

H2 rebound elusive; focus moves to new products

We maintain BUY rating on Kirloskar Pneumatic (KPCL) but increase TP to Rs1470 (Rs1400 previously) largely due to valuation roll forward. KPCL reported another weak quarter in Q3FY26, with revenue missing expectations despite a sharp pickup in order inflows, indicating that execution and delivery challenges continue to persist. However, margins recovered sharply on a YoY and QoQ basis, supported by favourable product mix and higher service contribution. The management has yet again moderated their growth guidance in FY26 to 10-12%. 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 – approved under PLI scheme), which can all accelerate growth from FY28E. Price correction leading to attractive 25x/21x FY27E/28E PE drives our BUY Rating.

- **Execution challenges continue:** KPCL reported 19% yoy increase in revenue at Rs4.1bn impacted by delayed inspections, finalization and clearances to dispatch, particularly in petrochemicals and process gas industry. New offerings such as Tezcatlipoca and Tyche have begun contributing, with increasing substitution opportunity from European imports.
- **Margins recover sharply on mix and cost actions:** KPCL reported margins at 19.5%; +509bps yoy; driven by favourable product mix (higher share of refrigeration equipment, Khione and Tyche), improved service and O&M contribution (~15% of revenue), and cost rationalisation initiatives. This translated into a 61% yoy growth in EBITDA at Rs794mn for 3QFY26. KPCL reported 65% increase in PAT at Rs605mn.
- **Near-term headwinds, but strong product pipeline:** KPCL continues to face execution challenges and delayed finalization of orders in CNG, refrigeration (delay by client), and gas compression segment (loss of market share). The large package order for private companies is now expected to be delivered in February'26 ensuring a massive revenue in 4QFY26 if execution happens as expected. New order booking has improved meaningfully to Rs6.75bn in 3QFY26 vs a run rate of ~Rs3bn before due to improving demand from refrigeration. 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 having a huge domestic market (capex approved under PLI scheme), are expected to drive growth in FY28 and beyond. While we remain positive on the long-term prospect at KPCL, we remain cautious on near term growth in FY26/ FY27E.
- **Valuation:** We expect KPCL's Revenue/ EBITDA/ PAT to grow at a CAGR of 14%/ 15%/ 16% over FY25-28E. We arrive at a TP of Rs1470 (Rs1400 previously), valuing the stock at 30x (unchanged) Dec'27E PER. Change in TP is mainly due to valuation roll forward. Key Risks: supply chain headwinds and acceptance of new products.

Y/E Mar (Rs mn)	Q3FY26	Q3FY25	YoY%	Q2FY26	QoQ%
Net sales (inc op inc)	4,069	3,426	18.8	3,864	5.3
Raw material	1,965	1,767	11.2	2,022	(2.8)
Employee costs	513	450	14.1	497	3.2
Other expenses	797	715	11.5	760	4.9
EBITDA	794	494	60.7	585	35.7
EBITDA margin (%/ bps)	19.5	14.4	509bps	15.1	437bps
Depreciation	81	65	24.0	78	3.8
Other income	61	60	1.3	72	(15.3)
Exceptional items	183	0		0	
PBT	589	488	20.6	574	2.6
Provision for tax	174	121	44.3	136	27.9
Adj. PAT	605	368	64.5	435	39.1

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	17,848	8.8%	3,177	17.8%	2,186	10.1%	33.7	18.7%	16.5%	31.7	20.4
FY27E	20,598	15.4%	3,708	18.0%	2,740	15.7%	42.2	20.1%	16.9%	25.3	17.3
FY28E	24,268	17.8%	4,441	18.3%	3,325	21.4%	51.2	21.2%	17.6%	20.8	14.1

