



Stronger quarters lie ahead...

22 October 2024

Elecon Q2FY25 Concall KTA's

Outlook: Elecon Engineering's results presented a mixed picture, with revenue increasing by 5% year-over-year and 30% quarter-over-quarter. However, EBITDA margins experienced a decline of 238 basis points, falling from 24.5% last year to 22.1%. The Gears/Transmission segment, in particular, underperformed, with topline revenue declining by 6% and margins dropping sharply from 26% to 20.5%. The main reason for the margin dilution was a shift in the product mix this quarter between catalog and engineered products. Additionally, rising freight costs and a one-time repairs and maintenance charge of approximately ₹70 million contributed to the margin drop. In contrast, the Material Handling Equipment (MHE) segment had an outstanding quarter, with revenue growing nearly 78% year-over-year and achieving record margins of 26.5%.

Despite these challenges, the company remains confident in meeting its annual guidance of approximately ₹22.25 billion, with an EBITDA margin target of 23-24%. This optimism is supported by new order inflows of around ₹10.81 billion in H1 FY25, reflecting a 15% year-over-year increase.

Based on current inquiries and interactions with clients, management is optimistic about the revival of the Indian capex cycle and anticipates a significant ramp-up in both ordering and execution following Diwali, i.e. Q3 onwards.

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	12,119	15,297	19,374	22,198	28,629	32,499
EBIDTA	2,464	3,389	4,744	5,175	6,877	7,874
Margins (%)	20.3	22.2	24.5	23.3	24.0	24.2
Adjusted net profit	1,405	2,375	3,556	3,750	4,990	5,681
EPS (Rs)	6.3	10.6	15.85	16.71	22.2	25.3
P/E (x)	95	56	37	35	27	23
EV/EBITDA (x)	54	39	28	25	19	16
RoCE (%)	21.42%	26.49%	29.58%	26.51%	28.38%	26.32%
RoE (%)	13.38%	18.57%	22.17%	19.21%	20.59%	18.99%

Source: Dalal & Broacha Research, Company

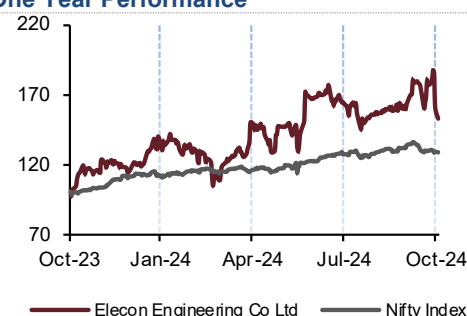
Rating	TP (Rs)	Up/Dn (%)
BUY	713	20

Market data

Current price	Rs	595
Market Cap (Rs.Bn)	(Rs Bn)	133
Market Cap (US\$ Mn)	(US\$ Mn)	1,587
Face Value	Rs	1
52 Weeks High/Low	Rs	739.1 / 356.63
Average Daily Volume	('000)	3,723
BSE Code		543308
Bloomberg		ELCN.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	59.27	59.27
Public	40.73	40.73
Total	100	100

Source: Bloomberg

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Key Financial Highlights

Revenue at Rs 5081 Mn vs 4849 Mn(+5% YoY) vs Rs 3924 Mn(+30% QoQ)

EBITDA at Rs 1123 Mn vs 1187 Mn(-10% YoY) vs Rs 924 Mn (+22% QoQ)

PAT at Rs 877 Mn vs +886 Mn (-1 % YoY) vs Rs 734 Mn (+20% QoQ)

Orderbook: Rs 9660 Mn vs 7380 Mn(+31% YoY)

Revenue Split for Q2FY25:

Productwise- Gears: MHE :- 3977 Mn (78%) : 1104 Mn (22%)

Geographywise – Domestic: Overseas :- 3860 Mn(76%) : 1220 Mn(24%)

Cash & Cash equivalents at the end of Q2FY25 ~2350 Mn

Note: Elecon has declared an interim dividend of 0.5 Rs per share.

For Gears segment:

Revenue: 3977 Mn vs 4228 Mn (-6% YoY basis) vs 3341 Mn (+19% QoQ)

EBIT Margins : 20.5% vs 26% (YoY) vs 23.5%(QoQ)

Open Orders as on 30th Sep'24 : 6270 Mn vs 6150 Mn (+2%)

Order Intake for Q2FY25 up 15% Y-o-Y: 4320 Mn vs 3750 Mn in Q1FY24

Gear Division: Other KTA's

- 70 Mn one-time Repairs & maintenance expense undertaken in Gears Division- to upgrade existing facilities and machinery.
- Catalogue Gears: Engineered Gears Mix in Q2FY25 – 54%:46% vis-à-vis 43%-56% ratio in Q2FY24. This change in product mix impacted Q2FY25 gross margins of the gear division.
- Q3 & Q4 will see more of Engineered gears execution & thereby a revival in margins will be achieved in H2FY25.
- EBITDA margins have been lower in Q1FY25 , one of the reasons being % of customized gears as compared to standardized gears this quarter is only 45% vs ~55% in FY24.
- The company expects cement, steel, power & sugar sectors to contribute in growth going forward. The company also anticipates some large marine segment orders from FY26 onwards.

