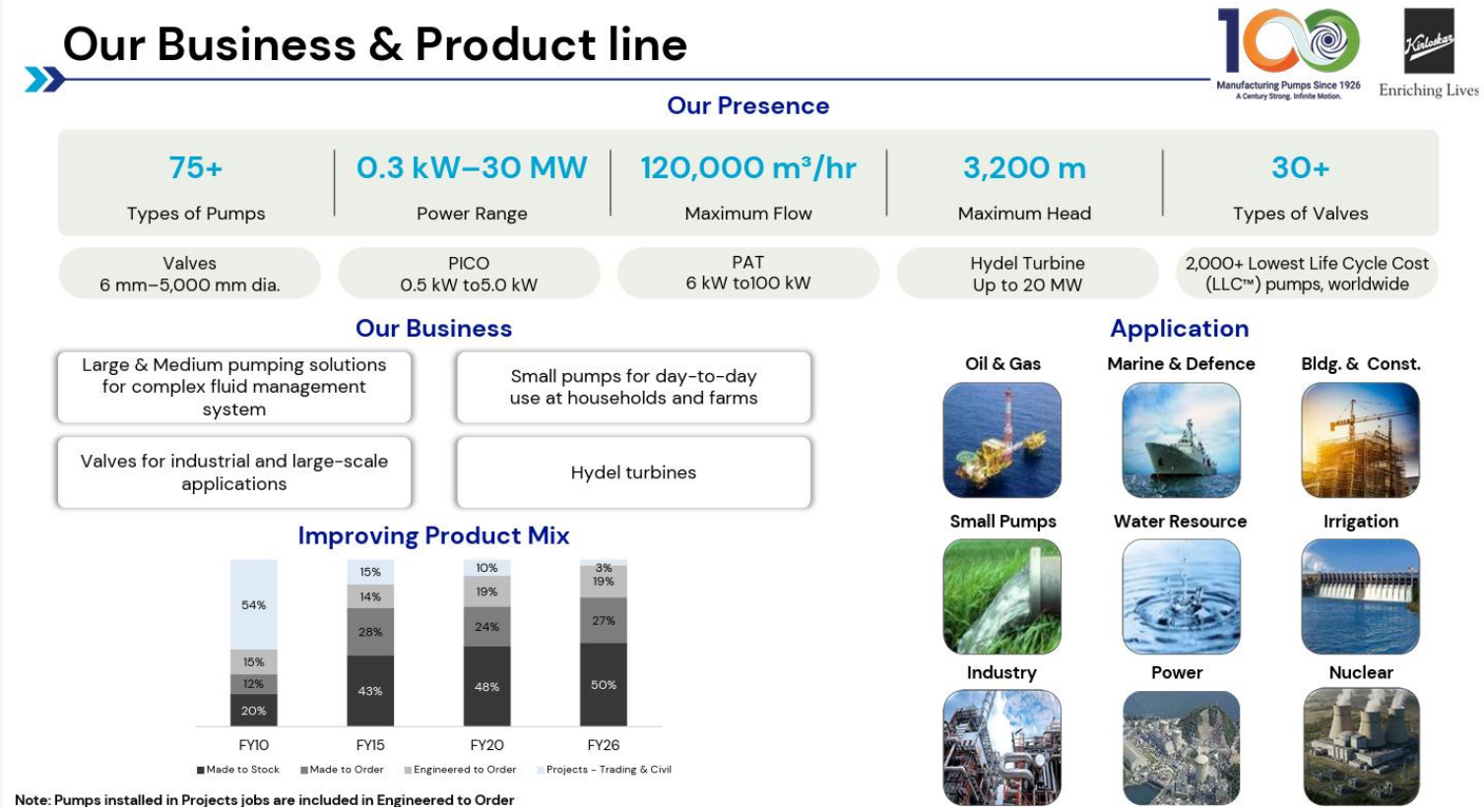
Kirloskar Brothers Ltd. – Investment BUY Call Thesis

