



Consistent execution makes it an outlier!

Broadly, the management remains on track to achieve its FY24 Guidance. Management foresees strong domestic growth to continue even in the next couple of years due to solid demand from steel, cement & . Also, on the export front, it expect the various geo-political crisis' those of Russia -Ukraine, Israel-Hamas War & the Red Sea issue to taper down & demand to rebound in the next couple of quarters. MHE Division continues to have strong prospects amidst the strong infra push in India . Owing to above factors a consolidated EBITDA margin in the range of 23-24% is sustainable for the company.

Key Financial Highlights

Revenue at Rs 474 Crs vs 389 crs (+22% YoY) vs Rs 485 Crs (-2.2% QoQ)

EBITDA at Rs 120 Crs vs 89 Crs (+36% YoY) vs Rs 119 Crs (QoQ)

Highest ever EBITDA Margin generated in Q3FY24 of 25.4% - expansion of 265 bps on a YoY Basis

PAT at Rs 90 Crs vs 63 Crs (+44% YoY) vs Rs 89 Crs (QoQ)

Orderbook: Rs 791 Cr vs 720 Cr (+10% YoY)

With increasing enquiries across various product categories and industries, coupled with a robust executable order book, the company remains optimistic about sustaining its growth momentum in the future.

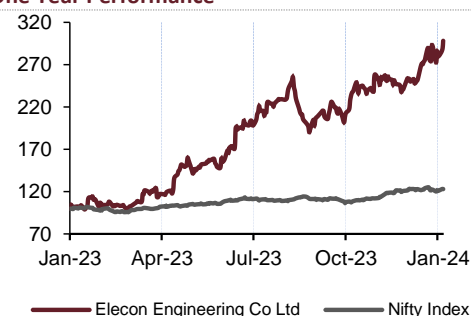
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	1,154	9

Market data

Current price	Rs	1,105
Market Cap (Rs.Bn)	(Rs Bn)	124
Market Cap (US\$ Mn)	(US\$ Mn)	1,491
Face Value	Rs	2
52 Weeks High/Low	Rs	1119.9 / 349.85
Average Daily Volume	('000)	544
BSE Code		543308
Bloomberg		ELCN.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Sep-23
Promoters	59.29	59.29
Public	40.71	40.71
Total	100	100

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	10,447	12,119	15,297	20,345	24,414	29,296
EBIDTA	1,856	2,464	3,389	4,815	5,852	7,110
Margins (%)	17.8	20.3	22.2	23.7	24.0	24.3
Adjusted net profit	576	1,405	2,375	3,384	4,193	5,177
EPS (Rs)	5.1	12.5	21.2	30.16	37.37	46.1
P/E (x)	207	85	50	35	28	23
EV/EBITDA (x)	65	48	35	25	20	16
RoCE (%)	15.40%	21.42%	26.49%	24.80%	25.07%	25.08%
RoE (%)	6.27%	13.38%	18.57%	21.25%	21.12%	20.92%

Source: Company

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For Gears segment:

Open Orders as on 31st Dec'23 up 10% on a Y-o-Y Basis: 572 Cr vs 520 Cr (in 9MFY23)

Order Intake for 9MFY24 up 16% Y-o-Y: 1189 Cr vs 1023 Cr (in 9MFY23)

Gears Division Mix: Highest ever margins generated in the gears division of 26% mainly on account of manufacturing a higher share of Engineered/customized gears(55% of Gears Rev) as compared to Standard/catalogue Gears(45% of Revenue)

For MHE Segment:

Open Orders as on 31st Dec'23 up 40% on YoY basis:- 2190 Cr vs 157 Cr (in 9MFY23)

Order Intake for 9MFY24 up 40% on YoY basis: 249 Cr vs 177 Cr (in 9MFY23)

The company recently won a large order from Arcelor Mittal Steel – for a pipe conveyor system for ~134 Cr & another large order in the cement sector from single customer ~39 Crs. Margins to sustain/ increase slightly going forward basis continuing demand for company's products in this segment (for wagon tippers,etc)

Revenue Split:

Productwise- Gears: MHE- 86%:14% (as compared to 85:15 Q3FY23)

Geographywise – Domestic: Exports – 73%:27% (as compared to 70:30 in Q3FY23)

Other KTA's:

- **Capex : Company to incur ~100 Cr p.a till FY27.**
- **New products:** Elecon has successfully completed trials of the new category of gears- "High Speed Gears" they will be venturing into. Company has also come up with special type of couplings as a product category.
- **Red Sea Issue:** Company is experiencing a 2-week delay in deliveries to its US/Europe customers on account of the Red Sea issue. No order cancellations have yet been made however the cost overrun on account of freight charges are being passed on to the end-customers.
- **Elecon signed-off 4 New OEM Business** in European market leading to total 10 OEM business wins from Europe , having annual estimated business volume of ~Euro 6 Million, for which commercial production is expected to start from Q3FY25.

