

# Elecon Engineering

₹65

*Gearing the Future...!!!***Buy**

Jun 15, 2018

## Company Background

Elecon Engineering Company Ltd is a leading manufacturer of Material Handling Equipment (MHE) & Power Transmission Solution. It designs, manufactures and markets their sophisticated range of products through their network spread across India and through foreign equity participating companies in Singapore, Australia, South Africa, China & Dubai. Company's product range includes designing, engineering, manufacturing, supply, erection & commissioning of wagon tippers, bucket wheel stacker or reclaimers, barrel-type blender reclaimers, fertilizer reclaiming scrapers, limestone pre-homogenizing & blending plants etc. It is the first company in India to manufacture sophisticated equipment for Bulk Material Handling. Company developed and perfected their skills in design, manufacture, erection & commissioning of coal handling plants. Over the years, company expanded its skills & expertise for designing & execution of turnkey contracts. Company is the 3rd largest Material Handling solutions company in India, along with in-house design, fabrication, component manufacturing, and support system in a Vertically Integrated Model. Company caters to various industries like, Power, Steel, Cement, Sugar, Ports, Mining etc.

## Key Highlights

- ➔ Elecon has two products like; Gears & Bulk Material Handling equipments with 50.18% and 49.82 revenue contributions to total revenue.
- ➔ Elecon Engineering Company Limited, one of the largest manufacturers of gears in Asia and a leading player in MHE segment.
- ➔ Till Q3, company booked orders worth ₹ 419 cr in gear business and ₹ 182.40 cr from material handling business.
- ➔ During the year company tries to reduce the debt, by the result it has reduced its debt by 18.92% from ₹ 5,681.6 mn to ₹ 4,606.6 mn.
- ➔ Company has a state of the art manufacturing facility spread in 1,17,000 square meters, equipped with new generation CNC and NC machines tools.
- ➔ Commissioned 5 km long & 2000 tonnes per hour capacity downhill conveyor system.
- ➔ Capacity expanded of existing wagon tippler from 90 mt to 110 mt.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	5,660.8	10,959.8	10,043.3
Rev. growth (%)	(0.14)	93.61	(8.36)
EBITDA (INR mn)	1,176.2	1,291.8	1,817.7
Net profit (INR mn)	331.9	365.1	210.6
Shares outstanding (mn)	109.0	109.0	112.2
EPS (INR)	2.8	3.1	1.7
EPS growth (%)	16.05	10.64	(46.79)
P/E (x)	23.65	17.47	31.84
RONW (%)	5.55	3.76	2.90
ROCE (%)	8.98	10.27	10.09

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## Info Codes

Reuters	: ELCN.BO
Bloomberg	: ELCN IN
NSE	: ELECON
BSE	: 505700

## Market Data

52 Wk Range (₹)	: 45/113
Shares in Issue (mn)	: 112.2
Market. Cap ( bn)	: 7.35
BSE 2 Wk Avg Vol	: 66000

## Share Holding Pattern (%)

Promoters Holding	: 58.64
Public & Others	: 27.29
Corporate Holding	: 04.32
Foreign Institution	: 01.06
Institutions	: 07.86
Govt Holding	: 00.85

## Investment Theme

India's engineering market is expected to grow at a CAGR of 16-23 % to reach \$ 228 bn by 2020 from \$100 bn in 2016-17. India exports its engineering goods mostly to the US & Europe, which are more than 60 % of the total exports. Recently, India's engineering exports to Japan & S Korea have also increased. Sri Lanka, Nepal & Bangladesh are emerged as the major destinations for India's engineering exports. Company reorganised its MHE business & merged it with the industrial gear business for critical scale, size and economies. Gear business continued to gain traction from the customers, and it reported a growth in sales as well as order booking. During the year it has achieved a turnover of ₹ 9,964.80 mn as against ₹ 10,647.34 mn in the previous year. Demonetization is also one of the reason for turnover down.

**Always A Step Ahead in  
Technology...!!!**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	5,032.0	9,795.4	94.7	9,233.6	(5.7)
Other Income	226.8	312.5	37.8	78.5	(74.9)
Change in Stocks	(128.9)	247.2	(291.8)	(232.7)	(194.1)
Raw Material Con.	2,156.3	4,569.6	111.9	3,592.6	(21.4)
Employee Exp.	369.2	827.2	124.1	853.7	3.2
Indirect Taxes	402.0	851.9	111.9	731.2	(14.2)
Other Exp.	910.5	2,288.8	151.4	2,163.2	(5.5)
Operating Exp.	3,838.0	8,537.5	122.4	7,340.7	(14.0)
Operating Profit	1,291.9	1,817.6	40.7	1,738.7	(4.3)
Total Interest	299.6	705.8	135.6	732.6	3.8
Gross Profit	992.3	1,111.8	12.0	1,006.1	(9.5)
Net Dep.	515.8	556.7	7.9	481.4	(13.5)
Total Taxation	144.6	190.0	31.4	314.1	65.3
Net Profit/Loss	331.9	365.1	10.0	210.6	(42.3)

