Stock Note

Kilburn Engineering Ltd.

April 15, 2024

Kilburn Engineering Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Engineering & Capital Goods	Rs 358.95	Buy in Rs 355-362 band and add on dips in Rs 319-326 band	Rs 393	Rs 419	2-3 quarters

HDFC Scrip Code	KILENGEQNR
BSE Code	522101
NSE Code	NA
Bloomberg	KEL:IN
CMP Apr 12, 2024	358.95
Equity Capital (Rs Cr)	37.6
Face Value (Rs)	10
Equity Share O/S (Cr)	3.76
Market Cap (Rs Cr)	1349.6
Book Value (Rs)	29.5
Avg. 52 Wk Volumes	124177
52 Week High	369.8
52 Week Low	92

Share holding Pattern % (Dec, 2023)	
Promoters	54.57
Institutions	0.03
Non Institutions	45.4
Total	100

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Rishab Jain (rishab.jain@hdfcsec.com)

Our Take:

With 40+ years of experience, Kilburn Engineering Limited is a market leader in solid, liquid and gas drying systems and also provide a comprehensive package of solutions for tea, fertiliser, carbon black, soda ash, pharmaceuticals, dyes and pigments and specialty chemicals, among other industries. Kilburn Engineering (KEL) engineers and manufactures customised process equipment and offers industrial drying solutions and packages like rotary dryers, calciners, paddle dryers, fluid bed dryers, and VFBDs (Vibrating Fluid Bed Dryer). It provides customized solutions and packages for air, gas, and liquids and instrument utility gas drying. It also offers standard products like tea dryers, withering systems, and dryers for the sugar and coconut industry. It recently fabricated critical equipment like silos and pressure vessels at customer sites. KEL has two manufacturing facilities in Kalyan and Pune (M.E. Energy Pvt) in Maharashtra.

Company expects continued revenue growth in the upcoming years, driven by a strong flow of orders and a pending order book. Consolidated revenue of Rs. 500 cr in FY25 is anticipated based on current order book & Enquires-in-hand of more than Rs. 1,000 cr, which the company is at various stages of quoting. With the acquisition of ME Energy Private Ltd, a leading waste heat recovery and waste heat reutilization systems provider, KEL plans to create synergies driving cost efficiency, amplifying margins and expanded sales opportunities by tapping into more clients.

Kilburn has already started leveraging this new relationship with M E Energy to build businesses in new industries like steel and further penetration in the carbon black market. Apart from the demand from new steel plants and other industries, Kilburn looks forward to in waste heat recovery system, demand from replacement, and retrofit. Retrofit is when there is some equipment working at a lower efficiency and one puts an equipment to enhance. Replacement is when there's something that's working and one puts a new one.

Valuation & Recommendation:

We think that Kilburn is on the verge of faster growth post the recent measures and acquisition of M E Energy. Given the capex cycle in the private sector that has taken off and the robust Balance sheet, Kilburn could benefit well over the next few years. Due to expectation of order inflows and revenue growth in the upcoming years on better execution in the coming few quarters we expect revenue/EBITDA/PAT to grow at a CAGR of 32/49/37% over FY23–26E. **We believe investors can buy the stock in Rs 355-362 band (20.5x FY26E EPS) and add on dips in Rs 319-326 (18.5x FY26E EPS) band for a base case fair value of Rs 393 (22.5x FY26E EPS) and bull case fair value of Rs 419 (24x FY26E EPS) over the next 2-3 quarters.**

Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY-%	Q2FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	72.8	53.8	35.3	68.5	6.3	122.8	221.5	336.0	430.0	511.7
EBITDA	17.2	9.1	90.5	16.8	2.7	13.0	34.7	72.8	95.9	114.1
Depreciation	0.8	0.7	20.0	1.0	-12.5	2.8	2.7	3.3	3.5	4.0
Other Income	0.8	4.2	-80.8	1.0	-15.8	1.7	14.7	2.9	2.2	2.6
Interest Cost	2.4	1.9	23.3	2.6	-7.0	8.8	7.9	9.5	9.6	7.2
Tax	4.5	3.1	-	4.2	-	1.5	8.6	18.4	23.4	28.6
PAT	10.3	7.5	37.5	10.0	2.8	1.5	30.1	44.4	61.5	76.9
Adjusted PAT	10.3	7.5	37.5	10.0	2.8	1.5	30.1	44.4	61.5	76.9
EPS (Rs)	2.8	2.2	27.2	2.8	0.4	0.5	8.4	11.8	14.0	17.5
RoE-%						2.6	33.7	37.6	29.4	25.5
P/E (x)						794.6	42.6	30.4	25.7	20.6
EV/EBITDA						102.9	39.7	20.0	17.0	14.4

Source: Company, HDFC sec)

Q3FY24 Result Update

- Revenue in Q3FY24 stood at Rs. 72.8 cr (+35.27% YoY).
- EBITDA in the quarter stood at Rs. 17.24 cr vs Rs. 9.05 cr (+90.5% YoY). EBITDA Margins increased by 687 bps in the quarter vs same quarter last year on account of operating leverage and cost control measures.
- PAT in the quarter stood at Rs. 10.3 cr vs Rs. 7.5 cr in the same quarter last year. (+37.47% YoY)
- 9MFY24 EBITDA margins stands at 22% due to better mix of orders which have been executed with higher margins.

Q3FY24 Concall Highlights

- Order Book: Company secured orders worth Rs. 95 cr indicating a sustained and strong demand for its products and solutions. As on Dec 31, 2023, the order book of KEL stood at Rs. 236 cr. Order book of M.E Energy on the other hand stood at Rs.118.5 cr as on Dec 31, 2023. Both the companies have order inquiries of ~Rs.1000 cr.
- Revenue Guidance: The revenue expected for Kilburn in the current financial year is expected to be in the range of Rs. 290 cr to Rs. 300 cr by the end of Q4 on a standalone basis. The revenue for M.E., which would be added to the KEL share post acquisition would be in the range of Rs. 30 cr. The closing order book for Kilburn as on 31st March 2024 is expected to be in the range of Rs. 260 cr to Rs. 280 cr, and for M.E. Energy is expected to be in the range of Rs. 70 cr to Rs. 80 cr. This would translate into an open order book of Rs. 330+ cr on 1st April 2024. With the integration in place, management expects to achieve a turnover of Rs. 500+ cr plus in FY25 at the group level.
- The EBITDA levels for KEL for FY24 are expected to be in the range of 18% to 20%, and for M.E. Energy in the range of 15% to 20%.
- M.E Energy expects to get large value projects with Rs. 50 cr to Rs. 100 cr packages acquiring clients from Kilburn's market presence. It would also derive a lot of cost advantages, transportation costs and contribute to the overall EBITDA of the company. It recently received an order from the steel industry from one of the largest steel integrated steel players. This was possible due to the synergy benefits from both the companies.

- In the carbon black space, company has diversified into air preheaters which will cater to a much larger range of products for carbon black industry. With M.E Energy and Kilburn's synergy nearly 40% of all equipment would be available to set up carbon black plant.
- Capex: Company plans a nominal capex of Rs. 15-20 cr.
- Company sees a massive opportunity in the steel industry as all steel companies are generally expanding their capacities where a lot of energy is wasted during their operations. Kilburn and M.E Energy can help recovering their lost energies and reutilize it back.
- Company has expertise and know how to handle metallurgy of its products which gives them a distinctive advantage over the like of major players like Thermax etc.
- M.E Energy is making the first bid for O&M for a project this year and is gearing up for a different organizational structure.

