

### Resilient Performance in a periodically soft quarter!

13 July 2025

**Summary:** Elecon Engineering delivered a steady performance in Q1FY26, reporting consolidated revenue of ₹491 Cr (+25% YoY), EBITDA of ₹130 Cr (+41% YoY), and PAT of ₹175 Cr (+139% YoY), revenue & ebitda aided by arbitration income of 25cr from BHEL for MHE segment and exceptional gains of 80cr being MTM on investment in Eimco Elecon. While Gears segment growth was muted due to revenue mix and capex-led depreciation impact, the MHE segment continued its robust momentum. The company remains on track to achieve its FY26 guidance of ₹2,650 Cr revenue and ~24%+ EBITDA margins, excluding arbitration gains

#### Management Guidance for FY26:

- **Revenue** : ₹2,650 Cr implying 18% YoY growth ( ex-of arbitration award received of 25 cr in Q1 & further 20 cr expected by end of FY26)
- **EBIT margins guidance** of 24%+ remains intact
- **Capex Plan FY26-28:** ~₹400 Cr (Gears), ₹35 Cr (MHE); FY26e capex ~₹100 Cr (partly via RoU lease model)
- **Asset Turnover Target:** ~1.2-1.3x on upcoming capacities

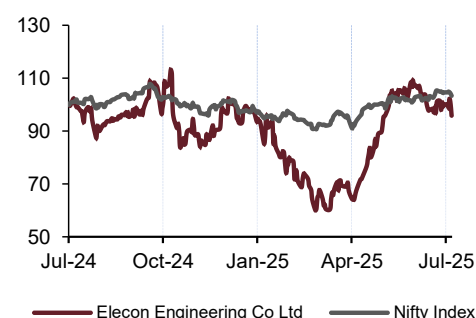
#### Financial Summary

Y/E Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Net sales	15,297	19,374	22,270	27,026	31,171
EBIDTA	3,389	4,744	5,426	6,885	7,933
Margins (%)	22.2	24.5	24.4	25.5	25.5
Adjusted net profit	2,375	3,556	4,151	4,774	5,505
EPS (Rs)	10.6	15.85	18.50	21.3	24.5
P/E (x)	59	39	34	29	25
EV/EBITDA (x)	41	29	26	19	16
RoCE (%)	26.49%	29.58%	25.25%	28.32%	27.06%
RoE (%)	18.57%	22.17%	20.77%	19.64%	18.78%

Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>662</b>	<b>7</b>
<b>Market data</b>		
<b>Current price</b>	<b>Rs</b>	<b>621</b>
Market Cap (Rs.Bn)	(Rs Bn)	139
Market Cap (US\$ Mn)	(US\$ Mn)	1,623
Face Value	Rs	1
52 Weeks High/Low	Rs	739.1 / 348.05
Average Daily Volume	('000)	1,311
BSE Code		505700
Bloomberg		ELCN.IN
Source: Bloomberg		

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-25	Dec-24
Promoters	59.27	59.27
Public	40.73	40.73
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Key Financial Highlights:

### For the Quarter:

- Revenue: ₹491 Cr (+25% YoY / -38% QoQ)
- EBITDA: ₹130 Cr (+41% YoY / -33% QoQ); Margin: 26.6%
- PAT: ₹175 Cr (+139% YoY / +20% QoQ); aided by ₹35 Cr arbitration & ₹80 Cr exceptional gain
- Order Intake: ₹614 Cr (+12.7% YoY)
- Highest ever Order Book: ₹1,110 Cr (+17% YoY)

## Segment wise details & Orderbook Details:

### Gears Segment

- Revenue: ₹357 Cr (+6.1% YoY)
- EBIT: ₹66 Cr (down by 17.5% YoY); EBIT Margin: 18.4% (vs 23.7%)
- Order Intake: ₹480 Cr vs ₹396 Cr YoY (+21%)
- Order Book (Jun'25): ₹710 Cr vs ₹598 Cr YoY (+18.7%) Order Book (Mar'25): ₹583 Cr vs ₹536 Cr YoY (+12%)