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>7,532.7</b>	<b>7,626.3</b>	<b>12,974.4</b>	<b>11,952.0</b>
Equity Share capital	217.9	217.9	217.9	224.4
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	4,699.1	4,886.0	7,016.2	7,068.5
Secured Loans	2,347.3	2,399.2	5,318.0	4,515.5
Unsecured Loans	268.4	123.2	422.3	143.6
<b>USES OF FUNDS</b>	<b>7,532.7</b>	<b>7,626.3</b>	<b>12,974.4</b>	<b>11,952.0</b>
Gross Block	6,278.5	6,324.9	8,738.8	8,876.5
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	2,540.1	2,988.6	848.7	1,317.8
Net Block	3,738.4	3,336.3	7,890.1	7,558.7
Capital Work in Progress	67.1	20.0	77.3	16.6
Investments	370.7	1,992.4	1,127.9	1,307.8
Current Assets	6,025.3	5,045.4	10,312.4	9,232.3
Less : Current Liabilities	2,700.5	2,601.8	6,168.6	5,920.1
Total Net Current Assets	3,324.8	2,443.6	4,143.8	3,312.2
Misc. Expenses not writtenoff	31.7	(166.0)	(264.7)	(243.3)
<b>NOTE</b>				
Book Value of Unquoted Investments	346.8	1,968.5	1,095.6	1,260.1
Market Value of Quoted Investments	211.1	385.2	10.6	25.9
Contingent Liabilities	12,978.0	12,664.4	4,083.6	5,017.5
Dividend (%)	50.0	55.0	55.0	25.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Jun 17	Sep 17	Dec 17	Mar 18
Net Sales	1,678.8	1,783.0	1,953.4	3,697.5
Cost Of Sales	1,838.4	1,575.8	1,704.6	2,987.9
Operating Profit	(159.6)	207.2	248.8	709.6
Other Income	14.0	18.5	21.5	51.3
Adjusted PBDIT	(145.6)	225.7	270.3	760.9
Financial Expenses	132.1	150.6	146.4	150.7
Depreciation	111.3	117.2	118.1	134.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(389.0)	(42.1)	5.8	476.0
Tax Charges	(1.5)	(3.9)	1.0	(25.7)
Reported Profit	(387.5)	(38.2)	4.8	501.7
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	(387.5)	(38.2)	4.8	501.7

**52 Week Index Relative Percentage Appreciation**

**Elecon vs SENSEX**
**Risks Associated**

- ➔ For 2016-17 net sales declined by 5.7 % to ₹ 9,233.6 mn, operating profit down by 4.3 % to ₹ 1,738.7 mn and net profit also declined by 42.3 % to ₹ 210.6 mn on yearly basis.
- ➔ As the company have operations in different countries, company will face currency risk, if there is any changes in currency rates may affect the company's profits.

**Scope of Growth**

- ➔ For Q4 net sales improved by 89.29 % to ₹ 3,697.50 mn, operating profit increased by 185.21 % to ₹ 709.60 mn and net profit also rose to ₹ 201.7 mn on QoQ basis.
- ➔ Elecon is only the company in India successful in getting Research Design and Standard Organisation (RDSO) approval in compliance with G-33 Rev-I for C-type wagon tippler at Wonder Cement and Rota Side wagon tippler at Haldia Energy Limited.
- ➔ Successfully completed the project for pipe conveyor of 7.5 km and 1500 tonnes per hour capacity, one of the longest conveyors in the world for Manikgarh Cement.
- ➔ It is being pioneer in the industry, company always looking for new developments, expansion of product range and continuous improvement in current offerings.
- ➔ Company has planned for debt reduction during the year and reduced it by 1,075 mn, it is good sign for the growth.
- ➔ Elecon is now a certified member of American Gear Manufacturers Association, which will help to get updated in gear technology.
- ➔ Company has developed and tested new Twin screw Gear extruder commonly used to mix fillers and additives with the polymer in plastic industry.

### In a Nutshell

Gujarat based Elecon Engineering company Ltd, is one of the largest Power Transmission Equipment and Material handling equipment manufacturer in India. Country exports its engineering goods mostly to the US and Europe, recently the exports have surged for Japan & South Korea. It supplies hi-tech equipment to core sectors such as steel, sugar, Power, fertilizers, cement, coal and iron ore mines with 30% market share. During the year 3 major sales industries are 66% sales in power, Marine 13% of sales and fertilizer is 11 % of total sales. Elecon is one of the largest manufacturers of gears in Asia and a leading player in MHE segment. Elecon's gear business continued to gain grip from the customers, and it reported a growth in sales as well as the order booking for the whole year. Global industrial gearbox market is expected to grow steadily at 4% over the next four-five years. Growth in the sector is linked to the prospects of areas such as mining, electricity generation and other core sectors. Current year orders are like this; company has bagged order worth ₹ 130 cr from Ramagundam Fertilizers and Chemicals for installing urea bagging and conveying systems at their complex at Ramagundam, Telangana. Also recently received orders worth of ₹ 45 cr in cement, power, port and coal sectors. Expect 5% plus margin on new orders and also expect to report profit in first quarter of next year. During the year sales were ₹ 9,964.8 mn as compare to ₹ 10,647.34 mn, EBITDA was ₹ 1,558.0 mn against previous year ₹ 1,423.60 mn and finally net profit was ₹ 210.6 mn for 2017 as compare to the profit ₹ 365.10 mn in previous year. Company has announced dividend ₹ 0.50 per share for 2016-17.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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