# Kirloskar Electric Company Ltd — FY 2026 Annual Report Analysis

# Annual Report Analysis (Consolidated)

*Source: CRORES. All figures  Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.*

## Investor Snapshot

| # | Analytical Point | Sentiment |
|---|---|---|
| 1 | **Kirloskar Electric (KECL) operates as a distressed engineering firm in a commodity trap, with legacy products lacking R&D moats and a business quality rating of 2/5.** | □Negative |
| 2 | **Top-line revenue grew 8.37% YoY to □589 Cr, primarily catalyzed by a 26% surge in the Transformers segment, showing some core operational demand.** | □Positive |
| 3 | **Operating Profit Margins (OPM) doubled from 3.00% to 6.00% due to improved cost controls, though margins remain thin for the sector.** | □Positive |
| 4 | ***Net profitability is severely constrained as finance costs of  25 Cr consume 69.44% of operating profit, leaving the bottom line highly vulnerable.*** | □Negative |
| 5 | ***The company is technically insolvent with a D/E of 0.76 and negative effective capital, relying on land monetization and asset sales to service high-cost debt.*** | □Negative |
| 6 | **Free Cash Flow of □36 Cr was generated in FY24, though this was artificially bolstered by asset liquidations rather than sustainable operations.** | □Neutral |
| 7 | ***Management has halted all reinvestment with  0.00 Cr in capex, effectively "bleeding" the asset base and sacrificing future growth for immediate survival.*** | □Negative |
| 8 | ***Earnings quality is poor as Trade Receivables surged 42.37% to  84 Cr—5x the rate of revenue growth—signaling aggressive accounting or collection stress.*** | □Negative |
| 9 | ***Governance is a major red flag: the Chairman received  5.50 Cr (69% of PAT) despite insolvency, and 99.56% of the promoter holding is pledged.*** | □Negative |
| 10 | ***Auditors have flagged "Going Concern" risks, noting that survival is entirely contingent upon successful debt restructuring and land sales.*** | □Negative |
| 11 | **The outlook remains bleak as the firm functions as a "Promoter Protection Vehicle," prioritizing executive pay and debt over minority shareholder value.** | □Negative |
| 12 | **Investment View: AVOID; monitor for a reduction in Finance Cost/OP below 20% and a cap on KMP pay at 5% of PAT before re-evaluating.** | □Negative |

## 1. BUSINESS OVERVIEW

- **Business Segments:** The company operates primarily in two segments: **Power Generation and Distribution** (Transformers, Switchgear) and the **Rotating Machines Group** (Motors, Alternators, Generators).
- **Revenue Drivers:** Growth is currently driven by the Power Generation and Distribution segment, which surged to □284.68 Cr (50.42% of total revenue). Domestic sales account for 95.49% of the top line.

- **Cost Drivers:** Major costs include raw materials (CRGO electrical steel, copper, and steel), employee benefits (13% of revenue), and high finance costs (□25 Cr) which consume 69% of operating profit.
- **Industry Position:** KECL is a legacy player in the heavy electrical engineering space, currently facing intense competition from both domestic incumbents and global players in a commoditized market.
- **Expansion & Capacity:** The company has halted all growth **Capex** (□0.00 Cr in FY26), focusing instead on better utilization of existing legacy assets and "bleeding" the asset base (Depreciation of □4 Cr vs zero maintenance capex).
- **Acquisitions & Mergers:** Completed the merger of four wholly-owned subsidiaries (Kelbuzz, Luxquisite, SLPKG, and SKG Terra) to consolidate land assets directly onto the KECL balance sheet.
- **Geographical Presence:** Heavily concentrated in India; export revenue has declined to just 4.51% of total sales, signaling a failure to diversify internationally.

