Kirloskar Electric Company Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Avoid: The company's net worth is completely eroded, forcing an active going-concern emphasis from the statutory auditor, while its fragile operations are weighed down by expensive short-term debt and high executive remuneration.

Key findings

- **-₹359.42 Cr** in accumulated losses have completely eroded operational net worth, triggering an explicit going-concern emphasis from the statutory auditor due to structural liquidity distress.
- **₹100.33 Cr** of total borrowing is entirely short-term, exposing the business to immediate rollover risks at an expensive effective interest rate of 23.15%.
- **75.33%** of the promoter stake is pledged to back the company's working capital lines, exposing ownership to foreclosure if operational cash flows fail to service debt obligations.
- **19.18%** of operational EBITDA is absorbed by executive remuneration, reflecting an extreme capital extraction rate by management on fragile net profits of just ₹8 Cr.
- **₹84 Cr** in trade receivables represents a 42.37% spike that outpaced sales growth, trapping cash and stretching the cash conversion cycle to a five-year low of -63 days.
- **₹49.03 Cr** of unprovisioned contingent liabilities hangs over the firm, including a ₹14.17 Cr GST dispute and a ₹5.27 Cr tax penalty pending in the Supreme Court.
- **33.33%** of pre-tax profit comes from non-operating other income, while the return on net fixed assets stands at a weak 2%, failing risk-free benchmarks.
- **₹36.42 Cr** in trade payables has been delayed for over three years, showing that the company relies on stretching vendor terms to manage its tight liquidity position.
- **₹57 Cr** generated from liquidating non-core assets funded a ₹46 Cr capex program and allowed a ₹11.41 Cr debt reduction, proving asset pruning can fund survival.
- **28.83%** revenue growth in the Power Generation and Distribution segment drove total sales to ₹589 Cr, showing solid demand from public infrastructure capital expenditure.

What to watch

Monitorable	Current level	Trigger level
Promoter pledge share of stake	75.33%	Above 90%
Receivables aged over 3 years	₹50.22 Cr	Above ₹60 Cr
Interest coverage ratio	1.28x	Below 1x
Trade payables overdue past 3 years	₹36.42 Cr	Above ₹45 Cr
Total short-term borrowings	₹100.33 Cr	Above ₹120 Cr

1. Business overview

Kirloskar Electric Company Ltd manufactures a diversified range of electrical equipment and engineered solutions, serving institutional and industrial clients across core economic sectors for over seven decades.

Segment	Revenue (□ Cr)	Share of total	YoY movement	Segment drivers
Power Generation and Distribution Group	297.17	50.42%	+28.83%	Power infrastructure modernization, transmission and distribution networks, and renewable energy integration.
Rotating Machines Group	250.18	42.45%	-7.61%	Industrial expansion, electric vehicle adoption, traction, railways, and defence applications.
Others	41.99	7.12%	-0.87%	Customised engineering solutions and ancillary industrial activities.
Total	**589.34**	**100%**	**+8.37%**	Overall infrastructure expansion and public capital expenditure.

The company possesses a genuine competitive position in high-value customized electrical engineering applications. This position is supported by its multi-decade engineering history and long-term client relationships across core sectors. While standard product segments face high competitive intensity, the scale of operations expanded overall during the fiscal year, driven heavily by transmission, distribution, and power infrastructure demand.

Cost base

The company's cost base is concentrated in raw materials and engineering inputs, with specific exposure to commodities like copper, steel, iron, and "imported critical components like CRGO electrical steel." The pricing and availability of these materials are moved by global commodity market cycles and foreign exchange rate fluctuations. Profitability can be impacted by this volatility, particularly in projects with long execution cycles where the ability to pass on cost increases is limited. Manpower costs are another element where the company has focused on "optimising cost and rationalising manpower," including the closure of its component machining activity at Budihal (Unit – 15).

Capacity

The report does not explicitly disclose the exact production capacities or plant utilization levels for its manufacturing facilities. However, it notes that the Board approved the closure of its component machining activity at Budihal, Bangalore Rural (Unit – 15) with effect from May 28, 2025. Management states that this operational shift "has had no adverse impact on the operations of the Company." Whether capacity acts as a constraint on current operations or future growth is not explicitly stated.

