatlipoca iii) huge opportunity emerging from biogas compressor and agreement with PDC Machines LLC USA for all types of hydrogen compressors which is yet to scale up in order book iv) an all-round robust balance sheet fortified by its debt-free status, good return ratios and FCF generation.

We arrive at a TP of Rs1400 (Rs1600 previously), valuing the stock at 30x Sept'27E PER (previously 34x). The cut in earnings and multiple is to account for the weakness in execution and order booking.

Exhibit 1: PE Valuation

PE Valuation	Sept'27E
EPS - Rs/sh	46.7
Attributed multiple	30
TP - Rs/sh	1,400
CMP - Rs/sh	1153
Upside	21.4%

Source: MNCL Research Estimates

Exhibit 2: 1-year forward P/E chart



Source: Bloomberg, MNCL Research Estimates

Exhibit 3: 1-year forward EV/EBITDA chart



Source: Bloomberg, MNCL Research Estimates

Quarterly financials

Exhibit 4: Quarterly Financials

Y/E March (Rs mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Particulars								
Revenue from operations	3085	4900	2753	4307	3426	5916	2817	3864
Raw materials consumed	1,600	2,754	1,346	2,197	1,767	3,338	1,388	2,022
Employee benefit expense	400	379	431	438	450	470	504	497
Other operational expenses	559	851	583	736	715	1,011	592	760
Operating EBITDA	526	916	393	935	494	1,097	333	585
Depreciation	94	84	78	78	65	71	75	78
EBIT	433	832	315	858	429	1,026	258	507
Interest	0	0	0	0	1	3	2	5
Other Revenue/Income	36	60	44	62	60	56	84	72
Exceptional items	0	84	0	0	0	39	0	0
Profit Before Tax	468	807	359	919	488	1,041	340	574
Tax	119	205	91	244	121	241	87	136
Profit After Tax	349	602	269	675	368	801	253	438
Adjusted PAT	349	686	269	675	368	839	253	438
Growth (%)								
Revenue	-1%	36%	14%	53%	11%	21%	2%	-10%
EBITDA	5%	91%	48%	195%	-6%	20%	-15%	-37%
Adj. PAT	6%	113%	50%	235%	5%	23%	-1%	-36%
Margin (%)								
EBITDA	17%	19%	14%	22%	14%	19%	12%	15%
EBIT	14%	17%	11%	20%	13%	17%	9%	13%
PAT	11%	12%	10%	16%	11%	14%	9%	11%

Source: Company, MNCL Research

Financials

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenues	8,233	10,212	12,393	13,226	16,402	18,156	20,955	24,691
COGS	4,507	5,603	6,972	7,119	8,649	9,405	10,855	12,716
% of revenues	55%	55%	56%	54%	53%	52%	52%	52%
Employee cost	1,143	1,310	1,452	1,639	1,789	1,997	2,305	2,716
% of revenues	13%	11%	9%	10%	9%	9%	9%	8%
Others	1,493	2,012	2,601	2,773	3,382	3,862	4,539	5,460
% of revenues	18%	20%	21%	21%	21%	21%	22%	22%
EBITDA	1,150	1,425	1,678	2,024	2,919	3,250	3,772	4,519
EBITDA margin (%)	14.0%	14.0%	13.5%	15.3%	17.8%	17.9%	18.0%	18.3%
Depreciation & Amortisation	376	352	335	355	291	391	461	531
EBIT	774	1,073	1,342	1,669	2,628	2,858	3,310	3,987
Finance cost	17	21	1	1	4	0	0	0
PBT from operations	757	1,052	1,341	1,668	2,624	2,858	3,310	3,987
Exceptional items	0	0	0	-84	-39	0	0	0
Net Income / (Expenses) from non-core ops	81	90	91	194	223	322	341	448
PBT	839	1,141	1,433	1,946	2,885	3,180	3,652	4,435
Taxes	200	292	347	446	696	801	913	1,109
Effective tax rate (%)	24%	26%	24%	23%	24%	25%	25%	25%
Reported PAT attributable to shareholders	638	849	1,086	1,333	2,112	2,379	2,739	3,326
Adjusted PAT attributable to shareholders	638	849	1,086	1,417	2,150	2,379	2,739	3,326