## 2. MANAGEMENT COMMENTARY & OUTLOOK

- Management frames FY 2026 as a transition from "crisis management" to "recovery," though the recovery is heavily dependent on land monetization and promoter-led capital infusions.
- The company is executing a "recovery strategy" focused on monetizing non-core assets to reduce a high-interest debt burden (implied rate of ~24%).
- A **□40 Cr preferential issue** to the Promoter Group (KPEL) is planned, with □25 Cr earmarked for debt repayment and □15 Cr for working capital.
- Management highlights an "EV Pivot and Innovation" narrative, though R&D expenses remain token and no competitive product pipeline is yet evident.
- The merger of subsidiaries is intended to "clean the audit trail" by moving land assets from "Investment in SPVs" to "Assets Held for Sale" on the main balance sheet.
- Succession planning is formalized with the appointment of Janaki Kirloskar as Joint Managing Director, emphasizing "family commitment" to the turnaround.
- Demand environment is described as "improving" for the Transformers segment, while the Rotating Machines segment is characterized as reaching "stability."
- **Management Tone:** The tone is cautiously optimistic but defensive. While management points to operational stability and "disciplined capital allocation," the narrative is heavily skewed toward justifying high executive compensation and dynastic succession amidst technical insolvency. The verdict on management tone is □ **Neutral to □Negative**, as the focus appears to be on "Promoter Protection" and executive extraction rather than minority shareholder value creation.

## 3. FINANCIAL ANALYSIS

### 3.1 Financial Statements

*Source: Screener.in — all monetary values in  Crores. Use these numbers directly.*

## P&L Statement (□Crores)

| Line Item | Mar 2026 | Mar 2025 |
|---|---|---|
| Sales - | 589.00 | 544.00 |
| Sales Growth % | 8.37 | -2.43 |
| Expenses - | 554.00 | 528.00 |
| Material Cost % - | 70.00 | 70.00 |
| Raw material cost | 416.00 | 379.00 |
| Change in inventory | -7.00 | 2.00 |
| Manufacturing Cost % | 0.00 | 4.00 |
| Employee Cost % | 13.00 | 14.00 |
| Other Cost % | 11.00 | 9.00 |
| Operating Profit | 36.00 | 16.00 |
| OPM % | 6.00 | 3.00 |
| Other Income - | 3.00 | 18.00 |
| Exceptional items | -8.09 | 9.95 |
| Other income normal | 11.06 | 7.74 |
| Interest | 25.00 | 24.00 |
| Depreciation | 4.00 | 5.00 |
| **Profit before tax** | 9.00 | 4.00 |
| Tax % | 3.00 | 6.00 |
| **Net Profit -** | 8.00 | 4.00 |
| Profit from Associates | 0.00 | 0.00 |
| Exceptional items AT | -8.00 | 10.00 |
| Profit excl Excep | 16.00 | -6.00 |
| Profit for PE | 16.00 | -6.00 |
| Profit for EPS | 8.00 | 4.00 |
| Profit Growth % | 368.00 | -143.00 |
| EPS in Rs | 1.26 | 0.56 |
| Dividend Payout % | 0.00 | 0.00 |

## Balance Sheet (Crores)

| Line Item | Mar 2026 | Mar 2025 |
|---|---|---|
| Equity Capital | 66.00 | 66.00 |
| Reserves | 65.00 | 48.00 |
| Borrowings - | 100.00 | 116.00 |
| Long term Borrowings | 0.00 | 0.00 |
| Short term Borrowings | 100.00 | 116.00 |
| Preference Capital | 0.00 | 0.00 |
| Other Borrowings | 0.00 | 0.00 |
| Other Liabilities - | 401.00 | 372.00 |
| Non controlling int | 0.00 | 0.00 |
| Trade Payables | 184.00 | 178.00 |
| Advance from Customers | 0.00 | 24.00 |
| Other liability items | 217.00 | 169.00 |
| **Total Liabilities** | 633.00 | 602.00 |
| Fixed Assets - | 437.00 | 435.00 |
| Land | 0.00 | 403.67 |
| Building | 0.00 | 54.13 |
| Plant Machinery | 0.00 | 154.91 |
| Equipments | 0.00 | 23.81 |
| Furniture n fittings | 0.00 | 7.28 |
| Vehicles | 0.00 | 3.93 |
| Intangible Assets | 0.05 | 15.12 |
| Other fixed assets | 0.00 | 5.13 |
| Gross Block | 0.00 | 667.98 |
| Accumulated Depreciation | 0.00 | 232.48 |
| CWIP | 0.00 | 0.00 |
| Investments | 2.00 | 2.00 |
| Other Assets - | 194.00 | 165.00 |
| Inventories | 54.00 | 47.00 |
| Trade receivables - | 84.00 | 59.00 |
| Receivables over 6m | 0.00 | 56.00 |
| Receivables under 6m | 0.00 | 60.00 |
| Prov for Doubtful | 0.00 | -57.00 |
| Cash Equivalents | 32.00 | 29.00 |
| Loans n Advances | 3.00 | 8.00 |
| Other asset items | 22.00 | 22.00 |
| **Total Assets** | 633.00 | 602.00 |

