

## Elecon Engineering Company Ltd: The Consistent Compounder

### Investment Summary

Elecon Engineering delivered a robust performance in **Q1 FY26**, reinforcing its status as a leader in industrial gears and material handling solutions. Consolidated **revenue grew by 25%** year-on-year to **₹491 crore**, driven by strong domestic demand, especially from the power, steel, and cement sectors. The **Gear division**, which contributed **72% of the revenue**, registered a 6.8% YoY growth despite some short-term international headwinds, while the Material Handling Equipment (**MHE**) **division** contributed for **28% of the revenue**. EBITDA for the quarter rose by 41% to ₹130 crore, with margins expanding to 27%—reflecting operational leverage and product mix benefits. The company reported an exceptional PAT of ₹175 crore, bolstered by one-off gains.

### Company Overview

Elecon Engineering Company Limited is a leading Indian manufacturer of industrial gear systems and material handling equipment, with a legacy of innovation and engineering excellence. The company was **founded in 1951** by Late Shri Ishwarbhai B. Patel in Mumbai and was incorporated as a Private Limited Company in January 1960, later becoming a Public Limited Company in 1961.

Elecon Engineering operates primarily in two business segments: **Industrial Gear Division**, and **Material Handling Equipment (MHE) Division**. Elecon is **one of Asia's largest industrial gear manufacturers**, providing precision-engineered, custom-built solutions for critical sectors such as steel, cement, power, sugar, mining, marine, and defence. It also designs and delivers bulk material handling systems, serving both domestic and global clients. Its name is derived from "ELEvators and CONveyors"—reflects its pioneering roots in the material handling space.

With a global footprint across **95+ countries**, Elecon operates **manufacturing and assembly centers** in the **UK, Sweden, the USA, and the Netherlands**, in addition to its flagship Indian operations. The company is known for its **strong R&D capabilities** (with over 100 engineers and multiple patents), consistent **export-led growth**, and high-quality engineering solutions. Elecon has emerged as a trusted partner for industrial transmission needs worldwide, combining legacy strength with a forward-looking, innovation-driven approach.

### Valuation Outlook

Elecon Engineering is well-positioned to benefit from its leadership in (IG) solutions and (MHE) segments, supported by strong execution capabilities, expanding export contribution, and a lean balance sheet with high cash generation. At the **CMP of Rs 580**, the stock is trading at **17.5x FY28E forward P/E**, implying modest valuation relative to its consistent earnings, expanding addressable markets, and sector leadership. We assign a **target P/E multiple of 21x**, which is justified given its superior return ratios, deleveraged balance sheet, and high margin visibility. Applying this multiple to FY28E EPS of ₹33.12 implies a **target price of ₹695.52** per share, representing a **potential upside of 19.92% from the CMP**.

#### Stock Data

CMP	₹ 580.00
52 Week High/Low	739/348
Rating	<b>BUY</b>
Target Price	<b>₹ 695.52 (+19.92%)</b>
Face Value	₹ 1.00
Market Cap (INR Cr)	₹ 13000.00
NSE	<a href="#">ELECON</a>
BSE	<a href="#">505700</a>
Sector	Heavy Electrical Equipment

#### Shareholding Pattern (in %)

	Jun 2025
Promoters	59.28
FII	9.61
DII	3.80
Public	27.28

#### Price Performance (in %)

(%)	1M	1W	YTD
Nifty 50	-1.59	-0.23	4.64
Elecon	-9.14	-2.56	-8.62

## Business Segments

Elecon Engineering Company Limited operates through **two** primary business segments: the **Industrial Gear Division (IGD)** and the **Material Handling Equipment (MHE)** Division.

The **IGD division** is the company's **core** business and the **largest revenue contributor**, generating **₹1,763 crore** in FY25 and **357 Cr for Q1FY26** reflecting a 5.6% year-on-year growth. This division accounted for approximately **72% of Elecon's total revenue** for the quarter. It operates with strong profitability, delivering strong EBIT margins. Elecon's gear division serves a wide array of end-use industries such as steel, cement, mining, power, sugar, marine, and defence. In FY25, it completed critical deliveries including gear systems for India's indigenous aircraft carrier **INS Vikrant** and coaxial helical gearboxes for high-performance defence applications, reinforcing its position in precision-engineered custom gearbox solutions.

