

Consistent execution makes it an Outlier!



April 23, 2024

### Outlook

Elecon Engineering posted their highest ever revenue of 19,374 Mn in FY24. Basis the robust government & private capex taking place in India & strong end-user demand for Elecon's products backed by increasing product enquiries – management remains bullish for the coming couple of years. For FY25- they have conservatively rolled out a revenue guidance of 22,250 Mn (+15% growth YoY) – while they are confident to achieve EBITDA margins of 24% even in FY25. The company estimates revenue of 3600 Mn+ in MHE segment, expecting it to be one of the key contributors of growth in FY25. While steady growth to be seen even in Gears revenue – especially on account of growth in domestic gears revenue from core sectors such as steel, cement, power coupled with significant export revenues to start coming basis the new deal wins from foreign OEM's.

### Key Financial Highlights

- **Revenue** at Rs 5646 Mn vs 4246 Mn(+33% YoY) vs Rs 4736 Mn(+19% QoQ)
- **EBITDA** at Rs 1354 Mn vs 928 Mn(+46% YoY) vs Rs 1204 Mn (+12% QoQ)
- **Highest ever EBITDA Margin** achieved for the full year FY24 of 24.5% vs 22.2% in FY23 – surpassing the margin guidance of 22% given at the start of the year
- **PAT** at Rs 1037 Mn vs 680 Mn (+52% YoY) vs Rs 904 Mn (+15% QoQ)
- **Orderbook:** Rs 7960 Mn vs 714 Mn(+11.5% YoY)

### Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	10,447	12,119	15,297	19,374	23,249	27,899
EBIDTA	1,856	2,464	3,389	4,744	5,748	6,967
Margins (%)	17.8	20.3	22.2	24.5	24.7	25.0
Adjusted net profit	576	1,405	2,375	3,556	4,334	5,302
EPS (Rs)	5.1	12.5	21.2	31.69	38.63	47.3
P/E (x)	207	85	50	34	27	22
EV/EBITDA (x)	65	48	35	26	21	17
RoCE (%)	15.40%	21.42%	26.49%	24.29%	24.36%	24.25%
RoE (%)	6.27%	13.38%	18.57%	22.17%	21.56%	21.10%

Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
<b>Buy on Dips</b>	<b>1,276</b>	<b>10</b>

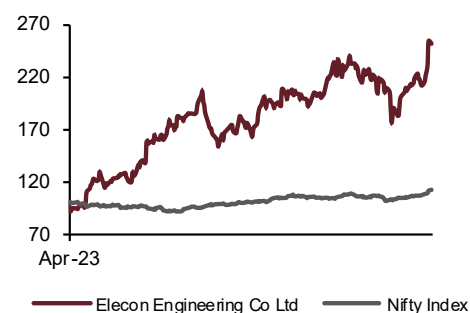
### Market Data

<b>Current price</b>	Rs	1,156
Market Cap (Rs.Bn)	(Rs Bn)	130
Market Cap (US\$ Mn)	(US\$ Mn)	1,553
Face Value	Rs	2
52 Weeks High/Low	Rs	1245 / 407.55
Average Daily Volume	('000)	2,897
BSE Code		505700

Source: Bloomberg

### One Year Performance

Source: Bloomberg



Source: BSE

% Shareholding	Mar-24	Dec-23
Promoters	59.27	59.29
Public	40.73	40.71
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Bloomberg

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### Key Business Highlights

- Elecon added one more foreign OEM deal win in Q4FY24, taking its total deal wins in FY24 to 11 OEM Business wins – estimated to bring an annual business volume of 60 Cr p.a. from H2FY25 onwards.
- Management has proposed a dividend of Rs 2 per share [ total dividend for FY24 to be Rs 3 , including interim dividend of Rs 1 announced earlier in the year]
- The board has also proposed a stock split from FY 2 per share to Rs 1 per share face value.
- **The current geo-political challenges in West Asia, current elections in India & code of conduct period & the upcoming US Elections – all singularly or in combination could have an impact on Elecon’s performance in FY25 – hence the company has guided conservatively for FY25.**

### For Gears segment :

- Open Orders as on 31st Mar’24 5360 Mn vs 5690 Mn
- Order Intake for Q4FY24 up 10% Y-o-Y: 4120 Mn vs 3730 Mn in Q4FY23
- Gears Division Guidance: The management has guided for 18,650 mn revenue from Gears business alone in FY25. Of which exports are estimated to contribute ~2500 Mn & balance to come from domestic.