Forward visibility

Forward visibility details, such as the exact size or quantum of the order book, are not disclosed in the report. Management highlights that the company has a "robust order inflow" and an "extensive track record of customisation projects in Defence, Railways, Power, and complex industrial applications." They also state that the Executive Chairman's industry network facilitates "securing substantial order bookings." However, the document lacks precise numbers or duration metrics regarding the backlog to evaluate long-term visibility.

What must stay true

For Kirloskar Electric Company's business model to remain viable over the long term, several key factors must hold true: * Public infrastructure spending must persist, particularly the government's "sustained push for capital expenditure" in power transmission, railway electrification, metro rail projects, and renewable energy integration. * The company must sustain its competitive advantage derived from an "established manufacturing base, technical expertise and long-standing relationships with industrial and institutional customers." * The customer

base must remain highly diversified, as operational resilience is explicitly dependent on "minimizing reliance on any single industry, customer, or region" to insulate the business from sector-specific downturns. * Internal operational efficiency and procurement practices must successfully counter "volatile raw material prices" and "intense competition" from domestic and multinational players. * The company's financial survival depends on the successful execution of internal strategies, including "operational efficiencies and strategic debt management," as debt servicing remains reliant on operating cash flows and planned asset sales.

2. Management commentary & outlook

What did management actually say, and can they be believed?

Topic	What management claimed	Their own words
Share Allotment Timeline	Equity shares from the proposed preferential issue will be allotted within 15 days of the resolution or regulatory approval.	"The Equity Shares shall be allotted within a period of 15 (fifteen) days from the date of passing of this resolution, provided that if any approval or permission of any regulatory authority/Stock Exchanges/the Central Government for allotment is pending, the period of 15 days shall be counted from the date of receipt of such approval or permission."
Corporate Control	The proposed preferential issue will not alter the management or control of the company.	"There shall be no change in the management or control of the Company consequent to the issue of the Equity Shares pursuant to the Proposed Preferential Issue."
Promoter Shareholding	Aggregate promoter group ownership will expand by about 2.49 percentage points within permitted regulatory thresholds during FY 2026-27.	"Further the aggregate Promoter and Promoter Group shareholding is expected to increase from approximately 49.74% (3,30,34,787 Equity Shares) pre-issue to approximately 52.23% (3,65,02,794 Equity Shares) post-issue, an increase of approximately 2.49 percentage points within the 5-percentage-point headroom available under Regulation 3(2) of the SAST Regulations for FY 2026-27"
Manufacturing Operations	The closure of component machining operations at the Budihal facility has no adverse operational impact.	"The Board has approved the closure of the component machining activity at Budihal, Bangalore Rural (Unit – 15), with effect from May 28, 2025. However, as stated in the previous year's report, this has had no adverse impact on the operations of the Company."
Product Portfolio Demand	Domestic manufacturing policies will support product demand across core industrial, railway, and defence segments.	"The Company expects demand for its product portfolio across sectors such as Defence, Railways, and various industrial sectors, supported by the Government's initiatives to boost domestic manufacturing."
Raw Material Sourcing	Reliance on imported critical components creates an exposure to volatile input costs driven by global trade policies.	"The Company anticipates moderate global growth, the continuation of protectionist trade policies, and ongoing geopolitical tensions, which present a risk of volatile input costs given its reliance on imported critical components like CRGO electrical steel."

The company possesses a genuine competitive advantage through its well-diversified client base and robust order inflow. This structural insulation is highly positive, protecting long-term revenue stability from sector-specific shocks, regional economic downturns, or customer concentration risks. Additionally, its established track record in executing specialized customization projects for Defence and Railways highlights strong underlying engineering capabilities that help defend its market position against low-cost standard competitors.

Outlook

- **Demand**: Management merely DESCRIBED expected demand across key sectors without providing specific numbers or target dates.
- **Capacity**: Management merely DESCRIBED historical footprint rationalization, specifically the closure of the Budihal unit, without setting future targets.

- **Costs**: Management merely DESCRIBED its ongoing cost-reduction and operational efficiency efforts alongside macro risk exposures without attaching numbers or dates.
- **Balance sheet**: Management committed to a 15-day timeline for preferential share allotment but otherwise merely DESCRIBED its strategic debt management approach.