The **MHE Division**, which provides products like wagon tippers, stacker reclaimers, conveyors, ship loaders/unloaders, experienced a remarkable turnaround in FY25. In FY25 It reported **₹493 crore in revenue**, marking a 68% YoY growth and a **revenue of 138Cr in Q1FY26** contributing **28% of total revenue for the quarter**. In Q1FY26 this growth was accompanied by significant margin expansion, with the division achieving an EBIT margin of 46%, up from lower profitability in past years when legacy EPC contracts had negatively impacted financials. With all historical EPC obligations now closed, the MHE segment is operating profitably and efficiently, and is positioned for further expansion as industrial activity and infrastructure investments rise in India.

From a **geographic** standpoint, Elecon derives approximately **77% of its revenue from domestic operations**, with the remaining **23%** generated through **exports**, translating to about ₹510 crore in export revenue for FY25. The export business has seen consistent growth, with rising traction in Europe, the Middle East, Southeast Asia, and Africa, driven by Elecon's ability to deliver high-quality, custom-built gear solutions globally. This international success is also supported by **overseas manufacturing** and assembly facilities in the **UK, Sweden, the USA, and the Netherlands**, which complement its main production base in Gujarat, India.

On the sourcing side, Elecon continues to procure certain **specialized components**—like gear blanks, bearings, and high-precision parts—from global vendors, although the company has focused on increasing local sourcing to minimize import dependency and optimize supply chain efficiencies.

Overall, Elecon's business segments are well-aligned with industrial growth themes in both domestic and global markets. The gear division provides steady high-margin growth with **strong order visibility**, while the MHE division has transitioned into a profitable contributor following operational restructuring. With its **export revenues rising** and no overhang from legacy EPC projects, Elecon is structurally positioned for sustainable and profitable growth across its business verticals.

## Investment Rationale

### 1. Strategic Management Turnaround Driving Sustainable Growth:

Elecon Engineering's impressive turnaround since FY22 can be directly attributed to a proactive and well-executed shift in leadership strategy. Under the continued guidance of Chairman & MD Prayasvin Patel and a strengthened executive team—including a Group CFO role and divisional reorganization—the company transitioned from years of revenue stagnation to robust, profitable growth. Strategic moves included pivoting the (MHE) division toward product-based and aftermarket offerings, and doubling down on global expansion and premium OEM partnerships in the (IG) division. This transformation delivered visible results. With improved working capital efficiency, focused execution, and a modernized leadership approach, Elecon now operates with enhanced agility and scalability, making the company structurally better positioned to sustain double-digit growth in a capital-efficient manner.

### 2. Market Leadership in High-Margin Gear Solutions with Sector Diversification

Elecon is one of Asia's largest manufacturers of industrial gearboxes, with a long-standing reputation for precision-engineered, custom-built solutions. Its Gear Division remains the backbone of the business, contributing ₹1,763 crore or

~78% of FY25 consolidated revenue, while sustaining a robust EBIT margin of 25%. It serves a wide array of core industries including steel, cement, mining, power, and marine, and has recently expanded further into defence—notably supplying gear systems for India's aircraft carrier INS Vikrant. This sectoral diversity insulates Elecon from cyclicalities in any one end-market and reflects its superior engineering capabilities in high-stakes, critical applications.

### **3. Turnaround and Margin Expansion in Material Handling Equipment (MHE) Division**

After years of underperformance due to legacy EPC contracts, Elecon's MHE division delivered a strong comeback in FY25 with revenue of ₹464 crore, up 72.8% YoY, and a segment EBIT margin of 29%—outperforming even the core gear division. The exit from EPC-based projects has allowed the company to focus on high-quality, profitable execution. The MHE business now complements the gear division meaningfully, especially with rising infrastructure investments in India and abroad. This structural shift has improved the overall margin profile of the company and unlocked a previously underappreciated growth lever.

### **4. Export-Led Growth with Rising Global Acceptance**

Elecon continues to grow its global footprint, deriving ~23% of FY25 revenue from exports (approximately ₹510 crore), with presence in over 95 countries. Demand from Europe, the Middle East, and Southeast Asia has been particularly strong, supported by Elecon's international manufacturing and assembly units in the UK, Sweden, the USA, and the Netherlands. The company's ability to compete internationally in a specialized engineering segment reflects its technological depth, adherence to global quality standards, and strengthening relationships with global OEMs and industrial customers. The company aims to achieve 50% from international revenue by 2030.

### **5. Strong Financial Performance and Capital Efficiency**

In FY25, Elecon reported its highest-ever consolidated revenue of ₹2,227 crore, up 14.9% YoY, and a PAT of ₹415 crore (PAT margin of 18.6%). **EBITDA margin stood at 24%**, indicating strong operational leverage and cost discipline. The company maintains a lean working capital structure and is nearly debt-free on a net basis. Elecon's return ratios are healthy and improving, with ROCE consistently above 25% since the last 3 years, reflects efficient capital deployment. These financial metrics position Elecon among the top performers in the industrial capital goods space.

