

Geared for Growth ...

- Elecon Engineering Company Limited specializes in a wide range of industrial gearboxes, material handling equipment and power transmission solutions
- We visited Elecon Engineering's plant as well as corporate office which is located in Vallabh Vidyanagar in Anand, Gujarat.
- In FY23 , Elecon saw a 26% growth in topline (highest-ever in their history), ~38% increase in EBITDA & a record 69% growth in PAT respectively on a YoY basis.
- Elecon has a diversified customer base from varied sectors including- Steel, Sugar, Power, Cement, Plastic, Marine, Rubber, etc.
- Guidance for FY24: Management remains confident of continuing such growth trajectory & has guided to achieve a topline of Rs 20 Bn (33% growth Y-o-Y) by FY24 with an EBITDA margin of 22%. Revenue from Gears division estimated to be ~17Bn & remaining 3 Bn to be earned from the MHE Division
- For Q1FY24, Elecon achieved a consolidated revenue of Rs 4140 Mn (+26% on YoY basis), EBITDA margin of ~24% (highest ever) & a consolidated PAT of Rs 730 Mn (+73% on a YoY basis)

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23
Net sales	10,447	12,119	15,297
EBIDTA	1,856	2,464	3,389
Margins (%)	17.8	20.3	22.2
Adjusted net profit	576	1,405	2,375
EPS (Rs)	5.1	12.5	21.2
P/E (x)	157	64	38
EV/EBITDA (x)	50	37	26
RoCE (%)	15.40%	21.42%	26.49%
RoE (%)	6.27%	13.38%	18.57%

Source: Company, Dalal & Broacha Research

One Year Performance

Rating TP (Rs) Up/Dn (%)

NOT RATED

Market data

Current price	Rs	794
Market Cap (Rs.Bn)	(Rs Bn)	89
Market Cap (US\$ Mn)	(US\$ Mn)	1,070
Face Value	Rs	2
52 Weeks High/Low	Rs	983.4 / 317.4
Average Daily Volume	('000)	595
BSE Code		505700
Bloomberg		ELCN.IN

Source: Bloomberg

Source: Bloomberg



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	59.29	59.29
Public	40.71	40.71
Total	100	100

Source: BSE

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➤ Key Observations in Plant visit :

- Elecon has one of Asia's largest facility for gear manufacturing & bulk material handling equipment(MHE) manufacturing which is **spread over 650,0000 sq. metres.**
- **In-House R&D:** Elecon has state of the art manufacturing facilities with DSIR approved In-House R&D facility for new product development & improvising of existing product designs to suit better for customer needs. The R&D team consists of more than 60 engineers & they use 20+ softwares for design analysis & value engineering
- **Patents applied/ approved :** As on date, Elecon has applied for 5 global patents- 4 product patents & 1 process patent. 2 patents have been approved till date & the remaining three are in still in process for approval.
- **Divisions:** Elecon has separate plants for Gearboxes & gear components, for bulk material handling equipment manufacturing & a separate foundry & fabrication facility for heavy engineering works.
- **Gears Division:** For Gearboxes, gears & components itself they have two separate facilities – one for the standardized/ catalogue gears & a separate facility for engineered & customized gears for their clients. Elecon manufactures a wide variety of gearboxes from planetary, helical, marine & worm gearboxes as well as loose gears, couplings, shafts, etc. For manufacturing these products, Elecon use highly automated machines known as CNC machines - these are imported from Germany. Overall, Elecon has around 150-200 such CNC machines, each costing around Rs 9-10 Cr. Thus overall manufacturing focus is on quality, precision, efficiency & delivering best products for their customers.
- **Key RM used-** chromium steel
- **Standardized/catalogue Gears Division:** In the standardized/ catalogue products plant itself Elecon manufactures the light weight gears (max. 5 tons)- in the range of 50mm diameter – 700 mm diameter – Capacity being ~1000 gearboxes per month. Life of these gearboxes generally in the range of 5 to 7 years. The turnaround time for manufacturing these gears is quite short i.e within 10-15 days of receiving order.
- **Customised Gears/ Engineered Products Division:**The customized & engineered products are built-to-suit customer needs & are heavy-weight in nature varying from 1kg to as large as 115 tons. The turnaround time for these machines is slightly more i.e. around 8-12 months, however these kind of machines are where Elecon enjoys MOAT & is able to command premium margins.