Source: Company, MNCL Research estimates

Exhibit 6: Key Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratio (%)								
Revenue	-0.7%	24.0%	21.4%	6.7%	24.0%	10.7%	15.4%	17.8%
EBITDA	8.8%	23.9%	17.7%	20.6%	44.3%	11.3%	16.1%	19.8%
Adjusted PAT	19.3%	33.0%	27.9%	30.5%	51.8%	10.6%	15.1%	21.4%
Margin Ratios (%)								
EBITDA	14.0%	14.0%	13.5%	15.3%	17.8%	17.9%	18.0%	18.3%
PBT from operations	9.2%	10.3%	10.8%	12.6%	16.0%	15.7%	15.8%	16.1%
Adjusted PAT	7.8%	8.3%	8.8%	10.7%	13.1%	13.1%	13.1%	13.5%
Return Ratios (%)								
ROE	11.8%	13.6%	14.9%	15.5%	20.9%	20.2%	20.2%	21.3%
ROCE	9.4%	12.1%	12.8%	13.5%	17.9%	16.8%	17.0%	17.7%
ROIC	18.7%	21.7%	20.6%	24.3%	34.1%	35.3%	35.5%	39.9%
Turnover Ratios (days)								
Debtors	137	107	97	103	93	90	90	90
Inventory	93	132	93	104	93	93	93	93
Creditors	118	111	82	104	87	89	89	89
Cash conversion cycle	111	128	107	103	99	94	94	94
Solvency Ratio (x)								
Net debt-equity	-0.3	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4
Gross debt/EBITDA	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio	2.3	2.0	2.3	2.2	2.2	2.4	2.5	2.8
Per share Ratios (Rs)								
Adjusted EPS	9.9	13.1	16.8	20.6	32.5	36.7	42.2	51.3
BVPS	91.7	102.5	123.2	143.3	168.9	194.1	223.2	258.5
DPS	3.5	4.0	5.5	6.5	10.2	11.5	13.3	16.1
Valuation (x)*								
P/E (adjusted)	37.0	31.5	33.4	30.5	39.3	31.5	27.3	22.5
P/BV	4.0	4.0	4.5	4.4	7.6	5.9	5.2	4.5
EV/EBITDA	19.0	17.5	20.4	18.9	27.3	21.6	18.5	15.1
Dividend yield %	1.0%	1.0%	1.0%	1.0%	0.8%	1.0%	1.2%	1.4%

Source: Company, MNCL Research estimates

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS								
Equity Share Capital	129	129	129	130	130	130	130	130
Reserves & surplus	5,758	6,456	7,822	9,117	10,833	12,470	14,357	16,646
Shareholders' fund	5,886	6,585	7,952	9,246	10,962	12,600	14,487	16,776
Minority Interest	0	0	0	0	127	127	127	127
Lease and Liability	2	12	10	8	9	9	9	9
Total Debt	400	0	0	0	97	97	97	97
Def tax liab. (net)	33	54	131	180	182	182	182	182
Trade payables	1,457	1,704	1,570	2,027	2,159	2,293	2,647	3,101
Provisions	100	121	139	153	208	208	208	208
Total Liabilities	3,357	3,662	3,344	4,604	5,383	5,517	5,870	6,324
Total Equity and Liabilities	9,244	10,246	11,295	13,850	16,472	18,244	20,484	23,227
Gross Block	2,849	3,617	3,813	4,268	5,395	5,592	6,592	7,592
Less: Acc. Depreciation	1,125	1,344	1,634	1,988	2,280	2,671	3,133	3,664
Net Block	1,724	2,273	2,180	2,280	3,116	2,921	3,459	3,928
Capital WIP	42	52	214	318	197	1,000	1,000	250
Net Fixed Assets	1,766	2,325	2,394	2,598	3,312	3,921	4,459	4,178
Total Non-current assets	2,479	3,219	3,945	4,457	5,242	5,850	6,389	6,107
Investments	1,613	1,266	1,038	1,855	2,686	2,686	2,686	2,686
Inventories	1,144	2,028	1,768	2,025	2,154	2,385	2,753	3,225
Sundry debtors	3,081	2,988	3,292	3,747	4,804	4,477	5,167	6,088
Cash	446	357	359	496	635	1,894	2,538	4,169
Other Bank balances	78	31	36	35	36	36	36	36
Total Current Asset	6,765	7,028	7,351	9,394	11,231	12,394	14,095	17,120
Total Assets	9,244	10,246	11,295	13,850	16,472	18,244	20,484	23,227

Source: Company, MNCL Research estimates

Exhibit 8: Cash Flow Statement

Y/E March (Rs mn)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Operating profit bef working capital changes	1,155	1,425	1,685	2,049	3,031	3,558	4,099	4,952
Trade and other receivables	-1,192	75	-307	-459	-1,098	327	-690	-921
Inventories	448	-884	260	-257	12	-231	-368	-472
Trade payables	84	247	-134	458	88	134	354	454
Changes in working capital	234	486	-763	440	771	0	0	0
Direct taxes	-164	-259	-343	-396	-654	-801	-913	-1,109
Cash flow from operations	566	1,091	398	1,834	2,150	2,986	2,481	2,904
Net Capex	-28	-892	-418	-698	-777	-1,000	-1,000	-250
Others	-461	434	306	-666	-777	25	25	25
Cash flow from investments	-488	-458	-112	-1,364	-1,554	-976	-976	-226
FCF	539	199	-20	1,136	1,373	1,986	1,481	2,654
Issue of share capital	5	21	26	21	29	0	0	0
Increase/(decrease) in debt	-278	-379	26	21	29	0	0	0
Dividend	-4	-324	-312	-356	-486	-749	-862	-1,047
Cash flow from financing	98	-722	-284	-333	-458	-749	-862	-1,047
Net change in cash	176	-89	2	137	138	1,262	644	1,631

Source: Company, MNCL Research estimates

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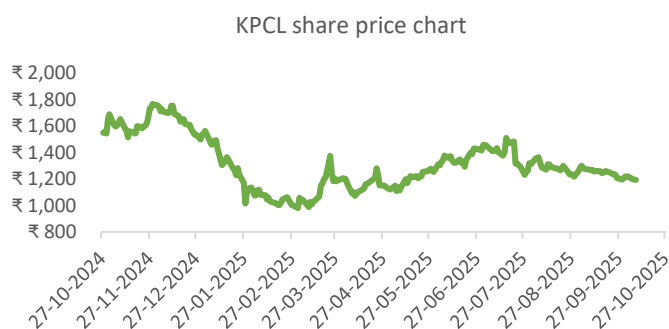
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