Source: Company, MNCL Research estimates

Target Price	1470	Key Data	
CMP	1068	Bloomberg Code	KKPC: IN
Upside	38%	Curr Shares O/S (mn)	64.9
		Diluted Shares O/S(mn)	64.9
		Mkt Cap (Rsbn/USDbn)	68.3/0.7
		52 Wk H / L (Rs)	1550/953
		Daily Vol. (3M Avg.)	86314
Price Performance (%)			
	1M	6M	1YR
KKPC:IN	4.3	-17.7	-16.8
NIFTY 50	-4.2	0.9	7.9

Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

	Dec-25	Sep-25	Jun-25	Mar-25
Promoter	38.8	38.8	38.8	38.9
FII's	6.7	6.8	7.1	7.7
DII's	28.2	28.2	28.2	29.1
Others	26.2	26.0	25.9	24.3

Source: BSE

New order booking revives exponentially in 3QFY26 backed by demand from refrigeration and air compressors



Source: MNCL Research estimates

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Concall key highlights

Industry:

1. Domestic consumption and localization of supply chain should help KPCL sustain growth.
2. Defence, Railways and national highways are absorbing a large part of government capex where KPCL has limited exposure, leading to weak overall order booking environment.

Operations:

1. Execution and delivery were delayed due to slow demand. Some large customer deliveries, mainly from petrochemical companies, are deferred and expected in Q4FY26. Around Rs1.8bn of private sector orders are likely to be delivered by Feb'26.
2. Order booking has improved; however, the order book as of Jan'26 does not contain large packages, implying a more evenly spread execution profile in FY27. Large package orders are expected from this month, mainly in refrigeration. New order inflows remain slow across segments due to weak demand from oil & gas and petrochemicals, particularly for packages.
3. Refrigeration: Khione packages and Tyche compressor sales have picked up. Demand from dairy, cold chain and allied industries remains strong.
4. Process Gas: Order booking remains very weak in India and MENA across upstream, midstream and downstream. CNG demand is led by booster stations, while mother station demand remains subdued. KPCL is cautious on scaling the low-margin booster station business.
5. KPCL has secured some hydrogen and biogas orders, which are expected to be executed in Q1FY27.
6. Exports for FY26 are expected at ~Rs1.4bn, largely from the MENA region in the process gas division.
7. O&M projects, cost reduction initiatives (service revenue ~15% annually) and favourable product mix supported improvement in gross margins in Q3FY26.
8. Tyche: India currently imports ~2,000 semi-hermetic compressors annually; KPCL aims to replace the majority over the next three years.
9. Equipment currently contributes ~35% of revenue, with the balance from packages; this mix is expected to reverse in FY27, with higher contribution from equipment and unconventional products.
10. Segment mix in FY26: Refrigeration 40%, Air 35%, Process Gas 20%, Others 5%. This mix is expected to change meaningfully in FY27.

New Projects and Products:

1. New production lines have been installed for air and refrigeration compressors.
2. Zephros: Uses ammonia as refrigerant (eco-friendly, zero GWP) versus commonly used R134A and R32A with high global warming potential. Market size is estimated at ~Rs50bn. With current facilities, KPCL can produce limited volumes; PLI approval will enable scale-up. First commercial sales are expected in Q1FY27, with ~100 packages initially, including installation. Subsequently, KPCL will focus on manufacturing while installation will be outsourced. The product will be fully in-house, enabling cost competitiveness. Total capex is ~Rs3bn, of which ~Rs1bn is already incurred; balance to be spent over the next two years under the PLI scheme. Management expects a 5x revenue scale-up from this initiative.
3. New products (developed over the last three years) contribute ~15% of FY26 revenue.

4. R&D spend is ~1% of revenue; design, product development and IP filings together account for ~3–5% of revenue.

Financials and Guidance:

1. Capex incurred till date is Rs540mn, with FY26 target of Rs900mn.
2. Management targets ~12% revenue growth in FY26 (~Rs18bn) with core business margins of 18–20%. Long-term aspiration is to achieve 20% revenue growth and ~20% margins in FY27.
3. Exceptional item: Implementation of new gratuity code resulted in a one-time provision of Rs183mn in Q3FY26. Going forward, employee cost is expected to remain at 10–12% of revenue. Changes in gratuity and leave encashment translate to ~Rs20mn annual impact. The entire past service liability has been provided in this quarter.
4. Mr. K. Srinivasan was hired to structure a transition in his tenure. The board has now approved Mr. Aman Kirloskar as the MD at KPCL starting 1st April 2026.