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 8 Oct 2026

CMP -> 1670
Buying Range -> up to 1710
Upside Potential-> 17%
Investment Horizon -> 9 to 12 Months
Target price -> 1960

Company's Product Line and Application Sectors:



1. Business Model, Competitive Positioning & Diversified Fluid-Management Platform

Business model: Kirloskar Brothers Limited (KBL) has transformed from a conventional pump manufacturer into a diversified fluid-management company spanning standard pumps, engineered systems, valves, industrial applications and recurring aftermarket services. Its strategic shift away from low-margin, working-capital-intensive EPC activity is important: EPC has reduced from around three-fourths of revenue in 2010 to only about 3% currently, while the portfolio increasingly comprises made-to-stock, made-to-order and engineered-to-order products supported by service contracts and digital solutions. This should structurally improve revenue quality, working-capital discipline and cash-flow visibility.

Portfolio depth: The domestic business ranges from borewell and agricultural pumps to highly engineered pumps for thermal power, nuclear applications and other critical infrastructure. More than half of the standalone product mix is made-to-stock, while engineered and made-to-order products address higher-value applications. Long-term framework contracts, annual maintenance contracts and KirloSmart™ IoT-based monitoring provide an increasing recurring-revenue layer beyond the initial equipment sale.

Diversified global platform: KBL operates through manufacturing and operating entities across India, the UK, USA, Netherlands, South Africa and Thailand. The international portfolio includes fire pumps, packaged pumping systems, oil-and-gas pumps, mining/slurry pumps and water-related applications. This geographic diversification reduces dependence on one domestic end-market, while local manufacturing and sourcing capabilities in overseas markets create a competitive advantage versus pure exporters.

2. Q1FY27 Financial Performance Signals Improving Domestic Profitability & Better FY27 Setup

Latest-quarter performance: Q1FY27 consolidated revenue increased 13% YoY to INR 1,104.9 crore, while consolidated EBITDA rose 2% to INR 130.6 crore, with EBITDA margin at 11.8%. More importantly, standalone revenue increased 9% YoY to INR 673.8 crore, standalone EBITDA grew 16% to INR 92.0 crore and PAT increased 15% to INR 54.0 crore. Standalone EBITDA margin improved to approximately 13.7% from 12.8%, indicating that domestic profitability is currently growing faster than revenue.

FY26 base & recovery potential: FY26 consolidated revenue was INR 4,538 crore, up 1% YoY, while EBITDA was INR 621.3 crore at a 13.7% margin and PAT was INR 377.2 crore. Q4FY26 was stronger, with revenue of INR 1,415.1 crore, EBITDA of INR 209.3 crore at a 14.8% margin and PAT of INR 112.1 crore. FY26 therefore represents a relatively low-growth base, particularly in domestic operations, against which FY27 has scope for a better growth and operating-profit trajectory.

Quality of earnings & ownership: The Q1 consolidated margin decline was largely a mix issue caused by weaker contribution from high-margin UK services rather than broad-based domestic deterioration. Management has also indicated that its January price increases of roughly 10% are considered sufficient to offset raw-material inflation. As per the ownership data supplied, promoters held approximately 66% as of 30 June 2026, remained broadly consistent over the past decade and have not been selling, which supports promoter alignment. Explicit ROE/ROCE percentages are not disclosed in the supplied source, so the investment case is instead supported through improving EBITDA/PAT, asset-lighting of the project mix, zero debt and strong cash conversion.

3. Zero-Debt Balance Sheet, Strong Cash Conversion & Internal-Accrual-Funded Expansion

Balance-sheet strength: KBL's annual-report positioning is particularly constructive from a risk-adjusted investment perspective: the company is described as zero-debt, with capex funded through internal accruals and capital allocation based on returns. This materially reduces financial risk during uncertain macroeconomic and geopolitical conditions and preserves flexibility to fund modernization, debottlenecking, product development and expansion without depending on external leverage.

