

Weak Q3 Performance; Near-Term Challenges Persist

12 January 2026

Summary: Elecon Engineering reported a subdued Q3FY26 performance, with consolidated revenue rising a modest ~4% YoY to ~₹552 crore, while profitability weakened sharply. EBITDA margins contracted significantly, leading to a ~33% YoY decline in PAT to ~₹72 crore, impacted by cost pressures and execution challenges in the gears segment. The material handling equipment business showed relatively better stability, partially cushioning the topline. While the order book remains healthy at ~₹1,370 crore, near-term earnings momentum continues to remain under pressure.

For 9MFY26, consolidated revenue stood at ₹1,620 Cr (+13% YoY), EBITDA ₹365 Cr (+5% YoY), and PAT ₹335 Cr (including ₹90 Cr one-time income).

Management Guidance for FY26:

- **Revenue :** ₹2,517 Cr implying 13% YoY growth (ex-of arbitration award) lowered by ~5% post Q3 results
- **EBITDA margins guidance** of 22%+ lowered by ~2%
- **Capex Plan FY26–28:** ~₹400 Cr (Gears), ₹35 Cr (MHE); FY26e capex ~₹100 Cr (partly via RoU lease model)

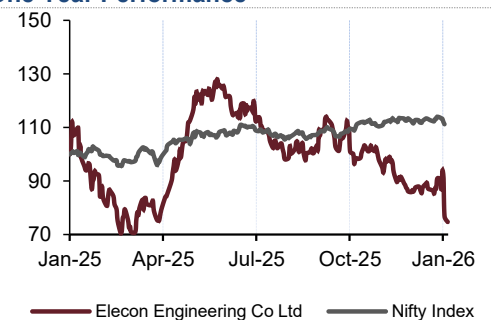
Rating	TP (Rs)	Up/Dn (%)
HOLD	452	8

Market data

Current price	Rs	420
Market Cap (Rs.Bn)	(Rs Bn)	92
Market Cap (US\$ Mn)	(US\$ Mn)	1,025
Face Value	Rs	1
52 Weeks High/Low	Rs 716.55 / 348.05	
Average Daily Volume	('000)	12,960
BSE Code		505700
Bloomberg		ELCN.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-25	Jun-25
Promoters	59.27	59.27
Public	40.73	40.73
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net sales	15,297	19,374	22,270	24,749	27,922	33,546
Adj EBITDA	3,389	4,744	5,426	5,593	6,306	7,759
Margins (%)	22.2	24.5	24.4	22.6	22.6	23.1
Adjusted net profit	2,375	3,556	4,151	3,872	4,300	5,335
EPS (Rs)	10.6	15.85	18.50	17.3	19.2	23.8
P/E (x)	40	27	23	24	22	18
EV/EBITDA (x)	28	20	17	16	14	11
RoCE (%)	26.49%	29.58%	25.25%	23.89%	23.18%	24.22%
RoE (%)	18.57%	22.17%	20.77%	16.54%	15.80%	16.65%

Source: Dalal & Broacha Research, Company

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Key Financial Highlights:

For the Quarter:

- Revenue: ₹552 Cr (+4% YoY / -5% QoQ)
- EBITDA: ₹109 Cr (-23% YoY / -13% QoQ); EBITDA margin 19.8%
- PAT: ₹72 Cr (12.6% margin)
- Order Intake: ₹701 Cr (+7% YoY)
- Order Book: ₹1,372 Cr (+24% YoY)

Segment wise details & Orderbook Details:

Gears Segment

- **Revenue:** ₹429 Cr (+1% YoY)
- **EBIT Margin:** ₹78 Cr (-33.6% YoY); margin 18.2% (vs 27.8%)
- **Order Intake:** ₹464 Cr (+15% YoY); **Order Book** ₹811 Cr (+19%)
- **Steady demand seen across power, steel, cement and MHE industries.**
- **Margins impacted by product mix & higher employee cost; differed dispatch delivery schedule by customers**

