Kirloskar Electric Company Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Core manufacturing revenue grew 17.7% YoY to □557 Cr, driven by Jaljeevan Mission orders, though the business remains a commoditized player with 70% material costs.**	Positive
2	***The company is technically insolvent with a deeply negative net worth of - 224 Cr and a "Going Concern" qualification from auditors, signaling high terminal risk.***	Negative
3	***Operating margins are severely pressured by a legacy debt trap, with finance costs of 26 Cr consuming 70% of total operating profit.***	Negative
4	***Reported Net Profit fell 42% to 14 Cr following the exhaustion of one-time SPV income, while interest accrued on unsecured loans rose 24% YoY.***	Negative
5	***Financial health is critical with a D/E ratio of 1.54x and interest obligations that dwarf all other capital allocations, leaving the firm dependent on asset stripping.***	Negative
6	***Cash Flow from Operations (CFO) of 37 Cr is of poor quality, artificially inflated by stretching trade payables to 174 days (187 Cr) rather than core profitability.***	Negative
7	***Capital expenditure is stagnant and remains below depreciation levels, indicating a lack of reinvestment in the core business or the nascent EV motor pivot.***	Negative
8	***Earnings quality is compromised by 22.19 Cr of trade receivables aged over two years, which auditors have qualified as doubtful and likely uncollectible.***	Negative
9	***Governance is a primary concern as management seeks 25–33% pay hikes for KMPs despite a 8.39 Cr standalone loss and a distressed balance sheet.***	Negative
10	***Promoter alignment is weak with 75.42% of shares pledged, creating significant liquidation risk and vulnerability to margin calls.***	Negative
11	The outlook is clouded by pending NCLAT insolvency appeals and the total loss of the 3.01 Cr Euro investment in the now-insolvent German subsidiary.	Neutral
12	***Investment View: Avoid; monitor trade payable days for a spike above 200 days and track land bank monetization as the only viable path to debt reduction.***	Negative

1. Business overview (In Bullet Points)

- **Business Segments:** Kirloskar Electric Company Ltd (KECL) operates in the manufacturing of high-voltage and low-voltage motors, transformers, and power generation equipment.
- **Revenue Drivers:** Growth is currently tethered to the **'Jaljeevan Mission'** (supplying transformers for water supply schemes in Bihar and Punjab) and the global EV transition.
- **Cost Drivers:** Performance is heavily impacted by **Material Costs** (70% of sales) and a high Finance Cost burden (□26 Cr) which consumes 70% of operating profit.
- **Industry Position:** KECL is pivoting toward "tailor-made customized electrical equipment" to create market stickiness, though it faces intense competition from well-capitalized players like ABB, Siemens, and CG Power.

- **Expansion Plans & Strategy:** Management is focused on three pillars: (1) Enhanced capacity utilization, (2) Cost optimization, and (3) Export focus. The company claims "pioneer" status in the EV motor segment.
- **Acquisitions & Subsidiaries:** The company operates through several Special Purpose Vehicles (SPVs) like Luxquisite, SLPKG, and SKG Terra, primarily used for "realization of fixed and current assets." Its German subsidiary, Lloyd Dynamowerke GmbH, is currently under insolvency proceedings.
- **Capacity Additions:** Capex remains minimal (□2.50 Cr) and is primarily maintenance-focused; no significant growth capex is being deployed to scale new segments.
- **Geographical Presence:** While maintaining a domestic presence linked to government infrastructure, the company is attempting to increase its export focus to improve margins.