Valuation

KPCL is currently undergoing a slowdown in order execution due to delay in deliveries and weakness in order booking in the process gas segment. However, we expect this to improve in couple of quarters as large projects pick up for the Oil & gas industry. Until then we expect growth to be gradually improving due to i) pickup in new products like Tezcatlipoca and semi-hermetic compressor Tyche ii) 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) ramp up in commercial sales of A/C compressors Zyphros. Therefore, we keep the target PE multiple unchanged.

We arrive at a TP of Rs1470 (Rs1400 previously), valuing the stock at 30x Dec'27E PER. Increase in TP is mainly due to valuation roll forward. At CMP of Rs1068, stock trades at 21x FY28 PE.

Exhibit 1: PE Valuation

PE Valuation	Dec'27E
EPS - Rs/sh	49.0
Attributed multiple	30
TP - Rs/sh	1,470
CMP - Rs/sh	1068
Upside	38%

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)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Particulars								
Revenue from operations	4900	2753	4307	3426	5916	2817	3864	4069
Raw materials consumed	2,754	1,346	2,197	1,767	3,338	1,388	2,022	1,965
Employee benefit expense	379	431	438	450	470	504	497	513
Other operational expenses	851	583	736	715	1,011	592	760	797
Operating EBITDA	916	393	935	494	1,097	333	585	794
Depreciation	84	78	78	65	71	75	78	81
EBIT	832	315	858	429	1,026	258	507	713
Interest	0	0	0	1	3	2	5	2
Other Revenue/Income	60	44	62	60	56	84	72	61
Exceptional items	84	0	0	0	39	0	0	183
Profit Before Tax	807	359	919	488	1,041	340	574	589
Tax	205	91	244	121	241	87	136	174
Profit After Tax	602	269	675	368	801	253	438	415
Adjusted PAT	686	269	675	368	839	253	438	598
Growth (%)								
Revenue	36%	14%	53%	11%	21%	2%	-10%	19%
EBITDA	91%	48%	195%	-6%	20%	-15%	-37%	61%
Adj. PAT	113%	50%	235%	5%	23%	-1%	-36%	64%
Margin (%)								
EBITDA	19%	14%	22%	14%	19%	12%	15%	20%
EBIT	17%	11%	20%	13%	17%	9%	13%	18%
PAT	12%	10%	16%	11%	14%	9%	11%	10%

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	17,848	20,598	24,268
COGS	4,507	5,603	6,972	7,119	8,649	9,245	10,670	12,498
<i>% of revenues</i>	55%	55%	56%	54%	53%	52%	52%	52%
Employee cost	1,143	1,310	1,452	1,639	1,789	1,981	2,266	2,669
<i>% of revenues</i>	13%	11%	9%	10%	9%	9%	9%	8%
Others	1,493	2,012	2,601	2,773	3,382	3,786	4,431	5,348
<i>% of revenues</i>	18%	20%	21%	21%	21%	21%	22%	22%
EBITDA	1,150	1,425	1,678	2,024	2,919	3,177	3,708	4,441
EBITDA margin (%)	14.0%	14.0%	13.5%	15.3%	17.8%	17.8%	18.0%	18.3%
Depreciation & Amortisation	376	352	335	355	291	336	396	456
EBIT	774	1,073	1,342	1,669	2,628	2,841	3,312	3,986
Finance cost	17	21	1	1	4	0	0	0
PBT from operations	757	1,052	1,341	1,668	2,624	2,841	3,312	3,986
Exceptional items	0	0	0	-84	-39	-183	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	3,346	3,653	4,433
Taxes	200	292	347	446	696	775	913	1,108
<i>Effective tax rate (%)</i>	24%	26%	24%	23%	24%	23%	25%	25%
Reported PAT attributable to shareholders	638	849	1,086	1,333	2,112	2,186	2,740	3,325
Adjusted PAT attributable to shareholders	638	849	1,086	1,417	2,150	2,369	2,740	3,325