MHE Segment

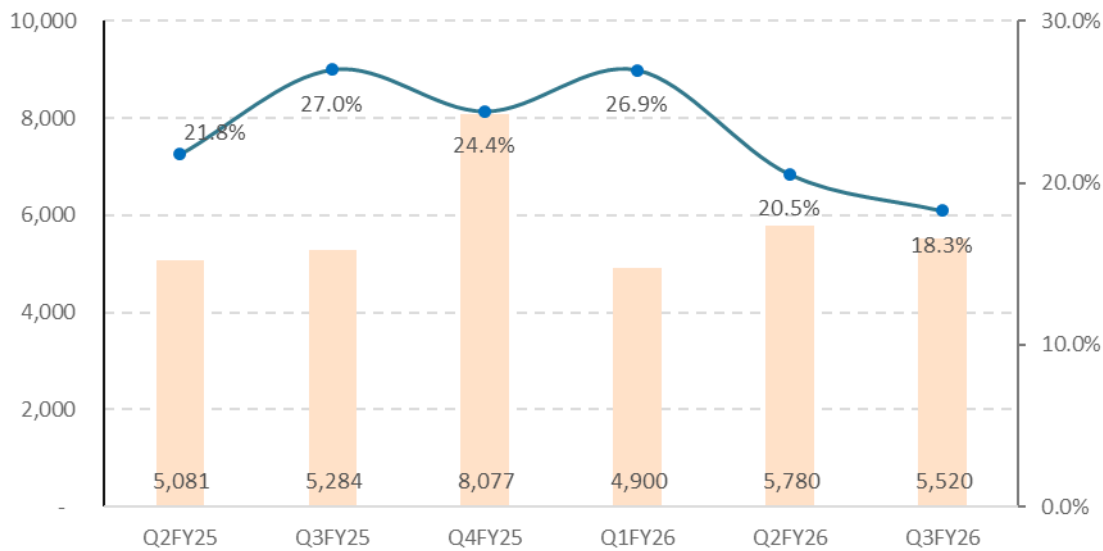
- **Revenue:** Revenue ₹123 Cr (+17% YoY); EBIT ₹25 Cr (-24% YoY); margin 20.2% (vs 30.9%)
- **EBIT Margin impacted due to unfavorable product mix**
- **Order Intake:** ₹237 Cr (+28% YoY); **Order Book** ₹561 Cr (+33% YoY)
- **Growth driven by domestic market, expects order inflows from export markets going forward.**

Quarterly Financial

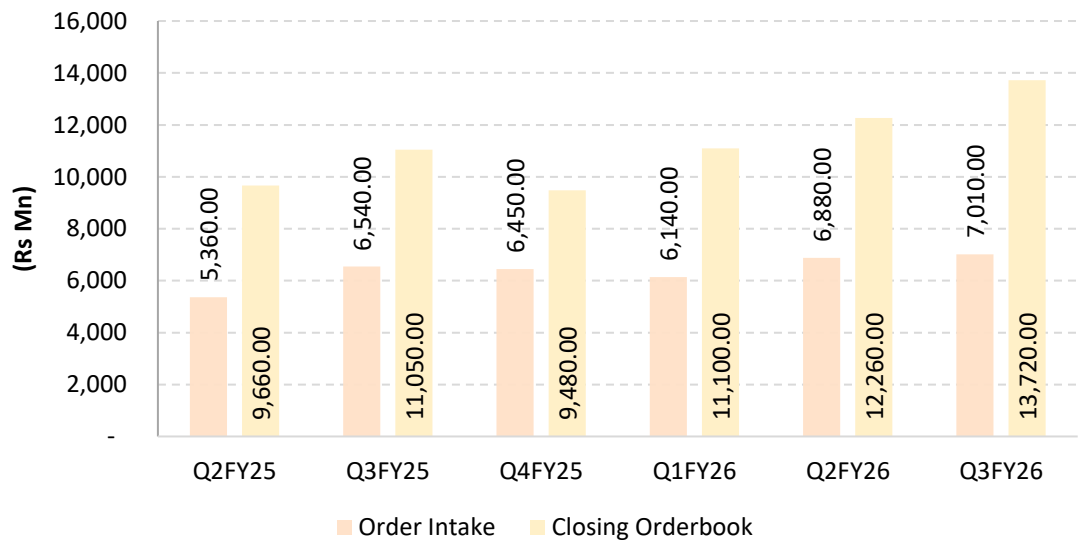
(Rs.Mn)	Q3FY25	Q2FY26	Q3FY26	YoY Growth	QoQ Growth (%)
Revenue from Operations	5,289	5,781	5,517	4%	-5%
Other Income	156	183	189	21%	3%
Total Mfg Cost	2,680	3,287	3,130	17%	-5%
Employee Benefits Expense	479	577	587	23%	2%
Other Expenses	705	661	709	1%	7%
Total Expenses	3,863	4,525	4,426	15%	-2%
EBITDA (Excluding Other Income)	1,426	1,256	1,092	-23%	-13%
Depreciation and Amortisation Expenses	155	253	272	75%	8%
EBIT / PBIT	1,427	1,187	1,008	-29%	-15%
Finance Costs	35	57	68	97%	20%
Profit before share in profit of associate & tax	1,392	1,130	940	-33%	-17%
