

**NOT
RATED**
ELECON ENGINEERING | Capital Goods

| 26 September 2023

Plant visit: Focusing on value addition

- ELCN has ~40% share in gearbox and components, catering to industries such as sugar, power, steel, cement, rubber and fertilisers
- Management expects value-added product contribution to rise (50% of revenue in FY23), supporting margins
- Capacity can be raised with minimal capex; balance sheet is strong with net cash at Rs 2bn as of FY23

Swati Jhunjhunwala | Vinod Chari
 Arshia Khosla
 research@bobcaps.in

We visited Elecon Engineering's (ELCN IN, Not Rated) plant, at Anand in Gujarat.
 Takeaways:

Large market potential: ELCN estimates India's gearbox and components market at Rs 30bn and the global market at ~US\$ 12bn. The company reported Rs 12bn in gearbox segment sales in FY23, implying ~40% market share in India. Shanthi Gears and Triveni Engineering are key competitors in the high speed gear segment.

Plans to raise share of engineered products (EP) in the mix: Value-added and standardised products are split equally in the revenue mix (FY23). ELCN expects the contribution from value-added products to rise as demand for larger gearboxes is growing and believes this will sustain EBITDA margin at the FY23 level of 22% in the long run.

Caters to key industries: The company caters to industries such as sugar, power, steel, cement, rubber and fertilisers. Production capacity currently stands at 5,000-6,000 gear components and 1,000 gearboxes per month. Per the company, this can be raised 2x with minimal capex, depending on product demand. Capacity utilisation for FY23 was 77%.

Strong product portfolio: ELCN has a wide array of catalog products and offers customisation with a lead time ranging from 12-14 days to 12-14 weeks (depending on the requirement) and performance guarantees ranging from 30,000 hours to 100,000 hours (depending on the size). It also assembles gearboxes for a few customers under its EP business.

R&D focus: The company has 80 engineers on board, with 15-18 for Catalog Products and 30 for EP, apart from industry specialists. It currently holds five patents (four product, one process).

Balance sheet robust: Working capital cycle has reduced from 122 days in FY22 to 98 days in FY23. Net cash stood at Rs 2bn as of Mar'23.

Ticker/Price	ELCN IN/Rs 734
Market cap	US\$ 992mn
Free float	39%
52wk high/low	Rs 983/Rs 318
Promoter/FPI/DII	59%/3%/38%

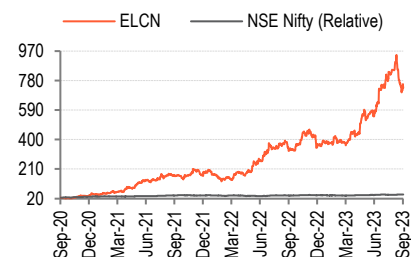
Source: NSE | Price as of 26 Sep 2023

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	10,447	12,119	15,297
EBITDA (Rs mn)	1,856	2,464	3,389
Adj. net profit (Rs mn)	576	1,405	2,375
Adj. EPS (Rs)	5.1	12.5	21.2
Consensus EPS (Rs)	5.1	12.5	21.2
Adj. ROAE (%)	6.5	14.3	20.4
Adj. P/E (x)	142.8	58.6	34.7
EV/EBITDA (x)	44.6	33.6	24.4
Adj. EPS growth (%)	(35.8)	143.8	69.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Total revenue	10,885	10,447	12,119	15,297
COGS	6,457	5,621	6,613	8,357
Employee Expense	1,339	1,179	1,282	1,497
Other expense	1,685	1,790	1,761	2,054
EBITDA	1,404	1,856	2,464	3,389
EBITDA margin (%)	12.9	17.8	20.3	22.2
Depreciation	533	521	486	490
EBIT	871	1,335	1,979	2,898
Net interest inc./(exp.)	770	598	373	133
Other inc./(exp.)	78	57	86	201
Exceptional items				
EBT	179	794	1,691	2,966
Income taxes	(702)	237	300	623
Extraordinary items	-	-	-	-
Min. int./Inc. from assoc.	16	19	14	32
Reported net profit	897	576	1,405	2,375
Adjustments				
Adjusted net profit	897	576	1,405	2,375

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Accounts payables	5,193	4,243	2,704	2,135
Other current liabilities	2,033	2,418	1,467	1,144
Provisions	852	806	722	462
Debt funds	4,650	2,965	1,512	516
Other liabilities	80	302	277	271
Minority Interest				
Equity capital	224	224	224	224
Reserves & Surplus	8,318	8,968	10,278	12,567
Shareholders Fund	8,542	9,192	10,502	12,791
Total liab. and equities	21,350	19,927	17,185	17,320
Cash and cash eq.	1,075	1,415	1,121	2,104
Accounts receivables	6,121	5,077	4,151	3,458
Inventories	3,066	2,502	2,617	2,788
Other current assets	2,097	2,341	977	336
Investments	525	534	542	767
Net fixed assets	6,549	6,073	5,929	6,084
CWIP	4	3	5	1
Other assets	1,913	1,981	1,843	1,782
Total assets	21,350	19,927	17,185	17,320

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Cash flow from	2,222	2,480	2,232	3,100
Capital expenditures	(131)	(26)	(139)	(462)
Change in investments	-	-	-	(190)
Other investing cash flows	(123)	(161)	289	(1,017)
Cash flow from investing	(253)	(187)	150	(1,668)
Equities issued/Others	-	-	-	-
Debt raised/repaid	(861)	(1,384)	(1,907)	(1,120)
Other financing cash flows	(895)	(721)	(593)	(332)
Cash flow from financing	(1,756)	(2,105)	(2,500)	(1,452)
Chg in cash & cash eq.	212	189	(118)	(20)

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23A
Reported EPS	8.0	5.1	12.5	21.2
Adjusted EPS	8.0	5.1	12.5	21.2
Dividend per share				
Book value per share	76.1	81.9	93.6	114.0

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23A
EV/Sales	7.6	7.9	6.8	5.4
EV/EBITDA	58.9	44.6	33.6	24.4
Adjusted P/E	91.7	142.8	58.6	34.7
P/BV	9.6	9.0	7.8	6.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23A
Tax burden (Net profit/PBT)	5.0	0.7	0.8	0.8
Interest burden (PBT/EBIT)	0.2	0.6	0.9	1.0
EBIT margin (EBIT/Revenue)	0.1	0.1	0.2	0.2
Asset turnover (Rev./Avg TA)	1.7	1.7	2.0	2.5
Leverage (Avg TA/Avg Equity)	0.8	0.7	0.6	0.5
Adjusted ROAE	10.7	6.5	14.3	20.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23A
YoY growth (%)				
Revenue	(11.1)	(4.0)	16.0	26.2
EBITDA	0.3	32.2	32.8	37.5
Adjusted EPS	6.3	(35.8)	143.8	69.0
Profitability & Return ratios (%)				
EBITDA margin	12.9	17.8	20.3	22.2
EBIT margin	8.0	12.8	16.3	18.9
Adjusted profit margin	8.2	5.5	11.6	15.5
Adjusted ROAE	10.7	6.5	14.3	20.4
ROCE	6.6	11.0	16.5	21.8
Working capital days (days)				
Receivables	205	177	125	83
Inventory	103	87	79	67
Payables	174	148	81	51
Ratios (x)				
Gross asset turnover	1.7	1.7	2.0	2.5
Current ratio	1.7	1.7	2.1	2.6
Net interest coverage ratio	1.1	2.2	5.3	21.8
Adjusted debt/equity	0.5	0.3	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Note: Recommendation structure changed with effect from 21 June 2021

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