Cash-flow conversion: CFO/PAT remained above 90% in each of the last five FYs, while CFO/Operating Profit remained above 75%, indicating consistently strong cash-flow conversion. The fact that CFO has historically exceeded PAT in several years provides additional support for earnings quality, while the declining trend also warrants monitoring as growth accelerates and working capital requirements rise.

Financial Year	CFO / PAT (%)	CFO / Operating Profit (%)
FY22	140%	76%
FY23	146%	99%
FY24	111%	95%
FY25	96%	90%
FY26	93%	86%

Capex, modernization & execution infrastructure: Over the recent period, KBL has invested in foundry modernization, manufacturing automation, debottlenecking, quality infrastructure and digital systems. Management has stated that normalized annual capex is generally around depreciation, with priority given to modernization, debottlenecking and quality requirements rather than aggressive balance-sheet expansion. The company also has 16 facilities, eight in-house foundries and a broad domestic/overseas manufacturing footprint; the TKSL merger into KPML further strengthens backward integration in steel castings for thermal and nuclear pumps.

4. Growth Catalyst 1 – Nuclear, Thermal Power & Defence - Higher-Value Engineered-Order Cycle

Nuclear opportunity: Nuclear is emerging as one of the most important medium- to long-term optionality drivers for KBL. During Q1FY27, the company secured approximately INR 70 crore of primary-circuit pump orders and nearly INR 40 crore of secondary-circuit orders. Management stated that hydraulic and mechanical performance for the next-generation nuclear program has been demonstrated, while the earlier metallurgy constraint is being mitigated through permissible imports, allowing participation in the current tender process. KBL also continues to develop prototypes and intellectual property internally for future nuclear programs.

Thermal power: Power was identified by management as one of the strongest domestic verticals, encompassing both coal-fired and nuclear power. Concrete Volute Pumps have become a key engineering franchise, supported by a large installed base and long operating life. FY25-26 power-sector order booking reached approximately INR 228 crore, including orders from Adani Power across six thermal projects, providing visibility as new thermal capacity is added.

Defence & strategic manufacturing: The company has also supplied hermetically sealed canned motor pumps for INS Taragiri and INS Udaygiri and strengthened its role as a supplier of mission-critical equipment. The combination of nuclear, defence and large thermal applications is strategically attractive because these products are qualification-intensive, technically complex and less commoditized, potentially supporting higher realization, longer customer relationships and better barriers to entry.

5. Growth Catalyst 2 – US Data Centres, Packaged Systems & International Expansion

US data-centre growth: The US business is becoming a structurally important growth vector. Management indicated more than 20% growth in the US operation, with data centres, fire systems, HVAC projects and infrastructure supporting demand. Around 25% of US revenue is now related to data centres. Importantly, KBL is positioning itself as a systems provider rather than a commodity pump supplier by offering modular, containerized, pre-piped and plug-and-play systems incorporating pumping, piping and controls.

Large framework opportunity: Management also disclosed that SPP USA was in the final stages of signing a multinational framework agreement with a major US data-centre operator, potentially covering the operator's data-centre deployments globally. This is strategically significant because a successful framework can provide repeat business, better account penetration and stronger visibility than project-by-project selling. The model is also being supported by expansion of distribution, with the US network increasing materially from earlier levels.

International operating leverage: Q1FY27 international revenue grew 19% YoY, led by SPP USA and Thailand. The near-term issue is profitability rather than demand: international EBITDA margin was 5.1% because the UK service contribution was lower. Consequently, a recovery in UK services, improved Dutch execution and continued US growth can create asymmetric earnings potential because international revenue growth is already established while margins remain below normalized potential.

6. Growth Catalyst 3 – UK Services Recovery, Water Utilities & Global Aftermarket Mix

SPP UK service normalization: The largest international margin headwind has been the decline in high-margin service activity at SPP UK as chemical and petrochemical customers reduced maintenance activity amid high energy costs. Management expects services to begin improving from the relevant Q3 period, with higher-margin contracts involving power plants and water utilities expected to increase the blended margin over the next several quarters.