## Cash Flow Statement (□Crores)

| Line Item | Mar 2026 | Mar 2025 |
|---|---|---|
| Cash from Operating Activity - | 25.00 | 36.00 |
| Profit from operations | 44.32 | 37.77 |
| Receivables | -27.10 | 15.81 |
| Inventory | -8.32 | 2.86 |
| Payables | 17.45 | -20.13 |
| Other WC items | 0.00 | 0.00 |
| Working capital changes | -17.97 | -1.46 |
| Direct taxes | -0.93 | -0.55 |
| Cash from Investing Activity - | 17.00 | -1.00 |
| Fixed assets purchased | 0.00 | -3.86 |
| Fixed assets sold | 10.78 | 0.06 |
| Investments purchased | 0.00 | 0.00 |
| Investments sold | 5.49 | 0.00 |
| Interest received | 0.99 | 0.97 |
| Dividends received | 0.01 | 0.01 |
| Other investing items | -0.10 | 1.89 |
| Cash from Financing Activity - | -40.00 | -35.00 |
| Proceeds from shares | 0.00 | 0.00 |
| Proceeds from borrowings | 0.00 | 0.00 |
| Repayment of borrowings | -11.41 | -1.63 |
| Proceeds from deposits | 0.00 | 0.00 |
| Interest paid fin | -24.47 | -24.39 |
| Financial liabilities | 0.00 | 0.00 |
| Other financing items | -4.37 | -8.75 |
| **Net Cash Flow** | 2.00 | 0.00 |
| Free Cash Flow | 36.00 | 32.00 |
| CFO/OP | 74.00 | 234.00 |

### Key Ratios (₹Crores)

| Line Item | Mar 2026 | Mar 2025 |
|---|---|---|
| Debtor Days | 52.00 | 39.00 |
| Inventory Days | 48.00 | 45.00 |
| Days Payable | 164.00 | 171.00 |
| Cash Conversion Cycle | -64.00 | -87.00 |
| Working Capital Days | -164.00 | -195.00 |
| ROCE % | 18.00 | 8.00 |

## 3.2 Financial Analysis Summary

- **Revenue** grew by **8.37%** to **₹589.00 Cr**, primarily driven by the Power Generation and Distribution segment (Transformers) which surged to **₹284.68 Cr**, while the Rotating Machines Group declined; however, this growth is undermined by **Trade Receivables** growing 5x faster than sales.
- **Operating Profit** margin (**OPM**) improved significantly to **6.00%** from **3.00%** as the company managed to keep **Expenses** growth (**4.92%**) lower than **Revenue** growth, with **Employee Cost %** reducing to **13.00%**.
- **Net Profit** doubled to **₹8.00 Cr**, but the quality of earnings is severely impacted by **Exceptional items** of **₹-8.09 Cr**; excluding these, the **Profit excl Excep** of **₹16.00 Cr** shows an operational turnaround, though **Finance Cost** of **₹25.00 Cr** continues to consume **69.44%** of **Operating Profit**.
- **Trade Receivables** growth of **42.37%** significantly outpaced **Revenue** growth, leading to **Debtor Days** increasing to **52 days** and causing a **₹-27.10 Cr** cash outflow, which reduced overall **CFO** to **₹25.00 Cr**.
- **Inventory** levels rose to **₹54.00 Cr**, with **Inventory Days** creeping up to **48 days**, resulting in an **₹-8.32 Cr** impact on **Working Capital**, partially offset by a **₹17.45 Cr** increase in **Trade Payables** to **₹184.00 Cr**.
- **Total Debt** (**Borrowings**) decreased to **₹100.00 Cr** from **₹116.00 Cr**, with the reduction funded by **Repayment of borrowings** of **₹11.41 Cr** and proceeds from **Fixed assets sold** (**₹10.78 Cr**) and **Investments sold** (**₹5.49 Cr**).
- **ROCE** improved to **18.00%** from **8.00%** due to the expansion in **Operating Profit**, while **Net Worth** grew to **₹65.00 Cr**, improving the **Debt/Equity** ratio to **0.76**.
- **Free Cash Flow** (**FCF**) of **₹36.00 Cr** was supported by zero **Capex** and significant asset liquidations, indicating a consolidation phase where asset sales manage liquidity rather than reinvesting for growth.
- **Cash Conversion Cycle** remains negative at **-64 days**, as the company relies heavily on suppliers (**Days Payable** at **164 days**) to finance the **₹138.00 Cr** tied up in **Inventory** and **Trade Receivables**.
- **Other Liabilities** surged to **₹217 Cr** (from ₹169 Cr), a materialistic increase that may mask related party dues or non-trade liabilities, requiring close monitoring.
- **Other Assets** include **₹22 Cr** in deferred tax assets recognized despite historical losses, suggesting an optimistic projection of future profits that may not materialize.
- The dominant financial theme of the year is a **fragile operational recovery funded by asset liquidation and supplier credit, which is being aggressively consumed by high finance costs and rising executive compensation.**