### Gear Division: Other KTA’s

- Steel, cement, sugar sectors have been the main contributors for Elecon’s strong performance in Gears this fiscal. Company expects steel & cement to continue to drive growth for Elecon in the domestic market basis the healthy underlying capex in those sectors ( India to be the 2nd largest in producer of Steel in the next 2-3 years – Elecon to benefit hugely from the theme)
- **Export Deal wins:** The 11 foreign OEM deal wins are for the replacement & aftermarket business; orders expecting to start flowing from these OEM’s from Q2/Q3 onwards & expected to contribute ~30 Cr to the topline in FY25, & ~60 Cr annually from FY26 onwards. These deal wins will be immensely helpful for Elecon to establish presence in European Gears market & to diversify in the export market. Current OEM orders pertain to diversified industries such as plastic, rubber, steel, etc.
- Current capacity utilization as on Mar’24 ~74% , still sufficient headroom exists in the Gear division to increase production considering peak levels of capacity utilization ~85%.

**For MHE Segment :**

- Open Orders as on 31st Mar'23 up on YoY basis:- 2600 Mn vs 1450 Mn (in Mar'23)
- **Order Intake:** 3930 Mn in FY24 vs 2230 Mn in FY23
- **Guidance:** Elecon estimates to achieve ~3600 Mn+ revenue in FY25 in this segment.

**Other KTA's for MHE Segment:**

- Cement & power sectors have mainly driven the order inflows in this segment
- Elecon looking to collaborate with EPC contractors & focus mainly on supplying products to EPC players for material handling & equipment.
- Current capacity utilization levels ~40-50% in MHE segment , Elecon has sufficient unused capacity to support growth in this segment. Post elections – particularly from Q3 & Q4FY25 onwards, company expects strong order flows in this segment.
- Revenue Split for full year FY24:
- **Productwise-** Gears: MHE- 85%:15%
- **Geographywise** – Domestic: Exports – 76%:24%

**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.

**\*Valuation\***

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 1156 - it is valued at 35x FY24E EPS of Rs 30; 27x FY25E EPS of 38.6; 22x on FY26E EPS of 47.3- we have assigned a target of Rs 1156 at a 25x FY26E EPS (9% upside). Owing to Elecon's attributes such as consistent strong execution by the company, net debt free entity & a dominance & strong reputation in the foreign market , better lead times, inventory management & working capital management, higher growth in recent times & discount in valuation to some of its relatively smaller peers' such as Shanthi Gears – we have raised the target multiple for Elecon to 27x FY26E – assigning a target price of Rs 1,276 (~11% upside) and we maintain our rating to “BUY on DIPS”.**

## Quarterly Financials

(Rs.Mn)	Q4FY23	Q3FY24	Q4FY24	YoY Growth	QoQ Growth (%)
<b>Revenue from Operations</b>	<b>4,245</b>	<b>4,736</b>	<b>5,646</b>	<b>32.99%</b>	<b>19.23%</b>
Other Income	78	100	130	66.98%	30.66%
Total Mfg Cost	2,512	2,510	2,875	14.46%	14.55%
Employee Benefits Expense	313	434	555	77.43%	27.78%
Other Expenses	492	587	863	75.27%	46.83%
Total Expenses	3,317	3,532	4,293	29.42%	21.54%
<b>EBITDA (Excluding Other Income)</b>	<b>929</b>	<b>1,204</b>	<b>1,354</b>	<b>45.78%</b>	<b>12.43%</b>
Depreciation and Amortisation Expenses	136	126	126	-7.51%	-0.47%
<b>EBIT / PBIT</b>	<b>871</b>	<b>1,177</b>	<b>1,358</b>	<b>56.00%</b>	<b>15.37%</b>
Finance Costs	46	15	21	-55.40%	37.58%
<b>Profit before share in profit of associate &amp; tax</b>	<b>825</b>	<b>1,162</b>	<b>1,338</b>	<b>62.21%</b>	<b>15.08%</b>
Share in profit of associate (net of tax)	16	13	25	51.47%	97.60%
<b>EBT/PBT</b>	<b>841</b>	<b>1,175</b>	<b>1,362</b>	<b>62.01%</b>	<b>15.96%</b>
Tax Expense	162	271	326	101.78%	20.30%
<b>Net Profit after Tax</b>	<b>679</b>	<b>904</b>	<b>1,037</b>	<b>52.55%</b>	<b>14.66%</b>
Adj Earning Per Share	6.06	8.06	9.24	52.55%	14.66%
<b>Margins (%)</b>				<b>(In bps)</b>	<b>(In bps)</b>
Gross Margins	40.8%	47.0%	49.1%	825	208
EBITDA Margins (Excl Other Income)	21.9%	25.4%	24.0%	210	-145
PAT Margins	15.7%	18.7%	17.9%	223	-75
<b>As a % to sales</b>					
RM as a % to sales	59.2%	53.0%	50.9%	-825	-208
EE Cost as a % to sales	7.4%	9.2%	9.8%	246	66
Other exps as a % to sales	11.6%	12.4%	15.3%	-266	287
<b>Segment -Wise Revenues</b>					
Transmission Equipment	3,665	4,085	4,523	23.43%	10.72%
Material Handling Equipment	581	650	1,123	93.32%	72.67%
	<b>4,245</b>	<b>4,736</b>	<b>5,646</b>	<b>32.99%</b>	<b>19.23%</b>
<b>Segment -Wise PBIT</b>					
Transmission Equipment	782	1,113	1,153	47.33%	3.57%
Material Handling Equipment	111	120	263	135.45%	118.02%
	<b>894</b>	<b>1,234</b>	<b>1,415</b>	<b>58.32%</b>	<b>14.74%</b>
<b>Segment Wise PBIT Margins</b>					
Transmission Equipment	21.4%	27.2%	25.5%	413	-176
Material Handling Equipment	19.2%	18.5%	23.4%	418	486

