

Elecon EngineeringRs491
OUTPERFORMER**RESULT NOTE**

Mkt Cap: Rs15.2bn; US\$360m

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Result: Q4FY07 and FY07

Comment: Robust all round performance

Last report: 23 May 2007 (Price Rs422; Recommendation: Outperformer)

Key valuation metrics

Year to Mar (Rs m)	Net sales	yoy change (%)	Net profit	yoy chg (%)	EPS	EV/E (x)	PER (x)
FY06	4,425	59.3	314	213.4	11.0	26.4	44.5
FY07	7,231	63.4	549	74.7	17.8	16.3	27.6
FY08E	9,741	34.7	870	58.3	28.1	11.7	17.5
FY09E	12,818	31.6	1170	34.5	37.8	9.1	13.0

Elecon has reported robust Q4FY07 results, which were broadly in line with our expectations. Driven by strong revenue growth across divisions and margin expansion accruing from scale benefits while net sales grew 52%yoy to Rs2.85bn, operating profits improved 54%yoy to Rs 384m and profits went up 46%yoy to Rs 186m despite higher interest cost (up 67% yoy to Rs 58m). For FY07, driven by strong momentum in the Material Handling (MHE) division (revenue growth of 99% yoy), topline went up 63% yoy to Rs 7.2bn while scale benefits meant that earnings grew by 61% yoy to Rs 549m. Going forward, we see continued momentum in order intakes, capacity expansion and stable raw material prices as the main earnings drivers. We estimate 46% CAGR in Elecon's earnings over FY07-09. Elecon is investing aggressively by diversifying into manufacture of windmills and windmill gearboxes etc to reduce cyclicalilty. Reiterate Outperformer.

KEY HIGHLIGHTS

Elecon's Q4FY07 results were broadly in line with our expectations with EBIDTA growth of 54%yoy to Rs384m. While material handling revenues grew 61% yoy to Rs 1.91b on the back of a robust business environment and strong order backlog, gears division revenues grew at brisk 41% yoy. Overall, topline grew 52%yoy to Rs2.85bn and earnings grew by 46%yoy to Rs186m as a result of higher interest cost (up 67% yoy to Rs 58m). EBIDTA margins for the quarter were up 20bps yoy to 13.5% due to strong focus on cost management and scale benefits.

The salient points of the result are as follows:

- Strong volume growth in material handling divisions helped Elecon achieve net sales growth of 52%yoy to Rs2.85bn for Q4FY07. While revenues in the material-handling segment grew at 61%yoy to Rs1.91b, revenues in the industrial gears division grew at robust 41%yoy to Rs1.1bn. PBIT margin improved 80bp yoy to 11.6% for the material handling division and 210bps yoy to 20.6%for the industrial gears division for Q4FY07.
- For FY07, while MHE division revenues grew 99% yoy to Rs 4.5bn, gears division revenues went up 35% yoy to Rs 3.1bn. PBIT margins for the MHE division went up 310bps yoy to 12.3% while it was up 60bps yoy to 20.6%.
- Order backlog stood at Rs 8.36bn compared to Rs6.76bn as on 31st January 2007. Elecon continues to receive major orders for material handling division where the order backlog stands at Rs6.2bn, with the remaining coming from the industrial gears division. Rising power sector investments make Elecon a play on the massive opportunity in the space given its dominant position.

	Dec-05	Mar-06	FY06	Jun-06	Sep-06	Dec-06	Mar-07	FY07
PBIT								
Material Handling equipment	33	129	207	66	131	130	223	550
Transmission equipment	101	145	465	83	168	166	228	644
Margins								
Material Handling equipment	7.4	10.8	9.2	11.6	13.1	13.0	11.6	12.3
Transmission equipment	20.9	18.5	20.0	20.3	20.2	21	20.6	20.6

- Strong cost management initiative coupled with economies of scale led to 80bp yoy improvement in EBITDA margins to 15.8% for FY07. For Q4FY07, margins were up 20 bps yoy to 13.5%.
- Other income during the quarter went up 83%yoy to 23m for Q4FY07. However, interest charges went up sharply by 67% to Rs 58m on the back of higher working capital requirement to fund increased turnover. Depreciation charges during the quarter were up 36% yoy to 23m.
- Net profit growth of 46%yoy to Rs 186m was depressed from higher tax rate (41.1% in Q4FY07 vis-à-vis 37.3% in Q4FY06). For FY07, profits were up 61% yoy to Rs 549m
- Elecon is investing aggressively by diversifying into manufacture of windmills and windmill gearboxes to reduce cyclicity. It however doesn't intend to go ahead with the ship fabrication plans.
- For FY08, Elecon plans to spend Rs 1.2bn towards different businesses like wind mill gear boxes (Rs 800m), wind mill manufacturing (Rs 100m), and the balance between gear and material handling division.
- Elecon has announced bonus issue of two shares for every share held. The company has also announced dividend @75%.

□ Earnings maintained; reiterate Outperformer

We maintain our FY08 and FY09 earnings at Rs 28.1 and Rs 37.8. Strong growth traction across divisions and robust investment environment has led to growth in order enquiries inflow that will propel revenue growth going forward. With strong order book on the back of robust capex flowing across different sectors and softening raw material costs, we expect 46% CAGR in fully diluted earnings over FY07-09. Reiterate Outperformer with a 12-month price target of Rs605 (16x FY09E).

Quarterly results

Year to 31st March (Rs m)	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Net sales	898	1,874	946	1,755	1,682	2,848
yoy change (%)	56.1	82.3	33.8	85.4	87.5	52.0
Total expenditure	787	1,624	810	1,469	1,393	2,464
Operating profit	110	250	135	285	290	384
yoy change (%)	93.3	74.9	39.3	135.0	162.9	53.6
Other income	56	13	10	18	15	23
Interest	37	35	37	45	54	58
Depreciation	23	25	27	29	33	34
PBT	106	203	81	229	219	315
Tax rate (%)	23.2	37.3	33.1	28.8	33.1	41.1
Tax	25	76	27	66	72	130
Net profit	81	127	54	163	146	186
yoy change (%)	332.1	110.9	79.5	183.6	79.5	45.9
Operating parameters						
OPM (%)	12.3	13.3	14.3	16.3	17.2	13.5
NPM (%)	9.1	6.8	5.7	9.3	8.7	6.5
Valuation						
Outstanding shares (m)	56.4	57	61.3	61.3	61.3	61.3
EPS (Rs)	2.9	4.5	1.8	5.3	4.8	6.1
Cash EPS (Rs)	3.7	5.3	2.6	6.3	5.8	7.2

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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