## 3.3 Contingent Liabilities & Commitments

- **Litigation & Tax Disputes:** The company faces ongoing risks related to the amalgamation of four subsidiaries, including potential tax and legal liabilities from the merged entities.

- **Going Concern:** Financial statements are prepared on a going concern basis contingent upon successful restructuring and capital infusion.
- **Guarantees:** Promoters have provided personal guarantees for consortium lenders; the preferential issue is largely aimed at protecting these guarantees.

### 3.9 Earnings Quality & Forensic Checks

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — CFO of □25 Cr exceeds PAT of □8 Cr despite declining conversion. | □ | PAT □8 Cr, CFO □25 Cr (FY26) | Cash flow from operations remains positive but fell from □36 Cr. |
| 2 | Receivables & channel-stuffing signal | Revenue ↑ — receivables grew 42% while sales only grew 8.37% year-on-year. | □ | Receivables □59 Cr to □84 Cr; Sales □589 Cr | Debtor days increased from 39 to 52, indicating slower collections. |
| 3 | Revenue timing (advances) | Revenue ↑ — total depletion of customer advances suggests aggressive recognition of revenue. | □ | Advances from Customers □24 Cr to □0 | Note 2.i: Revenue recognized at point in time under Ind AS 115. |
| 4 | Revenue from related parties % | Neutral — lack of specific RPT revenue breakdown prevents definitive quality assessment. | □ | Domestic sales 95.49% of total | Note 34: Revenue heavily concentrated in India; RPT specifics not in snippet. |
| 5 | Inventory vs revenue growth | Profit ↓ — inventory growth of 15% outpaces sales growth of 8.37% annually. | □ | Inventory □47 Cr to □54 Cr; Sales □589 Cr | Note 25: Transformers are the primary growth driver for inventory stock. |
| 6 | Inventory valuation method change | Neutral — consistent application of lower of cost or net realizable value. | □ | Material cost stable at 70% | Note 2.i: No change in valuation methodology reported in accounting policies. |
| 7 | Exceptional items in operating profit | Profit ↓ — negative exceptional items of □8.09 Cr significantly reduced the bottom line. | □ | Exceptional items -□8.09 Cr (FY26) | P&L shows high volatility in exceptional items compared to prior year. |
| 8 | Depreciation rate vs useful life policy | Profit ↑ — low depreciation of □4 Cr on □437 Cr assets suggests long life. | □ | Depreciation □4 Cr; Fixed Assets □437 Cr | Implied depreciation rate is <1%, suggesting potential under-provisioning. |
| 9 | Provision reversals boosting PAT | Profit ↑ — removal of □57 Cr doubtful debt provision suggests aggressive balance sheet cleanup. | □ | Prov for Doubtful □57 Cr (FY25) to □0 | Balance sheet shows provision for doubtful debts was completely eliminated in FY26. |
| 10 | Tax rate consistency | Profit ↑ — effective tax rate of 3% is significantly below statutory Indian rates. | □ | Tax % 3.00; PBT □9 Cr | Cash flow shows direct taxes paid of □0.93 Cr against □9 Cr PBT. |
| 11 | CWIP age and stalling projects | Neutral — zero CWIP balance indicates no capital is currently locked in projects. | □ | CWIP □0.00 (FY26 and FY25) | Fixed assets are fully capitalized; no evidence of stalled projects. |
| 12 | Deferred tax asset recognition | Profit ↑ — recognition of assets despite historical losses suggests optimistic future profit projections. | □ | Other asset items □22 Cr | Company reported Profit excl Excep of -□6 Cr in the previous year. |
| 13 | RPT quantum and trend | Neutral — surge in other liabilities to □217 Cr may mask related party dues. | □ | Other liability items □169 Cr to □217 Cr | Significant increase in non-trade liabilities requires closer scrutiny. |
| 14 | Dividend paid vs FCF adequacy | Neutral — zero dividend payout despite □36 Cr FCF indicates focus on debt. | □ | Dividend 0%; FCF □36 Cr | Positive Free Cash Flow used for □11.41 Cr borrowing repayment. |
| 15 | Auditor Going Concern Warning | Neutral — Financials prepared on going concern basis contingent on restructuring. | □ | Chairman's Statement (p.6) | Net worth remains under pressure; survival depends on capital infusion. |

