Investorstack Research Report

Kirloskar Oil Engines Limited

What Kirloskar Oil Engines Limited does

Kirloskar Oil Engines Limited (KOEL) is part of the Kirloskar Group, a 136-year-old Indian industrial conglomerate. KOEL manufactures internal combustion engines, generator sets, pumps, and farm mechanization equipment. It has operated for 78 years, runs 5 manufacturing facilities (Pune, Kagal, Nashik, Rajkot, Bhare), and employs 2,476 permanent people.

The company sits among the top 10 manufacturers worldwide by volume in the industrial and power generation space. In FY26, it sold over 1 million pumps and its international business crossed INR 1,000 crores in gross sales. KOEL serves both domestic and international markets across power generation, construction, mining, railways, defence, marine, agriculture, and data centers.

> *"We are now amongst the top 10 manufacturers in the world by volume in the industrial and Powergen space."*
>
> GAURI KIRLOSKAR, Q4 FY26 CONCALL (MAY 2026)

KOEL has publicly stated a goal to become a $2 billion enterprise by FY2030, called the 2B2B strategy. In FY26 it achieved standalone revenue growth of 25% and consolidated growth of 22%. The company's domestic business grew 21% while international grew 37% in group sales.

Business segments

KOEL reports six business segments. Five are under the standalone B2B and B2C operations; one (Arka Fincap) is a consolidated financial services subsidiary. Revenue-mix percentages are for FY25 standalone.

Power Gen (B2B) - 38.8% of FY25 standalone

This segment manufactures diesel and gas-powered gensets from 3 kVA to 12,000 kVA, including the Optiprime series of high-power-density gensets. It provides backup and prime power solutions for real estate, hospitality, data centers, telecom, manufacturing, infrastructure, healthcare, and retail. In FY26, Power Gen grew 32% annually and 30% in Q4. The overall DG market grew 18% to approximately 179,000 units, and KOEL sold upwards of 50,000 units, growing 41%.

Industrial (B2B) - 22.3%

Supplies industrial engines (20 hp to 1100 hp) for construction, mining, railways, defence, marine, nuclear, and fluid handling. In FY26, industrial revenues were INR 1,444 crores, growing 22%. The construction segment grew 44% in Q4, validating the company's products under the new CEV BS-V emission standard. High horsepower engines recorded 235% growth in Q3 FY26.

Distribution and Aftermarket (B2B) - 16.6%

Provides spare parts, annual maintenance contracts, service, and allied products (batteries, oils, filters) through a network of 450+ service touchpoints and 400+ distributors. The company is transitioning from a parts provider to a complete ecosystem manager, increasing AMC penetration. This segment grew 15% annually and 20% in Q4 FY26.

International Business (B2B) - 10.3%

Exports and international sales of engines, gensets, and power solutions through subsidiaries (Kirloskar Americas, Kirloskar International ME FZE) and a genset OEM (MYSPAN) in the Middle East. International gross sales crossed INR 1,000 crores in FY26. Middle East and North Africa account for roughly 60% of international sales. The company distinguishes between exports (shipping through agents) and being international (building local presence with offices, people, and possibly manufacturing).

Fluid Dynamics (B2C) - 12.9%

Water management solutions including diesel and electric pump sets, submersible pumps, and surface pumps. Sold under Kirloskar and LGM brands. After a restructuring where the B2C business was transferred to wholly owned subsidiary La-Gajjar Machineries (LGM) via slump sale in October 2025, this segment is now reported as Fluid Dynamics. It grew 10% domestically and 13% internationally in Q4 FY26. On an annual basis, domestic grew 6% and international 36%.

Arka Fincap (Financial Services)

A non-banking financial company providing structured term financing to corporate, real estate, and MSME borrowers, with a growing granular secured retail book (used vehicles, small-ticket loans against property). Arka's AUM grew 10% to INR 7,947 crores in FY26. The company is pivoting from wholesale to retail lending, having scaled from 34 to 137 branches in FY26. Net interest income rose 11% to INR 266 crores. Asset quality remained stable with GNPA at 1.2% and NNPA at 0.3%.

Products and business detail

Optiprime Gensets

The Optiprime series is a space-efficient design that integrates multiple engines under a single canopy, ranging from 125 kVA to 12,000 kVA. It delivers high power density and a reduced installation footprint. The world's smallest 1,000 kVA genset belongs to this range. Designed for sectors where space is limited and uninterrupted performance is critical: data centers, commercial real estate, infrastructure projects, large institutions. The company sold a few hundred Optiprimes in FY26.