➤ Key takeaways & guidance from meeting with management:

- **Guidance for FY24:** Management remains affirmative on being able to achieve the guided topline of Rs 20 Bn (33% growth Y-o-Y) by FY24 with an EBITDA margin of 22%. Revenue from Gears division estimated to be ~17Bn & remaining 3 Bn to be earned from the MHE Division.
- **For Q1FY24,** Elecon achieved a consolidated revenue of Rs 4140 Mn (+26% on YoY basis), EBITDA margin of ~24% (**highest ever**) & a consolidated PAT of Rs 730 Mn (+73% on a YoY basis)
- **As on 30th June, 2023-** Elecon has an orderbook of Rs 7930 Mn & and order intake for Q1FY24 itself was Rs 4970 Mn. Open orderbook for Gears Division alone stood at 6550 Mn.
- Approx. ~22% of the Gears orderbook currently is from Steel Sector, ~8% each from the Sugar & Cement sectors respectively & 4% from the Power Secto, ~4% from the Marine Sector .

➤ Industry Level Drivers

Steel Sector:

- 1) **Per capita steel consumption** still much lower than China & World Average: India's apparent per capita steel consumption grew at 3.5% CAGR to 81 kg; much lower than China average of 646 kg and world average of 223 kg.
- 2) Steel consumption to grow at **9% CAGR** on the back of government's thrust on infra, supported by private capex by domestic & MNC's in India
- 3) Elecon has some marquee clients for their gears in the steel sector such as **JSW Steel, ArcelorMittal, British Steel, etc.**

Sugar Sector

- 1) In last five years, the government has been able to increase ethanol blending with petrol from 1.5% in 2018 to 11.5% in 2023. The government targets to **increase ethanol blending to 20% levels by 2025-26**, which is expected to result in further capacity addition in next few years.
- 2) Elecon is the **leading Planetary Sugar mill gearboxes manufacturer** with a market share of ~60% and also trying to capture overseas market like in South East Asia.

Defense & Marine Sector

- 1) **Growth in Capital Outlay:** India now has the 3rd largest defense budget. The budget for FY22-23 has been increased by 10% from 4.78 trillion to 5.25 trillion – out of which budget for capex itself is 1.52 trillion. Capex Budget for Navy is ~30% of the full defense capex budget of ~47,590 Crore.
- 2) **Import substitution & rise in Exports** - Ministry of defence has already indigenized 2,736 items till Dec'22 with total import substitution value of Rs. 2,570 crores. This opens up opportunities for Tier-2 & Tier-3 defence goods supplier like Elecon.
- 3) **Cochin Shipyard**- one of the oldest & leading shipbuilders of the country is one of the key clients for Elecon.

Cement Sector

- 1) Demand for cement sector expected to grow on account of a better demand outlook led by government's push towards infra and demand for housing to drive growth.
- 2) The trend in the Cement Industry is shift towards Roller Press Gearboxes for Raw mill & Cement mill application and **Elecon is the only Indian manufacturer for Roller press gearboxes**

Power Sector

- 1) **De-carbonisation as a theme** will require building a **lot of renewable capacity** in future along with gradual addition thermal capacity as well due to the growing power demand in the country. **Higher power generation** will open a greater opportunity for Elecon in the large sized gears segment.
- 2) Elecon is the **leading supplier in India for Coal Pulverizer VRM gearboxes** and also has major share in the FGD business in Power sector.

➤ Longer term view by management:

On account of such secular growth across end-user industries – even beyond FY24, management remains confident of double-digit growth rate on a YoY basis.

➤ Company's Growth Levers:

1) Dominant market share & growth in Domestic:

India's steel industry is expected to grow at ~9% CAGR ; cement industry expected to grow at 6-7% CAGR; sugar production expected to grow on account of higher demand for ethanol & power production will be augmenting due to demand for renewable energy. On account of such **robust & secular demand coupled with a dominant share of domestic market share of 39-40%, even beyond FY24, management sees potential to grow at a 20%+ growth** rate on a Y-o-Y basis.

2) Focus on expansion overseas:

The **Indian gears market** which is currently ~30Bn-40Bn market – Elecon already commands a 39-40% of the Indian market. Whereas the relevant **global addressable market** currently for Elecon is ~800Bn with potential to grow to ~1000Bn. Elecon currently earns 30% of its revenue from exports - **longer term strategy** is to have a **domestic-export split of 50-50** by 2030. Elecon has already built a brand for itself in overseas market especially Europe, **through its acquisition of Radicon & Benzler** , however currently it has **less than 1% market share of the overseas market**. Recently in **Q1FY24** , they also won an order.

Valuation & Outlook:

Elecon has delivered a **12% CAGR in terms of Revenue, 34% in terms of EBITDA & 38% in terms of PAT in the last 3 years**. At the same time it has achieved a **consistent 20%+ EBITDA margins** in the last 6 quarters. The company is now debt-free, generating an RoE of 18.57% & RoCE of 26.49% & an FCFF yield of 2.7%.