Tone

The management's commentary focuses heavily on generalized macro tailwinds, domestic policy alignments, and broad adjectives to describe the industry landscape. However, it incorporates a few highly specific, falsifiable disclosures regarding corporate governance events, such as the exact effective date for the Budihal unit closure and clear regulatory timelines for its preferential equity allotment. This structure blends typical high-level narrative with distinct, verifiable operational milestones.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	589	544
Sales Growth %	8.37	-2.43
Expenses	554	528
Material Cost %	70	70
Raw material cost	416	379
Change in inventory	-7	2
Manufacturing Cost %	4	4
Employee Cost %	13	14
Other Cost %	7	9
Operating Profit	36	16
OPM %	6	2.90
Other Income	3	18
Exceptional items	-0.36	9.95
Other income normal	3.33	7.74
Interest	25	24
Depreciation	4	5
Profit before tax	9	4
Tax %	3	6
Net Profit	8	4
Profit from Associates	0	0
Exceptional items AT	0	10
Profit excl Excep	9	-6
Profit for PE	9	-6
Profit for EPS	8	4
Profit Growth %	236	-146
EPS (□)	1.26	0.56
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	66	66
Reserves	65	59
Borrowings	100	116
Long term Borrowings	0	0
Short term Borrowings	100	116
Preference Capital	0	0
Other Borrowings	0	0
Other Liabilities	402	372
Non controlling int	0	0
Trade Payables	184	178
Advance from Customers	32	24
Other liability items	186	169
Total Liabilities	634	613
Fixed Assets	437	446
Land	400	404
Building	54	54
Plant Machinery	159	155
Equipments	24	24
Furniture n fittings	7	7
Vehicles	4	4
Intangible Assets	15	15
Other fixed assets	10	16
Gross Block	674	678
Accumulated Depreciation	237	232
CWIP	0	0
Investments	2	2
Other Assets	196	165
Inventories	55	47
Trade receivables	84	59
Receivables over 6m	58	56
Receivables under 6m	84	60
Prov for Doubtful	-58	-57
Cash Equivalents	32	29
Loans n Advances	9	8
Other asset items	16	22
Total Assets	634	613

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	25	36
Profit from operations	44.32	37.77
Receivables	-27.10	15.81
Inventory	-8.32	2.86
Payables	17.44	-20.13
Other WC items	0	0
Working capital changes	-17.97	-1.46
Direct taxes	-0.93	-0.55
Cash from Investing Activity	17	-1
Fixed assets purchased	-46	-4
Fixed assets sold	57	0
Investments purchased	0	0
Investments sold	5	0
Interest received	1	1
Dividends received	0	0
Other investing items	0	2
Cash from Financing Activity	-40	-35
Proceeds from shares	0	0
Proceeds from borrowings	0	0
Repayment of borrowings	-11.41	-1.63
Proceeds from deposits	0	0
Interest paid fin	-24.47	-24.39
Financial liabilities	0	0
Other financing items	-4.37	-8.75
Net Cash Flow	2	0
Free Cash Flow	36	32
CFO/OP	74	234

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	52	39
Inventory Days	49	45
Days Payable	164	171
Cash Conversion Cycle	-63	-87
Working Capital Days	-163	-195
ROCE %	15	8

3.2 Financial analysis summary

Is this business actually making money? The business is technically profitable, but its core operational earnings are extremely fragile and reliant on a sharp reduction in bad debt provisioning rather than robust commercial growth. Net profit rose to □8 Cr in FY26 from □4 Cr in FY25, while operating profit increased to □36 Cr from □16 Cr. However, this expansion was almost entirely driven by a drop in the allowance for credit losses, which fell from □23.22 Cr in FY25 to just □0.46 Cr in FY26. Without this □22.76 Cr reduction in provisions, core operational earnings would have shown a decline.

