

May 15, 2012

Rating	Previous Reco
Hold	Hold
CMP	Target Price
Rs54	Rs61
EPS Chg FY13E/FY14E (%)	-13/NA
Target Price change (%)	NA
Nifty	4,943
Sensex	16,328

Price Performance

(%)	1M	3M	6M	12M
Absolute	-8	-14	-16	-21
Rel. to Nifty	-3	-4	-14	-10

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	ELCN IB
Equity Capital (Rs mn)	186
Face Value(Rs)	2
No of shares o/s (mn)	93
52 Week H/L	89/ 50
Market Cap (Rs bn/USD mn)	5/ 93
Daily Avg Volume (No of sh)	112,058
Daily Avg Turnover (US\$mn)	0.1

Shareholding Pattern (%)

	Mar12	Dec11	Sep11
Promoters	46.0	46.0	45.8
FII/NRI	1.5	1.6	2.1
Institutions	13.6	13.5	13.4
Private Corp	8.7	9.1	9.0
Public	30.2	29.7	29.8

Source: Bloomberg

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- Meets expectations – (1) Revenue up 26% yoy to Rs4.4 bn (2) EBITDA margin down 360 bps 14.5% (4) EBITDA up 16% yoy (3) Adjusting for higher tax rate, APAT meets estimates
- MHE division surprised positively with 41% yoy revenue growth to Rs2.9 bn, EBIT margins at 13.3%. TE division revenue at Rs1.5 bn (-1%), EBIT mgn at 15.8% - below est.
- Order book increased to Rs15.2 bn (May'12) (1.2X revenues) on back of Rs5.5 bn orders secured in Apr-May'12 period. Cut FY13E earnings by 13%
- Retain negative bias amidst risks to earnings estimates – both macro and micro level. Maintain HOLD rating with price target of Rs61 per share

Meets estimates – EBITDA margins at 14.5%, PBT up 18% yoy

After 4 quarters of subdued revenue growth, Elecon saw posted strong revenue growth at 26% yoy to Rs4.4 bn, above estimates – led by robust execution in MHE business (+45% yoy). But, 130 bps yoy drop in EBITDA margins to 14.5% offset strong revenue growth. Drop in EBITDA margins was due to un-favourable revenue mix and sharp rise in input costs (up 360 bps yoy from 65.3% in Q4FY11 to 68.9% in Q4FY12). Consequently, EBITDA growth was lower at 16% yoy to Rs639 mn – in line with estimates. However, APAT growth was lower at 1% yoy – due to higher tax incidence (39% Vs 29% in Q4FY11). Adjusting for the higher tax charge, APAT was in line with estimates.

MHE surprises positively, TE division meets expectations

- After 10 quarters of muted performance, Material Handling Equipment (MHE) division surprised positively with strong 41% growth in revenues to Rs2.9 bn – above estimates. Strong growth in revenues was due to key project reaching revenue booking threshold and low base effect. Led by strong revenues, decline in EBIT margins was lower at 60 bps yoy to 13.3% - ahead estimates.
- Led by slowdown in demand momentum, Transmission Equipment (TE) division revenues declined marginally by 1% yoy to Rs1.5 bn – below estimates. EBIT margin declined 30 bps yoy to 15.8% - in line with estimates.

Secures orders worth Rs5.5 bn in Apr-May'12 period

After continuously declining for past 3 quarters, Elecon's order book increased to Rs15.2 bn (May'12) with order book cover at 1.2X revenues . This was on the back of strong orders worth Rs5.5 bn secured in Apr-May'12 period and after low order inflows in Jul-Dec'12 period – thus reducing risks to earnings estimates from reducing order book cover. Major orders secured include (1) NTPC Mauda STPP – Rs2.7 bn (2) NMDC Kumarswamy Iron ore project – Rs1.8 bn.