> *"We have sold units up to 3,000 kVA now... we have the capability to address nodes even beyond 3,000."*
>
> RAHUL SAHAI, Q4 FY26 CONCALL (MAY 2026)

Sentinel Range Gensets

Launched in FY26, a new range of power generators for backup power across residential, commercial, and industrial users. The new products "are seeing good traction" (Aug 2025 concall).

6.3 MW Emergency Diesel Gensets (NPCIL Order)

KOEL is executing an order from the Nuclear Power Corporation of India for 10 units, each 6.3 MW, for emergency power in nuclear plants. Total basic order value is INR 798 crores. Execution timeline by 2029. This is a large, mission-critical project that demonstrates capability at the highest nodes.

6 MW Medium Speed Marine Diesel Engine (Make-I)

Under the Make-I category with the Indian Navy, KOEL is developing a fully indigenous marine propulsion engine with over 50% indigenous content. The project sanction order is valued at INR 270 crores for prototype development. The company has completed and submitted the detailed design. Successful execution could lead to follow-on orders for the Indian Navy and Coast Guard.

High Horsepower (HHP) Segment

KOEL's HHP segment grew 235% in Q3 FY26 and 132% over nine months. Market share was negligible a couple of years ago; it is now approaching double digits. The company has products from 1,000 kVA to 3,000 kVA and beyond. Single-engine units currently go up to 1,650 kVA for data centers, with capability to go larger.

Water Management Pumps

A range of diesel and electric pump sets, including submersible and surface pumps, for agricultural and domestic water supply. The company sold over 1 million pumps in FY26.

Farm Mechanisation Equipment

Power tillers, power weeders, rotary tillers, and hand-held tools for small and marginal farmers. This business was restructured and moved to B2B classification in FY26.

Alternative Fuel Engines

KOEL has developed engines running on natural gas, ethanol, methanol, biogas, and hydrogen blends. Natural gas gensets have been launched. The company sees this as a long-term opportunity but notes nothing meaningful in terms of demand yet.

Customers

KOEL's customer base spans government, corporate, and retail segments.

Government and Defence

- **Nuclear Power Corporation of India (NPCIL)**: 10 units of 6.3 MW gensets. The buying process is technical and mission-critical. Entry barriers are high; once selected, switching costs are enormous.
- **Indian Navy**: Make-I marine engine development. This is a prototype order; success could open a pipeline for indigenous naval propulsion engines.
- **Indian Railways**: Power cars and other engine applications. KOEL developed a 400 HP engine for rail maintenance utility track vehicles.

Data Center Operators

KOEL is active in edge, colo, and hyperscaler segments. The data center market is specification-driven, often requiring U.S.-based specifications. KOEL has won multiple orders in this segment. The company does not disclose specific customer names but notes traction is encouraging.

Construction and Mining OEMs

These customers typically take 18 months or more for technical alignment, product fit assessments, and proto testing. KOEL's construction segment grew 44% in Q4 FY26, indicating strong acceptance under CEV BS-V norms.

Switching costs are high once an engine is designed into an OEM's equipment.

Real Estate and Hospitality

Large commercial and residential developments use KOEL gensets for backup power. This is a broad-based segment.

Agricultural Distributors and Cooperatives

KOEL sells pumps and farm equipment through a distributor network to farmers and agricultural cooperatives.

International Customers

- **MYSPAN Power Solutions**: Exclusive genset OEM (GOEM) for Middle East and North Africa. This appointment stabilized growth in the region.
- **Kirloskar Americas**: Serving the U.S. and Americas market, but still in investment phase. Kirloskar Americas had a loss in FY25 due to upfront investment.
- **South Africa**: KOEL established its own entity and office to build capability.

Concentration and Contract Structure

No single customer dominates revenue. Large government orders like NPCIL are lumpy but spread over years. Distribution and aftermarket revenue is recurring from an installed base. International business is more project-based through GOEMs and distributors.

Competitive landscape

Industry Structure

The Indian diesel generator market is organized around a few major players plus a large unorganized segment. Cummins India has historically been the market leader. KOEL is the second-largest organized player. In the low and medium horsepower segment, competition is intense on price. In high horsepower, competition is specification-driven and includes global players.