As compared to one of its key listed peers i.e. Shanthi Gears, Elecon is 4x in terms of Revenue, generating similar 3-Yr CAGR for EBITDA & PAT ~30%+. Shanthi Gears currently trades at a 49x TTM P/E.

With growth to continue for Elecon in the domestic market coupled with strong focus now to expand presence in the overseas market – Elecon looks geared for double-digit growth. We remain positive on the stock and long-term investors could accumulate on dips .**At the CMP of 797- it is valued at 32x TTM P/E & on a forward basis is valued at 29x FY24E EPS; & 24x FY25E EPS**

Products Solution and End User Indutty

Gear Division - Providing wide variety of soultuons

		
Helical/Bevel Helical Gearboxes	Worm Gearboxes	Couplings
		
Marine Gearboxes	Custom Built Gearboxes	High Speed Gearboxes
		
Loose Gears	Double Helical Gear Wheel	Planetary Gearboxes

MHE Division: A Proxy to Capex Creation

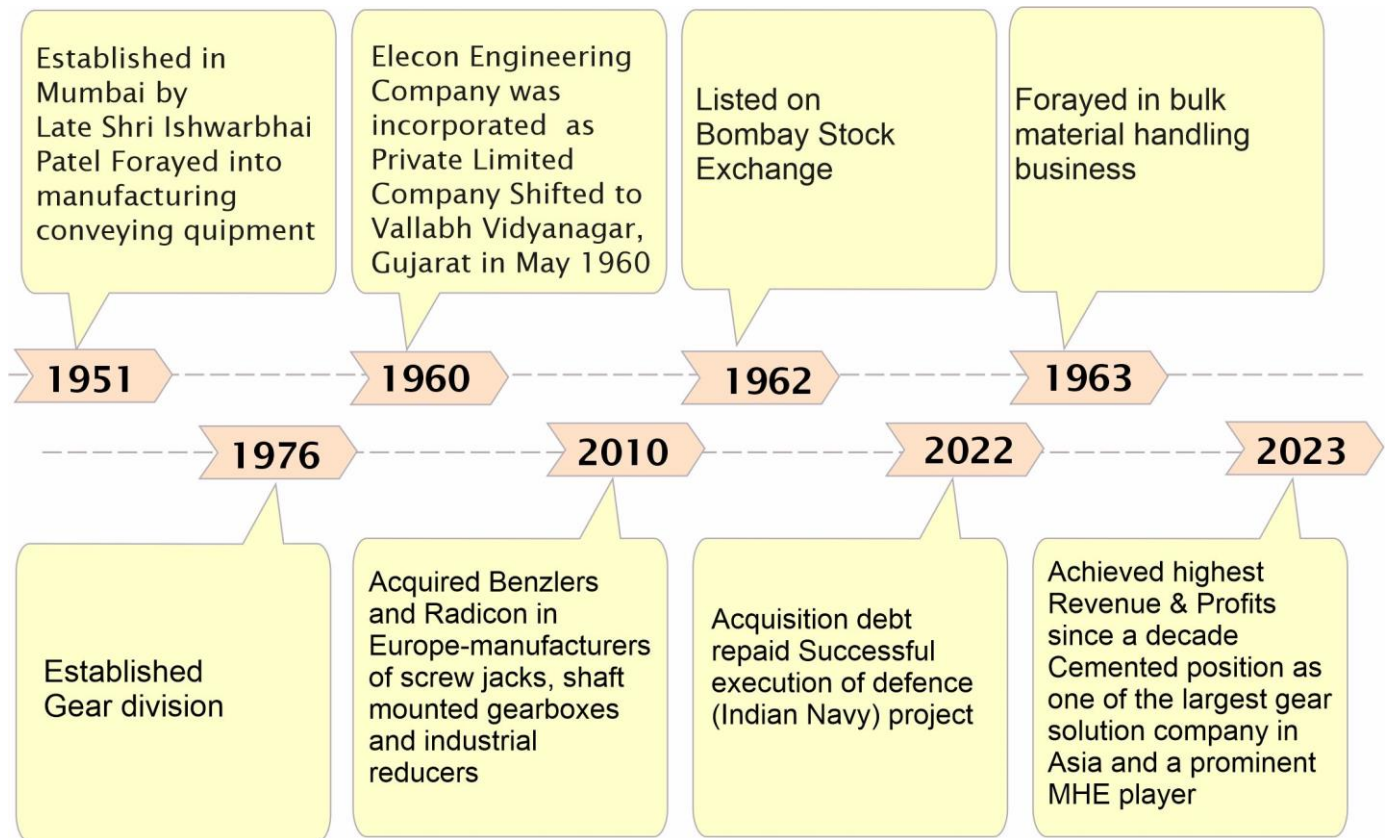
		
Feeders	Automatic Weighing	Stackers / Reclaimers
		
Raw Material Handling System	Wagen Tippler	Specialized Conveyors
		
Truck Loader	Mobile Stacker	Port Equipment

End User Industry

 **Steel**
 **Ddefence**
 **Cement**
 **Mining**
 **Sugar**
 **Fertilizer**
 **Ports**
 **Power**
 **Oil & Gas**

Source: Company

History and Key Event



Source: Company

Financials

P&L (Rs mn)	FY21	FY22	FY23
Net Sales	10,447	12,119	15,297
Total Operating Expenses	5,621	6,613	8,357
Employee Cost	1,179	1,282	1,497
Other Expenses	1,790	1,761	2,054
Operating Profit	1,856	2,464	3,389
Depreciation	521	486	490
PBIT	1,335	1,979	2,898
Other income	57	86	201
Interest	598	373	133
PBT (Before share of JV/associates)	794	1,691	2,966
Share of JV/Associates	19	14	32
PBT	813	1,705	2,998
Provision for tax	237	300	623
PAT (From continuing operations)	576	1,405	2,375
PAT (From Discontinuing operations)	-	-	-
MI			
Reported PAT	576	1,405	2,375
Adjusted Profit	576	1,405	2,375

Balance Sheet (Rs mn)	FY21	FY22	FY23
Equity capital	224	224	224
Reserves	8,968	10,278	12,567
Net worth	9,192	10,502	12,791
Minority Interest	-	-	-
Non Current Liabilities	2,346	1,287	1,004
Current Liabilities	8,389	5,395	3,525
Other Liabilities(associated with discontinued operations/ assets held for sale)	-	-	-