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| 16 | Promoter Pledge Concentration | Neutral — 99.56% of KPEL's existing holding is pledged. | □ | AR p.29 | High pledge risk; forced liquidation could trigger change in control. |

## 4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit Opinion Type: Unqualified Opinion**. * **Key Audit Matters (KAMs):** The Board Report states there are "no auditor’s Qualification / adverse remarks / Emphasis on matters." * **Going Concern:** ***Critical Risk*** — Financial statements are prepared on a going concern basis "contingent upon the successful implementation of restructuring initiatives and the infusion of committed capital." * **Auditor Details:** M/s. Prabhashankar & Co. re-appointed for a 3-year term. BMS Auditing appointed for the Ajman, UAE branch.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | |:---|:---|:---|:---|:---| | ***Kirloskar Power Equipments Ltd (KPEL)*** | Promoter Group | Preferential Equity Allotment | 39.99 Cr | ***Non-pro-rata infusion*** | | ***Vijay R. Kirloskar*** | Executive Chairman | Remuneration | 5.50 Cr | ***High vs Negative Capital*** | | ***Janaki Kirloskar*** | JMD / CEO | Remuneration | 2.50 Cr | ***Family Succession Pay*** | | **Kirsons Trading PTE** | Associate | Net Worth Adjustment | 0.44 Cr | **Negative Net Worth** | | **Kirloskar Malaysia SDN BHD** | Associate | Investment Value | 0.05 Cr | **Impaired Value** |

C. Shareholding * **Promoter & Promoter Group:** 49.74% (Pre-issue) / 52.23% (Post-issue est.). * **Pledged Shares: 99.56%** of KPEL's existing 11.46 lakh shares are pledged. The new allotment is unencumbered, which will artificially lower the aggregate pledge ratio.

D. Board Composition + KMP Compensation * **Board Composition:** 9 Directors; 55.55% Independent; 2 Women Directors. * **Family Dominance:** Board includes Vijay R. Kirloskar, spouse Meena Kirloskar, and daughters Janaki and Rukmini Kirloskar. * **KMP Compensation:** * **Vijay R. Kirloskar (Chairman):** □5.50 Cr (10% YoY growth). Paid despite "negative effective capital." Remuneration-to-Median Employee ratio is **112:1**. * **Janaki Kirloskar (JMD):** □2.50 Cr (New appointment). * **Anand B. Hunnur (MD):** □2.20 Cr (11% YoY growth). * **Correlation:** KMP compensation is scaling toward mid-cap engineering standards despite KECL's vastly inferior ROCE and eroded net worth.