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%	8.8%	15.4%	17.8%
EBITDA	8.8%	23.9%	17.7%	20.6%	44.3%	8.8%	16.7%	19.8%
Adjusted PAT	19.3%	33.0%	27.9%	30.5%	51.8%	10.1%	15.7%	21.4%
Margin Ratios (%)								
EBITDA	14.0%	14.0%	13.5%	15.3%	17.8%	17.8%	18.0%	18.3%
PBT from operations	9.2%	10.3%	10.8%	12.6%	16.0%	15.9%	16.1%	16.4%
Adjusted PAT	7.8%	8.3%	8.8%	10.7%	13.1%	13.3%	13.3%	13.7%
Return Ratios (%)								
ROE	11.8%	13.6%	14.9%	15.5%	20.9%	18.7%	20.1%	21.2%
ROCE	9.4%	12.1%	12.8%	13.5%	17.9%	16.5%	16.9%	17.6%
ROIC	18.7%	21.7%	20.6%	24.3%	34.1%	35.2%	35.4%	39.5%
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	33.7	42.2	51.2
BVPS	91.7	102.5	123.2	143.3	168.9	195.2	224.3	259.6
DPS	3.5	4.0	5.5	6.5	10.2	10.6	13.3	16.1
Valuation (x)*								
P/E (adjusted)	37.0	31.5	33.4	30.5	39.3	31.7	25.3	20.8
P/BV	4.0	4.0	4.5	4.4	7.6	5.5	4.8	4.1
EV/EBITDA	19.0	17.5	20.4	18.9	27.3	20.4	17.3	14.1
Dividend yield %	1.0%	1.0%	1.0%	1.0%	0.8%	1.0%	1.2%	1.5%

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	12,541	14,428	16,717
Shareholders' fund	5,886	6,585	7,952	9,246	10,962	12,671	14,558	16,847
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	2,254	2,602	3,047
Provisions	100	121	139	153	208	208	208	208
Total Liabilities	3,357	3,662	3,344	4,604	5,383	5,478	5,825	6,271
Total Equity and Liabilities	9,244	10,246	11,295	13,850	16,472	18,275	20,510	23,245
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	2,615	3,011	3,466
Net Block	1,724	2,273	2,180	2,280	3,116	2,977	3,581	4,126
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	3,977	4,581	4,376
Total Non-current assets	2,479	3,219	3,945	4,457	5,242	5,906	6,511	6,305
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	2,344	2,706	3,169
Sundry debtors	3,081	2,988	3,292	3,747	4,804	4,401	5,079	5,984
Cash	446	357	359	496	635	1,986	2,577	4,148
Other Bank balances	78	31	36	35	36	36	36	36
Total Current Asset	6,765	7,028	7,351	9,394	11,231	12,369	14,000	16,939
Total Assets	9,244	10,246	11,295	13,850	16,472	18,275	20,510	23,245

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	3,485	4,034	4,874
Trade and other receivables	-1,192	75	-307	-459	-1,098	403	-678	-905
Inventories	448	-884	260	-257	12	-191	-361	-464
Trade payables	84	247	-134	458	88	95	347	446
Changes in working capital	234	486	-763	440	771	0	0	0
Direct taxes	-164	-259	-343	-396	-654	-775	-913	-1,108
Cash flow from operations	566	1,091	398	1,834	2,150	3,017	2,429	2,843
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	2,017	1,429	2,593
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	-688	-863	-1,047
Cash flow from financing	98	-722	-284	-333	-458	-688	-863	-1,047
Net change in cash	176	-89	2	137	138	1,354	591	1,571

Source: Company, MNCL Research estimates

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