



# KRC Equity Research

Daily Corporate News Analysis

May 26<sup>th</sup> 2010

## Elecon Engineering Co Ltd

**BUY**

Company Info	
CMP (Rs.)	78
Target Price (Rs.)	101
Sector	Capital Goods
52 week H/L (Rs.)	110.85/60.05
BSE Code	505700
NSE Code	505700
Face Value (Rs)	2
Market Cap (Rs. In Crore)	722

Price Performance			
%	1m	3m	1yr
Absolute	-1.0%	4.9%	4.3%
Relative to Sensex	6.4%	6.4%	-16.9%

Shareholding Pattern (%)	
Promoters	45.71
FII	1.04
DII	13.8
Public & Others	39.45

### INVESTMENT RATIONALE

Elecon Engineering Co Ltd (EEC) was established in 1951 for manufacturing Material handling equipments & plants, Power Transmission solutions (Industrial gears) and Alternate Energy (Windmills). Its client base is much diversified and includes core sectors like Steel, Satellites, Sugar, Cement, Power, Chemical, Port mechanization etc. We believe that the company is well positioned to explore the huge opportunities lying up in core sectors with almost 60 years of expertise.

#### Robust growth in Order Inflows

Company has seen robust growth in the order inflows in the first of month of the current financial year. It has already received orders worth Rs. 431 Crore as per its announcement to BSE and live enquiries worth Rs. 1500 Crore under process. We expect the order inflows to gather momentum in FY11 as evident from the given facts. It has order back log of ~Rs. 1200 Crore at the end of Q4FY10.

#### Rapid Economic growth

Indian Economy is expected to grow at 8% in FY11. Demand from Industrial Sector, being the core sector of any economy will continue to increase which. 13.5% growth in IIP as reported in March 2010 is expected to sustain in future. As MHE Industry is known to have positive correlation with Industrial activities, we expect huge demand for company's products, especially in MHE segment. In addition, the thrust on increasing power generation and in turn increase the demand for coal will fuel the demand for mining equipments.

#### Alternate Energy

Elecon is also diversified into Alternate Energy – Wind. It produces Wind turbines in technical collaboration with TURBOWIND of Belgium at its plant in Vallabh Vidyanagar, Gujarat. It has already installed 50 nos. of Wind Turbines of 300KW rating in Gujarat itself with 4 WTGs of 600KW rating in Gujarat and Tamil Nadu and one more in USA. Country has potential of 48GW of wind power with 10GW already installed and 10GW under construction. Still a large part of the potential is untapped and yet to be explored.

#### Valuations & Views

Particulars (Rs. Crore)	FY09	FY10	FY11e
Net Sales	955.1	1046.4	1221.7
Growth%	15.5%	9.6%	16.8%
EBITDA	157.9	157.5	203.6
Growth%	21.0%	-0.2%	29.3%
PAT	57.5	66.2	85.5
Growth %	-14.8%	15.2%	29.2%
OPM%	16.5%	15.1%	16.7%
NPM%	6.0%	6.3%	7.0%
EPS	6.2	7.1	9.2

At CMP of Rs. 78, Stock currently trades at P/E of 11x on FY10 EPS of Rs. 7.1. We recommend BUY with a Target price of Rs. 101 at 11x P/E, giving upside potential of 42%.



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