Key Drivers

- Company expects continued substantial revenue growth in the upcoming years, driven by a strong flow of orders and a pending order book. Consolidated revenue of Rs. 500 crore in FY25 is anticipated based on current order book & Enquires-in-hand of more than Rs. 1,000 Crore, which the company is at various stages of quoting. With the acquisition of ME Energy Private Ltd, a leading Waste Heat Recovery ("WHR") and waste heat reutilization systems provider, KEL plans to create synergies driving cost efficiency, amplifying margins and expanded sales opportunities by tapping into more clients
- It will explore new and niche areas of application with the help of its successful integration of world-class technologies, in addition to its primary sectors of Chemical, Petrochemical, Refinery, Oil & Gas, Power, Fertilizer, Food and allied industries.
- It believes that it will continue to enjoy cost advantages available to the Indian manufacturing industry, relative to global players, and will strive to make the best use of this opportunity. Furthermore, it will continue to focus on both domestic and international markets.
- Acquisition of M E Energy will enable synergistic benefits to Kilburn. M E Energy has almost all the Tier-1 corporates of India as customers like Reliance or Britannia or HPCL, BPCL, IOCL, Shell, these kinds of Tier-1 customers. However, it had inherent weakness that it was not able to bid for larger value projects. This weakness will be overcome to a large extent by the Kilburn takeover. Kilburn recently got an order from the steel industry from one of the largest integrated steel players that happened due to the strengths of Kilburn and M.E. coming together.
- KEL acquired M.E. Energy for Rs.99cr (cash/equity: Rs.76cr/Rs.23cr). M.E. Energy is a leading player in waste heat recovery and reutilisation systems and will complement KEL's industrial drying offerings. It clocked a revenue of Rs.45cr in FY23 and expects Rs.65 cr in FY24.
- The board of Kilburn recently approved an issue of 82 lakh shares/warrants at Rs.165 per share fund raising of Rs.112cr. The balance Rs.23cr is a non-cash allotment to the promoters of M.E. Energy, resulting in a 22% equity dilution. This capital raising will fund the M.E. Energy acquisition and make it almost net debt free.

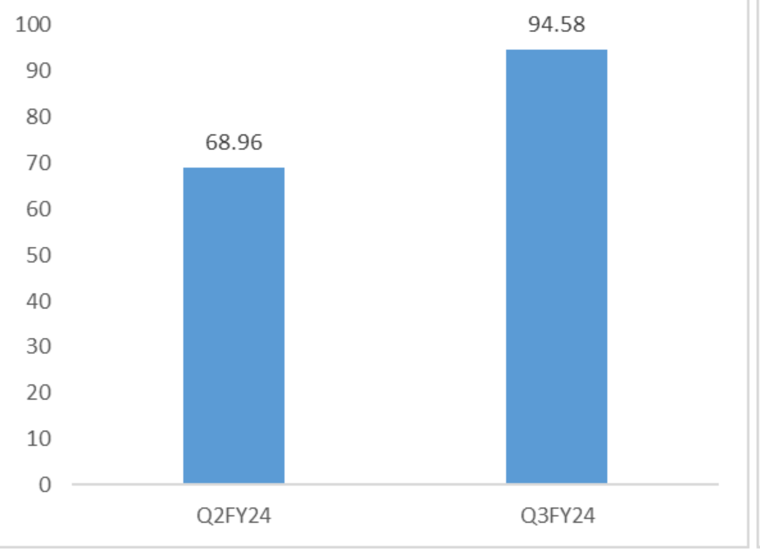
Industry Overview:

The Company specializes in the design and manufacturing of specialized process equipment and systems for critical applications, with a primary focus on the chemical, refineries and petrochemical, nuclear power sectors and tea industry. The company's key products include rotary dryers, calciners, air preheaters, paddle dryers, VFBD (vibratory fluid bed dryers) and fabrication services at sites amongst others. The overall outlook for chemical industry, integrated petrochemical and refinery complexes and tea is highly favourable for the company's versatile array of products. This versatility in the company's product range acts both an opportunity in growing sectors and risk mitigation on any unanticipated downturns in a particular industry