Furthermore, profitability remains heavily supported by non-operating factors, with normal other income of □3.33 Cr accounting for 33.33% of the pre-tax profit of □9 Cr. The business's actual capital productivity is weak; its pre-tax return on the □437 Cr net fixed asset base stands at just 2%, failing to clear the 6.5% risk-free benchmark for three consecutive years. Similarly, its profit after tax on the total asset base of □634 Cr is only 1.3%, meaning the deployed capital earns less than a government deposit. Historical accumulated losses have reached -□359.42 Cr, leaving operational net worth deeply negative and kept afloat on paper only by an accounting revaluation reserve of □321.01 Cr on freehold land.

Is that money arriving as cash? Yes, the company generates positive cash from operations, but cash inflows slowed significantly in the current fiscal year due to a worsening working capital cycle. Cash from operations dropped to □25 Cr in FY26 from □36 Cr in FY25, with the annual cash-from-operations-to-EBITDA ratio falling to 0.69. Over the multi-year window, long-term cash conversion remains healthy, with cumulative operating cash flow at □140 Cr compared to cumulative EBITDA of □125 Cr.

The immediate strain stems from a working capital drag of -□18 Cr, which consumed nearly half of the year's operating earnings. This cash drain was driven by trade receivables, which spiked by 42.37% to □84 Cr from □59 Cr, far outstripping the revenue growth rate of 8.3%. As a result, debtor collection periods lengthened from 39 days to 52 days, pushing the overall cash conversion cycle to its worst level in five years at -63 days. Collection quality is heavily impaired, as 40.8% of the receivable book (□58 Cr) is aged over six months, and gross receivables stuck for over three years stand at □50.22 Cr against a total lifetime expected credit loss provision of □57.93 Cr.

Where is the cash going, and who is getting it? Lenders and the promoter chairman are the primary recipients of the company's cash, which is funded through a combination of operating inflows and aggressive non-core asset liquidation. In FY26, the company supplemented its □25 Cr operating cash flow by selling □57 Cr of fixed assets (including 1.06 acres of non-core land) and liquidating □5 Cr of investments. This combined cash inflow was deployed into a substantial capital expenditure of □46 Cr—absorbing 184% of operating cash flow—and into debt servicing. Finance costs consumed □24.47 Cr in cash interest payments, while □11.41 Cr went toward the repayment of short-term borrowings.

The heavy interest burden reflects a highly expensive capital structure, with an effective interest rate of 23.15% on outstanding borrowings. The remaining debt portfolio of □100 Cr is entirely short-term, split between □24.64 Cr in secured bank lines carrying steep rates up to 14.85% and □75.68 Cr in unsecured Inter-Corporate Deposits that face continuous short-term rollover risk. Beyond lenders, the promoter group receives significant funds, with executive remuneration to the Chairman totaling □5.69 Cr, backed by his personal guarantees on the core bank lines. No dividends were paid out during the year, and the company continues to preserve liquidity by delaying supplier payments, leaving □36.42 Cr in trade payables outstanding for over three years.

3.3 Contingent liabilities & commitments

Type of exposure	Value (FY 2026)	Value (FY 2025)	Status / risk forum
GST Transitional Credit Dispute	14.17 Cr	14.17 Cr	Rectification / Tribunal Stage
Resale Tax Penalty Dispute	5.27 Cr	5.27 Cr	Special Leave Petition - Supreme Court
Right to Recompense under MRA	5.14 Cr	5.14 Cr	Dependent on future profits
Sales Tax Demands Under Appeal	4.71 Cr	5.08 Cr	Departmental Appeals
Preference Share Redemption Claim	4.06 Cr	4.06 Cr	Upheld by DRT / Appealed to DRAT
Guarantees Issued to Lenders	12.26 Cr	11.45 Cr	Active Performance Counter-Guarantees
Claims Not Acknowledged as Debt	2.79 Cr	3.08 Cr	Civil & Vendor Litigation
GST Demand Under Appeal	0.63 Cr	0.79 Cr	Contested Appeals
Capital Commitments	2.41 Cr	1.29 Cr	Approved but not incurred capex

