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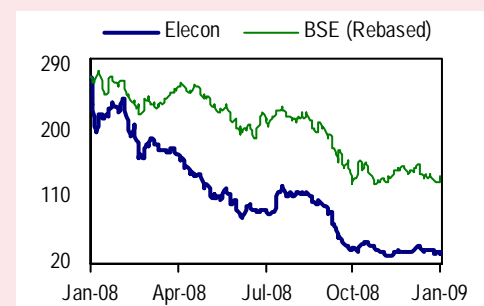
STOCK DATA

Market Cap	Rs3.4bn.
Book Value per share	Rs25.5
Eq Shares O/S (F.V. Re.2)	93mn.
Median Vol (12 mths)	162,677 (BSE+NSE)
52 Week High/Low	Rs275/30
Bloomberg Code	ELCN@IN
Reuters Code	ELCN.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(3.1)	(3.9)	(84.8)
Relative	2.0	1.9	(70.7)

STOCK PRICE PERFORMANCE



Elecon Engineering Company Ltd. (Elecon) reported a 33%YoY growth in net sales to Rs2.5bn led by 36% and 34% growth of revenues of Material handling (MHE) and Transmission equipment (TRE) respectively. OPM contracted by 64bps to 18.2%.

Net profits declined by 25% to Rs125mn on account of forex loss of Rs77mn. Excluding this, net profit would have grown by 31% to Rs202mn.

● **OPM contraction not a worry**

OPM contracted by 64bps to 18.2% as a result of a 37% increase in staff costs. Including the forex loss, OPM slumped by 310bps to 15.1%. PBIT margins of the MHE segment contracted by 335bps to 11.3% while those of TRE segment declined by 499bps to 17.5% due to the forex loss on forward contracts. With 75% of order book at fixed prices, the lower commodity prices should ease pressure on margins.

● **Interest costs impact profits**

Interest cost rose by 61% to Rs142mn as a result of the sharp increase in interest rates and high working capital intensity of the business. Higher leverage on account of capex and high cost of working capital would continue to put pressure on profitability in the ensuing quarters.

● **Steady order inflows**

MHE registered an order inflow of Rs1.9bn while TRE registered an inflow of Rs1bn in Q3FY09. The order book currently stands at Rs15.7bn for MHE and Rs2.4bn for TRE and the consolidated order book of Rs18.1bn with an execution period ranging from ~6 to 36 months. With bulk (~70%) of its order book from the power sector, steady investments in the segment should ensure stable order flows over the next 2-3 years despite possible delays in capex.

VALUATIONS AND RECOMMENDATION

The CMP of Rs36 discounts FY10E EPS of Rs10.4 by 3.5x. The stock trades at an EV/Sales of 0.7x and EV/EBIDT of 4.3x FY10 estimates. A strong order book of Rs18.1bn with bulk comprising orders from the power sector provides revenue visibility with a minimal risk of cancellations. The planned expenditure in the power sector with limited suppliers in the balance of plant segment bodes well for Elecon. The higher interest costs were expected and we believe that valuations factor in the same. We remain bullish on Elecon and maintain a 'BUY' recommendation with a 12-month price target of Rs60.

KEY FINANCIALS

Rs mn	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Net Sales	7,206	8,264	9,904	12,548	15,731
YoY Gr. (%)	62.9	14.7	19.8	26.7	25.4
Op. Profits	1,101	1,305	1,660	2,092	2,365
Op. Marg. (%)	15.3	15.8	16.8	16.7	15.0
Net Profits	549	672	720	968	1,150
Eq. Capital	62	186	186	186	186

KEY RATIOS

	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Dil. EPS (Rs)	5.9	7.2	7.7	10.4	12.4
ROCE (%)	26.7	22.3	22.3	23.0	21.6
RONW (%)	37.8	31.7	26.6	27.7	25.9
P/E (x)	2.0	5.0	4.7	3.5	2.9
EV/Sales (x)	0.5	0.9	0.8	0.7	0.6
EV/EBDIT (x)	3.5	5.7	4.8	4.3	4.2

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	9904	9,904	-	12548	12,548	-
Op. Profit	1660	1,660	-	2092	2,092	-
Net Profit	720	720	-	968	968	-
Diluted EPS	7.7	7.7	-	10.4	10.4	-