Water-utility shift: SPP UK has already won a United Utilities framework covering almost all of Eastern England. This represents a strategically important pivot away from dependence on energy-intensive industrial customers towards utilities and infrastructure, where demand is more recurring and less directly tied to industrial energy economics. Framework agreements with PETRONAS and Azerbaijan further strengthen the service and project pipeline.

KEPL & Aftermarket opportunity: KEPL had been affected by delayed dispatches and shipping constraints in FY26, but management confirmed those orders were dispatched in Q1FY27 & expects double-digit growth in bookings and revenue, supported by Gulf & African export opportunities. JV had an order book of approximately INR 351.7 crore across API 610 pumps and steam turbines. At the same time, KBL's aftermarket framework contracts of 3 to 5 years, AMCs and digital monitoring solutions provide a route to higher-margin recurring revenue across the installed base.

7. Growth Catalyst 4 – Domestic Infrastructure, Water, Oil & Gas and PetroTurbo

Infrastructure, water and urbanization: Management identified building and construction, infrastructure, water and irrigation among the strongest domestic demand areas. India's continuing urbanization, water-security requirements, smart-city development and infrastructure investment should support demand for pumps and fluid-management systems. KBL's ability to bundle differentiated products is an important advantage where customers value lifecycle performance rather than only initial equipment price.

PetroTurbo retail petroleum opportunity: The PetroTurbo program provides a differentiated import-substitution opportunity in retail petroleum pumps. Cumulative bookings had reached approximately INR 217 crore by the end of Q1FY27, with around INR 74 crore dispatched in Q1. Management highlighted a limited buyer universe of three to four large public-sector oil companies, with KBL qualified across them, which could support a recurring replacement and rollout opportunity as the installed base expands.

Order-book visibility: At Q1FY27, the pending domestic order book was approximately INR 2,557.7 crore and overseas pending orders were approximately INR 1,504.5 crore. Retail/small-pump business is largely delivered within the same month, so the reported order book predominantly reflects larger pending engineered and project opportunities. Management remains confident of delivering double-digit standalone revenue growth in FY27, although it has cautioned that order inflows in capital goods can be lumpy and should not be judged quarter-to-quarter.

8. Growth Catalyst 5 – Operating Leverage Through Product Mix, Services, Digitalization & Backward Integration

Higher-margin mix: Compelling earnings lever is migration towards engineered made-to-order products, services & spares. Management expects EBITDA and profitability growth from a higher share of engineered products and easing commodity pressures. In Q1FY27, Customer Support/Engineering Services recorded an unusually high order intake of approximately INR 232 crore versus a typical INR 80–100 crore quarterly level and management confirmed that the mix should be EBITDA-accretive, although it cautioned against treating the one-quarter spike as a permanent run-rate.

Backward integration & utilization: The merger of TKSL into KPML has created greater internal access to steel castings required for large thermal and nuclear pumps while also providing surplus land for future expansion. KPML's margin had fallen from 12.5% to 7.3% because TKSL was loss-making, but management expects a turnaround as output rises and demand for large castings increases. Higher utilization at these facilities should therefore create operating leverage once the restructuring benefits begin to flow through.

Digital and recurring-revenue expansion: KirloSmart™ 2.0, KirloSmart™ Fire, KirloSmart™ Nano, IoT controllers, VFDs, Dolphin analytics and Apollo's AI-enabled tendering tools are strengthening KBL's technology proposition. IoT adoption is already in the hundreds, with applications extending from industrial customers to municipal water and irrigation pump houses where remote monitoring can reduce maintenance requirements. Over the long term, digital monitoring can increase aftermarket attachment, improve customer retention and support a higher recurring-revenue mix.