### **6. Robust Order Book and Visibility into Future Growth**

As of March 31, 2025, Elecon had a consolidated order book of ₹948 crore, offering strong revenue visibility into FY26 and beyond. The order intake for the quarter was INR 480 crores, reflecting a healthy 21% year-on-year increase. **As at 30th June 2025, our open order book stood at INR 710 crores**, positioning us for a sustainable growth in the upcoming quarters. The Gear division continues to secure steady orders from both private and government sectors, including marine and defence projects. The MHE division has seen a revival in order inflows, backed by India's infrastructure push and greater focus on automated material handling systems. This backlog, combined with Elecon's execution strength, ensures a stable growth pipeline.

### **7. Strong R&D Backbone and Intellectual Property Edge**

With a team of over **100 engineers** dedicated to R&D, Elecon continues to invest in innovation and process optimization. The company has been granted 2 patents and has 5 more patent applications filed, primarily focused on gearbox designs and special-purpose transmission systems. These innovations not only differentiate Elecon's offerings in a competitive market but also allow for better cost efficiency and product customization, reinforcing customer stickiness and premium positioning.

**Financial Statements****Income Statement**

Particulars (Rs Cr)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	1,937	2,227	2,672	3,260	4,010
(Growth YoY%)	26.50%	15%	20%	22%	23.0%
Expenses	1,463	1,684	2,018	2,458	3,031
<b>EBITDA</b>	<b>474</b>	<b>543</b>	<b>654</b>	<b>802</b>	<b>979</b>
(Growth YoY%)	39%	14.55%	20.45%	22.63%	22.06%
EBITDA margin (%)	24.47%	24.38%	24.5%	24.6%	24.42%
Other Income	50	68	83	97	108
Depreciation & amortisation	51	61	70	81	90
<b>EBIT</b>	<b>473</b>	<b>550</b>	<b>667</b>	<b>818</b>	<b>997</b>
Interest expenses	9	13	15	18	21
Profit before tax (PBT)	464	537	652	800	976
Tax rate (%)	24%	23%	24%	24%	24%
Provision for tax	108	122	156	192	234
<b>Profit After Tax</b>	<b>356</b>	<b>415</b>	<b>496</b>	<b>608</b>	<b>742</b>
(Growth YoY%)	49.50%	16.57%	19.51%	22.58%	22.03%
Earnings Per Share (Rs)	15.89	18.53	22.14	27.14	33.12

**Balance Sheet**

Particulars (Rs Cr)	FY24	FY25	FY26E	FY27E	FY28E
Net Block	162	174	274	429	579
Capital WIP	9	75	90	113	142
Sundry Debtors	104	129	197	271	331
Inventories	130	241	312	459	504
Cash & equivalents	30	40	81	127	174
Other current assets	47	78	240	376	346
<b>Total assets</b>	<b>482</b>	<b>737</b>	<b>1,194</b>	<b>1,775</b>	<b>2,469</b>
Equity share capital	13	14	14	14	14
Reserves	345	579	1065	1651	2361
<b>Shareholder's Funds</b>	<b>358</b>	<b>593</b>	<b>1,079</b>	<b>1,665</b>	<b>2,375</b>
Borrowings	103	113	75	59	31
Trade Payables	10	21	27	33	37
Other Liability items	11	10	13	18	26
<b>Total liabilities</b>	<b>482</b>	<b>737</b>	<b>1,194</b>	<b>1,775</b>	<b>2469</b>

**Cash Flow Statement**

Particulars( Rs Cr)	FY24	FY25	FY26E	FY27E	FY28E
Profit before Tax (PBT)	464	537	652	800	976
Add: Interest Expense	9	13	15	18	21
Add: Depreciation	51	61	70	81	90
Less: Working Capital Changes	51	52	58	79	83
Less: Direct Taxes paid	108	127	153	167	224
<b>Net Cash Flow from Operating Activities</b>	<b>365</b>	<b>432</b>	<b>526</b>	<b>653</b>	<b>780</b>
<b>Cash Flow from Investing Activities</b>	<b>-279</b>	<b>-316</b>	<b>-415</b>	<b>-557</b>	<b>-687</b>
<b>Cash Flow from Financing Activities</b>	<b>-58</b>	<b>-67</b>	<b>-52</b>	<b>-31</b>	<b>-18</b>
<b>Net Increase/(Decrease) in Cash and Cash equivalent</b>	<b>28</b>	<b>49</b>	<b>59</b>	<b>65</b>	<b>75</b>

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