

Elecon Q1FY25 Concall KTA's

Outlook: Elecon Engineering has had a soft quarter, especially in their Transmission/Gears segment on account of slowness in manufacturing activity due to elections in the country in Q1. Also considering the fact that Q1 for Elecon is generally tepid, results have been majorly in-line with expectations. However, despite that there were lot of positives to take away from the result which possibly could be indicators of long term growth to unfold in Elecon. Revenue from exports touched ~1330 Mn this quarter, almost 18% up on a YoY basis & comprises almost 34% of Elecon's topline & 40% of their Gear segment's topline this quarter. Additionally, their MHE division saw a whopping growth of 192% on a YoY basis in order inflows this quarter of ~1490 Mn v/s 510 Mn in Q1FY24. Now that the election period is over, Elecon anticipates a strong demand uptick in the coming quarters post the budget is announced in July'24 - & the management remains confident of achieving their FY25 revenue guidance of 22,250 Mn (+15% growth YoY) & EBITDA margins of 24% in FY25. The company expects Q2 & Q4 to be its best quarters.

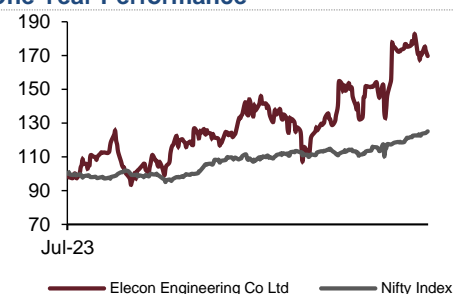
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	1,508	18

Market Data

Current price	Rs	1,281
Market Cap (Rs.Bn)	(Rs Bn)	144
Market Cap (US\$ Mn)	(US\$ Mn)	1,719
Face Value	Rs	2
52 Weeks High/Low	Rs	1414.95 / 692.15
Average Daily Volume	('000)	361
BSE Code		505700
Bloomberg		ELCN.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-24	Dec-23
Promoters	59.27	59.29
Public	40.73	40.71
Total	100	100

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	10,447	12,119	15,297	19,374	22,285	31,441
EBIDTA	1,856	2,464	3,389	4,744	5,416	8,196
Margins (%)	17.8	20.3	22.2	24.5	24.3	26.1
Adjusted net profit	576	1,405	2,375	3,556	3,502	5,640
EPS (Rs)	5.1	12.5	21.2	31.69	31.21	50.3
P/E (x)	249	102	61	40	41	25
EV/EBITDA (x)	78	58	42	30	26	17
RoCE (%)	15.40%	21.42%	26.49%	29.58%	28.10%	33.27%
RoE (%)	6.27%	13.38%	18.57%	22.17%	18.17%	22.90%

Source: Company

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Key Financial Highlights

Revenue at Rs 3924 Mn vs 4736 Mn(-5% YoY) vs Rs 5646 Mn(-31% QoQ)

EBITDA at Rs 924 Mn vs 1000 Mn(-8% YoY) vs Rs 1354 Mn (-32% QoQ)

PAT at Rs 734 Mn vs 730 Mn (+0.52%) vs Rs 1037 Mn (-29% QoQ)

Orderbook: Rs 9470 Mn vs 7930 Mn(+19.4% YoY)

Revenue Split for Q1FY25:

Productwise- Gears: MHE :- 334 Cr (85%) : 58 Cr (15%)

Geographywise – Domestic: Overseas :- 2590 Mn(66%) : 1330 Mn(34%)

Net free cash flow at disposal of the company at the end of Q1FY25 ~5000 Mn

Note: The stock shall split on 19th July, 2024 Friday from FV of Rs 2 to FV of Re 1.

For Gears segment :

Revenue: 3341 Mn vs 3607 Mn (-7% YoY basis) vs 4523 Mn (-26% QoQ)

EBIT Margins : 23.5% vs 24.6% (YoY) vs 25.5%(QoQ)

Open Orders as on 30th June'24 : 9470 Mn vs 7930 Mn

Order Intake for Q1FY25 down 11% Y-o-Y: 3960 Mn vs 4460 Mn in Q1FY25

Gears Division Guidance: The management has guided for 18,650 mn revenue from Gears business alone in FY25.

Gear Division: Other KTA's

- 25% of Gear segment revenues have come from replacement / aftersales market.
- Exports in Q1fy25 to the tune of ~133 Cr (+18% up on YoY basis). Management remains confident of continuing a 15-20% growth trajectory in Exports. Company is seeing good traction specifically from Middle East, US & Nordic nations.
- 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.
- Post-budget the company expects order inflow to revive in the gears segment mainly from cement, steel, power & sugar sectors. The company also anticipates some large marine segment orders from FY26 onwards.