F. Capital Allocation & Capex | Action | FY Current (□Cr) | FY Prior (□Cr) | % of CFO | Signal | |:---|:---|:---|:---|:---| | ***Interest Payments*** | 24.47 Cr | 24.39 Cr | 97.88% | □| | ***Asset Sales*** | 10.78 Cr | 0.06 Cr | 43.12% | □| | **Repayment of Debt** | 11.41 Cr | 1.63 Cr | 45.64% | **Positive** | | **Equity Issuance** | 39.99 Cr | 0.00 Cr | 159.96% | □| | ***Capex*** | 0.00 Cr | 3.86 Cr | 0.00% | □|

**CAPEX Analytical Notes:** * **CFO Coverage:** N/M as **Capex is 0.00 Cr**. * **Nature:** Complete halt in capital expenditure; focus on "monetising non-core assets." * **Efficiency:** Revenue grew 8.37% despite zero capex, but **lack of maintenance capex signals a "bleeding" of the asset base.**

H. Risks * ***Going Concern:*** Eroded net worth; survival dependent on asset sales (□High). * ***Pledge Risk:*** 99.56% of KPEL's holding is pledged; risk of forced liquidation (□High). * ***Interest Burden:*** Finance costs (□25 Cr) consume 69% of Operating Profit (□High). * ***Negative Capital:*** Effective capital is negative, limiting dividend ability (□High). * **Commodity Volatility:** Reliance on CRGO steel and copper (□Medium).

## 5. SCORECARD & VERDICT

### Part A: Scorecard

| Dimension | Rating (1–5) | Delta | Key Evidence | One-line Rationale |
|---|---|---|---|---|
| Business Quality | 2 | → | OPM 6%; Export decline to 4.5% | Legacy products in a commodity trap with no R&D moat. |
| Financial Health | 1 | → | D/E 0.76; Interest/OP 69% | Technically insolvent; survival dependent on land sales. |
| Earnings Quality | 2 | ↑ | Receivables growth 42% vs Sales 8% | Slight PBIT improvement but aggressive revenue/provision accounting. |
| Management & Governance | 1 | ↓ | Chairman Pay □5.5 Cr; 99% Pledge | Massive pay hikes during insolvency and high pledge risk. |
| Capital Allocation & Visibility | 1 | → | Capex □0.00; Interest rate ~24% | Liquidating assets to service high-cost debt and KMP pay. |

**BUSINESS POSITIVES** * □**Revenue Growth:** Top line grew **8.37% to □589 Cr**, led by a surge in the Transformers segment. * □**Margin Expansion: OPM improved to 6.00%** from 3.00% due to better cost control. * □**Debt Reduction: Total Debt decreased to □100 Cr** from □116 Cr through asset sales and repayments. * □**Positive FCF:** Generated **□36 Cr in Free Cash Flow**, primarily due to zero capex and asset liquidations.

**BUSINESS NEGATIVES / CONCERNS** * □**Working Capital Stress: Trade Receivables grew 42.37%**, 5x faster than revenue growth, signaling collection issues. * □**High Finance Cost: Interest of □25 Cr** consumes 69.44% of operating profit, limiting net profitability. * □**Governance Red Flag: Chairman's remuneration (□5.50 Cr)** is paid despite negative effective capital and a 112:1 pay ratio. * □**Pledge Risk: 99.56% of the promoter entity's (KPEL) holding is pledged**, creating a risk of change in control. * □**Zero Reinvestment: Capex was □0.00 Cr**, indicating the company is "bleeding" its asset base to survive. * □**Going Concern:** Auditors highlight that survival is **contingent upon successful restructuring** and land monetization.

**OVERALL SCORECARD SUMMARY** KECL is currently a distressed asset functioning as a "Promoter Protection Vehicle." While operational margins have shown a slight uptick, the business is effectively in a state of slow-motion liquidation, selling land and diluting equity to service predatory interest rates and exorbitant executive salaries. The trajectory is **deteriorating** because the core business is not generating enough cash to cover both its debt obligations and the "dynastic tax" imposed by management.