• **Contingent Liabilities - Tax Penalties:** The Special Leave Petition regarding a resale tax penalty of □5.27 Cr is pending before the Supreme Court. The Group has made a partial deposit of □2.98 Cr under protest, classified within disputed statutory assets, leaving an unprovisioned risk balance. • **Contingent Liabilities - Preference Share Guarantee:** The Debt Recovery Tribunal (DRT) upheld a execution claim of □4.06 Cr for a preference share redemption guarantee linked to Kirloskar Investment and Finance Ltd. The company has appealed to the DRAT and deposited □1.03 Cr following Supreme Court directions, but no formal liability has been recognized on the balance sheet. • **Contingent Liabilities - GST Transitional Credit:** An unprovisioned exposure of □14.17 Cr is tied to contested transitional input tax credits. An adverse ruling would impact the profit and loss account, as no defensive tax provisions exist for this item. • **Commitments:** Net capital commitments grew to □2.41 Cr from □1.29 Cr. This indicates an uptick in targeted plant additions despite the company's tight overall financial position.

3.9 Earnings quality & forensic checks

Is the growth real?

Flag · 2 of 6 signals flagged · confidence high · 6/6 checked

Signal	FY25	FY26	Status	What it means
Receivables growth vs sales growth	60.59 Cr	86.36 Cr (+42.5%)	Flag · medium impact	Locks up 25.77 Cr of non-cash liquidity in working capital assets, outpacing the modest revenue growth of +8.37%
Receivables ageing / ECL provisioning	57.47 Cr	57.93 Cr (+0.8%)	Flag · medium impact	Allowance for credit losses in the P&L was slashed from 23.22 Cr to 0.46 Cr (-98.02%), inflating current period net profits despite 35.48% of the receivables portfolio being older than 3 years
Unbilled revenue, contract assets, deferred revenue	—	Not disclosed	Unresolved	—
Customer concentration	—	Not disclosed	Unresolved	—
Revenue from related parties as % of revenue	4.34 Cr	1.34 Cr (-69.1%)	Clean	Minimal revenue risks from related parties as inside sales fell to a negligible share of total revenue
Advances from customers trend	24.02 Cr	32.25 Cr (+34.3%)	Clean	Secures 8.23 Cr of interest-free customer advance financing, improving near-term order book validation

Does profit become cash?

Flag · 4 of 5 signals flagged · confidence high · 5/5 checked

Signal	FY25	FY26	Status	What it means
Working-capital movement	-1.46 Cr	-17.97 Cr	Flag · high impact	Working capital changes created an intense cash extraction of 17.97 Cr, eating up approximately half of the entire annual EBITDA
CFO vs clean EBITDA (cash conversion)	35.76 Cr	25.42 Cr (-28.9%)	Watch · high impact	Operational cash conversion dropped to 0.69x on a pack basis (or 0.71x on a notes basis) relative to 36 Cr EBITDA, down from the exceptional conversion of 2.25x in the previous year
Pre-tax operating conversion (CFO + tax paid) / EBITDA	36.31 Cr	26.35 Cr (-27.4%)	Watch · high impact	Pre-tax conversion efficiency slowed down significantly, tracking the wider operational working capital deceleration
Inventory absorption of operating cash	2.86 Cr	-8.32 Cr (-390.9%)	Watch · high impact	Inventory shifted from a positive cash source to a material 8.32 Cr operating cash drain, driven by increased inventory accumulations
Cash tax paid vs book tax	0.55 Cr	0.93 Cr (+69.1%)	Clean	Cash tax paid was 0.63 Cr higher than the nominal P&L tax expense, showing conservative tax management despite tight liquidity

Is the P&L being manufactured?

Flag · 2 of 6 signals flagged · confidence high · 6/6 checked

Signal	FY25	FY26	Status	What it means
Exceptional items and their effect on PBT	9.95 Cr	-8.09 Cr (-181.3%)	Flag · high impact	Exceptional employee provisions of 8.09 Cr heavily depressed reported PBT, offsetting the pre-exceptional turnaround expansion
Non-operating / other income as % of PBT	7.75 Cr	11.06 Cr (+42.7%)	Flag · high impact	Other income exceeds total reported PBT (127.30%), meaning the group relies entirely on a non-operating 7.73 Cr net profit on fixed asset sales to stay out of a pre-tax loss position
Deferred tax movement and cash-vs-book tax	0 Cr	0 Cr	Clean	Net deferred tax accounting impact remains at zero as DTA recognition is strictly capped due to profitability uncertainty
Provision reversals credited to income	22.61 Cr	0.22 Cr (-99.0%)	Clean	Massive provision reversals seen propping up the prior year's income statement have ceased, improving basic quality transparency
Depreciation policy / useful-life change	4.89 Cr	4.34 Cr (-11.2%)	Clean	No useful life policy updates were made; normal depreciation drop reduced operating expenses by 0.55 Cr
Valuation-method or accounting-policy change	—	Not disclosed	Clean	No accounting changes or transitional standard variations applied this period

Is value leaving to insiders?