For MHE Segment :

Revenue: 583 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 June,2024 : 3490 Mn vs 1380 mn in Jun'23 (+153%) vs 2600 Mn (QoQ)

Order Intake up 192% on YoY basis:- 1490 Mn vs 510 Mn (in Jun'23)

Guidance for FY25: Elecon estimates to achieve ~3600 Mn+ revenue in FY25 in this segment.

Other KTA's for MHE Segment:

- 38% of MHE segment turnover is from replacement/aftersales market
- Strong EBITDA margins of 26% in Q1fy25 on owing to better product mix & higher aftersales revenue.
- Company expects some big orders in MHE segment from the power sector from H1Fy26 onwards..
- Company had one big win from the private sector this quarter. Company also started winning export orders in MHE- the most recent one being in Africa
- 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:

>Capex : Company to incur ~200 Cr capex to buy machines this year. Capex majorly to be funded out of internal accruals however some portion of funding in the form of external borrowings could also be considered.

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.

At the CMP of 1,281 - it is valued at 41x FY25E EPS of 31.21; 25x on FY26E EPS of 50.3- we have assigned a target of Rs 1508 at a 30x FY26E EPS (17% upside). Owing to Elecon's attributes such as consistent strong execution by the company, net debt free entity, strong reputation 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 have raised the target multiple for Elecon to 30x FY26E – assigning a target price of Rs 1,508 (~17% upside) and we maintain our rating to “BUY on DIPS”.

Quarterly Financial

(Rs.Mn)	Q1FY24	Q4FY24	Q1FY25	YoY Growth	QoQ Growth (%)
Revenue from Operations	4,143	5,646	3,924	-5.30%	-30.51%
Other Income	85	130	144	69.76%	10.66%
Total Mfg Cost	2,164	2,875	1,969	-9.01%	-31.52%
Employee Benefits Expense	459	555	470	2.51%	-15.20%
Other Expenses	521	863	560	7.61%	-35.04%
Total Expenses	3,144	4,293	3,000	-4.58%	-30.12%
EBITDA (Excluding Other Income)	1,000	1,354	924	-7.59%	-31.75%
Depreciation and Amortisation Expenses	124	126	128	3.30%	1.99%
EBIT / PBIT	961	1,358	940	-2.16%	-30.81%
Finance Costs	25	21	23	-7.29%	11.71%
Profit before share in profit of associate & tax	936	1,338	917	-2.02%	-31.46%
Share in profit of associate (net of tax)	9	25	25	176.40%	-0.40%
EBT/PBT	945	1,362	942	-0.34%	-30.89%
Tax Expense	215	326	208	-3.35%	-36.21%
Net Profit after Tax	730	1,037	734	0.55%	-29.22%
Adj Earning Per Share	6.50	9.24	6.54	0.55%	-29.22%
Margins (%)				(In bps)	(In bps)
Gross Margins	47.8%	49.1%	49.8%	204	74
EBITDA Margins (Excl Other Income)	24.1%	24.0%	23.5%	-58	-43
PAT Margins	17.3%	17.9%	18.0%	78	9
As a % to sales					
RM as a % to sales	52.2%	50.9%	50.2%	-204	-74
EE Cost as a % to sales	11.1%	9.8%	12.0%	91	216
Other exps as a % to sales	12.6%	15.3%	14.3%	171	-100
Segment -Wise Revenues					
Transmission Equipment	3,607	4,523	3,341	-7.38%	-26.14%
Material Handling Equipment	536	1,123	583	8.68%	-48.13%
	4,143	5,646	3,924	-5.30%	-30.51%
Segment -Wise PBIT					
Transmission Equipment	886	1,153	786	-11.29%	-31.81%
Material Handling Equipment	122	263	151	23.93%	-42.40%
	1,008	1,415	937	-7.02%	-33.77%
Segment Wise PBIT Margins					
Transmission Equipment	24.6%	25.5%	23.5%	-104	-196
Material Handling Equipment	22.8%	23.4%	26.0%	320	258

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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	22,285	31,441
Expenses	5,621	6,613	8,357	10,183	11,711	16,506
Employee Cost	1,179	1,282	1,497	1,885	2,262	2,714
Other Expenses	1,790	1,761	2,054	2,563	2,897	4,024
Profit	1,856	2,464	3,389	4,744	5,416	8,196
Depreciation	521	486	490	509	1,244	1,262
PBIT	1,335	1,979	2,898	4,235	4,171	6,934
Other income	57	86	201	441	463	486
Interest	598	373	133	86	50	-
share of	794	1,691	2,966	4,590	4,585	7,420
JV/Associates	19	14	32	64	85	100
PBT	813	1,705	2,998	4,654	4,670	7,520
Provision for tax	237	300	623	1,098	1,167	1,880
continuing	576	1,405	2,375	3,556	3,502	5,640
Discontinuing	-	-	-	-	-	-
MI						
Reported PAT	576	1,405	2,375	3,556	3,502	5,640
Adjusted Profit	576	1,405	2,375	3,556	3,502	5,640