2. Management commentary & outlook

- Management repeatedly cites a "robust order book" for both customized and standard products, though conversion into cash flow remains a primary bottleneck.
- The company is heavily emphasizing the "global mobility revolution" and its preparedness for market competition in the EV motor segment.
- Strategic survival is explicitly linked to the "monetization of non-core assets" (land) to address technical insolvency and working capital requirements.
- Management acknowledges persistent challenges in meeting working capital requirements despite a 17.7% growth in revenue.
- There is a strategic shift toward "tailor-made" solutions to avoid commoditization, though this increases engineering overheads.
- The company successfully saw the dismissal of two CIRP (Insolvency) petitions in May 2024, though these remain under appeal at the NCLAT.
- The Board is seeking significant remuneration hikes (18% to 33%) for top KMPs, justifying them as "minimum remuneration" due to inadequate profits.
- **Management Tone:** The tone is resilient and aspirational regarding the EV pivot, yet appears increasingly decoupled from the reality of the company's technical insolvency. The aggressive pursuit of KMP pay hikes amidst a "Going Concern" qualification and negative net worth suggests a management team prioritizing personal compensation over minority shareholder alignment and balance sheet repair.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2024	Mar 2023
Sales	557	474
Sales Growth %	17.70	41.50
Expenses	521	437
Material Cost %	70	68
Raw material cost	388	324
Change in inventory	4	-3
Manufacturing Cost %	4	4
Employee Cost %	14	14
Other Cost %	5	6
Operating Profit	37	36
OPM %	7	8
Other Income	8	22
Exceptional items	0.03	6.72
Other income normal	7.96	15.53
Interest	26	22
Depreciation	5	5
Profit before tax	14	31
Tax %	0	0
Net Profit	14	31
Profit from Associates	0	0
Minority share	0	0
Exceptional items AT	0	7
Profit excl Excep	14	24
Profit for PE	14	24
Profit for EPS	14	31
Profit Growth %	-42	172
EPS (□)	2.12	4.68
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2024	Mar 2023
Equity Capital	66	66
Reserves	16	25
Borrowings	126	133
Long term Borrowings	0	0
Short term Borrowings	126	133
Preference Capital	0	0
Other Borrowings	0	0
Other Liabilities	433	388
Non controlling int	0	0
Trade Payables	187	164
Advance from Customers	26	26
Other liability items	220	199
Total Liabilities	641	614
Fixed Assets	438	439
Land	403.67	403.67
Building	53.54	53.24
Plant Machinery	153.56	153.05
Equipments	23.48	22.53
Furniture n fittings	7.31	8.09
Vehicles	3.93	4.12
Intangible Assets	15.12	15.12
Other fixed assets	6.73	6.30
Gross Block	667.34	666.12
Accumulated Depreciation	229.32	226.64
CWIP	1	1
Investments	2	2
Other Assets	201	172
Inventories	49	53
Trade receivables	86	54
Receivables over 6m	59	64
Receivables under 6m	66	34
Prov for Doubtful	-39	-43
Cash Equivalents	29	25
Loans n Advances	12	12
Other asset items	23	27
Total Assets	641	614

Cash flow statement (□Cr)

Line item	Mar 2024	Mar 2023
Cash from Operating Activity	37	7
Profit from operations	33.55	50.32
Receivables	-26.08	-12.97
Inventory	3.90	-5.10
Payables	23.80	-24.30
Other WC items	0	0
Working capital changes	1.62	-42.37
Direct taxes	1.40	-0.65
Cash from Investing Activity	-2	2
Fixed assets purchased	-2.50	-3.86
Fixed assets sold	0.04	6.83
Investments purchased	-0.04	0
Investments sold	0	0.10
Interest received	1.26	0.64
Dividends received	0.01	0
Other investing items	-0.89	-1.66
Cash from Financing Activity	-31	-33
Proceeds from shares	0	0
Proceeds from borrowings	0	0
Repayment of borrowings	-32.46	-7.90
Proceeds from deposits	0	0
Interest paid fin	-23.67	-24.61
Financial liabilities	0	0
Other financing items	25.49	-0.79
Net Cash Flow	4	-24
Free Cash Flow	34	10
CFO/OP	96	22

Key ratios

Line item	Mar 2024	Mar 2023
Debtor Days	56	42
Inventory Days	46	61
Days Payable	174	187
Cash Conversion Cycle	-71	-84
Working Capital Days	-196	-241
ROCE %	18	21

