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**In Focus**

# Elecon Engineering

**Outperformer**

**Rs 411**

**December 26, 2006**

## Roadshow Highlights

We recently conducted a roadshow with the management of Elecon Engineering. Following are the key highlights:

- The current order book stands at Rs 6.88bn, which constitutes orders worth Rs 5.35bn from the MHE division and orders worth Rs 1.53bn from the gears division. Order inflow during the last two months has been strong at Rs 1.36bn. The company has put in bids for orders worth approx. Rs 9bn, for which the results are awaited.
- Elecon plans to incur a normal business capex of Rs 790m for the current year, out of which it has already incurred Rs 350m. Out of the total capex, Rs 350m is for the MHE division while the remaining Rs 440m is for the gear division.
- Company plans to sell windmills of 600kw each. It has already placed orders for components of 10 windmills, out of which they have received orders for 6. The delivery should begin by April 2007. Almost 60% of the components would be imported, while the turbines would be procured from domestic manufacturers such as Siemens. The gearboxes would be manufactured in-house. The company would assemble the gearboxes and set them up at the site for the purchaser. The margins in this might be much lower at around 10%.
- Elecon is at advanced stages of technology transfer agreement for windmill gearboxes with a European manufacturer. The agreement is expected to be finalized by January this year. Company plans to sell windmill gearboxes of 1MW to 2MW and looks to generate a turnover of Rs 900 – 1000m from this facility. Margins in these are expected to be higher than the normal gearboxes manufactured by the company, as this would be an import substitution. The capex for this is expected to be Rs 650 – 700m and the facility is expected to be operational by September 2007.
- Elecon plans to set up its ship fabrication facility by September 2007 with an additional capex of Rs 700m. This facility is expected to generate revenue of Rs 800 – 900m in a full year of operation, however the facility is totally dependent on orders received by Pipavav Shipyards. The company would fabricate the ships as per the designs given by Pipavav. The margins in this are expected to be much higher, around 25 – 30%.
- It has recently developed gears for the sugar industry and has sold 12 gears to various sugar manufacturers. The cost of these gears is much higher at Rs 10m per gear. One year back the company used to supply almost 60% standard gears, while now the mix has changed with almost 50% gears being tailor made and the rest being standard ones.

At the CMP of Rs 411, the stock trades at 14.2x and 10.7x FY08E and FY09E earnings. On an EV/EBIDTA basis, the stock is available at 9.1x and 6.8x FY08 and FY09 respectively, which appears attractive. We maintain **Outperformer**.

*(Stock price as on December 22, 2006)*

**Key Figures**

Y/e March	FY05	FY06	FY07E	FY08E	FY09E
Net Sales (Rs m)	2,777	4,425	7,441	10,627	13,439
EBITDA (Rs m)	379	497	1,102	1,592	2,092
EBITDA Margin (%)	13.6	13.5	14.8	15.0	15.6
PAT (Rs m)	161	314	596	887	1,174
EPS (Rs)	5.7	11.0	19.4	28.9	38.3
PER (x)	72.1	37.3	21.1	14.2	10.7
Cash EPS (Rs)	8.6	14.3	23.4	33.7	44.3
CPER (x)	47.7	28.7	17.5	12.2	9.3
EV / EBITDA (x)	32.3	22.2	12.9	9.1	6.8
EV / Sales (x)	4.4	3.0	1.9	1.4	1.1
RoE (%)	21.9	30.6	38.2	38.3	39.2
RoCE (%)	13.8	16.5	20.4	23.3	25.4

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