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity capital	224	224	224	224	224	224
Reserves	8,968	10,278	12,567	15,816	19,049	24,408
Net worth	9,192	10,502	12,791	16,040	19,273	24,633
Minority Interest	-	-	-	-	-	-
Non Current Liabilites	2,346	1,287	1,004	1,207	2,624	1,795
Current Liabilites	8,389	5,395	3,525	3,993	5,529	7,403
Other Liabilities(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-
TOTAL LIABILITIES	19,933	17,185	17,320	21,240	27,426	33,831
Non Current Assets	8,591	8,319	8,443	9,070	10,682	10,625
Fixed Assets	6,256	6,087	6,261	6,426	8,051	7,904
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
Current Assets	11,336	8,865	8,876	12,171	16,744	23,206
Current investments		-	191	2,033	2,500	3,000
Inventories	2,502	2,617	2,788	2,297	3,969	5,599
Trade Receivables	5,077	4,151	3,458	4,451	4,579	6,460
Cash and Bank Balances	961	844	823	1,097	3,095	5,187
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
Other Assets(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-
TOTAL ASSETS	19,933	17,185	17,320	21,240	27,426	33,831

Cash Flow St. (Rs. mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
PBT (excluding JV/Associates)	794	1,691	2,966	4,590	4,585	7,420
Add: Dep. & Amort.	521	486	490	509	1,244	1,262
Add: Interest Expenses	598	373	133	86	50	-
Operating profit before working capital change	1,913	2,550	3,589	5,185	5,879	8,682
(Inc)/Dec in						
Working capital adjustment	658	(727)	(47)	(697)	(687)	(2,257)
Gross cash generated from operations	2,571	1,823	3,542	4,488	5,192	6,425
Direct taxes paid	(237)	(300)	(623)	(1,098)	(1,167)	(1,880)
Others	146	710	181	258	31	43
CF from Oper. activities	2,480	2,232	3,100	3,648	4,055	4,588
CF from Inv. activities	(187)	150	(1,668)	(2,790)	(2,768)	(1,115)
CF from Fin. activities	(2,105)	(2,500)	(1,452)	(585)	710	(1,381)
Cash generated/(utilised)	189	(118)	(20)	273	1,998	2,092
Cash at start of the year	773	961	844	823	1,097	3,095
Cash at end of the year	961	844	823	1,097	3,095	5,187
Balance sheet	961	844	823	1,097	3,095	5,187

Ratios	FY21	FY22	FY23	FY24	FY25E	FY26E
OPM	17.77%	20.33%	22.15%	24.49%	24.30%	26.07%
NPM	5.49%	11.51%	15.32%	17.95%	15.40%	17.67%
Tax Rate	29.12%	17.61%	20.79%	23.59%	25.00%	25.00%
Growth Ratios (%)						
Net Sales	-4.02%	16.01%	26.22%	26.66%	15.03%	41.08%
Operating Profit	32.22%	32.77%	37.51%	40.00%	14.16%	51.34%
PBT	316.66%	109.77%	75.82%	55.22%	0.34%	61.05%
PAT	-35.74%	143.81%	69.04%	49.73%	-1.51%	61.05%
Per Share (Rs.)						
Net Earnings (EPS)	5.14	12.52	21.17	31.69	31.21	50.27
Cash Earnings (CPS)	9.78	16.85	25.54	36.23	42.30	61.52
Payout ratio	0%	0%	2%	2%	2%	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	171.78	219.54
Free Cash Flow	2,509	2,548	3,764	4,323	6,925	5,703
Valuation Ratios						
P/E(x)	249.43	102.30	60.52	40.42	41.04	25.48
P/B(x)	15.64	13.69	11.24	8.96	7.46	5.83
EV/EBIDTA(x)	78.46	58.39	42.17	30.06	25.97	16.90
Div. Yield(%)	-	-	0.04	0.04	0.04	0.04
FCFF Yield(%)	1.75	1.77	2.62	3.01	4.82	3.97
Return Ratios (%)						
ROE	6.27%	13.38%	18.57%	22.17%	18.17%	22.90%
ROCE	15.40%	21.42%	26.49%	29.58%	28.10%	33.27%

Source: Dalal & Broacha Research, Company

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