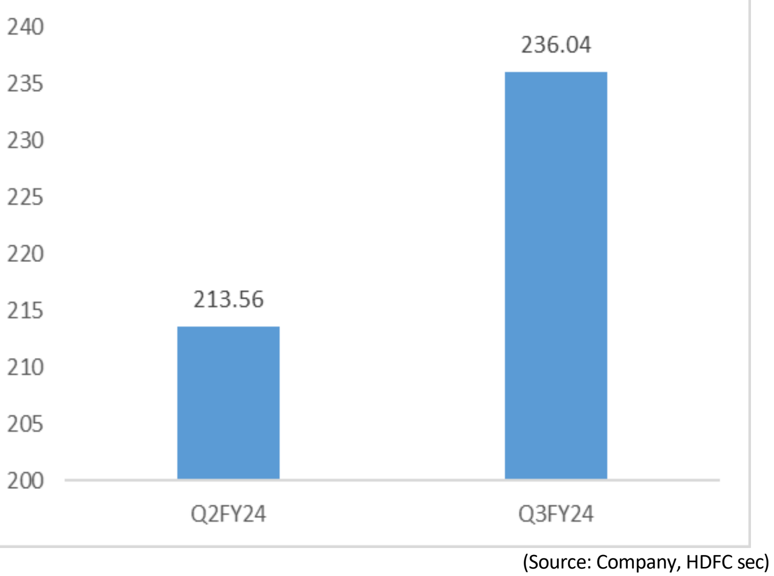
The chemical industry is experiencing robust demand, and the company is well-positioned to capitalize on this opportunity. Furthermore, the favorable policies and support from the government are driving substantial investments in the country, which is expected to directly enhance the company's order intake in the upcoming quarters. The government of India has announced an outlay of 1.97 Lakh Crores for the Production Linked Incentive (PLI) Schemes across 14 key sectors These schemes aim to foster the development of national manufacturing champions. Several of these sectors have a need for drying solutions in their operational processes.

In the tea industry, the Company maintains a dominant market position. It is actively reinforcing our stronghold by providing comprehensive services to our esteemed customers. The tea market in India is experiencing robust growth driven by both healthy production and consumption of the beverage. It is projected to maintain a strong Compound Annual Growth Rate (CAGR) of nearly 4.5% during the forecast period of 2023- 2028. India holds the notable position of being the world's second-largest tea producer, closely trailing China. Exploring its new initiatives, the Company has a breakthrough in procuring an order for C-PVC powder drying in Fluid Bed Dryer and order for calciner package for Activated Pharma Ingredients (API). Successful execution of these orders will help the company in procuring further orders for such applications.

Order Intake (in Rs Cr)



Closing Order Book (in Rs Cr)



(Source: Company, HDFC sec)

Risks & Concerns:

- Competition: Company faces increased competition in various segments due to existing players like Walchandnagar Inds and ISGEC and entry of large number of domestic and international players. M E Energy faces competition from a much larger player Thermax.
- Raw Material Price: Long execution periods exposes the company to the risk of price variations.
- Currency risk: As significant portion of the Company’s sales is export the Company also faces the risk of currency fluctuations.
- Cyclical nature: As the Company’s products are capital goods in nature, cyclical dip in sales is an inherent risk in its business.
- Due to changing economic environment, there is a delay in customer payments and taking delivery of the manufactured product on committed date.

Key Products:

Company Background

Kilburn Engineering is a market leader in solid, liquid and gas drying systems and also provides a comprehensive package of solutions for tea, fertilizer, carbon black, soda ash, pharmaceuticals, dyes and pigments and specialty chemicals, among other industries. Kilburn Engineering (KEL) engineers and manufactures customized process equipment and offers industrial drying solutions and packages like rotary dryers, calciners, paddle dryers, fluid bed dryers, and VFBDs. It provides customized solutions and packages for air, gas, and liquids and instrument utility gas drying. It also offers standard products like tea dryers, withering systems, and dryers for the sugar and coconut industry. It recently fabricated critical equipment like silos and pressure vessels at customer sites.