Financial Snapshot (Standalone)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY11A	11,772	1,882	16.0	670	7.2	34.0	18.6	7.5	5.1	1.3
FY12P	13,317	2,030	15.2	696	7.5	3.9	16.6	7.3	4.8	1.1
FY13E	12,982	1,938	14.9	667	7.2	-4.2	14.2	7.6	5.2	1.0
FY14E	14,174	2,111	14.9	748	8.1	12.1	14.4	6.8	4.6	0.9

Exhibit 1: Quarterly Table

Rs mn	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Revenue	3,501	2,573	3,368	3,000	4,420	26.2	47.3	13,361	11,806	13.2
Expenditure	2,949	2,123	2,872	2,520	3,781	28.2	50.0	11,297	9,982	13.2
Consumption of RM	2,285	1,594	2,186	1,963	3,045	33.2	55.1	8,788	7,876	11.6
as % of sales	65.3	62.0	64.9	65.4	68.9			65.8	66.7	
Employee Cost	144	149	185	189	207	43.8	9.5	731	564	29.6
as % of sales	4.1	5.8	5.5	6.3	4.7			5.5	4.8	
Other expenditure	519	380	501	368	528	1.8	43.7	1,778	1,541	15.3
as % of sales	14.8	14.8	14.9	12.3	12.0			13.3	13.1	
EBITDA	552	450	496	480	639	15.7	33.3	2,064	1,824	13.1
Depreciation	104	98	108	107	110	6.2	3.4	424	389	8.9
EBIT	448	351	387	373	529	17.9	41.8	1,640	1,435	14.3
Other Income	23	0	4	12	15	-36.3	24.9	30	30	0.2
Interest	139	133	143	146	150	8.3	2.8	572	467	22.4
PBT	333	218	248	238	393	18.2	64.9	1,098	998	10.0
Total Tax	97	69	93	86	154	59.2	79.1	402	325	23.9
Adjusted PAT	236	149	156	152	239	1.4	56.9	696	674	3.3
Extra ordinary items	0	0	0	0	0	NA	NA	0	0	NA
Reported PAT	236	149	156	152	239	1.4	56.9	696	879	-20.8
Adjusted EPS	2.5	1.6	1.7	1.6	2.6	1.4	56.9	7.5	7.3	3.3

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	15.8	17.5	14.7	16.0	14.5	-130	-150	15.4	15.5	360
EBIT	12.8	13.6	11.5	12.4	12.0	-80	-50	12.3	12.2	420
EBT	9.5	8.5	7.4	7.9	8.9	-60	90	8.2	8.5	340
PAT	6.7	5.8	4.6	5.1	5.4	-130	30	5.2	5.7	180
Effective Tax rate	29.1	31.8	37.3	36.1	39.2	1010	310	36.6	32.5	610

Source: Company, Emkay Research

Cut FY13E earning estimates by 13%

We cut our FY13E standalone earnings estimates by 17% to Rs6.8 per share to factor (1) Increased contribution of long-duration orders in the order book (2) slow-down in demand momentum in transmission equipment division. We have also reduced our order inflow assumptions to factor reduced orders from rising competitive intensity and a lower industry wide order pipeline in the power sector – cut order inflow estimates by 7% to Rs14.2 bn. We introduce FY14E standalone earnings at Rs8.1 per share.

Exhibit 2: Revision in Earning Estimates

Rs mn	FY13E		
	Earlier	Revised	% Change
Revenues	14,175	12,982	(8.4)
EBITDA	2,137	1,938	(9.3)
EBITDA Margin (%)	15.1	14.9	-10 bps
APAT	763	667	(12.6)
EPS (Rs)	8.2	7.2	(12.6)
Order Inflows	15,212	14,184	-6.8
Order Backlog	17,279	12,964	-25.0

Source: Emkay Research

Risks to earnings remain - Maintain Hold rating

We retain our negative bias on the stock amidst concerns on lower than earlier anticipated order-pipeline in the power industry alongside high competition – negatively impacting Elecon's ability to secure order inflows and improve revenue visibility. Further, risks to earnings remain from (1) concerns on profitability of incremental order inflows (2) profitable execution of current order backlog (3) planned corporate restructuring. We retain HOLD rating with price target of Rs61 per share.