Source: Dalal & Broacha Research, Company

## Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales	10,447	12,119	15,297	19,374	23,249	27,899
Total Operating Expenses	5,621	6,613	8,357	10,183	12,217	14,647
Employee Cost	1,179	1,282	1,497	1,885	2,262	2,714
Other Expenses	1,790	1,761	2,054	2,563	3,022	3,571
<b>Operating Profit</b>	1,856	2,464	3,389	4,744	5,748	6,967
Depreciation	521	486	490	509	467	484
PBIT	1,335	1,979	2,898	4,235	5,280	6,483
Other income	57	86	201	441	463	486
Interest	598	373	133	86	50	-
PBT ( Before share of JV/associates)	794	1,691	2,966	4,590	5,693	6,969
Share of JV/Associates	19	14	32	64	85	100
PBT	813	1,705	2,998	4,654	5,778	7,069
Provision for tax	237	300	623	1,098	1,445	1,767
PAT (From continuing operations)	576	1,405	2,375	3,556	4,334	5,302
PAT (From Discontinuing operations )	-	-	-	-	-	-
MI						
Reported PAT	576	1,405	2,375	3,556	4,334	5,302
<b>Adjusted Profit</b>	576	1,405	2,375	3,556	4,334	5,302

<b>Balance Sheet ( Rs mn )</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
Equity capital	224	224	224	224	224	224
Reserves	8,968	10,278	12,567	15,816	19,880	24,902
<b>Net worth</b>	<b>9,192</b>	<b>10,502</b>	<b>12,791</b>	<b>16,040</b>	<b>20,105</b>	<b>25,126</b>
Minority Interest	-	-	-	-	-	-
<b>Non Current Liabilities</b>	<b>2,346</b>	<b>1,287</b>	<b>1,004</b>	<b>1,207</b>	<b>1,304</b>	<b>1,419</b>
<b>Current Liabilities</b>	<b>8,389</b>	<b>5,395</b>	<b>3,525</b>	<b>3,993</b>	<b>5,640</b>	<b>6,730</b>
<b>Other Liabilities( associated with discontinued operations/ assets held for sale )</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>19,933</b>	<b>17,185</b>	<b>17,320</b>	<b>21,240</b>	<b>27,048</b>	<b>33,275</b>
<b>Non Current Assets</b>	<b>8,591</b>	<b>8,319</b>	<b>8,443</b>	<b>9,070</b>	<b>9,335</b>	<b>9,162</b>
Fixed Assets	6,256	6,087	6,261	6,426	6,704	6,441
Goodwill	1,071	1,057	1,028	1,018	1,018	1,018
Non Current Investments	789	796	829	1,083	980	980
Loans						
Non-current assets tax (net)	202	229	104	105	105	105
Deferred Tax Asset	50	38	21	9	9	9
Other Financial Assets	105	19	85	55	70	70
Other Non Current Assets	118	94	117	375	449	539
<b>Current Assets</b>	<b>11,336</b>	<b>8,865</b>	<b>8,876</b>	<b>12,171</b>	<b>17,714</b>	<b>24,114</b>
Current investments		-	191	2,033	2,500	3,000
Inventories	2,502	2,617	2,788	2,297	4,140	4,968
Trade Receivables	5,077	4,151	3,458	4,451	4,777	5,733
Cash and Bank Balances	961	844	823	1,097	3,695	7,454
Other bank balances	453	278	1,280	1,536	1,750	2,000
Short Term Loans and Advances						
Other Financial Assets	1,961	681	86	564	621	683
Other current assets tax (net)						
Other current assets	380	296	250	192	230	276
<b>Other Assets( associated with discontinued operations/ assets held for sale )</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>19,933</b>	<b>17,185</b>	<b>17,320</b>	<b>21,240</b>	<b>27,048</b>	<b>33,275</b>