Flag · 4 of 8 signals flagged · confidence high · 8/8 checked

Signal	FY25	FY26	Status	What it means
KMP / director remuneration vs EBITDA	8.30 Cr	9.31 Cr (+12.2%)	Flag · high impact	Inside KMP compensation absorbs 25.86% of total operational EBITDA, representing an extreme extraction rate on thin corporate earnings
Promoter pledge / encumbrance	24.89 Cr	24.89 Cr (+0.0%)	Watch · high impact	A high portion of 2.49 Cr shares (75.34% of total promoter equity) remains pledged to secure banking working capital lines, exposing ownership to foreclosure risk
Related-party transaction quantum and trend	17.99 Cr	14.40 Cr (-20.0%)	Watch · low impact	Absolute inside transaction volume dropped but remains high at 14.40 Cr, exceeding the entire group consolidated net profit of 8.38 Cr
Loans, advances or guarantees to group entities	1.08 Cr	1.37 Cr (+26.9%)	Watch · low impact	Rescheduled non-trade advances to interested companies rose to 1.37 Cr, rolling over balances instead of recovering cash
Interest earned on loans/advances to related parties, against the company's own cost of debt	—	Not disclosed	Unresolved	—
New related-party counterparties this year	0 Cr	0.33 Cr	Clean	Appointment of a new KMP added a minor 0.33 Cr to managerial employee benefits
Interest paid on loans taken FROM promoters or directors, against the company's own cost of debt	0 Cr	0 Cr	Clean	No promoter interest expense drag reported
CSR spend and shortfall	0 Cr	0.38 Cr	Clean	No statutory non-compliance or shortfall penalties indicated

Can the balance sheet take a hit?

Flag · 2 of 5 signals flagged · confidence high · 5/5 checked

Signal	FY25	FY26	Status	What it means
Contingent liabilities vs net worth	48.75 Cr	49.03 Cr (+0.6%)	Flag · high impact	Unprovisioned contingent liabilities of 49.03 Cr represent 37.20% of reported equity, and actually exceed core operational net worth if the non-cash 321.01 Cr land revaluation reserve is removed
Borrowing terms, security, covenants	116.11 Cr	100.33 Cr (-13.6%)	Flag · high impact	The entire 100.33 Cr debt base is short-term, carrying steep interest rates of up to 14.85% for bank lines and 12.11% for rollover ICDs, posing immediate refinancing stress
CWIP ageing and stalled projects	0 Cr	0 Cr	Clean	No capital traps identified in uncommissioned or stalled factories
Dividend vs free cash flow	0 Cr	0 Cr	Clean	Preserved critical cash by omitting dividends completely, in line with auditor warnings on net worth preservation
Encumbered assets / title deeds not in company name	0 Cr	0 Cr	Clean	Land asset titles are validated following a successful freehold conversion process

4. Management & governance

Governance check matrix

Check	Status	Detail
Audit opinion (type)	Clean	Unmodified
Fraud reported by the auditor	Clean	—
Audit trail (edit log)	Clean	Feature enabled and untampered
Statutory dues unpaid	Watch	□5.34 Cr outstanding
Promoter pledge (% of promoter holding)	Flag	75.33% of promoter stake
Independent directors (% of board)	Clean	55.56% of board
Woman director	Clean	2 directors (Promoter and Independent)
KMP pay against the statutory ceiling	Clean	Within Section 197 limits
Related-party transactions (% of revenue)	Clean	0.81% of revenue

A. Auditor report & key audit matters

Beyond the standard clean opinion, the auditor highlighted **Going Concern** as a Key Audit Matter. The group’s net worth (excluding revaluation reserves) is completely eroded due to accumulated losses, and there are significant overdue payments to trade creditors. The auditor accepts the "going concern" status based on management's plan to monetize non-core assets and infuse funds.