For MHE Segment :

- **Revenue:** 1104 Mn vs 536 Mn (+9% YoY basis) vs 1123 Mn (-48% QoQ)
- **EBIT Margins :** 26% vs 22.8% (YoY) vs 23.4%(QoQ)
- **Open Orders** as on 30th Sep,2024 : 3390 Mn vs 1230 mn in Sep'23 (+176%) vs 3490 Mn (QoQ)
- Order Intake up 154% on YoY basis:- 1040 Mn vs 410 Mn (in Sep'23)

Other KTA's for MHE Segment:

- Highest ever EBITDA margins achieved in MHE of 26.5% in Q2fy25 on owing to better product mix , higher aftersales revenue & strong order inflows.
- Company expects some big orders in MHE segment from the power sector from H1Fy26 onwards..
- Company also started winning export orders in MHE of ~1.65 mn USD

- Company is optimistic to be able to achieve an annual turnover of 600-700 Cr from the MHE segment in the next couple of years on the back of its existing capacity & setup provided the order momentum & capex activity in the country continues at the same pace. The company already has history of clocking ~664 Cr revenue in MHE segment a decade back in 2013.

Other KTA's:

- **Aftersales:** 29% of total revenue in Q2FY24 is from aftersales in gears & MHE Segment.
- **Capex :** Company had guided to incur ~200 Cr capex to buy machines this year - of which ~40 Cr capex already incurred in H1FY25. Capex majorly to be funded out of internal accruals however some portion of funding in the form of external borrowings could also be considered.
- Capacity utilisation ~67% including the recent addition in capacity.
- Company anticipates growth in FY26 to outweigh growth in FY25.

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 correction in the stock price, we have changed our rating from "BUY on Dips" to "BUY" on the stock

At the CMP of 594- it is valued at 35x FY25E EPS of 16.7; 27x on FY26E EPS of 22.3 and 27x FY27E EPS of Rs 25.3- we have assigned a target of Rs 713 at a 30x Sep-26 Est. EPS of Rs 23.8 (20% 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, strong free cash flows & discount in valuation to some of its relatively smaller peers' such as Shanthi Gears - we assign a "BUY" rating on Elecon.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	10,447	12,119	15,297	19,374	22,198	28,629	32,499
Total Operating Expenses	5,621	6,613	8,357	10,183	11,876	15,173	17,143
Employee Cost	1,179	1,282	1,497	1,885	2,262	2,714	3,257
Other Expenses	1,790	1,761	2,054	2,563	2,886	3,865	4,225
Operating Profit	1,856	2,464	3,389	4,744	5,175	6,877	7,874
Depreciation	521	486	490	509	674	810	935
PBIT	1,335	1,979	2,898	4,235	4,501	6,067	6,940
Other income	57	86	201	441	463	486	511
Interest	598	373	133	86	50	-	-
PBT (Before share of JV/associates)	794	1,691	2,966	4,590	4,914	6,553	7,450
Share of JV/Associates	19	14	32	64	85	100	125
PBT	813	1,705	2,998	4,654	4,999	6,653	7,575
Provision for tax	237	300	623	1,098	1,250	1,663	1,894
PAT (From continuing operations)	576	1,405	2,375	3,556	3,750	4,990	5,681
PAT (From Discontinuing operations)	-	-	-	-	-	-	-
MI							
Reported PAT	576	1,405	2,375	3,556	3,750	4,990	5,681
Adjusted Profit	576	1,405	2,375	3,556	3,750	4,990	5,681