Share in profit of associate (net of tax)	10	-	-	-100%	
Exceptional		-	-		
EBT/PBT	1,402	1,130	940	-33%	-17%
Tax Expense	327	253	220	-33%	-13%
Net Profit after Tax	1,075	877	720	-33%	-18%
Adj Earning Per Share	4.79	3.91	3.21	-33%	-18%
Margins (%)				(In bps)	(In bps)
Gross Margins	49.3%	43.1%	43.3%	(606)	12
EBITDA Margins (Excl Other Income)	27.0%	21.7%	19.8%	(717)	(194)
PAT Margins	19.7%	14.7%	12.6%	(713)	(209)
As a % to sales					
RM as a % to sales	50.7%	56.9%	56.7%	606	(12)
EE Cost as a % to sales	9.0%	10.0%	10.6%	158	65
Other exps as a % to sales	13.3%	11.4%	12.8%	(47)	141
Segment -Wise Revenues					
Transmission Equipment	4,234	4,411	4,291	1%	-3%
Material Handling Equipment	1,055	1,371	1,226	16%	-11%
	5,289	5,781	5,517	4%	-5%
Segment -Wise PBIT					
Transmission Equipment	1,190	849	781	-34%	-8%
Material Handling Equipment	326	353	247	-24%	-30%
	1,516	1,201	1,028	-32%	-14%
Segment Wise PBIT Margins					
Transmission Equipment	28.1%	19.2%	18.2%	(991)	(104)
Material Handling Equipment	30.9%	25.7%	20.2%	(1,071)	(557)