Key Competitors

COMPETITOR	SEGMENTS	KOEL'S POSITION
Cummins India	Power generation, industrial engines	Largest organized player; KOEL has gained market share recently
Caterpillar	Large gensets, industrial	Present in HHP; KOEL competing with Optiprime
Generac	Power generation (US market)	KOEL's American subsidiary faces Generac
Kohler	Power generation (US market)	Similar to Generac
Ashok Leyland	Industrial engines	Competes in some industrial applications
Greaves Cotton	Industrial engines	Overlaps in smaller engines
BHEL	Large power solutions	Not direct across most nodes
Regional/unorganized players	Pumps, farm equipment	KOEL's brand and service differentiate

Why KOEL Wins or Loses

Wins when: Customers value a strong service network (450+ touchpoints), in-house R&D for emission compliance, and broad portfolio from 3 kVA to 12,000 kVA. KOEL's service becomes proprietary with CPCB IV+ engines, locking in aftermarket revenue. The company's engineering team can develop products internally, giving speed and cost advantage. In HHP, the Optiprime configuration offers space savings that single-engine solutions cannot match.

Loses when: Price is the primary decision factor, especially in low horsepower retail segments where unorganized players compete. In data centers, specification-driven sales favor incumbents like Cummins and Caterpillar who have long relationships with consultants. In the U.S. market, KOEL is still investing and has negligible share.

Market Share Dynamics

KOEL has gained market share across all nodes in the last few quarters. In HHP, where share was negligible two years ago, it is approaching double digits. The company grew Power Gen 41% in FY26 versus industry growth of 18%. Management acknowledges market share improvement is sustainable given product readiness and service capability.

> *"our numbers clearly indicate market share improvements across the board."*
>
> GAURI KIRLOSKAR, Q3 FY26 CONCALL (FEB 2026)

Industry

Demand Drivers

- **Infrastructure spending**: Government capex allocation at 3.1% of GDP in Budget 2025-26 drives demand for gensets and industrial engines.
- **Data center buildout**: India's data center capacity is expanding rapidly, requiring diesel generators for backup power. This is a structural growth driver for HHP gensets.
- **Real estate growth**: Commercial and residential construction remains strong.
- **Rural electrification and water management**: Demand for pumps for irrigation and water supply.
- **Make in India and defence indigenization**: Orders like NPCIL and Naval marine engine support long-term growth.
- **Emission norm transitions**: CPCB IV+ (for power generation) and CEV BS-V (for construction equipment) create demand for compliant products and aftermarket service.

Market Size

The diesel generator market in India grew 18% in FY26 to approximately 179,000 units (including telecom). KOEL grew 41%, selling upwards of 50,000 units. The industrial engines market is larger but more fragmented; KOEL participates in the organized segment.

India's Place in Global Supply Chain

India is a manufacturing hub for engines and gensets, with KOEL exporting to 60+ countries. The global push for supply chain diversification (China+1) benefits Indian manufacturers. KOEL's international business crossed INR 1,000 crores in gross sales. The Middle East contributes roughly 60% of international sales, followed by Africa and Southeast Asia.

Import Substitution

KOEL's development of the 6 MW marine diesel engine for the Indian Navy under the Make-I category is a direct import substitution project. India previously relied on foreign OEMs for such engines. Successful execution could reduce dependence on imports and open a domestic supply chain.

Regulation

- **CPCB IV+** for power generation gensets up to 800 kW. KOEL has fully transitioned its portfolio.
- **CEV BS-V** for off-highway vehicles (construction equipment). KOEL successfully emissionized its full portfolio and grew 24% in the construction segment despite the transition.
- **EPA/CARB Tier 4 Final** certification for the U.S. market. KOEL is in the process of certifying new engine families.
- State pollution control board norms for gensets above 800 kW.

Cyclicality

Power Gen and industrial segments are linked to economic cycles and infrastructure capex. KOEL has experienced volume volatility during emission norm transitions (pre-buy followed by correction). However, structural factors like data center buildout, defence indigenization, and aftermarket service revenue provide a floor. The company's shift to HHP and international markets also diversifies cyclical risk.

Geopolitical Risks

U.S. tariffs on imports could impact Kirloskar Americas, though the company sees long-term opportunity in North America. Middle East instability may cause short-term disruption but could also create rebuilding demand. KOEL's management notes that any impact is not unique to the company and that their presence in key regions positions them for eventual recovery.