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	224	224	224	224	224	224	224
Reserves	8,968	10,278	12,567	15,816	19,296	24,006	29,687
Net worth	9,192	10,502	12,791	16,040	19,521	24,230	29,912
Minority Interest	-	-	-	-	-	-	-
Non Current Liabilities	2,346	1,287	1,004	1,207	2,104	1,345	620
Current Liabilities	8,389	5,395	3,525	3,993	5,517	6,948	8,032
Other Liabilities(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-	-
TOTAL LIABILITIES	19,933	17,185	17,320	21,240	27,141	32,523	38,564
Non Current Assets	8,591	8,319	8,443	9,070	10,553	10,848	11,036
Fixed Assets	6,256	6,087	6,261	6,426	7,922	8,127	8,208
Goodwill	1,071	1,057	1,028	1,018	1,018	1,018	1,018
Non Current Investments	789	796	829	1,083	980	980	980
Loans							
Non-current assets tax (net)	202	229	104	105	105	105	105
Deferred Tax Asset	50	38	21	9	9	9	9
Other Financial Assets	105	19	85	55	70	70	70
Other Non Current Assets	118	94	117	375	449	539	647
Current Assets	11,336	8,865	8,876	12,171	16,588	21,675	27,527
Current investments		-	191	2,033	2,500	3,000	3,000
Inventories	2,502	2,617	2,788	2,297	3,953	5,098	5,788
Trade Receivables	5,077	4,151	3,458	4,451	4,561	5,883	6,678
Cash and Bank Balances	961	844	823	1,097	2,973	4,735	8,979
Other bank balances	453	278	1,280	1,536	1,750	2,000	2,000
Short Term Loans and Advances							
Other Financial Assets	1,961	681	86	564	621	683	751
Other current assets tax (net)							
Other current assets	380	296	250	192	230	276	331
Other Assets(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-	-
TOTAL ASSETS	19,933	17,185	17,320	21,240	27,141	32,523	38,564

Cash Flow St. (Rs. mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT (excluding JV/Associates)	794	1,691	2,966	4,590	4,914	6,553	7,450
Add: Dep. & Amort.	521	486	490	509	674	810	935
Add: Interest Expenses	598	373	133	86	50	-	-
Operating profit before working capital change	1,913	2,550	3,589	5,185	5,638	7,363	8,385
(Inc)/Dec in							
Working capital adjustment	658	(727)	(47)	(697)	(665)	(1,586)	(954)
Gross cash generated from operations	2,571	1,823	3,542	4,488	4,972	5,777	7,431
Direct taxes paid	(237)	(300)	(623)	(1,098)	(1,250)	(1,663)	(1,894)
Others	146	710	181	258	31	43	298
CF from Oper. activities	2,480	2,232	3,100	3,648	3,753	4,157	5,835
CF from Inv. activities	(187)	150	(1,668)	(2,790)	(2,068)	(1,015)	(1,015)
CF from Fin. activities	(2,105)	(2,500)	(1,452)	(585)	190	(1,381)	(576)
Cash generated/(utilised)	189	(118)	(20)	273	1,876	1,762	4,244
Cash at start of the year	773	961	844	823	1,097	2,973	4,735
Cash at end of the year	961	844	823	1,097	2,973	4,735	8,979
Balance sheet	961	844	823	1,097	2,973	4,735	8,979
Ratios	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	17.77%	20.33%	22.15%	24.49%	23.31%	24.02%	24.23%
NPM	5.49%	11.51%	15.32%	17.95%	16.55%	17.14%	17.21%
Tax Rate	29.12%	17.61%	20.79%	23.59%	25.00%	25.00%	25.00%
Growth Ratios (%)							
Net Sales	-4.02%	16.01%	26.22%	26.66%	14.57%	28.97%	13.52%
Operating Profit	32.22%	32.77%	37.51%	40.00%	9.08%	32.89%	14.50%
PBT	316.66%	109.77%	75.82%	55.22%	7.42%	33.08%	13.86%
PAT	-35.74%	143.81%	69.04%	49.73%	5.44%	33.08%	13.86%
Per Share (Rs.)							
Net Earnings (EPS)	2.57	6.26	10.58	15.85	16.71	22.24	25.32
Cash Earnings (CPS)	4.89	8.43	12.77	18.12	19.71	25.85	29.48
Payout ratio	0%	0%	5%	3%	3%	2%	2%
Dividend	0.00	0.00	0.50	0.50	0.50	0.50	0.50
Book Value per share (BVPS)	81.93	93.60	114.00	71.48	86.99	107.98	133.30
Free Cash Flow	2,509	2,548	3,764	4,323	5,923	5,172	6,850
Valuation Ratios							
P/E(x)	230.93	94.72	56.03	37.42	35.49	26.67	23.42
P/B(x)	7.24	6.34	5.20	8.30	6.82	5.49	4.45
EV/EBIDTA(x)	72.72	54.06	39.02	27.82	25.14	18.66	15.76
Div. Yield(%)	-	-	0.08	0.08	0.08	0.08	0.08
FCFF Yield(%)	1.89	1.92	2.83	3.25	4.45	3.89	5.15
Return Ratios (%)							
ROE	6.27%	13.38%	18.57%	22.17%	19.21%	20.59%	18.99%
ROCE	15.40%	21.42%	26.49%	29.58%	26.51%	28.38%	8541.61%

Source: Dalal & Broacha Research, Company

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