### MHE Segment

- Revenue: ₹133 Cr (+139% YoY); includes : ₹25 Cr revenue from arbitration win which directly adds to EBIT – hence inflating EBIT margins
- EBIT: ₹61 Cr (+335% YoY); EBIT Margin: 46.0% (effective EBIT margins ex-arbitration impact ~33%)
- Order Intake: ₹134 Cr vs ₹149 Cr YoY (-10.1%)
- Order Book (Jun'25): ₹400 Cr vs ₹349 Cr YoY (+14.6%)

### Total Open Order Book

- As on Jun'25: ₹1,110 Cr vs ₹947 Cr YoY (+17.2%)

### Segment-wise Mix – Q1FY26

- Product-wise: Gears – ₹357 Cr (73%), MHE – ₹133 Cr (27%)
- Geography-wise :Domestic – ₹367 Cr (75%), Exports – ₹124 Cr (25%)

Gears continues to dominate the mix, with solid growth in MHE and strong domestic demand driving overall order book momentum

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**Concall KTA's**

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**➤ Overseas Business:**

Q1FY26: ₹124 Cr vs ₹133 Cr YoY

- · ₹43 Cr exports from India
- · ₹14 Cr Middle East order delayed due to war (adj. YoY growth +3%)
- · UK & Europe performance better YoY
- · OEM traction strong: €2mn in Q1; €7mn+ (₹70 Cr) targeted by FY26E
- → 18 OEMs signed; ramp-up from Jan '26
- · **Overseas OB: ₹119 Cr (up 10% YoY)**

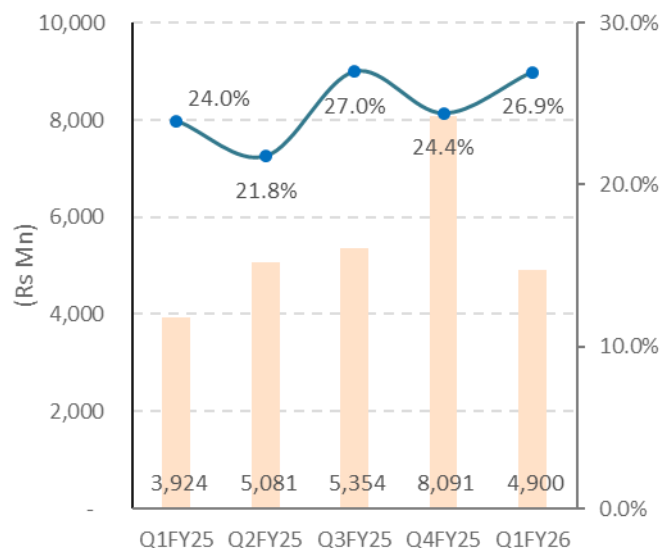
**➤ Gears Segment**

- Margins impacted due to:
  - Accelerated depreciation from prior capex
  - Higher mix of catalogue/standard gears (57%) vs engineered (43%)Effective margins ex-accelerated depreciation charge ~21%
- **Key Driving Sectors:** Power, Steel, Cement
- **Replacement/Aftersales/Refurbishment share in revenue: ~32%**
- **Defence Orders expected** (P-17 Frigate gearboxes):
  - ₹200 Cr order expected in Q2; expected to be executed over 2 years
  - ₹1,000 Cr+ Indian Navy order anticipated by FY26-end; executable over 3 years