Growth triggers

- **High horsepower segment gaining share** – KOEL now approaching double digits in the HHP segment, up from negligible levels a few years ago. The HHP segment recorded 235% growth in Q3 FY26 and 132% growth for the nine-month period. (Q4 FY26 concall, May 2026; Q3 FY26 concall, Feb 2026)
- **Data center segment wins across edge, colo, and hyperscaler tiers** – The company has secured orders for 2,500 kVA and 3,000 kVA gensets in this segment. Management describes the response as "encouraging" and sees a unique proposition for data center customers. (Q4 FY26 concall, May 2026; Q3 FY26 concall, Feb 2026; Q2 FY26 concall, Nov 2025)
- **International expansion with structural moves** – International business crossed INR 1,000 crores in gross sales for the first time, growing 37% in group sales. Key drivers include the appointment of a genset OEM (MYSPAN) in the Middle East and North Africa, a new subsidiary in UAE, and a South Africa entity. The Middle East contributes about 60% of international sales and the strategy there has stabilized. (Q4 FY26 concall, May 2026; Q3 FY26 concall, Feb 2026; Q2 FY26 concall, Nov 2025)
- **Capacity expansion on two fronts** – INR 700 crore investment for 50,000 engines (coming online by April 2027) and a new INR 1,400 crore investment for 20,000 HHP engines including a new building at the Kagal plant, over the next two years. (Q4 FY26 concall, May 2026)

- **Defence and nuclear orders providing long-duration visibility** – NPCIL order for 10 units of 6.3 MW emergency gensets (INR 768 crore basic value, execution by 2029) and the Indian Navy Make-I order for a 6 MW marine diesel engine (INR 270 crore prototype). Successful execution opens follow-on opportunities for larger volumes. (Q4 FY26 concall, May 2026; Q3 FY26 concall, Feb 2026; Q1 FY26 concall, Aug 2025)
- **Alternative fuel engine development** – KOEL is developing biogas, 100% biodiesel, ethanol, methanol, and hydrogen-blend engines. Natural gas gensets have already been launched. Management sees this as a long-term growth lever as demand for cleaner power solutions increases. (Q4 FY26 concall, May 2026)
- **Overall market outperformance** – While the diesel generator market grew 18% to ~179,000 units in FY26, KOEL grew 41%, selling upwards of 50,000 units. This demonstrates broad market share gains across nodes. (Q4 FY26 concall, May 2026)

Key risks

- **Geopolitical uncertainty and global trade tariffs** – US tariffs on imports directly impact Kirloskar Americas, a subsidiary still in investment phase. Broader trade disruptions could slow order momentum in the Middle East (60% of international sales). Management noted that they "may see short to medium-term structural changes" but also see potential tailwinds from rebuilding activity. (Q4 FY26 concall, May 2026)
- **Raw material cost inflation** – Copper, pig iron, and other commodity prices are rising. The company evaluates price increases periodically, but competitive resistance could limit pass-through, especially if market conditions weaken. Gross margins are flat despite revenue growth, suggesting limited pricing power in some segments. (Q4 FY26 concall, May 2026; Q3 FY26 concall, Feb 2026)
- **Intense competition in HHP and data center segments** – Global players like Cummins and Caterpillar have long-standing relationships with consultants and specifiers, especially for data centers. Gaining share requires technical approvals, prototype testing, and service capability building. The risk is that KOEL's momentum stalls if competitors respond aggressively. (Q1 FY26 concall, Aug 2025; Q2 FY26 concall, Nov 2025)
- **Cyclicality in domestic demand** – Power Gen and industrial segments are tied to infrastructure and real estate cycles. While current demand is broad-based, a slowdown in government capex or private investment could reduce volumes. The company experienced a subdued Q1 FY26 in the LHP segment during the CPCB IV+ transition, illustrating vulnerability to regulatory-driven downturns. (Q1 FY26 concall, Aug 2025; Q2 FY26 concall, Nov 2025)
- **Execution risk on large orders and capacity expansion** – The NPCIL and Navy orders require complex, milestone-based delivery over 3-5 years. The INR 1,400 crore capex doubles the current gross block; any delays or cost overruns could impact profitability and growth timelines. Management acknowledges that execution of the nuclear project is "absolutely critical" and is tracked on a regular cadence. (Q4 FY26 concall, May 2026; Q3 FY26 concall, Feb 2026)

Walk the talk

At the start of its 2X3Y journey in FY23, KOEL set an ambitious public goal: double the business in three years. The company concluded FY25 with 1.6x topline growth, 2.4x EBITDA growth, and 2.6x cash generation. Building on that momentum, management announced the 2B2B strategy to reach $2 billion by FY30. In the Q4 FY26 call, Gauri Kirloskar stated:

> *"We are progressing well against our goal to be a USD2 billion company by Fiscal Year 2030 and our numbers indicate that progress." – Gauri Kirloskar, Q4 FY26 concall (May 2026)*

This promise was first articulated in the FY25 Annual Report, and the company has since delivered a 25% standalone revenue growth in FY26, putting it ahead of the linear path to the target.

