

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	ELCN.BO
Bloomberg code	ELCN IN
Market cap. (US\$ mn)	177
6M avg. daily turnover (US\$ mn)	1.5
Issued shares (mn)	93
Target price (Rs)	89

Performance (%) 1M 3M 12M

Absolute	4	6	139
Relative	7	0	25

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	6.6	7.4
+/- (%)	7.0	11.6
PER (x)	13.6	12.2
PBV (x)	2.6	2.3
Dividend/Yield (%)	1.7	1.7
EV/Sales (x)	1.3	1.1
EV/EBITDA (x)	8.0	7.3

Major shareholders (%)

Promoters	46
FII's	2
MF's	13
Public & Others	39

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenues	2,522	2,551	1.1	4,209	4,674	11.1	9,551	10,903	14.2	12,420	13.9
EBITDA	383	357	(6.9)	670	683	1.8	1,490	1,701	14.1	1,875	10.3
EBITDA Margin (%)	15.2	14.0	-	15.9	14.6	-	15.6	15.6	-	15.1	-
Other Income	26	18	(30.8)	35	40	13.2	96	100	4.4	100	-
Depreciation	51	78	53.3	95	153	60.2	221	280	26.2	306	9.5
Interest	114	134	17.3	184	278	51.5	484	600	24.0	640	6.7
Profit before tax	244	163	(33.3)	427	292	(31.7)	881	921	4.6	1,029	11.7
Tax	84	55	(34.5)	147	99	(32.8)	306	307	-	343	11.9
PAT	160	108	(32.7)	280	193	(31.1)	575	615	7.0	686	11.6
EPS (Rs)	1.7	1.2	(32.7)	3.0	2.1	-	6.2	6.6	7.0	7.4	11.6

Elecon Engineering

Maintain Outperformer

Price: Rs 90

BSE Index: 16,283

28 October 2009

2QFY10 Result – Lower gear sales impact profits

Highlights

- Results were below expectations. Revenue growth suffered as transmission equipment (TE) segment witnessed a decline of 17.6% YoY. A longer lead time of specialised gears led to a delay in delivery of these gears, thus deferring revenue to the extent of Rs 200 mn to the next quarter.
- The EBITDA margins shrunk by 120 bps to 14% mainly due to a shift in revenue mix in favour of material handling equipment (MHE) segment, which offers lower margins. However, higher margins on specialised gears orders will improve the margins in 2HFY10.
- Interest costs increased by 17% YoY to Rs 134 mn, but have reduced on a sequential basis due to an improvement in the working capital scenario. Net profit declined by 33% to Rs 108 mn as depreciation costs increased due to a high capex in 2HFY09.

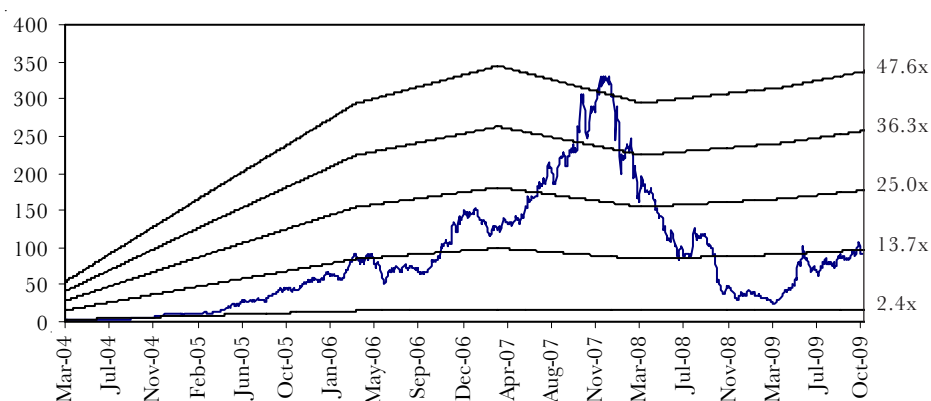
Outlook

Order inflow in MHE segment remained weak during the current quarter, but a healthy bid pipeline portrays an improvement in coming quarters. Opening of tenders of certain power project orders were delayed owing to legal issues, elections and late ordering of main plant equipment leading to an overall slump in BoP order inflow. However, we expect the scenario to improve as these orders get placed and Twelfth Plan orders begin to flow in. Also, a change in business mix will lead to a better performance at operating level. At the current market price of Rs 90, the stock trades at 14x FY10 earnings estimate of Rs 6.6 and 12x FY11 earnings estimate of Rs 7.4. We continue to maintain an Outperformer rating on the stock.