Source: Dalal & Broacha Research, Company

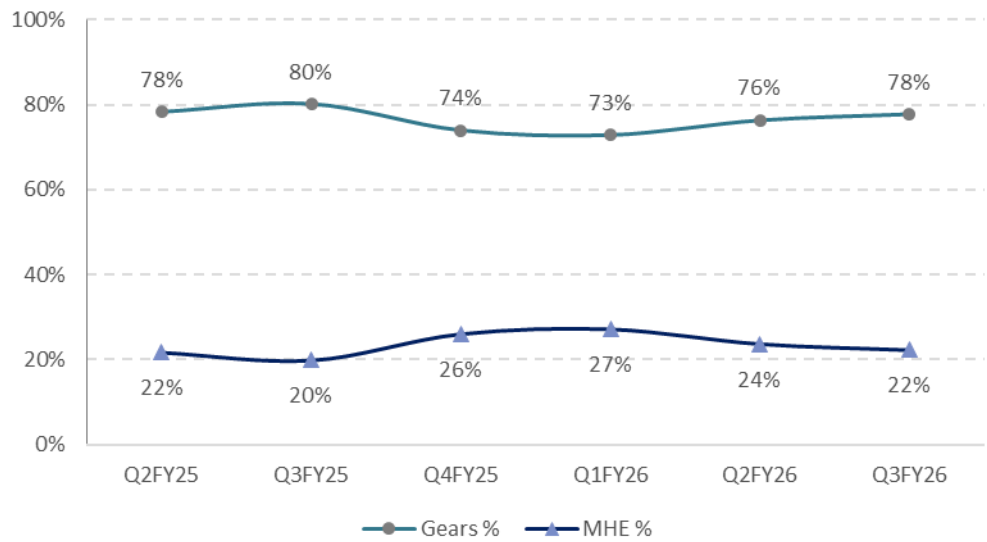
Consol Revenue Growth & EBIT Margins



Open Orders & Order Intake

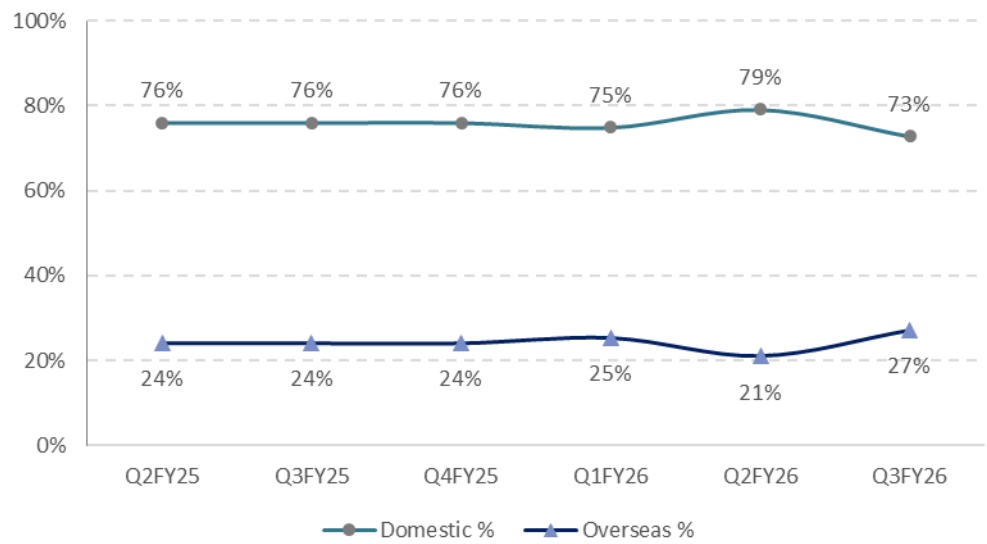


Gears- MHE Mix



Source:

Domestic- Overseas Mix



Source:

Concall KTA's

- **Revenue Mix:** Domestic 73% / Exports 27%
- MHE showing good traction, target of 700 cr revenue from MHE for FY26
- 30-40 Cr worth of revenue booking spilled over to Q4FY26
- **Defence Pipeline:** Management expects RFPs for next-generation naval platforms (corvettes & indigenous aircraft carrier follow-on) over FY27, creating a strong defence order pipeline.
- Capex: FY26–28 plan ₹400 Cr; focus on automation and international capacity enhancement.
- **Guidance lowered:** FY26 Revenue ₹2,650 Cr / EBITDA margin 22%.

Valuation

Q3FY26 performance has seen margin pressure driven by unfavorable product mix, execution delays, flat performance in its core gear division and higher costs, despite stronger growth in the material handling segment and a healthy ₹1,372 cr order book, with the management revising their annual revenue and margin guidance downwards. We have **downward revised our estimates** from the Q2FY26 result update (FY25-28 CAGR) on the Revenue/EBITDA/PAT **by 4%/8%/8%**.

At CMP of ₹420, the stock trades at 22x FY27E EPS of ₹19.2 and 18x FY28E EPS of ₹23.8. **We recommend a "HOLD" rating with a target price of ₹452 (19x FY'28E EPS of ₹23.8), implying a ~10% upside from current levels.**

Financials

P&L (Rs mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	15,297	19,374	22,270	24,749	27,922	33,546
Total Operating Expenses	8,357	10,183	11,874	13,637	15,273	18,283
Employee Cost	1,497	1,885	2,086	2,419	2,782	3,227
Other Expenses	2,054	2,563	2,885	3,100	3,560	4,277
Operating Profit	3,389	4,744	5,426	5,593	6,306	7,759
Depreciation	490	509	608	1,050	1,150	1,250
PBIT	2,898	4,235	4,818	4,543	5,156	6,509
Other income	201	441	601	816	856	899
Interest	133	86	130	256	280	295
PBT (Before share of JV/associates)	2,966	4,590	5,288	5,103	5,733	7,113
Share of JV/Associates	32	64	81	60	-	-
PBT	2,998	4,654	5,370	5,163	5,733	7,113
Provision for tax	623	1,098	1,219	1,291	1,433	1,778
PAT (From continuing operations)	2,375	3,556	4,151	3,872	4,300	5,335
PAT (From Discontinuing operations)	-	-	-	-	-	-
MI						
Reported PAT	2,375	3,556	4,151	3,872	4,300	5,335
Adjusted Profit	2,375	3,556	4,151	3,872	4,300	5,335