9. Short-Term Headwinds & Risks – Execution, Margin Mix, Order Timing and Domestic Sector Friction

International margin pressure: Immediate earnings risk is low international EBITDA margin. SPP UK services remain below normal levels because European chemical and petrochemical customers have reduced maintenance activity, while Rodelta has faced delayed execution and integration challenges. Management expects improvement over the next two to three quarters, but the timing of the recovery remains a key swing factor for consolidated margins.

Execution & order-timing volatility: KBL's capital-goods business is inherently lumpy & management has repeatedly cautioned that large orders can be delayed & then arrive in batches. Q4FY26 domestic performance was affected by delayed funding in the Jal Jeevan Mission ecosystem, state-level fund-release delays and investigations affecting shipments. The agricultural small-pump business also faced adverse H1 seasonality. While the ERP transition and foundry modernization issues have largely stabilized, residual execution noise could still affect quarterly revenue recognition.

Margin and customer-call-off risk: PetroTurbo production readiness does not automatically translate into immediate revenue because dispatch depends on customer acceptance and call-offs. Similarly, higher oil-and-gas product contribution can dilute margins relative to services. Investors should therefore focus on the trend in consolidated service mix, domestic engineered-order execution and conversion of backlog into revenue and cash rather than extrapolating any single quarter.

10. Short-Term Macro, Geopolitical, Regulatory & Supply-Chain Risks

Geopolitical and policy uncertainty: Management itself has highlighted geopolitical conflict, trade realignment, tariff volatility, inflation and uneven global recovery as key risks. The company's international operations expose it to changes in trade policies, local-content requirements and foreign-exchange movements. These factors could create earnings volatility even when underlying demand remains healthy. KBL mitigates part of this risk through diversified geographies and more than 70% localization, but international uncertainty cannot be eliminated.

Middle-East, freight, FX and supply-chain risk: A volatile global environment involving wars and geopolitical tensions could increase freight, logistics, insurance, energy and component costs, particularly for export orders linked to the Gulf, Africa and other international destinations. Management has already highlighted prior shipping-related delays affecting international orders, while gas availability had previously influenced manufacturing and supply-chain economics. Forex movements could also affect reported consolidated profitability because the group earns and incurs costs across several currencies.

Regulatory and government-policy risk: Domestic water-sector execution remains partially dependent on the timing of government and state-level fund flows, while nuclear opportunities are dependent on program approvals, tender timelines and qualification processes. In international markets, tariff and local-sourcing rules can alter competitiveness or compliance costs. The key positive is that KBL's localized overseas manufacturing footprint and stringent commercial discipline—including advance payment or letters of credit for certain orders—reduce working-capital and counterparty risk.

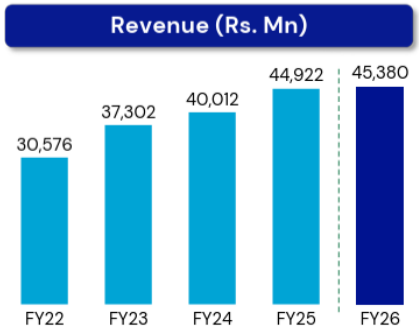
11. Conclusion – BUY Conviction for 9 to 12 Months

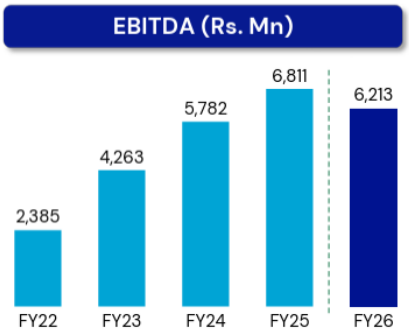
Improving FY27 earnings trajectory: KBL enters FY27 with a substantially better operating setup than FY26. Q1FY27 demonstrated strong domestic earnings growth, with standalone EBITDA up 16% and PAT up 15%, while the domestic margin improved to approximately 13.7%. Management remains confident of double-digit FY27 standalone revenue growth and the domestic plus international pending order book provides meaningful execution visibility.