3.2 Financial analysis summary

- **Revenue** grew by 17.70% to ₹557.00 Cr, yet Net Profit plummeted by 42% to ₹14.00 Cr, primarily due to the absence of lumpy Other Income from SPV operations which fell from ₹157.94 Cr in FY23 to zero in FY24.
- The **EBITDA Margin** contracted from 7.59% to 6.64% as Material Cost % rose to 70%, while Finance Cost increased to ₹26.00 Cr, consuming 70% of the Operating Profit.
- **Interest Accrued** on unsecured loans rose 24% YoY to ₹5.23 Cr, signaling that the company is struggling to service its debt through internal accruals, creating a "hidden leverage" risk.
- **Trade Receivables** on the Balance Sheet surged to ₹86.00 Cr, significantly outpacing Revenue growth and leading to a negative Receivables impact of ₹26.08 Cr in the Cash Flow Statement.
- An auditor qualification flags **₹22.19 Cr** of Trade Receivables older than two years, suggesting that a substantial portion of the reported Net Worth may be at risk of impairment.
- Despite receivable pressure, **CFO** improved to ₹37.00 Cr from ₹7.00 Cr, driven by a ₹23.80 Cr boost from Trade Payables and a reduction in Inventory of ₹3.90 Cr.
- The high **CFO/PAT** ratio of 2.64 is misleading, as Days Payable of 174 days suggests liquidity is being managed by stretching vendor payments rather than operational efficiency.
- **Total Debt** remains high at ₹126.00 Cr relative to a shrinking Net Worth (Reserves fell from ₹25.00 Cr to ₹16.00 Cr), resulting in a deteriorating Debt/Equity ratio of 1.54.
- **Financing Cash Flow** shows a heavy burden with ₹23.67 Cr spent on Interest paid, while the group remains dependent on inter-corporate support of ₹53.92 Cr across distressed SPVs.
- **Fixed Assets** remained stagnant at ₹438.00 Cr with minimal Capex of ₹2.50 Cr, while Other Assets are bloated by ₹10.57 Cr in "Assets Held for Sale" that have shown zero movement for two years.
- The insolvency of the German subsidiary, Lloyd Dynamowerke, has led to a total loss of the **₹3.01 Cr Euro** investment, further limiting the group's ability to sweat its Total Assets efficiently.
- **ROCE** declined from 21% to 18%, and ROE halved to 17.07%, reflecting the dilution of returns by a bloated Balance Sheet and high Finance Costs.
- **Other Assets** are dominated by stagnant "Assets Held for Sale" (₹10.57 Cr), while Other Liabilities are ballooning due to unpaid Interest Accrued, which will eventually require a haircut or further parent support.
- **Overall Synthesis:** Kirloskar Electric is witnessing a decoupling of core **Revenue** growth from profitability, as the exhaustion of non-core SPV income and a high Finance Cost burden erode the bottom line, leaving the company's survival dependent on aggressive vendor stretching and finite asset monetization.

3.3 Contingent liabilities & commitments

- **Litigation:** Two petitions for CIRP (Insolvency) were filed in Nov 2023; though dismissed in May 2024, they are currently under appeal at the NCLAT (Chennai) as of June 18, 2024.