Valuation & Outlook

- 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 for the next couple of years. Considering strong execution history of the company & strong tailwinds in manufacturing & industrials sector, We remain positive on the stock in the medium-to-long-term as well – however considering the recent run-up in the prices, we have changed our rating from “BUY” to “**BUY on DIPS**” on the stock. At the CMP of 1062 - it is valued at 35x FY24E EPS of Rs 30; 28x FY25E EPS of 37; 23x on FY26E EPS of 46.1 – **we have assigned a target of Rs 1,154 at a 25x FY26E EPS (9% upside).**

(Rs.Mn)	Q3FY23	Q2FY24	Q3FY24	YoY Growth	QoQ Growth (%)
Revenue from Operations	3,888	4,849	4,736	21.79%	-2.34%
Other Income	35	126	100	185.19%	-20.48%
Total Mfg Cost	2,017	2,633	2,510	24.48%	-4.67%
Employee Benefits Expense	400	437	434	8.40%	-0.66%
Other Expenses	586	592	587	0.26%	-0.69%
Total Expenses	3,003	3,662	3,532	17.61%	-3.55%
EBITDA (Excluding Other Income)	885	1,187	1,204	35.97%	1.39%
Depreciation and Amortisation Expenses	121	133	126	4.34%	-4.82%
EBIT / PBIT	799	1,180	1,177	47.30%	-0.24%
Finance Costs	18	26	15	-19.04%	-43.35%
Profit before share in profit of associate & tax	781	1,154	1,162	48.86%	0.75%
Share in profit of associate (net of tax)	8	18	13	53.15%	-30.17%
EBT/PBT	789	1,172	1,175	48.90%	0.27%
Tax Expense	162	286	271	67.56%	-5.28%
Net Profit after Tax	627	886	904	44.10%	2.07%
Adj Earning Per Share	5.59	7.89	8.06	44.10%	2.07%
Margins (%)				(In bps)	(In bps)
Gross Margins	48.1%	45.7%	47.0%	-115	129
EBITDA Margins (Excl Other Income)	22.8%	24.5%	25.4%	265	93
PAT Margins	16.0%	17.8%	18.7%	270	89
As a % to sales					
RM as a % to sales	51.9%	54.3%	53.0%	115	-129
EE Cost as a % to sales	10.3%	9.0%	9.2%	-113	15
Other exps as a % to sales	15.1%	12.2%	12.4%	-266	21
Segment -Wise Revenues					
Transmission Equipment	3,288	4,228	4,085	26.88%	-3.38%
Material Handling Equipment	601	621	650	12.14%	4.77%
	3,888	4,849	4,736	21.79%	-2.34%
Segment -Wise PBIT					
Transmission Equipment	753	1,101	1,113	38.23%	1.14%
Material Handling Equipment	88	131	120	68.24%	-7.74%
	840	1,231	1,234	46.80%	0.20%
Segment Wise PBIT Margins					
Transmission Equipment	23%	26%	27.25%	435	122
Material Handling Equipment	15%	21%	19%	393	-251

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	10,447	12,119	15,297	20,345	24,414	29,296
Total Operating Expenses	5,621	6,613	8,357	11,088	13,281	15,908
Employee Cost	1,179	1,282	1,497	1,797	2,156	2,587
Other Expenses	1,790	1,761	2,054	2,645	3,125	3,691
Operating Profit	1,856	2,464	3,389	4,815	5,852	7,110
Depreciation	521	486	490	448	472	484
PBIT	1,335	1,979	2,898	4,367	5,380	6,626
Other income	57	86	201	211	221	232
Interest	598	373	133	100	50	-
PBT (Before share of JV/associates)	794	1,691	2,966	4,477	5,551	6,858
Share of JV/Associates	19	14	32	35	40	45
PBT	813	1,705	2,998	4,512	5,591	6,903
Provision for tax	237	300	623	1,128	1,398	1,726
PAT (From continuing operations)	576	1,405	2,375	3,384	4,193	5,177
PAT (From Discontinuing operations)	-	-	-	-	-	-
MI						
Reported PAT	576	1,405	2,375	3,384	4,193	5,177
Adjusted Profit	576	1,405	2,375	3,384	4,193	5,177