Emphasis of Matter: The auditor noted a pending dispute before the Supreme Court regarding a resale tax penalty of □5.27 Cr. Management has not made a provision, despite a High Court ruling against them, relying instead on a partial protest deposit of □2.98 Cr.

Audit Fees: * **Audit Fees:** □0.21 Cr. * **Taxation & Limited Review Fees:** □0.35 Cr. * **Total:** □0.56 Cr.

Internal financial controls were reported as operating effectively. However, the auditor noted that the group is still awaiting external balance confirmations for several customers and suppliers, which remains a validation risk for the carrying value of receivables.

B. Related party transactions

While operational trade with related parties is small, there are specific financial flows that require scrutiny: * **Rescheduled Advances:** The company carries ₹1.37 Cr in advances due from entities where KMP are interested. These have been "rescheduled" rather than recovered or impaired, effectively using company liquidity to support these ventures. * **Promoter Support:** The Executive Chairman has provided a personal guarantee and a pledge of 2.49 crore shares to secure the company's ₹24.64 Cr working capital facility. * **Operational Flows:** The company purchased goods worth ₹3.43 Cr from promoter-linked entities (Vijay Farms, Sri Vijayadurga Investments, and Abhiman Trading). These are reported as being on arm's length terms. * **Offshore Deficits:** The Dutch subsidiary, Kirsons B.V., carries a massive accumulated loss of 3.12 crore Euros, leaving it with negative equity. It currently exists primarily to pursue legal recoveries from an insolvent German associate.

C. Shareholding

Promoters hold 49.74% of the company. A significant portion of this holding—2.49 crore shares, representing 75.33% of the promoter stake and 37.47% of the total company—is pledged. Crucially, this pledge secures the **company's own borrowing** (working capital lines from Bank of India and SBI) rather than the promoters' personal debts. The Indian public holds 39.32%, while institutional participation (FPIs and Insurance) remains low at approximately 2.3%.

D. Board composition

The board is heavily influenced by the Kirloskar family, with Mr. Vijay R. Kirloskar (Executive Chairman), Mrs. Meena Kirloskar, and Ms. Rukmini Kirloskar all serving as directors.

There was significant turnover in leadership during the year: * **Leavers:** Dr. Ashok Misra (Independent) retired in November 2025. Mr. Sanjeev Kumar S resigned as Whole-time Director in February 2026 and as CFO in March 2026. * **Appointments:** Ms. Janaki Kirloskar was appointed CEO in February 2026 and subsequently promoted to Joint Managing Director in May 2026.

The move to appoint a family member (Janaki Kirloskar) to the Joint MD role following the sudden exit of the long-standing CFO suggests a tightening of family executive control.

E. KMP compensation

Management compensation is high relative to the company's thin operational profitability. * **Operating Profit (EBITDA):** ₹44.32 Cr. * **Total Executive Remuneration:** ₹8.50 Cr. * **Pay as % of EBITDA:** 19.18%.

A pay-to-EBITDA ratio of nearly 20% is a significant finding. While the auditor confirmed the pay is within statutory limits, shareholders should note that the Executive Chairman's remuneration was revised upwards during a period where the company's net profit of ₹8.38 Cr was largely propped up by a sharp reduction in credit loss provisions (falling from ₹23.22 Cr to ₹0.46 Cr) rather than a breakthrough in manufacturing margins.

F. Capital allocation & capex

The company's capital allocation over the analysis window shows a business in survival and consolidation mode, rather than aggressive expansion.

- **Cumulative CFO:** ₹140 Cr.

- **Cumulative Capex:** -□57 Cr.
- **Cumulative Free Cash Flow:** □83 Cr.
- **Net Borrowing:** -□73 Cr.
- **Dividends Paid:** □0 Cr.

The company generated healthy operating cash flow of □140 Cr, which was bolstered by liquidating non-core assets (Fixed assets sold: □57 Cr in the current year). This cash was used to fund a modest capex program of □57 Cr and, more significantly, to pay down debt (□73 Cr). The company is successfully reducing its leverage out of its own cash flow and asset sales, though it has returned zero capital to shareholders. The share count has remained stable at 6.64 crore shares, avoiding dilution. The business is funding its survival and debt reduction through internal accruals and asset pruning, which is a necessary, if unglamorous, allocation strategy given its net-worth erosion.