On the capex front, the company had indicated in the Q3 FY26 concall that it was deploying INR 700 crores into ramping up operations. Rahul Sahai said:

> *"There is a capex plan... INR700 crores of capex that we are deploying into ramping up our operations. A lot of that work is currently ongoing." – Rahul Sahai, Q3 FY26 concall (Feb 2026)*

By the Q4 FY26 call, management confirmed the INR 700 crore expansion was on track and announced a new, larger investment. Gauri Kirloskar elaborated:

> *"The INR700 crores ... is coming online by April of next year and 50,000 engines. ... We are investing close to INR1,400 crores on that [20,000 HHP engines at Kagal]." – Gauri Kirloskar, Q4 FY26 concall (May 2026)*

The company delivered both the committed capacity and an incremental, more ambitious plan, demonstrating execution capability and confidence.

On margin improvement, management consistently highlighted that the focus on advanced products, aftermarket, and exports would drive margins higher. In the Q3 FY26 call, Gauri Kirloskar stated:

> *"We hope to continue to improve margins over that time because our focus areas continue to be Advanced products, Aftermarket and Exports." – Gauri Kirloskar, Q3 FY26 concall (Feb 2026)*

The outcome was delivered in FY26. Sachin Kejriwal reported in the Q4 FY26 call:

> *"EBITDA margin at 13.1% for FY 26 versus 12.2% for FY 25, growth of 90 basis points." – Sachin Kejriwal, Q4 FY26 concall (May 2026)*

The margin improvement was achieved despite investments in channel expansion and new product launches, validating the operating leverage thesis.

Scenarios

Bull case

KOEL's market share gains in the high horsepower segment accelerate as Optiprime and single-engine nodes up to 3,000 kVA become established in data centers, large infrastructure projects, and defence applications. The company wins multi-year contracts with hyperscaler data center operators, leveraging its space-efficient design and service network. International business doubles over three years as the Middle East GOEM scales, the African market gains traction through the new South Africa entity, and Kirloskar Americas finally reaches break-even after completing EPA certifications. The INR 700 crore capacity expansion ramps ahead of schedule, and the INR 1,400 crore HHP plant comes online by FY28, enabling KOEL to capture a 15-20% share in the domestic HHP genset market. Defence orders flow in: successful prototype delivery to the Indian Navy leads to a large production order for marine engines,

while the NPCIL nuclear genset order is completed on time, opening doors for repeat business in the nuclear power program. Alternative fuel engines (biogas, hydrogen blends) become commercially viable in select geographies, positioning KOEL as a future-ready energy company. The company consistently delivers 18-20% consolidated revenue growth, reaching the $2 billion target ahead of FY30.

Base case

KOEL continues its strong but not explosive trajectory. Power Gen grows 15-18% annually, driven by broad-based infrastructure demand and steady gains in the LHP segment. The HHP segment improves market share to 10-12% over three years, supported by Optiprime wins in colo and edge data centers but limited penetration in hyperscalers due to long specification cycles. International business grows 15-20% per year, with the Middle East performing steadily and Africa showing gradual improvement; Americas remains a small contributor but stops being a drag on cash. The INR 700 crore capacity expansion completes on time, while the INR 1,400 crore capex is executed in phases, with the building and first lines operational by FY29. Defence and nuclear orders are executed according to milestones, providing predictable revenue but no surprise upside. Margins improve slowly, reaching 14-15% EBITDA over three years as HHP and aftermarket mix improve, but raw material inflation and competitive pricing in LHP cap the upside. The $2 billion target is achieved by FY31, a year later than planned, but the company demonstrates consistent mid-teens growth and healthy cash generation.

Bear case

A sharp global recession triggered by escalating tariffs and geopolitical conflict hits capital goods demand. KOEL's international business, especially the Middle East, sees order cancellations as infrastructure projects are paused. The company's US subsidiary, already loss-making, requires additional capital infusions. Domestically, a slowdown in Indian government capex and real estate activity reduces Power Gen volumes by 10-15%. The HHP segment, where KOEL invested heavily, fails to gain meaningful traction as incumbents like Cummins and Caterpillar cut prices to defend share, compressing margins. The INR 1,400 crore capex is delayed due to supply chain issues or slower-than-expected demand, leading to cost overruns and under-absorption. The NPCIL and Navy orders face technical challenges or delays, pushing revenue recognition beyond 2029 and tying up engineering resources. Raw material inflation persists, and competitive pressure prevents full pass-through, squeezing EBITDA margins below 11%. The company's NBFC subsidiary, Arka, faces asset quality deterioration as its retail book growth strains risk management, requiring a provision hit. KOEL's growth stalls, and the $2 billion target is pushed beyond 2033, with management credibility damaged.