Source: Dalal & Broacha Research

Balance Sheet (Rs mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity capital	224	224	224	224	224	224
Reserves	12,567	15,816	19,763	23,186	26,980	31,810
Net worth	12,791	16,040	19,987	23,410	27,205	32,035
Minority Interest	-	-	-	-	-	-
Non Current Liabilities	1,004	1,207	1,937	1,540	1,173	758
Current Liabilities	3,525	3,993	5,371	5,965	6,765	8,030
Other Liabilities(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-
TOTAL LIABILITIES	17,320	21,240	27,295	30,914	35,143	40,823
Non Current Assets	8,443	9,070	10,332	12,221	12,136	11,960
Fixed Assets	6,261	6,426	7,938	8,771	8,641	8,411
Goodwill	1,028	1,018	1,018	1,018	1,018	1,018
Non Current Investments	829	1,083	1,063	2,012	2,012	2,012
Loans						
Non-current assets tax (net)	104	105	125	125	125	125
Deferred Tax Asset	21	9	-	-	-	-
Other Financial Assets	85	55	1	70	70	70
Other Non Current Assets	117	375	187	225	270	324
Current Assets	8,876	12,171	16,963	18,694	23,007	28,863
Current investments	191	2,033	4,146	3,000	3,000	3,000
Inventories	2,788	2,297	2,430	4,407	4,972	5,974
Trade Receivables	3,458	4,451	6,139	5,085	5,737	6,893
Cash and Bank Balances	823	1,097	1,589	3,418	6,374	9,904
Other bank balances	1,280	1,536	1,996	2,000	2,000	2,000
Short Term Loans and Advances						
Other Financial Assets	86	564	143	157	173	190
Other current assets tax (net)						
Other current assets	250	192	522	626	751	901
Other Assets(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-
TOTAL ASSETS	17,320	21,240	27,295	30,914	35,143	40,823

Source: Dalal & Broacha Research

Cash Flow St. (Rs. mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
PBT (excluding JV/Associates)	2,966	4,590	5,288	5,103	5,733	7,113
Add: Dep. & Amort.	490	509	608	1,050	1,150	1,250
Add: Interest Expenses	133	86	130	256	280	295
Operating profit before working capital change	3,589	5,185	6,026	6,409	7,163	8,658
(Inc)/Dec in						
Working capital adjustment	(47)	(697)	(959)	(336)	(782)	(1,387)
Gross cash generated from operations	3,542	4,488	5,068	6,073	6,380	7,271
Direct taxes paid	(623)	(1,098)	(1,219)	(1,291)	(1,433)	(1,778)
Others	181	258	474	(704)	213	258
CF from Oper. activities	3,100	3,648	4,323	4,079	5,161	5,751
CF from Inv. activities	(1,668)	(2,790)	(3,158)	(2,232)	(1,020)	(1,020)
CF from Fin. activities	(1,452)	(585)	(674)	(17)	(1,185)	(1,200)
Cash generated/(utilised)	(20)	273	492	1,830	2,956	3,531
Cash at start of the year	844	823	1,097	1,589	3,418	6,374
Cash at end of the year	823	1,097	1,589	3,418	6,374	9,904
Balance sheet	823	1,097	1,589	3,418	6,374	9,904

Ratios	FY23	FY24	FY25	FY26E	FY27E	FY28E
OPM	22.15%	24.49%	24.36%	22.60%	22.59%	23.13%
NPM	15.32%	17.95%	18.15%	15.15%	14.94%	15.49%
Tax Rate	20.79%	23.59%	22.70%	25.00%	25.00%	25.00%
Growth Ratios (%)						
Net Sales	26.22%	26.66%	14.94%	11.13%	12.82%	20.14%
Operating Profit	37.51%	40.00%	14.37%	3.08%	12.76%	23.03%
PBT	75.82%	55.22%	15.38%	-3.86%	11.05%	24.08%
PAT	69.04%	49.73%	16.73%	-6.72%	11.05%	24.08%
Per Share (Rs.)						
Net Earnings (EPS)	10.58	15.85	18.50	17.25	19.16	23.77
Cash Earnings (CPS)	12.77	18.12	21.21	21.93	24.29	29.34
Payout ratio	5%	3%	3%	3%	3%	2%
Dividend	0.50	0.50	0.50	0.50	0.50	0.50
Book Value per share (BVPS)	57.00	71.48	89.07	104.32	121.23	142.76
Free Cash Flow	3,764	4,323	6,443	5,961	6,181	6,771
Valuation Ratios						
P/E(x)	39.68	26.50	22.70	24.34	21.92	17.67
P/B(x)	7.37	5.88	4.72	4.03	3.46	2.94
EV/EBIDTA(x)	27.57	19.64	17.35	16.24	13.93	10.87
Div. Yield(%)	0.12	0.12	0.12	0.12	0.12	0.12
FCFF Yield(%)	3.99	4.59	6.84	6.33	6.56	7.18
Return Ratios (%)						
ROE	18.57%	22.17%	20.77%	16.54%	15.80%	16.65%
ROCE	26.49%	29.58%	25.25%	23.89%	23.18%	24.22%

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