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	224	224	224	224	224	224
Reserves	8,968	10,278	12,567	15,704	19,628	24,525
Net worth	9,192	10,502	12,791	15,929	19,852	24,749
Minority Interest	-	-	-	-	-	-
Non Current Liabilities	2,346	1,287	1,004	844	989	1,138
Current Liabilities	8,389	5,395	3,525	4,411	5,261	6,279
Other Liabilities(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-
TOTAL LIABILITIES	19,933	17,185	17,320	21,184	26,102	32,166
Non Current Assets	8,591	8,319	8,443	8,688	8,739	8,493
Fixed Assets	6,256	6,087	6,261	6,498	6,521	6,240
Goodwill	1,071	1,057	1,028	1,028	1,028	1,028
Non Current Investments	789	796	829	828	828	828
Loans						
Non-current assets tax (net)	202	229	104	104	104	104
Deferred Tax Asset	50	38	21	21	21	21
Other Financial Assets	105	19	85	70	70	70
Other Non Current Assets	118	94	117	140	168	202
Current Assets	11,336	8,865	8,876	12,496	17,363	23,673
Current investments		-	191	-	-	-
Inventories	2,502	2,617	2,788	3,623	4,348	5,217
Trade Receivables	5,077	4,151	3,458	4,180	5,017	6,020
Cash and Bank Balances	961	844	823	2,892	5,888	10,003
Other bank balances	453	278	1,280	1,500	1,750	2,000
Short Term Loans and Advances						
Other Financial Assets	1,961	681	86	-	-	-
Other current assets tax (net)						
Other current assets	380	296	250	300	361	433
Other Assets(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-
TOTAL ASSETS	19,933	17,185	17,320	21,184	26,102	32,166

Cash Flow St. (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT (excluding JV/Associates)	794	1,691	2,966	4,477	5,551	6,858
Add: Dep. & Amort.	521	486	490	448	472	484
Add: Interest Expenses	598	373	133	100	50	-
Operating profit before working capital change	1,913	2,550	3,589	5,026	6,073	7,342
(Inc)/Dec in						
Working capital adjustment	658	(727)	(47)	(906)	(1,003)	(1,204)
Gross cash generated from operations	2,571	1,823	3,542	4,120	5,069	6,138
Direct taxes paid	(237)	(300)	(623)	(1,128)	(1,398)	(1,726)
Others	146	710	181	(169)	42	80
CF from Oper. activities	2,480	2,232	3,100	2,823	3,713	4,492
CF from Inv. activities	(187)	150	(1,668)	(685)	(495)	(204)
CF from Fin. activities	(2,105)	(2,500)	(1,452)	(70)	(223)	(173)
Cash generated/(utilised)	189	(118)	(20)	2,069	2,996	4,115
Cash at start of the year	773	961	844	823	2,892	5,888
Cash at end of the year	961	844	823	2,892	5,888	10,003
Balance sheet	961	844	823	2,892	5,888	10,003

Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPM	17.77%	20.33%	22.15%	23.67%	23.97%	24.27%
NPM	5.49%	11.51%	15.32%	16.46%	17.02%	17.53%
Tax Rate	29.12%	17.61%	20.79%	25.00%	25.00%	25.00%

Growth Ratios (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	-4.02%	16.01%	26.22%	33.00%	20.00%	20.00%
Operating Profit	32.22%	32.77%	37.51%	42.10%	21.52%	21.50%

PBT	316.66%	109.77%	75.82%	50.50%	23.89%	23.47%
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PAT	-35.74%	143.81%	69.04%	42.50%	23.89%	23.47%
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Per Share (Rs.)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Earnings (EPS)	5.14	12.52	21.17	30.16	37.37	46.14
Cash Earnings (CPS)	9.78	16.85	25.54	34.16	41.58	50.46
Payout ratio	0%	0%	2%	2%	1%	1%
Dividend	0.00	0.00	0.50	0.50	0.50	0.50
Book Value per share (BVPS)	81.93	93.60	114.00	141.97	176.94	220.58
Free Cash Flow	2,509	2,548	3,764	3,508	4,208	4,696

Valuation Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
P/E(x)	206.79	84.81	50.17	35.21	28.42	23.02
P/B(x)	12.96	11.35	9.32	7.48	6.00	4.81
EV/EBIDTA(x)	65.22	48.41	34.92	24.87	19.95	15.86
Div. Yield(%)	-	-	0.05	0.05	0.05	0.05
FCFF Yield(%)	2.11	2.14	3.16	2.94	3.53	3.94

Return Ratios (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
ROE	6.27%	13.38%	18.57%	21.25%	21.12%	20.92%
ROCE	15.40%	21.42%	26.49%	24.80%	25.07%	25.08%

Source: Dalal & Broacha Research

RoA	3%	8%	14%	16%	16%	16%
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Source: Dalal & Broacha Research, Company

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