- **Tax Disputes:** A disputed Income Tax demand of ₹31.74 Cr remains a significant tail risk.
- **Doubtful Receivables:** A quasi-contingent liability exists in the form of ₹22.19 Cr of trade receivables older than two years, which the auditor is unable to verify for recovery.
- **Guarantees:** The group relies on the Executive Chairman's personal guarantees (₹70.14 Cr in the prior year) to maintain bank limits.
- **Capital Commitments:** Reported at ₹0.00 Cr, reflecting a lack of planned expansion.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	CFO is inflated by a ₹23.80 Cr increase in Trade Payables rather than core cash earnings.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — collection risk	—	Auditor qualified ₹22.19 Cr of receivables older than 2 years as doubtful of recovery.
3	Revenue timing	Neutral — stable advances	—	Revenue recognized per Ind AS 115; SPVs used for asset realization rather than new contracts.
4	Revenue from related parties %	Revenue ↓ — circularity risk	—	SPVs like SKG Terra show massive volatility in income from internal asset liquidation schemes.
5	Inventory vs revenue growth	Profit ↑ — efficient churn	—	Inventory days improved from 61 to 46 days; however, "Assets Held for Sale" remain stagnant.
6	Inventory valuation method change	Neutral — consistent policy	—	Accounting policy notes confirm standard valuation; no deviation noted in the annual report.
7	Exceptional items in operating profit	Profit ↑ — non-core boost	—	FY23 profit was significantly aided by one-time items; FY24 shows a 42% drop in Net Profit.
8	Depreciation rate vs useful life policy	Profit ↑ — low charge	—	Low depreciation relative to asset base; Land (non-depreciable) comprises ₹403.67 Cr of fixed assets.
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain	—	Reversal of doubtful debt provisions used to smooth earnings in distressed SPV subsidiaries.
10	Tax rate consistency	Profit ↑ — tax avoidance	—	Group pays no tax due to accumulated losses in SPVs and parent; masks true tax-paying capacity.
11	CWIP age and stalling projects	Neutral — minimal exposure	—	No significant capital projects active; focus is on asset disposal rather than new capacity.
12	Deferred tax asset recognition adequacy	Profit ↓ — impairment risk	—	Negative equity in SPVs (SLPKG -₹39.74 Cr) indicates high probability that tax assets are unrecoverable.
13	RPT quantum and trend	Profit ↓ — liquidity drain	—	Parent liquidity is trapped in SPVs; interest accrued on inter-corporate deposits rose 24% (₹5.23 Cr).
14	Dividend paid vs FCF adequacy	Neutral — conservation mode	—	Positive FCF of ₹34 Cr was entirely utilized to repay ₹32.46 Cr of borrowings.
15	Auditor Qualification Persistence	Profit ↓ — valuation risk	—	Repetitive qualification indicates management's refusal to recognize permanent impairment, inflating Net Worth.
16	Asset Stagnation (Held for Sale)	Neutral — liquidity freeze	—	Zero movement in SKG Terra's assets held for sale YoY; primary mandate of SPVs is failing.
17	Subsidiary Insolvency	Profit ↓ — investment loss	—	Total loss of 3.01 Cr Euro investment; signals failure of international expansion and capital loss.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion Type:** ***Qualified Opinion***.
- ***KAM - Trade Receivables > 2 Years:*** The auditor expressed an inability to ascertain the shortfall in recovery for trade receivables/book debts exceeding two years, totaling **□22.19 Cr**. Management maintains these are "good for recovery," but the auditor's qualification suggests a significant risk of overstatement of assets.
- ***KAM - Realization from SPVs:*** The auditor flagged a potential shortfall in the realization of **□111.54 Cr** (standalone impact) from Special Purpose Vehicles (Luxquisite, SLPKG, SKG Terra), noting that the realization depends on the disposal of immovable properties which has shown zero movement in certain entities.
- ***KAM - Lloyd Dynamowerke Insolvency:*** The investment in the German subsidiary (Lloyd Dynamowerke GmbH) has been fully provided for due to regular insolvency proceedings, signaling a total loss of the **3.01 Cr Euro** investment.
- ***Auditor's Comments on Going Concern:*** The auditor expressed significant doubt regarding the group's ability to continue as a going concern due to eroded net worth and accumulated losses, despite management's reliance on asset monetization plans.

B. Related party transactions

Party	Relationship	Nature	Amount (□Cr)	Concern
Aggregate SPVs	Subsidiaries	Payable to Holding Co	56.28 Cr	***Liquidity Trap***
Vijay R Kirloskar	Executive Chairman	Remuneration	4.00 Cr	**High vs PAT**
SLPKG Estate	Subsidiary	Interest Accrued (Unsecured)	5.23 Cr	***Debt Trap***
Kirsons Trading PTE	Associate	Sale of Goods	< 1% Rev	**Arm's Length**

- **RPT Risk Checks:** KMP Remuneration (□6.05 Cr) is 16.35% of CFO (□37.00 Cr). Interest of □5.23 Cr on unsecured loans is being accrued but not paid, signaling a "debt trap."
- **Governance Verdict:** The group structure is being used to warehouse □22.19 Cr of aged receivables and □10.57 Cr of stagnant land assets. The circular dependency between the parent and SPVs indicates a lack of genuine liquidity.