Financial Results for the quarter & nine months ended 31 December 2008

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Net Sales	2,457	1,852	32.6	6,665	4,986	33.7	8,264
Total Expenditure	2,010	1,516	32.6	5,509	4,157	32.5	6,959
(Inc)/Dec in stock	(315)	(266)		(717)	(217)		(471)
Consumption of raw materials	1,869	1,442	32.2	5,078	3,441	47.6	5,991
Employee Cost	132	96	37.7	339	262	29.6	343
Other expenditure	324	244	32.6	808	671	20.4	1,097
Operating Profit	447	336	32.8	1,156	828	39.6	1,305
Other Income	10	19	(46.2)	45	76	(40.4)	98
EBDIT	457	355	28.6	1,202	905	32.8	1,403
Interest and finance cost	142	88	61.1	325	189	72.1	274
Depreciation	56	36	55.7	152	106	43.2	142
PBT	259	231	12.0	725	610	18.8	987
Provision for current tax	34	66		136	175		293
Provision for deferred tax	22	10		65	26		16
Provision for FBT	1	2		3	3		5
PAT before extra items	202	154	31.3	520	406	28.1	672
Extraordinary items	(77)	12		(116)	36		-s
Net Profits	125	166	(24.6)	405	442	(8.5)	672
Eq. Cap (F.V of Rs 2 per share)	186	186		186	186		186
Reserves (excl rev res)	-	-		-	-		2,182
Fully dil. EPS for the Period(Rs)	2.2	1.7	31.3	5.6	4.4	28.1	7.2
Book Value (Rs)	2	2		2	2		25
OPM (%)	18.2	18.2		17.3	16.6		15.8
NPM (%)	5.1	9.0		6.1	8.9		8.1
Expenditure As % of Net Sales							
Raw material	63.26	63.47		65.4	64.7		66.8
Employee Cost	5.38	5.18		5.1	5.3		4.1
Other expenditure	13.18	13.18		12.1	13.5		13.3

Segmentwise results for the quarter & nine months ended 31 December 2008

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Segment Revenue							
MHE	1,437	1,059	35.7	3,885	2681.2	44.9	4,705
Transmission equip	1,071	797	34.4	2,968	2495.1	18.9	3,891
Gross Sales	2,508	1,855	35.2	6,852	5,176	32.4	8,596
Less: Inter segment revenue	52	3		187	191		332
Net Sales	2,457	1,852	32.6	6,665	4,986	33.7	8,264
Segment PBIT							
MHE	162	155	4.6	455	367	23.7	627
Transmission equip	188	179	4.6	541	508.8	6.3	793
Total PBIT	350	334	4.6	995	876	13.6	1,420
Less: Interest	142	88		325	189.1		274
Total PBT and ex. items	208	246	(15.6)	670	687	(2.5)	1,146
Less: Other unallocable expenses	33	3		61	41		159
PBT	175	243	(28.1)	609	646	(5.7)	987
Capital Employed							
MHE	4,250	3,051	39.3	4,250	3050.8	39.3	5,913
Transmission equip	4,331	3,133	38.2	4,331	3133.5	38.2	4,114
Capital Employed in segmemnt	8,581	6,184	38.8	8,581	6,184	38.8	10,027
Total	8,581	6,184	38.8	8,581	6,184	38.8	10,027
PBIT Margin (%)							
MHE	11.3	14.6		11.7	13.7		13.3
Transmission equip	17.5	22.5		18.2	20.4		20.4
Total	13.9	18.0		14.5	16.9		16.5
ROCE (%)							
MHE	15.2	20.3		14.3	16.1		10.6
Transmission equip	17.3	22.9		16.6	21.7		19.3
Total	16.3	21.6		15.5	18.9		14.2
Net Sales Mix (%)							
MHE	58.5	57.2		58.3	53.8		56.9
Transmission equip	43.6	43.0		44.5	50.0		47.1
Inter segment	2.1	0.2		2.8	3.8		4.0
Total	100.0	100.0		100.0	100.0		100.0
PBIT Mix (%)							
MHE	46.3	46.3		45.7	41.9		44.2
Transmission equip	53.7	53.7		54.3	58.1		55.8
Total	100.0	100.0		100.0	100.0		100.0