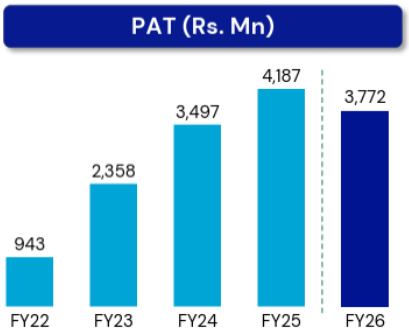
Multiple identifiable catalysts: The next 9–12 months offer several potential earnings drivers operating simultaneously: nuclear and thermal power ordering, PetroTurbo execution, US data-centre expansion, SPP UK service recovery, water-utility frameworks, KEPL export growth, TKSL turnaround, higher service/engineering contribution and continued digital/aftermarket penetration. Importantly, the investment case is not dependent on a single theme; it combines domestic infrastructure demand, international growth and mix-driven margin expansion.

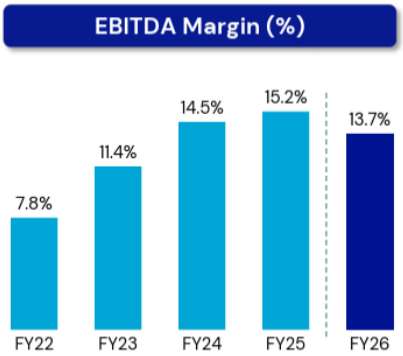
Risk-adjusted BUY thesis: KBL's zero-debt balance sheet, internal-accrual-funded capex, strong historical cash conversion, high promoter ownership and disciplined commercial practices provide a relatively strong financial foundation against a volatile macro environment. The principal near-term risk remains international margin weakness and execution timing, but management expects normalization over the next few quarters. On balance, the combination of improving domestic profitability, strong order visibility, higher-margin engineered/service opportunities and structural exposure to nuclear, power, water, defence and data centres supports a BUY view for a medium-term 9 to 12 months horizon, with the probability of earnings acceleration increasing as execution normalizes and international service mix recovers.

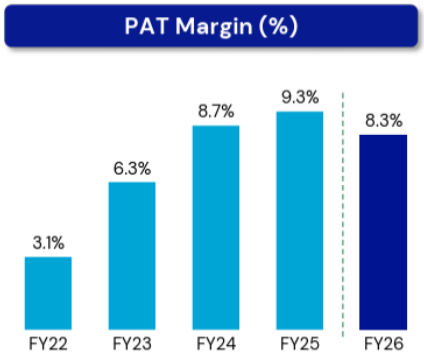
Historical Financial Performance:



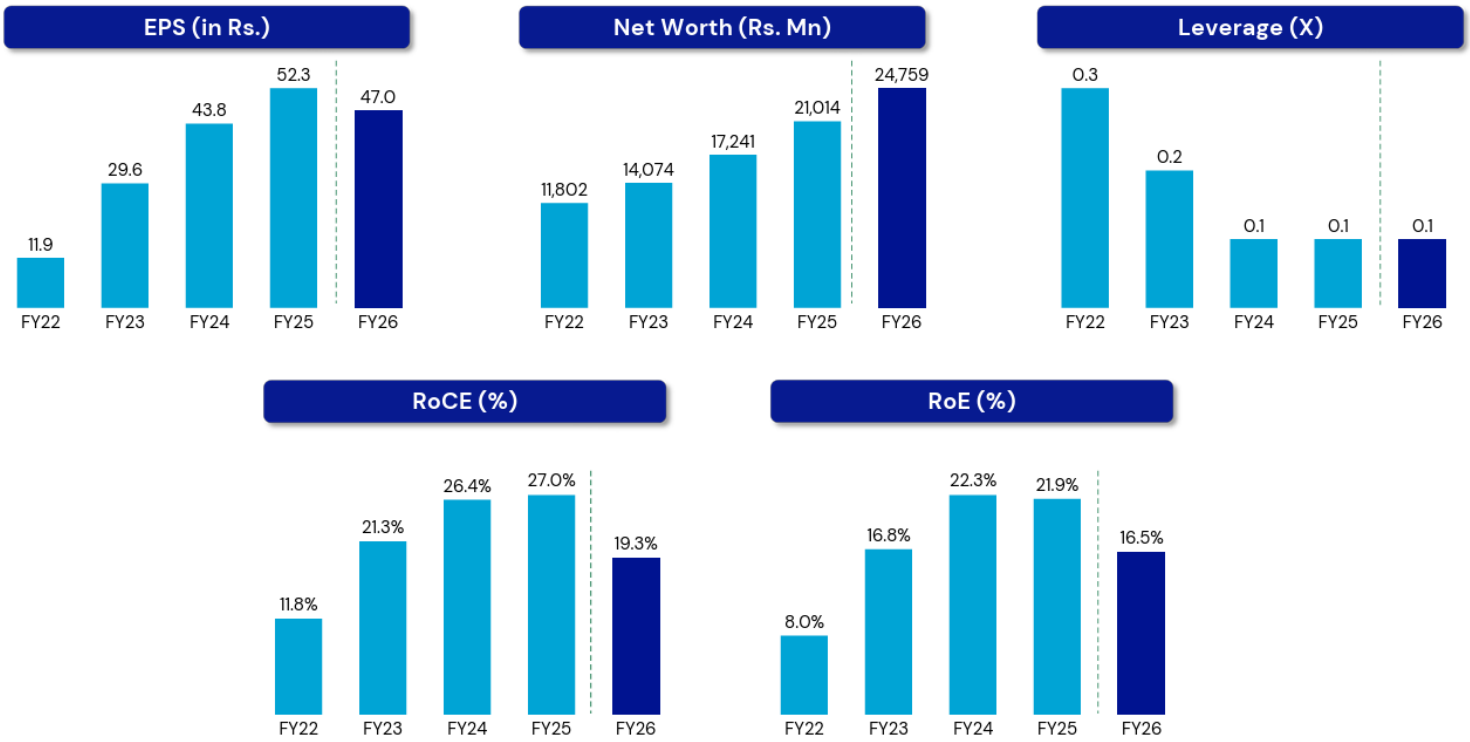








Note – Amount is in INR Millions.



Recommendation Timeline & Performance Summary: -

1. **Initial Recommendation – 11 March 2026:** We recommended a BUY at 1576 with a target price of 1828, implying an upside potential of ~16% over a 6-month horizon.

2**. Target Achievement – 13 April 2026:** The stock achieved our target price of 1,828 an delivered a return of 18.5% in one month duration. The stock also recorded a strong intraday performance, gaining 17.7% and subsequently moved higher to 1,870 on the same day, exceeding our initial investment timeframe expectations.

3. 9 June 2026 – Re-Initiation of BUY Call: We have re-initiate the BUY call at the CMP of 1695 with a target price of 1985, indicating an envisaged upside potential of 17% over the next 6 to 9 months (2 to 3 quarters).

4. 22 June 2026 – Target Achieved: The stock The stock achieved our target price of 1985 on 22 June 2026 and delivered a return of 29% from the re-initiated BUY recommendation within 2 weeks, significantly ahead of our envisaged investment horizon of 6 months.

5. **22 June 2026 – Sell Recommendation (Profit Booking):** We advised investors book profits and SELL all holdings in Kirloskar Brothers Ltd. at CMP of 2185 as of 22 June 2026, implying realized gains of 38.6% from the initial recommendation within three and half months and 29% from the re-initiated BUY recommendation within a span of 2 weeks respectively, substantially outperforming the original investment timeline.

6. 8 Oct 2026 – Re-Initiation of BUY Call: We have re-initiate the BUY call at the CMP of 1670 with a target price of 1960, indicating an envisaged upside potential of 17% over the next 9 to 12 months.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team