C. Shareholding

- **Promoters:** 49.51% (Unchanged YoY)
- **FIIs/DIIs:** 1.44% / 1.59%
- **Public:** 47.46%
- ***Pledged Shares:*** **75.42%** of the promoter's total shareholding remains pledged to secure bank loans and personal guarantees.

D. Board composition + KMP compensation

- **Total Directors:** 10 (60% Independent).
- **Women Directors:** 1 (Mrs. Meena Kirloskar).
- **Family Relations:** Mr. Vijay R. Kirloskar and Mrs. Meena Kirloskar are spouses; Ms. Rukmini Kirloskar (Additional Director) is a family member.

- **Compensation Analysis:** Total KMP compensation (□6.05 Cr) consumes 43.21% of Net Profit (□14.00 Cr). CFO remuneration grew 37.50% YoY despite EBITDA growth of only 2.78%. Management is seeking further hikes of 25-33% for FY25.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Interest Payments	26.00 Cr	22.00 Cr	70.27%	—
Repayment of Debt	32.46 Cr	7.90 Cr	87.73%	**Positive**
Capex	2.50 Cr	3.86 Cr	6.76%	—

- **CAPEX Analytical Notes:**
  - CFO/Capex ratio is 14.80, but **CFO is inflated by a □23.80 Cr increase in Payables**.
  - Capex of **□2.50 Cr** is primarily maintenance-focused; no significant growth capex is being deployed for the EV segment.
  - Revenue grew 17.7% while Capex declined 35% YoY, suggesting the company is **sweating old assets** with minimal reinvestment.

H. Risks

- ***Going Concern*** (High): Eroded net worth and accumulated losses; auditor expresses significant doubt.
- ***Receivables Ageing*** (High): □22.19 Cr of receivables are > 2 years old; potential write-off would wipe out 1.5x current PAT.
- ***Litigation (NCLT)*** (High): Section 7 petitions are under appeal at NCLAT; risk of insolvency proceedings remains.
- ***Interest Rate*** (High): □26.00 Cr interest consumes 70% of Operating Profit; thin margin for error.
- ***Asset Stagnation*** (Medium): □10.57 Cr in assets held for sale with zero movement for 24 months.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	2	→	17.7% Rev growth; 70% Material costs	Commoditized products with high cost sensitivity and no scale in EV.
Financial health	1	↓	D/E 1.54x; Interest = 70% Op Profit	Technically insolvent with negative net worth and high interest burden.
Earnings quality	2	↓	CFO inflated by □23.8 Cr Payables	Profits are non-cash and dependent on stretching vendor payments.
Management & governance	1	↓	75.4% Pledge; 33% KMP pay hike request	Poor alignment with shareholders; aggressive pay hikes despite losses.
Capital allocation	1	→	Capex < Depreciation; Interest > PAT	Value-destructive cycle; interest payments dwarf all other allocations.

Business positives (for this company this year) * **Revenue Growth:** Core manufacturing sales grew 17.7% YoY to □557 Cr. * **Debt Repayment:** Utilized □32.46 Cr of cash flow to reduce borrowings. * **Inventory**

Efficiency: Inventory days improved from 61 to 46 days, releasing ₹3.9 Cr in cash. * **Order Book:** Management reports a robust order book driven by the Jaljeevan Mission.

Business negatives / concerns (for this company this year) * **Technical Insolvency:** Net worth remains deeply negative (-₹224 Cr) with a "Going Concern" qualification. * **Interest Burden:** Finance costs of ₹26 Cr consume 70% of Operating Profit. * **Receivables Risk:** ₹22.19 Cr of receivables are > 2 years old and qualified by auditors. * **Governance Red Flag:** Management seeking 25-33% pay hikes despite reporting a ₹8.39 Cr standalone loss. * **High Pledge:** 75.42% of promoter shares are pledged, creating high liquidation risk. * **Asset Stagnation:** ₹10.57 Cr of "Assets Held for Sale" have shown zero movement for two years.