Exhibit 3: Standalone segment results

Rs mn	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Segment Revenues										
Material Handling Equipment	1,998	1,424	1,922	1,644	2,955	47.9	79.7	7,945	6,746	17.8
Transmission Equipment	1,563	1,209	1,521	1,468	1,541	-1.4	5.0	5,739	5,246	9.4
Less: Intersegment Revenues	54	90	90	112	77	-	-	0	0	-
Total	3,507	2,543	3,354	3,000	4,420	26.0	47.3	13,317	11,782	13.0
Segment Results										
Material Handling Equipment	276	193	256	205	392	41.8	91.3	1,045	892	17.1
Transmission Equipment	253	184	209	219	244	-3.5	11.5	855	840	1.9
Total	529	377	465	423	636	20.2	50.1	1,901	1,732	9.7
Add- Unall Income / (Exp)	-64	-26	-77	-39	-92	45.0	136.7	-234	-272	-
Less- Interest Exp	130	133	143	146	150	15.7	2.8	572	458	24.8
PBT	336	218	244	238	393	17.2	64.9	1,094	1,001	9.3
Segment Capital Employed										
Material Handling Equipment	4,921	4,819	4,807	5,235	5,375	9.2	2.7	5,375	4,921	9.2
Transmission Equipment	4,704	4,858	5,143	4,867	4,249	-9.7	-12.7	4,249	4,704	-9.7
Unallocated	0	0	0	0	0			0	0	-
Total	9,626	9,677	9,949	10,102	9,624	(0.0)	(4.7)	9,624	9,626	0.0
Segment Margins (%)										
						(bps)	(bps)			(bps)
Material Handling Equipment	13.8	13.6	13.3	12.5	13.3	-60	80	13.2	13.2	-10
Transmission Equipment	16.2	15.2	13.8	14.9	15.8	-30	90	14.9	16.0	-110
Average	14.9	14.3	13.5	13.6	14.1	-70	50	13.9	14.4	-60

Source: Emkay Research, Company

Exhibit 4: Order Backlog Details

Rs mn	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)
Order Backlog							
Material Handling Equipment	10,590	12,280	11,700	10,820	9,130	-13.8	-15.6
Transmission Equipment	3,250	3,760	3,450	3,290	2,990	-8.0	-9.1
Total	13,840	16,040	15,150	14,110	12,120	-12.4	-14.1
Order Inflows							
Material Handling Equipment	3,780	3,114	1,342	764	1,265	-66.5	65.5
Transmission Equipment	1,563	1,719	1,211	1,308	1,241	-20.6	-5.1
Total	5,343	4,833	2,553	2,072	2,506	-53.1	20.9

Source: Company, Emkay Research

Key Financials (Standalone)

Income statement

Y/E Mar (Rsmn)	FY11A	FY12P	FY13E	FY14E
Net Sales	11,772	13,317	13,989	14,174
Growth (%)	12.5	13.1	5.0	1.3
Expenditure	10,007	11,287	11,191	12,063
Materials Consumed	7,434	8,802	8,555	9,341
Employee Cost	565	731	768	778
Other Exp	2,008	1,754	1,869	1,944
EBITDA	1,765	2,030	2,798	2,111
Growth (%)	18.0	15.0	37.8	-24.5
EBITDA margin (%)	15.0	15.2	20.0	14.9
Depreciation	384	424	456	488
EBIT	1,381	1,606	2,342	1,623
EBIT margin (%)	11.7	12.1	16.7	11.4
Other Income	75	72	56	56
Interest expenses	458	580	553	557
PBT	998	1,098	1,844	1,121
Tax	328	402	333	374
Effective tax rate (%)	33	37	18	33
Adjusted PAT	670	696	1,511	748
Growth (%)	34	4	117	-51
Net Margin (%)	6	5	11	5
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adjusted PAT After	670	696	1,511	748
E/O items	209	0	0	0
Reported PAT	879	696	1,511	748
PAT after MI	670	696	1,511	748
Growth (%)	34	4	117	-51

Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12P	FY13E	FY14E
PBT (Ex-Other income)	1,207	1,098	1,000	1,121
Depreciation	384	424	456	488
Interest Provided	458	580	553	557
Other Non-Cash items	-231	36	0	0
Chg in working cap	-756	69	-787	-214
Tax paid	-220	-402	-333	-374
Operating Cashflow	844	1,804	889	1,579
Capital expenditure	-444	-1,175	-500	-500
Free Cash Flow	399	629	389	1,079
Other income	0	0	0	0
Investments	-100	12	0	0
Investing Cashflow	-100	12	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	88	123	375	75
Interest Paid	-492	-580	-553	-557
Dividend paid (incl tax)	-160	-194	-194	-194
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-564	-650	-372	-676
Net chg in cash	-265	-8	17	403
Opening cash position	388	123	115	132
Closing cash position	123	115	132	535

Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12P	FY13E	FY14E
Equity share capital	186	186	186	186
Reserves & surplus	3,760	4,196	4,735	5,289
Net worth	3,946	4,382	4,921	5,475
Minority Interest	0	0	0	0
Secured Loans	2,437	2,653	2,728	2,803
Unsecured Loans	2,169	2,076	2,076	2,376
Loan Funds	4,606	4,729	4,804	5,179
Net deferred tax liability	411	447	447	447
Total Liabilities	8,962	9,558	10,172	11,100
Gross Block	5,597	6,597	7,097	7,597
Less: Depreciation	2,020	2,444	2,900	3,388
Net block	3,577	4,153	4,197	4,209
Capital work in progress	142	317	317	317
Investment	363	351	351	351
Current Assets	10,592	11,907	11,792	12,172
Inventories	3,144	2,882	3,060	3,101
Sundry debtors	5,476	7,283	6,907	6,843
Cash & bank balance	123	49	132	535
Loans & advances	586	1,055	1,055	1,055
Other current assets	1,262	638	638	638
Current lia & Prov	5,712	7,170	5,468	5,948
Current liabilities	5,445	6,906	5,204	5,685
Provisions	267	264	264	264
Net current assets	4,880	4,736	6,324	6,223
Misc. exp	0	0	0	0
Total Assets	8,962	9,558	11,190	11,100

Key Ratios

Y/E Mar	FY11A	FY12P	FY13E	FY14E
Profitability (%)				
EBITDA Margin	15.0	15.2	20.0	14.9
Net Margin	5.7	5.2	10.8	5.3
ROCE	16.3	18.1	24.3	15.8
ROE	18.7	16.7	32.5	14.4
RoIC	16.7	18.7	24.4	16.0
Per Share Data (Rs)				
EPS	9.5	7.5	16.3	8.1
CEPS	11.4	12.1	21.2	13.3
BVPS	42.5	47.2	53.0	59.0
DPS	0.0	0.0	0.0	0.0
Valuations (x)				
PER	7.4	7.2	3.3	6.7
P/CEPS	4.7	4.4	2.5	4.0
P/BV	1.3	1.1	1.0	0.9
EV / Sales	0.8	0.7	0.7	0.7
EV / EBITDA	5.4	4.8	3.5	4.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	1.1	1.1	0.9	0.8
Net Debt/EBIDTA	2.5	2.3	1.7	2.2
Working Cap Cycle (days)	147.5	128.5	161.6	146.5

Recommendation History: Elecon Engineering – ELCN IN

Date	Reports	Reco	CMP	Target
14/02/2012	Elecon Engineering Q3FY12 Result Update	Hold	64	61
23/01/2012	Engineering and Capital Goods Sector Update			
08/11/2011	Elecon Engineering Q2FY12 Result Update	Hold	69	61
04/08/2011	Elecon Engineering Q1FY12 Result Update	Buy	77	101

Recent Research Reports

Date	Reports	Reco	CMP	Target
14/05/2012	Larsen and Toubro Q4FY12 Result Update	Accumulate	1,159	1,603
14/05/2012	Thermax Q4FY12 Result Update	Hold	428	400
14/05/2012	Greaves Cotton Q4FY12 Result Update	Buy	79	90
08/05/2012	TRF Q4FY12 Result Update	Hold	284	282

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