**➤ MHE Segment**

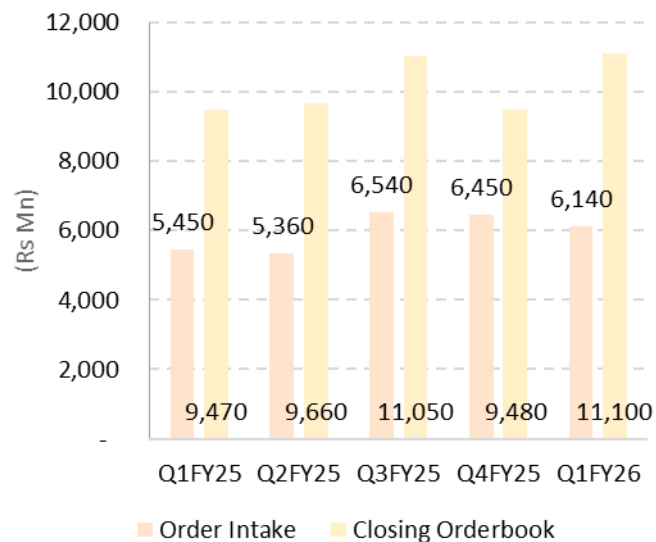
- ₹25 Cr arbitration award (BHEL) booked in MHE; ₹10 Cr interest in other income on account of which margins look inflated. Effective EBIT margins ex-arbitration ~33%
- Further ₹20 Cr arbitration win expected by FY26E
- FY26 target of >₹650 Cr in MHE segment revenue remains intact
- Export pipeline strong (₹100-120 Cr over next few quarters)
- **Refurbishment/Aftermarket Share: ~41%**

## Consol Revenue Growth &amp; EBIT Margins



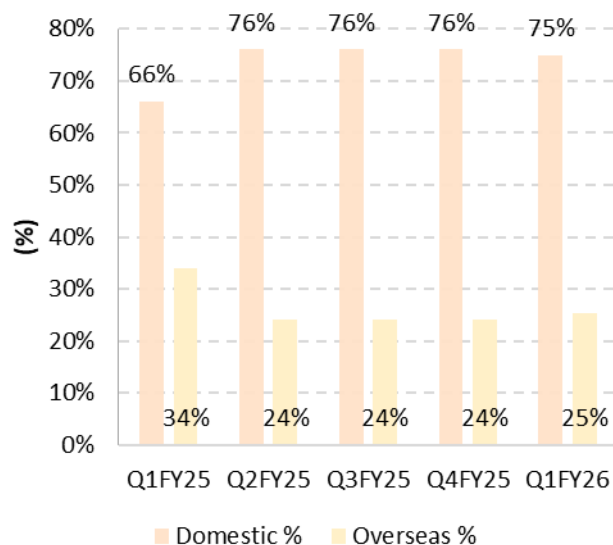
Source: Dalal &amp; Broacha Research,

## Open Orders &amp; Order Intake



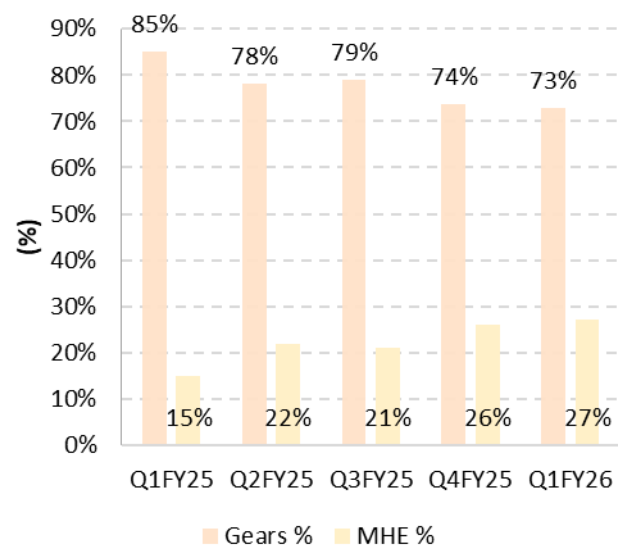
Source: Dalal &amp; Broacha Research, Company

## Domestic- Overseas Mix



Source: Dalal &amp; Broacha Research, Company

## Gears- MHE Mix



Source: Dalal &amp; Broacha Research, Company

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## Valuation

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Elecon Engineering has delivered a standout performance over FY23-25, outpacing peers across key financial metrics. Elecon Engineering has significantly outperformed Shanthi Gears over FY23-25, with a Revenue CAGR of 21% vs 16%, EBITDA CAGR of 26% vs 20%, and PAT CAGR of 32% vs 20%. This superior growth reflects Elecon's stronger execution capabilities and margin leadership. With this momentum, Elecon is well-positioned to further widen the gap over its peers.