Cash Flow St. (Rs. mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>PBT (excluding JV/Associates)</b>	<b>794</b>	<b>1,691</b>	<b>2,966</b>	<b>4,590</b>	<b>5,693</b>	<b>6,969</b>
Add: Dep. & Amort.	521	486	490	509	467	484
Add: Interest Expenses	598	373	133	86	50	-
<b>Operating profit before working capital change</b>	<b>1,913</b>	<b>2,550</b>	<b>3,589</b>	<b>5,185</b>	<b>6,211</b>	<b>7,453</b>
<b>(Inc)/Dec in</b>						
Working capital adjustment	658	(727)	(47)	(697)	(925)	(1,147)
<b>Gross cash generated from operations</b>	<b>2,571</b>	<b>1,823</b>	<b>3,542</b>	<b>4,488</b>	<b>5,286</b>	<b>6,307</b>
Direct taxes paid	(237)	(300)	(623)	(1,098)	(1,445)	(1,767)
Others	146	710	181	258	31	43
<b>CF from Oper. activities</b>	<b>2,480</b>	<b>2,232</b>	<b>3,100</b>	<b>3,648</b>	<b>3,872</b>	<b>4,583</b>
<b>CF from Inv. activities</b>	<b>(187)</b>	<b>150</b>	<b>(1,668)</b>	<b>(2,790)</b>	<b>(643)</b>	<b>(221)</b>
<b>CF from Fin. activities</b>	<b>(2,105)</b>	<b>(2,500)</b>	<b>(1,452)</b>	<b>(585)</b>	<b>(676)</b>	<b>(658)</b>
<b>Cash generated/(utilised)</b>	<b>189</b>	<b>(118)</b>	<b>(20)</b>	<b>273</b>	<b>2,553</b>	<b>3,703</b>
Cash at start of the year	773	961	844	823	1,097	3,695
Cash at end of the year	961	844	823	1,097	3,695	7,454
Balance sheet	961	844	823	1,097	3,650	7,399

Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPM	17.77%	20.33%	22.15%	24.49%	24.72%	24.97%
NPM	5.49%	11.51%	15.32%	17.95%	18.28%	18.68%
Tax Rate	29.12%	17.61%	20.79%	23.59%	25.00%	25.00%
<b>Growth Ratios (%)</b>						
Net Sales	-4.02%	16.01%	26.22%	26.66%	20.00%	20.00%
Operating Profit	32.22%	32.77%	37.51%	40.00%	21.15%	21.21%
PBT	316.66%	109.77%	75.82%	55.22%	24.16%	22.34%
PAT	-35.74%	143.81%	69.04%	49.73%	21.87%	22.34%
<b>Per Share (Rs.)</b>						
Net Earnings (EPS)	5.14	12.52	21.17	31.69	38.63	47.25
Cash Earnings (CPS)	9.78	16.85	25.54	36.23	42.79	51.57
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	142.96	179.19	223.94
Free Cash Flow	2,509	2,548	3,764	4,323	4,618	4,804
<b>Valuation Ratios</b>						
P/E(x)	206.79	84.81	50.17	33.51	27.49	22.47
P/B(x)	12.96	11.35	9.32	7.43	5.93	4.74
EV/EBIDTA(x)	65.22	48.41	34.92	25.62	20.70	16.55
Div. Yield(%)	-	-	0.05	0.05	0.05	0.05
FCFF Yield(%)	2.11	2.14	3.16	3.63	3.88	4.03
<b>Return Ratios (%)</b>						
ROE	6.27%	13.38%	18.57%	22.17%	21.56%	21.10%
ROCE	15.40%	21.42%	26.49%	24.29%	24.36%	24.25%

Source: Dalal & Broacha Research

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