KEL has a cutting-edge manufacturing facility for fabrication, machining, and assembly of equipment located in Thane, Maharashtra (India). Our manufacturing plant spans an area of 30,960 square meters and is equipped with state-of-the art technology and machinery.

Key Clients:

(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**88.4**	**122.8**	**221.5**	**336.0**	**430.0**	**511.7**
Growth (%)	-33%	39%	80%	52%	28%	19%
Operating Expenses	207.9	109.8	186.9	263.2	334.1	397.6
EBITDA	**-119.5**	**13.0**	**34.7**	**72.8**	**95.9**	**114.1**
Growth (%)	**-1416%**	**-111%**	**168%**	**110%**	**32%**	**19%**
EBITDA Margin (%)	**-135.1**	**10.6**	**15.7**	**21.7**	**22.3**	**22.3**
Depreciation	4.0	2.8	2.7	3.3	3.5	4.0
EBIT	**-123.5**	**10.2**	**32.0**	**69.4**	**92.4**	**110.1**
Other Income	9.5	1.7	14.7	2.9	2.2	2.6
Interest expenses	11.3	8.8	7.9	9.5	9.6	7.2
PBT	**-125.3**	**3.0**	**38.8**	**62.8**	**84.9**	**105.4**
Tax	-34.1	1.5	8.6	18.4	23.4	28.6
PAT	-91.2	1.5	30.1	44.4	61.5	76.9
Adjusted PAT	**35.2**	**1.5**	**30.1**	**44.4**	**61.5**	**76.9**
Growth (%)	**581%**	**-96%**	**1845%**	**47%**	**38%**	**25%**
EPS	-32.5	0.5	8.4	11.8	14.0	17.5

Balance Sheet

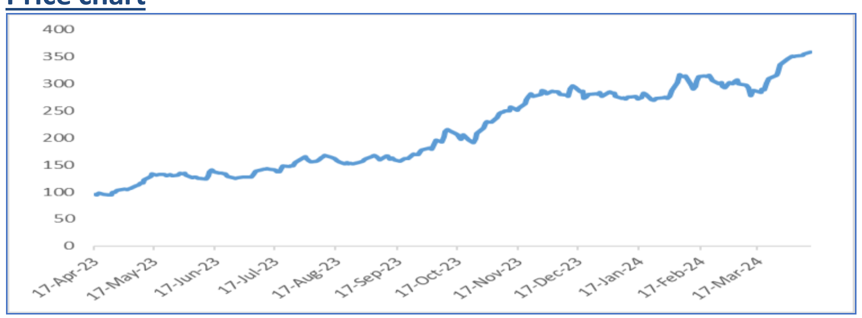
As at March	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS						
Share Capital	28	34	36	38	44	44
Reserves	20	39	70	93	244	272
Shareholders' Funds	**48**	**73**	**106**	**131**	**288**	**316**
Long Term Debt	65	61	53	48	33	13
Net Deferred Taxes	-34	-33	-24	-24	-24	-24
Long Term Provisions & Others	12	12	0	0	0	1
Total Source of Funds	**91**	**114**	**134**	**155**	**297**	**305**
APPLICATION OF FUNDS						
Net Block & Goodwill	45	42	43	50	113	124
CWIP	0	0	1	1	1	1
Other Non-Current Assets	12	13	15	18	20	18
Total Non Current Assets	**56**	**55**	**59**	**69**	**134**	**143**
Current Investments	0	0	0	0	0	0
Inventories	8	10	28	43	55	66
Trade Receivables	42	50	44	64	80	102
Cash & Equivalents	13	16	16	4	59	33
Other Current Assets	48	68	91	129	166	199
Total Current Assets	**111**	**145**	**179**	**241**	**361**	**401**
Short-Term Borrowings	21	15	11	14	20	27
Trade Payables	22	25	25	39	49	59
Other Current Liab & Provisions	34	46	67	102	128	153
Total Current Liabilities	**76**	**86**	**104**	**155**	**198**	**239**
Net Current Assets	34	59	75	86	163	162
Total Application of Funds	**91**	**114**	**134**	**155**	**297**	**305**