In Q1FY26, yet again in a seasonally soft quarter Elecon Engineering has shown a strong performance, reporting their highest ever order book. Elecon's strong order book, focus on value-added products, growing export base and large capex-led capacity ramp-up reinforce our confidence in its multi-year growth story. Management's commitment to margin stability and capital efficiency (target asset turns of 1.2-1.3x) is noteworthy. Owing to these factors we have increase the target multiple assigned to Elecon from 25x to 27x.

At CMP of ₹621, the stock trades at 29x FY26E EPS of ₹21.3 and 25x FY27E EPS of ₹24.5. **We recommend a "BUY on DIPS" rating with a target price of ₹662 (27x Mar'27E EPS of ₹24.5), implying a 7% upside from current levels.** We believe, India's private sector capex has just begun & Elecon will have a big role to play in the coming 2-3 years as Industrials share in India's GDP keeps growing.

## Financials

P&L (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Net Sales	15,297	19,374	22,270	27,026	31,171
Total Operating Expenses	8,357	10,183	11,874	14,256	16,505
Employee Cost	1,497	1,885	2,086	2,398	2,758
Other Expenses	2,054	2,563	2,885	3,486	3,974
<b>Operating Profit</b>	3,389	4,744	5,426	6,885	7,933
Depreciation	490	509	608	1,000	1,100
PBIT	2,898	4,235	4,818	5,885	6,833
Other income	201	441	601	631	662
Interest	133	86	130	250	280
PBT ( Before share of JV/associates)	2,966	4,590	5,288	6,266	7,215
Share of JV/Associates	32	64	81	100	125
PBT	2,998	4,654	5,370	6,366	7,340
Provision for tax	623	1,098	1,219	1,591	1,835
PAT (From continuing operations)	2,375	3,556	4,151	4,774	5,505
PAT (From Discontinuing operations )	-	-	-	-	-
MI					
Reported PAT	2,375	3,556	4,151	4,774	5,505
<b>Adjusted Profit</b>	2,375	3,556	4,151	4,774	5,505

Balance Sheet ( Rs mn )	FY23	FY24	FY25	FY26E	FY27E
Equity capital	224	224	224	224	224
Reserves	12,567	15,816	19,763	24,088	29,088
<b>Net worth</b>	<b>12,791</b>	<b>16,040</b>	<b>19,987</b>	<b>24,312</b>	<b>29,313</b>
Minority Interest	-	-	-	-	-
<b>Non Current Liabilites</b>	<b>1,004</b>	<b>1,207</b>	<b>1,937</b>	<b>1,675</b>	<b>1,282</b>
<b>Current Liabilites</b>	<b>3,525</b>	<b>3,993</b>	<b>5,371</b>	<b>6,142</b>	<b>7,102</b>
<b>Other Liabilities( associated with discontinued operations/ assets held for sale )</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>17,320</b>	<b>21,240</b>	<b>27,295</b>	<b>32,129</b>	<b>37,696</b>
<b>Non Current Assets</b>	<b>8,443</b>	<b>9,070</b>	<b>10,332</b>	<b>10,414</b>	<b>10,379</b>
Fixed Assets	6,261	6,426	7,938	7,921	7,841
Goodwill	1,028	1,018	1,018	1,018	1,018
Non Current Investments	829	1,083	1,063	1,055	1,055
Loans					
Non-current assets tax (net)	104	105	125	125	125
Deferred Tax Asset	21	9	-	-	-
Other Financial Assets	85	55	1	70	70
Other Non Current Assets	117	375	187	225	270
<b>Current Assets</b>	<b>8,876</b>	<b>12,171</b>	<b>16,963</b>	<b>21,714</b>	<b>27,317</b>
Current investments	191	2,033	4,146	3,000	3,000
Inventories	2,788	2,297	2,430	4,813	5,551
Trade Receivables	3,458	4,451	6,139	5,553	6,405
Cash and Bank Balances	823	1,097	1,589	5,565	9,437
Other bank balances	1,280	1,536	1,996	2,000	2,000
Short Term Loans and Advances					
Other Financial Assets	86	564	143	157	173
Other current assets tax (net)					
Other current assets	250	192	522	626	751
<b>Other Assets( associated with discontinued operations/ assets held for sale )</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>17,320</b>	<b>21,240</b>	<b>27,295</b>	<b>32,129</b>	<b>37,696</b>