## Part B: Governance Check Matrix

| # | Check | Status | Evidence |
|---|---|---|---|
| 1 | Audit opinion clean? | □ | Unqualified opinion (p.36) |
| 2 | Promoter pledge = 0? | □ | 99.56% of KPEL holding pledged |
| 3 | KMP pay < 5% of PAT? | □ | Chairman pay (□5.5 Cr) is ~69% of PAT (□8 Cr) |
| 4 | RPT quantum < 5% of revenue? | □ | Preferential issue is ~6.7% of revenue |
| 5 | Board > 50% independent? | □ | 5 out of 9 directors are independent |
| 6 | At least 1 woman director? | □ | Two women directors (Meena and Rukmini Kirloskar) |
| 7 | No statutory dues outstanding? | □ | No specific defaults reported in snippets |
| 8 | No fraud reported? | □ | No fraud reported in Board Report |
| 9 | Audit trail enabled? | □ | Standard compliance noted |
| 10 | Frequent Auditor change | □ | Auditor re-appointed for 3 years |
| Final line: "Total: 6/10 □— Governance Rating: 1" | | | |

## Part C: Investor Verdict

**THESIS:** KECL is a technically insolvent engineering firm where marginal operational gains are being diverted to high-cost debt servicing and aggressive promoter compensation. **OVERALL STANCE: AVOID RATIONALE:** The company is shrinking its way to survival, leaving no residual value for minority shareholders after interest and KMP pay. **RE-EVALUATE WHEN: Finance Cost / Operating Profit falls below 20%** and KMP remuneration is capped at 5% of PAT. **BULL CASE:** Rapid monetization of land assets (□100 Cr+) leads to total debt elimination and a reset of the capital structure. **BEAR CASE:** Failure to sell land leads to a liquidity crunch, triggering the 99% promoter pledge and a forced change in control. **KEY MONITORABLE: Trade Receivables: □84 Cr → Watch for growth exceeding 10% without corresponding revenue.**

## 7. YEAR-OVER-YEAR ANALYSIS

### 7.1 Changes

| Metric / Theme | Summary A Status | Summary B Status | Forensic Takeaway |
|---|---|---|---|
| **Capital Allocation** | Maintenance capex (□3.86 Cr) was funded alongside debt reduction. | Capex was halted entirely (□0.00 Cr) to prioritize high-interest debt servicing and asset sales. | The company has transitioned from a functioning manufacturer to a "bleeding" asset base that is no longer reinvesting in its own productive capacity. |
| **Margin Trajectory** | OPM at 3%; core business was loss-making (-□6 Cr) before exceptional gains. | OPM improved to 6%; core business turned positive (□16 Cr) before exceptional losses. | While operational efficiency improved, the bottom line remains a hostage to high-magnitude, non-recurring accounting volatility. |
| **Working Capital Anomalies** | CFO was supported by the liquidation of □15.8 Cr in old receivables. | Receivables surged 42% (outpacing sales 5x) while □57 Cr in doubtful debt provisions were reversed to zero. | The aggressive reversal of bad debt provisions despite a deteriorating collection cycle suggests a tactical attempt to inflate the balance sheet's health. |
| **Management Tone** | Survival-oriented with a focus on debt repayment and industrial stability. | Transitioned to a "recovery" narrative focused on dynastic succession and promoter-led capital infusions. | The shift toward formalizing family leadership with high-tier compensation packages signals a prioritization of promoter interests over minority shareholder recovery. |

### 7.2 Persistent Patterns

- **Auditor "Going Concern" Warnings:** Both periods highlight that the company’s survival is structurally dependent on the successful liquidation of land and non-core assets.
- **Predatory Interest Burden:** Finance costs consistently consume the vast majority of operating profit (66-69%), leaving the company in a permanent state of **financial exhaustion**.
- **Extreme Promoter Pledging:** Promoter holdings remain almost entirely encumbered (75% to 99%), creating a **permanent risk of forced liquidation** or sudden change in control.
- **Misaligned Executive Extraction:** KMP compensation remains exorbitantly high (100:1+ ratio to median employee) despite **eroded net worth and technical insolvency**.
- **Negligible R&D Reinvestment:** Despite the "EV pivot" narrative, actual spending on innovation remains a token fraction of revenue, rendering the **growth thesis unsupported by capital**.
- **Reliance on Supplier Credit:** The company continues to operate with a negative cash conversion cycle by **stretching trade payables** (160+ days) to fund its inventory and receivables.
- **Asset-Sale Dependency:** The primary source of liquidity for debt repayment remains the **disposal of legacy assets** rather than sustainable operational cash flow.

Total: 6/10 □— Governance Rating: 1

---

*v5-Gemini | 56 pages | 62 chunks*