

Not RatedPrice
Rs 993Target Price
N.A.Sensex
10,162**Stock Details**

Sector	Engineering
BSE Code	505700
NSE Code	ELECONENG
Bloomberg	ELCN@IN
Equity Capital	Rs61.3m
Face Value	Rs10
52 Week H/L	Rs1439/386
Market Cap	Rs 6540mn
Daily Avg Vol (no. of shares)	22763
Daily Average Turnover	479507 US \$

Shareholding Pattern (%)

(31st Mar.'06)

Promoters	45.59
FII/NRI	6.33
Institutions	4.66
Private Corp.	7.32
Public	36.10

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Elecon has seen a sea-change in profile of its Material Handling Equipment Division (MHE) with sales soaring from a mere Rs787.7m to Rs2259.6m – an improvement of 186.9%. The major orders were received from the power sector. We expect the momentum in this division to continue. We expect the Gears division to show a growth of 15% in future. The company has a total order book position of 6.25bn (Rs4.9bn in MHE and Rs1.35bn in gears). Based on our rough estimates, we expect the company to clock a turnover of Rs7250m and Rs8750m in FY07E and FY08E respectively. Based on this, PAT is estimated to be Rs507.3m and Rs682.5m for FY07E and FY08E respectively. EPS for FY07E and FY08E works out to Rs76.86 and Rs103.41 respectively. The company will be benefited by the increased investment in infrastructure and intensified capex programs of Indian corporates. Income from windmill will be a positive surprise. We expect the Govt approval in this regard to come in this year. Overall, we believe that the company is on a strong growth path. At Rs993, the scrip is available at 12.9XFY07E and 9.6XFY08E earnings.

QFY06 result: spectacular performance from MHE continues

1. Elecon Engineering has come out with excellent numbers for 4QFY06 with increase of 82.3% in net sales and 81.5% in PAT. On an annual basis the net sales and PAT posted a growth of 59.3% and 177.9% respectively.
2. The Material Handling Division is a clear beneficiary of increased activity in the power segment in India. The division which had posted a turnover of Rs787.7m to Rs2259.6m – a growth of 187%. The Gears division improved by 15% during FY06.
3. EBIDTA margin reduced from 17.2% in 4QFY05 to 13.3% in 4QFY06. EBIDTA in absolute terms has increased by 41% in 4QFY06. On an annual level, the EBIDTA margin has remained flat at 13.5% in FY06 while in absolute terms, it increased by 58%.
4. PBT for 4QFY06 has gone up by 42% while on an annual basis, it rose by 90%.
5. PAT for 4QFY06 was Rs109.6m – an improvement of 81.5%. PAT for the entire year was up by 177.9% to Rs278.9m.
6. EPS for 4QFY06 is Rs16.6 while it is Rs42.25 for FY06.

Outlook: Clear beneficiary of infrastructure and capex boom

The company's Material Handling Division has shown an excellent performance on the back of increased activity in the power sector. According to the management, nearly 15% of a power project cost is allocated towards Material Handling Equipments. The division also supplies equipments to other industries like steel, cement, fertilizers, coal, etc. The major competitors in the segment are TRF and McNally Bharat. The total order book for MHE division is Rs4.9bn.

The gears Division specialises in various kinds of gears like helical gears, spiral bevel gears, worm gears, planetary gears and supplies to industries like steel, marine, mining, sugar, fertilizers, etc. The major competitor for this division is Shanti Gears. The order book position for the division is Rs1.35bn. We expect sales for FY07E to increase to Rs7.25bn and Rs8.75bn for FY08E respectively. As per our rough estimates, PAT for FY07E and FY08E are likely to be Rs507m and Rs683m respectively.

We estimate EPS to be Rs76.9 and Rs103.4 for FY07E and FY08E.

The company is planning to supply windmills in collaboration with a company based in Belgium. The project is likely to be approved by the authorities some time in this year. We have not included income from this segment in our estimates but expect a revenue of Rs1.5b in full year of operation (50MW of power).

One concern from the investor community was the low base of volumes in the scrip. The company's recent decision to split the share with reduction of face value from Rs10 to Rs2 should address the concern to some extent.

At CMP of Rs993, the scrip is available at 12.9XFY07E and 9.6XFY08E earnings.

Financials :

(Rs m)	4QFY05	4QFY06	FY05	FY06
Net sales	1027.8	1873.7	2777.1	4424.8
<i>Growth (%)</i>		82.3		59.3
Material Handling Division	326.2	1186.8	787.7	2259.6
<i>Growth (%)</i>		263.8		186.9
Gears Division	720.0	783.6	2016.8	2318.6
<i>Growth (%)</i>		8.8		15.0
Inter segment sales	18.4	96.7	27.4	153.4
EBIDTA	177.0	249.9	378.8	596.5
<i>EBIDTA (%)</i>	17.2	13.3	13.6	13.5
Other income	11.6	12.5	30.6	82.9
Interest	23.6	34.7	92.6	139.8
Depreciation	22.2	24.7	82.3	94.3
PBT	142.8	203.1	234.5	445.3
Extra ord items	34.1	17.8	60.5	35.5
Tax	48.3	75.8	73.6	130.9
PAT	60.4	109.6	100.4	278.9
<i>Growth (%)</i>		81.5		177.9
Equity	56.5	66	56.5	66
Reserves			676.57	969.56
EPS (Rs)	10.68	16.60	17.76	42.25
CEPS (Rs)	14.6	20.3	32.3	56.5
PER (x)				23.5
Dividend (%)			25	100