TOTAL LIABILITIES	19,933	17,185	17,320
Non Current Assets	8,591	8,319	8,443
Fixed Assets	6,256	6,087	6,261
Goodwill	1,071	1,057	1,028
Non Current Investments	789	796	829
Loans			
Non-current assets tax (net)	202	229	104
Deferred Tax Asset	50	38	21
Other Financial Assets	105	19	85
Other Non Current Assets	118	94	117
Current Assets	11,336	8,865	8,876
Current investments		-	191
Inventories	2,502	2,617	2,788
Trade Receivables	5,077	4,151	3,458
Cash and Bank Balances	961	844	823
Other bank balances	453	278	1,280
Short Term Loans and Advances			
Other Financial Assets	1,961	681	86
Other current assets tax (net)			
Other current assets	380	296	250
Other Assets(associated with discontinued operations/ assets held for sale)	-	-	-
TOTAL ASSETS	19,933	17,185	17,320

Cash Flow St. (Rs. mn)	FY21	FY22	FY23
PBT (excluding JV/Associates)	794	1,691	2,966
Add: Dep. & Amort.	521	486	490
Add: Interest Expenses	598	373	133
Operating profit before working capital change	1,913	2,550	3,589
(Inc)/Dec in			
Working capital adjustment	658	(727)	(47)
Gross cash generated from operations	2,571	1,823	3,542
Direct taxes paid	(237)	(300)	(623)
Others	146	710	181
CF from Oper. activities	2,480	2,232	3,100
CF from Inv. activities	(187)	150	(1,668)
CF from Fin. activities	(2,105)	(2,500)	(1,452)
Cash generated/(utilised)	189	(118)	(20)
Cash at start of the year	773	961	844
Cash at end of the year	961	844	823
Balance sheet	961	844	823

Ratios	FY21	FY22	FY23
OPM	17.77%	20.33%	22.15%
NPM	5.49%	11.51%	15.32%
Tax Rate	29.12%	17.61%	20.79%
Growth Ratios (%)			
Net Sales	-4.02%	16.01%	26.22%
Operating Profit	32.22%	32.77%	37.51%
PBT	316.66%	109.77%	75.82%
PAT	-35.74%	143.81%	69.04%
Per Share (Rs.)			
Net Earnings (EPS)	5.14	12.52	21.17
Cash Earnings (CPS)	9.78	16.85	25.54
Payout ratio	0%	0%	2%
Dividend	0.00	0.00	0.50
Book Value per share (BVPS)	81.93	93.60	114.00
Free Cash Flow	2,451	1,916	2,436
Valuation Ratios			
P/E(x)	156.74	64.29	38.03
P/B(x)	9.83	8.60	7.06
EV/EBIDTA(x)	49.69	36.71	26.41
Div. Yield(%)	-	-	0.06
FCFF Yield(%)	2.71	2.12	2.70
Return Ratios (%)			
ROE	6.27%	13.38%	18.57%
ROCE	15.40%	21.42%	26.49%

Source: Company, Dalal & Broacha Research

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