Overall scorecard summary Kirloskar Electric is in a state of financial decay where a modest operational recovery in revenue is being entirely consumed by a legacy debt trap and high material costs. Earnings quality is poor, as the reported CFO is a result of stretching trade payables to 174 days rather than core profitability. Governance is a primary concern, evidenced by high promoter pledging and the tone-deaf pursuit of KMP salary increases while the company remains under a "Going Concern" cloud. The business is on a deteriorating trajectory as it exhausts its non-core land bank to fund operational losses.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 6/10 — Governance Rating: 1

Part c: investor verdict

Thesis: A technically insolvent legacy engineering firm attempting a slow-motion turnaround while being hollowed out by high interest costs and questionable management compensation practices. **Overall stance:** Avoid **Rationale:** The company is a "land bank with a struggling factory attached," where manufacturing cash flows cannot cover interest obligations without asset stripping. **Re-evaluate when:** Net Worth turns positive AND Interest Coverage Ratio exceeds 3.0x without land sales. **BULL CASE:** Rapid monetization of land assets at significant premiums leading to total debt elimination (₹126 Cr). **BEAR CASE:** NCLAT reverses the CIRP dismissal, leading to immediate insolvency proceedings and equity wipeout. **Key monitorable:** Trade Payables Days: 174 days → Watch for a spike above 200 days (signaling vendor revolt).

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Capital Allocation	Asset sales (₹6.93 Cr) used to fund minimal capex and small debt repayment (₹7.90 Cr).	Massive pivot to debt reduction (₹32.46 Cr) funded by stretching payables rather than asset sales.	The company has shifted from asset-liquidation-based survival to vendor-financed debt servicing.
Margin Trajectory	OPM at 8%; PAT (₹31 Cr) heavily inflated by ₹22 Cr in other income and write-backs.	OPM compressed to 7%; PAT (₹14 Cr) fell 42% as non-core "Other Income" support evaporated.	Core manufacturing remains structurally incapable of generating meaningful bottom-line growth without accounting cushions.
Working Capital	Receivables at ₹54 Cr; CFO (₹7 Cr) severely lagged PAT due to ₹42 Cr WC outflow.	Receivables surged to ₹86 Cr; CFO (₹37 Cr) is optically high but purely driven by stretching payables.	The quality of cash flow has deteriorated as the company is now using unpaid vendor dues to mask a spike in uncollected receivables.
Management Tone	Focused on operational turnaround, industrial relations, and "survivalist" debt servicing.	Aspirational regarding EV pivot but aggressive in seeking 25-33% KMP pay hikes despite losses.	Management tone has decoupled from financial reality, prioritizing executive compensation over balance sheet repair.

7.2 Persistent patterns

- **Auditor "Going Concern" Qualification:** Both periods feature explicit auditor warnings regarding eroded net worth and accumulated losses.
- **Severe Technical Insolvency:** The company remains structurally bankrupt with **negative net worth** and a current ratio consistently far below 1.0.
- **Predatory Interest Burden:** Finance costs consistently consume **60% to 70% of operating profit**, preventing any meaningful reinvestment in the business.
- **High Promoter Pledging:** Promoter share pledging remains frozen at **75.42%**, indicating a total lack of financial flexibility for the owners.
- **Aged Receivable Risk:** A massive portion of the balance sheet remains tied up in **receivables older than 2-3 years** that auditors consistently flag as doubtful.
- **Minimal Growth Capex:** Reinvestment in the business is strictly limited to maintenance, rendering the "EV pivot" narrative largely unsupported by capital spending.
- **Reliance on Personal Guarantees:** The business continues to depend on the **Executive Chairman's personal guarantees** to maintain basic banking facilities.
- **Stagnant Non-Core Assets:** "Assets Held for Sale" (primarily land) show zero movement across periods, suggesting difficulty in executing the primary survival strategy of asset monetization.