Segmental highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY08	FY09	YoY (%)
Revenues									
MHE	1,430	1,659	16.0	2,419	2,950	22.0	4,705	5,876	24.9
TE	1,144	943	(17.6)	1,897	1,849	(2.5)	3,897	3,944	1.2
Total	2,574	2,602	1.1	4,316	4,799	11.2	8,603	9,820	14.1
Less: Inter segment	51.6	50.7	(1.8)	107	125.5	17.5	332	269	(19.0)
Total	2,522	2,551	1.1	4,209	4,674	11.1	8,271	9,551	15.5
PBIT									
MHE	173	189	8.9	289	347	20.1	586	716	22.1
TE	217	157	(27.5)	379	303	(19.9)	797	727	(8.8)
Total	390	346	(11.3)	667	650	(2.6)	1383	1443	4.3
Less:									
Interest	114	134	17.3	184	278	51.5	274	484	76.4
Un-allocable	32	49	55.2	57	80	40.2	122	78	(35.9)
PBT	244	163	(33.3)	427	292	(31.7)	987	881	(10.7)
PBIT margin (%)									
MHE	12.1	11.4	-	11.9	11.8	-	12.5	12.2	-
TE	19.0	16.7	-	20.0	16.4	-	20.5	18.4	-
Total	15.2	13.3	-	15.5	13.5	-	16.1	14.7	-

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	8,264	9,551	10,903	12,420
<i>Growth (%)</i>	<i>14.3</i>	<i>15.6</i>	<i>14.2</i>	<i>13.9</i>
Operating expenses	(6,959)	(8,060)	(9,202)	(10,545)
Operating profit	1,305	1,490	1,701	1,875
EBITDA	1,305	1,490	1,701	1,875
<i>Growth (%)</i>	<i>16.8</i>	<i>14.2</i>	<i>14.1</i>	<i>10.3</i>
Depreciation	(142)	(221)	(280)	(306)
Other income	98	96	100	100
EBIT	1,261	1,365	1,521	1,669
Interest paid	(274)	(484)	(600)	(640)
Pre-tax profit (before non-recurring)	987	881	921	1,029
Pre-tax profit (after non-recurring)	987	881	921	1,029
Tax (current + deferred)	(315)	(306)	(307)	(343)
Net profit (before Minority Interest, Pref. Dividend, etc.)	672	575	615	686
Reported PAT	672	575	615	686
Adjusted net profit	672	575	615	686
<i>Growth (%)</i>	<i>17.3</i>	<i>(14.5)</i>	<i>7.0</i>	<i>11.6</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & marketable securities	75	611	201	349
Other current assets	8,021	9,474	10,148	11,541
Investments	95	109	109	109
Net fixed assets	1,931	3,110	3,461	3,754
Other non-current assets	15	2	2	2
Total assets	10,137	13,305	13,921	15,755
Current liabilities	3,500	4,318	4,370	5,046
Total debt	4,093	5,921	6,000	6,600
Other non-current liabilities	187	330	363	399
Total liabilities	7,779	10,568	10,733	12,045
Share capital	186	186	186	186
Reserves & surplus	2,182	2,568	3,019	3,542
Less: Misc. expenditure	(10)	(17)	(17)	(17)
Shareholders' funds	2,358	2,737	3,188	3,710
Total equity & liabilities	10,137	13,305	13,921	15,755
Capital employed	6,637	8,988	9,551	10,709

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	987	881	921	1,029
Depreciation	142	221	280	306
Change in working capital	(1,220)	(635)	(623)	(717)
Total tax paid	(318)	(150)	(274)	(307)
Other operating activities	(35)	(25)	0	0
Cash flow from oper. (a)	(443)	292	305	312
Capital expenditure	(654)	(1,394)	(619)	(600)
Change in investments	(14)	(14)	0	0
Others	(157)	(14)	(11)	0
Cash flow from inv. (b)	(825)	(1,422)	(630)	(600)
Free cash flow (a+b)	(1,268)	(1,130)	(325)	(288)
Equity raised/(repaid)	14	0	0	0
Debt raised/(repaid)	1,256	1,828	79	600
Dividend (incl. tax)	(54)	(163)	(163)	(164)
Cash flow from fin. (c)	1,216	1,665	(84)	436
Net change in cash (a+b+c)	(52)	535	(409)	148

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	7.2	6.2	6.6	7.4
Growth	17.2	(14.5)	7.0	11.6
Book NAV/share (Rs)	25.4	29.5	34.3	40.0
Dividend/share (Rs)	1.5	1.5	1.5	1.5
Dividend payout ratio	24.2	28.4	26.6	23.9
Tax	31.9	34.8	33.3	33.3
EBITDA margin	15.8	15.6	15.6	15.1
EBIT margin	15.3	14.3	14.0	13.4
RoCE	21.9	17.5	16.4	16.5
Net debt/Equity	170.4	194.0	181.9	168.5

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	12.5	14.6	13.6	12.2
PCE	10.3	10.5	9.4	8.4
Price/Book	3.6	3.1	2.6	2.3
Yield (%)	1.7	1.7	1.7	1.7
EV/Net sales	1.7	1.4	1.3	1.1
EV/EBITDA	10.5	9.2	8.0	7.3

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	8.1	6.0	5.6	5.5
Asset turnover	0.9	0.8	0.8	0.8
Leverage factor	4.2	4.6	4.6	4.3
Return on equity (%)	31.8	22.6	20.8	19.9

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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