Cash Flow St. (Rs. mn)	FY23	FY24	FY25	FY26E	FY27E
<b>PBT (excluding JV/Associates)</b>	<b>2,966</b>	<b>4,590</b>	<b>5,288</b>	<b>6,266</b>	<b>7,215</b>
Add: Dep. & Amort.	490	509	608	1,000	1,100
Add: Interest Expenses	133	86	130	250	280
<b>Operating profit before working capital change</b>	<b>3,589</b>	<b>5,185</b>	<b>6,026</b>	<b>7,516</b>	<b>8,595</b>
<b>(Inc)/Dec in</b>					
Working capital adjustment	(47)	(697)	(959)	(897)	(1,022)
<b>Gross cash generated from operations</b>	<b>3,542</b>	<b>4,488</b>	<b>5,068</b>	<b>6,618</b>	<b>7,573</b>
Direct taxes paid	(623)	(1,098)	(1,219)	(1,591)	(1,835)
Others	181	258	474	(704)	213
<b>CF from Oper. activities</b>	<b>3,100</b>	<b>3,648</b>	<b>4,323</b>	<b>4,323</b>	<b>5,952</b>
<b>CF from Inv. activities</b>	<b>(1,668)</b>	<b>(2,790)</b>	<b>(3,158)</b>	<b>(376)</b>	<b>(1,020)</b>
<b>CF from Fin. activities</b>	<b>(1,452)</b>	<b>(585)</b>	<b>(674)</b>	<b>28</b>	<b>(1,060)</b>
<b>Cash generated/(utilised)</b>	<b>(20)</b>	<b>273</b>	<b>492</b>	<b>3,976</b>	<b>3,872</b>
Cash at start of the year	844	823	1,097	1,589	5,565
Cash at end of the year	823	1,097	1,589	5,565	9,437
Balance sheet	823	1,097	1,589	5,564	9,437



Ratios	FY23	FY24	FY25	FY26E	FY27E
OPM	22.15%	24.49%	24.36%	25.48%	25.45%
NPM	15.32%	17.95%	18.15%	17.26%	17.29%
Tax Rate	20.79%	23.59%	22.70%	25.00%	25.00%
<b>Growth Ratios (%)</b>					
Net Sales	26.22%	26.66%	14.94%	21.36%	15.34%
Operating Profit	37.51%	40.00%	14.37%	26.89%	15.23%
PBT	75.82%	55.22%	15.38%	18.55%	15.31%
PAT	69.04%	49.73%	16.73%	15.01%	15.31%
<b>Per Share (Rs.)</b>					
Net Earnings (EPS)	10.58	15.85	18.50	21.28	24.53
Cash Earnings (CPS)	12.77	18.12	21.21	25.73	29.44
Payout ratio	5%	3%	3%	2%	2%
Dividend	0.50	0.50	0.50	0.50	0.50
Book Value per share (BVPS)	57.00	71.48	89.07	108.34	130.63
Free Cash Flow	3,764	4,323	6,443	5,306	6,972
<b>Valuation Ratios</b>					
P/E(x)	58.68	39.19	33.57	29.19	25.31
P/B(x)	10.89	8.69	6.97	5.73	4.75
EV/EBIDTA(x)	40.88	29.14	25.67	19.43	16.38
Div. Yield(%)	0.08	0.08	0.08	0.08	0.08
FCFF Yield(%)	2.70	3.10	4.62	3.81	5.00
<b>Return Ratios (%)</b>					
ROE	18.57%	22.17%	20.77%	19.64%	18.78%
ROCE	26.49%	29.58%	25.25%	28.32%	27.06%

Source: Dalal &amp; Broacha Research, Company

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