G. Revenue recognition policy

Revenue is recognized under Ind AS 115 when control of goods or services is transferred to the customer. The company uses the "cumulative catch-up" transition method, which means comparative periods are not restated. This policy requires management to exercise significant judgment in identifying performance obligations and estimating the consideration they are entitled to receive, particularly in long-term equipment contracts. While standard for the industry, this leave management with room to time the recognition of income based on their assessment of contract completion.

5. Scorecard

Dimension	Rating	Vs last year	What decided it
Business quality	2	Same	Pre-tax return on net fixed assets was 2.0% in the latest year, remaining below the 6.5% risk-free rate for 3 out of 4 observed years.
Financial health	1	Same	Operational net worth is completely eroded due to accumulated losses of -□359.42 Cr, combined with an active going-concern emphasis from the auditor.
Earnings quality	2	Up	Multiple high forensic flags are triggered, including a major working capital cash extraction of □17.97 Cr and insider transactions exceeding net profit.
Management & governance	2	Up	Total executive remuneration consumes 19.18% of EBITDA, and 75.33% of the promoter shareholding remains pledged to secure bank lines.
Capital allocation	3	—	Growth and capital expenditure were entirely funded by non-core fixed asset sales of □57 Cr rather than operating cash flow.

6. How it has been doing

6.1 The multi-year picture

Metric	5-yr mean	FY25	FY26	Low ‹ band › high	Vs trend	Why it moved	Durable?
Revenue growth %	18.89	-2.33	8.27	-2.33 `[--#--o-----]` 41.49	**Worse than trend**	Demand recovery in power transmission infrastructure	—
EBITDA margin %	3.1	2.94	6.11	-4.78 `[-------o--#]` 7.59	**Better than trend**	Recovery driven by sharp reduction in credit loss provisions	—
PAT margin %	7.45	0.74	1.36	0.74 `{---o-------]` 20	**Worse than trend**	Low core manufacturing margins and lower exceptional gains	Structural
CFO / EBITDA	1.15	2.25	0.69	0.19 `[--#--o-----]` 2.25	**Worse than trend**	Cash absorbed by sharp accumulation in trade receivables	—
ROCE %	11.5	8	15	-1 `[------o-#--]` 21	**Better than trend**	Improved operational profitability from lower provisioning	—
Debtor days	44.75	39	52	39 `[---o----#--]` 56	**Worse than trend**	Outstanding billing additions outpaced collections growth	—
Cash conversion cycle (days)	-89	-87	-63	-114 `[-----o---] #` -71	**Worse than trend** (worst in window)	Extended inventory holding and slower debtor realisations	Too early
Net debt / EBITDA	1.3	5.44	1.89	-5.88 `[-------#---]` 5.44	**Worse than trend**	Leverage reduction via short-term debt repayment and higher EBITDA	—
Interest coverage	0.6	0.46	1.28	-0.68 `[------o---#]` 1.41	**Better than trend**	Operational earnings growth against a stable finance cost base	—
Other income % of PBT	188.93	450	33.33	57.14 `#[--o-------]` 450	**Better than trend** (best in window)	Lower contribution from non-operating fixed asset sales	One-off
Cash from operations	28.75	36	25	7 `[------#-o--]` 37	**Worse than trend**	Substantial cash outflow deployed into working capital items	—

6.2 Management: said versus delivered

No prior-year management outlook summary was supplied, so the promises table has been skipped.

What has not changed

- Raw material costs have remained locked at exactly 70.0% of revenue for the fourth consecutive year, consuming □416 Cr out of the total □589 Cr revenue in FY2026.
- Other income has persisted as a critical counterweight to thin core earnings for the fifth consecutive year, contributing □3 Cr against a total pre-tax profit of □9 Cr in FY2026.

- The factory asset base has continued to age for the fifth consecutive year, with cumulative accumulated depreciation reaching ₹237 Cr against a stable gross block of ₹674 Cr in FY2026.