(Source: Company, HDFC sec)

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	-125.8	3.0	38.8	62.8	84.9	105.4
Non-operating & EO items	126.6	0.4	-9.0	-3.3	-11.0	-8.6
Interest Expenses	3.2	8.6	5.9	9.5	9.6	7.2
Depreciation	4.0	2.8	2.7	3.3	3.5	4.0
Working Capital Change	-2.9	-15.7	-17.9	-24.1	-17.9	-23.2
Tax Paid	-0.1	-0.2	-0.7	-18.4	-23.4	-28.6
OPERATING CASH FLOW (a)	**4.9**	**-1.0**	**19.7**	**29.9**	**45.7**	**56.3**
Capex	-0.2	0.3	-5.0	-10.0	-67.0	-15.0
Free Cash Flow	4.8	-0.7	14.7	19.9	-21.3	41.3
Investments	0.0	0.0	0.0	0.0	0.0	0.0
Non-operating income	8.0	-5.5	-3.2	0.0	0.0	0.0
INVESTING CASH FLOW (b)	**7.8**	**-5.2**	**-8.2**	**-10.0**	**-67.0**	**-15.0**
Debt Issuance / (Repaid)	-19.4	-10.6	-6.6	-2.0	-9.0	-13.0
Interest Expenses	-3.9	-8.6	-7.5	-9.5	-9.6	-7.2
FCFE	-18.6	-19.9	0.6	8.3	-39.9	21.1
Share Capital Issuance/ (Buy Back)	16.4	23.1	3.8	1.8	136.1	0.0
Dividend	0.0	0.0	0.0	-21.2	-38.7	-48.4
Others	-1.5	-0.3	-5.4	-0.3	-2.4	1.3
FINANCING CASH FLOW (c)	**-8.4**	**3.6**	**-15.7**	**-31.2**	**76.5**	**-67.3**
NET CASH FLOW (a+b+c)	**4.3**	**-2.7**	**-4.2**	**-11.4**	**55.2**	**-26.0**

Price chart



(Source: Company, HDFC sec)

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY RATIOS						
EBITDA Margin	-135.1	10.6	15.7	21.7	22.3	22.3
EBIT Margin	-139.7	8.3	14.5	20.7	21.5	21.5
PAT Margin	39.8	1.3	13.6	13.2	14.3	15.0
RoE	46.6	2.6	33.7	37.6	29.4	25.5
RoCE	-68.9	7.2	20.1	38.3	34.6	31.6
SOLVENCY RATIOS						
Debt/EBITDA (x)	-0.7	5.9	1.9	0.9	0.6	0.4
D/E	1.8	1.0	0.6	0.5	0.2	0.1
PER SHARE DATA						
EPS	-32.5	0.5	8.4	11.8	14.0	17.5
CEPS	13.9	1.3	9.2	12.7	14.8	18.4
Dividend	0.0	0.0	1.0	1.5	2.0	2.5
BVPS	16.9	21.4	29.5	34.7	65.3	71.8
TURNOVER RATIOS						
Debtor days	153	137	78	59	61	65
Inventory days	37	27	32	39	42	43
Creditors days	93	70	42	35	37	39
VALUATION						
P/E	-11	794.6	42.6	30.4	25.7	20.6
P/BV	21.2	16.8	12.2	10.3	5.5	5.0
EV/EBITDA	-9.4	102.9	39.7	20.0	17.0	14.4
EV/Revenues	12.7	10.9	6.2	4.3	3.8	3.2

(Source: Company, HDFC sec)

RISHAB A JAIN

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash
flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks
have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall
economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I**, Rishab Jain,** Research Analyst, **MBA,** author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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