Income Statement	2006	2007	2008	2009E	2010E	2011E
Revenues	4,425	7,206	8,264	9,904	12,548	15,731
<i>Growth (%)</i>	<i>175.1</i>	<i>62.9</i>	<i>14.7</i>	<i>19.8</i>	<i>26.7</i>	<i>25.4</i>
Total Expenditure	3,828	6,106	6,959	8,243	10,456	13,366
Operating Profit	597	1,101	1,305	1,660	2,092	2,365
<i>Growth (%)</i>	<i>344.2</i>	<i>84.5</i>	<i>18.6</i>	<i>27.2</i>	<i>26.0</i>	<i>13.1</i>
Other income	83	82	98	117	169	212
EBIDT	679	1,183	1,403	1,778	2,260	2,577
(-) Interest	140	194	274	541	608	636
(-) Depreciation	94	122	142	180	231	253
PBT & E/O items	410	844	987	1,057	1,421	1,688
(-) Tax provision	131	295	315	337	453	538
PAT	279	549	672	720	968	1,150
Net Profits	279	549	672	720	968	1,150
<i>Growth (%)</i>	<i>177.8</i>	<i>96.9</i>	<i>22.4</i>	<i>7.1</i>	<i>34.5</i>	<i>18.8</i>
Fully diluted Eq. sh. O/s (mn no)	5.7	30.9	92.9	92.9	92.9	92.9
Book Value (Rs)	11.1	20.2	25.5	32.7	42.5	53.2
Basic EPS (Rs)	48.9	17.8	7.2	7.7	10.4	12.4
Diluted EPS (Rs)	3.0	5.9	7.2	7.7	10.4	12.4

Balance Sheet	2006	2007	2008	2009E	2010E	2011E
<i>Equity Share Capital</i>	57	62	186	186	186	186
<i>Reserves & Surplus</i>	970	1,817	2,182	2,848	3,762	4,751
Net worth	1,027	1,879	2,367	3,033	3,948	4,937
Total Debt	2,057	2,837	4,093	4,675	5,667	6,665
Net Deferred Tax	121	168	171	171	171	171
Capital Employed	3,205	4,883	6,631	7,880	9,786	11,773
Fixed Assets	952	1,267	1,931	2,241	2,660	2,907
Net current assets	2,167	3,531	4,596	5,534	7,022	8,762
Investments	63	80	95	95	95	95
Misc exp.	23	-	-	-	-	-
Deferred expenditure	-	4	10	10	10	10
Total Assets	3,205	4,883	6,631	7,880	9,786	11,773

Cash Flow Statement	2006	2007	2008	2009E	2010E	2011E
Profit before tax	583	1,039	1,263	1,597	2,029	2,324
Depreciation	94	122	142	180	231	253
Interest & dividend inc.	13	25	17	117	169	212
Tax paid	152	252	324	337	453	538
(Inc)/Dec in working capital	(910)	(1,500)	(1,259)	(964)	(1,488)	(1,748)
Other Items	(8)	(6)	(8)	-	-	-
Cash from operations	(406)	(622)	(202)	359	150	78
Net Purchase of fixed assets	(424)	(416)	(805)	(491)	(650)	(500)
Net Purchase of investments	(9)	(18)	(5)	-	-	-
Int/Div Received	16	25	17	117	169	212
Cash from investing activities	(417)	(408)	(793)	(373)	(481)	(288)
Issue of equity capital	45	358	5	-	-	-
Net Long term borrowing from bank	280	(168)	559	345	98	500
Net Short term borrowing	814	948	700	238	894	498
Dividend paid	16	34	54	53	53	160
Interest Paid	138	193	267	541	608	636
Income tax paid on dividend	-	-	-	1	2	3
Cash from financing activities	985	910	943	(11)	330	202
Inc/Dec. in cash	162	(120)	(52)	(26)	(1)	(8)

Key Ratios	2006	2007	2008	2009E	2010E	2011E
OPM (%)	13.5	15.3	15.8	16.8	16.7	15.0
ROACE (%)	26.4	26.7	22.3	22.3	23.0	21.6
ROANW (%)	33.2	37.8	31.7	26.6	27.7	25.9
Sales/Total Assets (x)	1.4	1.6	1.3	1.3	1.3	1.4
Debt:Equity (x)	2.0	1.5	1.7	1.5	1.4	1.4
Current Ratio (x)	2.0	2.4	2.3	2.3	2.3	2.3
Debtors (days)	176.7	196.5	217.4	217.0	217.4	217.0
Inventory (days)	199.9	126.1	167.0	172.2	168.0	164.4
Net working capital (days)	117.7	170.4	202.5	201.6	202.4	202.3
EV/Sales (x)	0.5	0.5	0.9	0.8	0.7	0.6
EV/EBIDT (x)	3.4	3.5	5.7	4.8	4.3	4.2
P/E (x)	0.7	2.0	5.0	4.7	3.5	2.9
P/BV (x)	3.3	1.8	1.4	1.1	0.9	0.7

T E A M

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