

Q1 FY11 Result

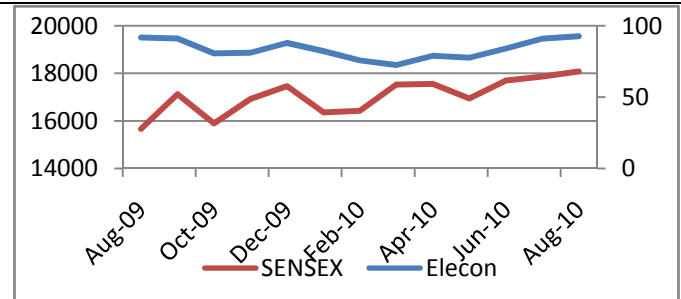
Elecon Engineering Ltd. (EEL)

Recommendation	BUY
CMP (13/07/2010)	Rs. 92
Sector	Engineering

Stock Details

BSE Code	505700
NSE Code	ELECON
Bloomberg Code	ELCN@IN
Market Cap (Rs. cr)	857
Free Float (%)	55
52- wk HI/Lo	110/70
Avg. volume BSE (Quarterly)	218119
Face Value	2.00
Dividend (FY 2010)	1.90%
Shares o/s (No.)	18.57

Relative Performance	1Mth	3Mth	1 Yr
Elecon	4.22%	17.28%	18.78%
Sensex	1.19%	6.71%	15.41%



Shareholding Pattern as of 3/03/2010

Promoters Holding	45.71
Institutional (Incl. FII)	16.32
Corporate Bodies	7.35
Public & others	30.64

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Sales in line with Expectation, PAT above expectation

- Revenues for Q1 FY11 grew by 16% YoY to Rs.246Cr against Rs. 212.29 Crs due to better execution of orders. Revenue from MHE & Gear Division increase by 16% and 11% respectively.
- EBIDTA Margin stood at 15% (v/s 16% in Q1FY10). Raw Material & Employee cost seen an increase of 17% and 34% respectively, where as other expenditure decline by 1%. EBIDTA Increase by 9% from Rs. 34.7 Crs to Rs. 37.9 Crs.
- PAT increase by 56% from Rs. 8.52 Crs to 13.34 Crs, mainly due to decline in Interest cost. Interest cost decline by 32% from 14.41 Crs in Q1FY10 to Rs. 9.84 Crs in Q1FY11.
- On Orders front, EEL reported healthy order inflow of Rs. 599 Crs V/s Rs. 192 Crs during the same period, an increase of 300%. Order backlog remain strong at Rs. 1582 Crs. (Incl Rs. 320 Crs of Bramhani Steel order which is currently on hold)

Valuation

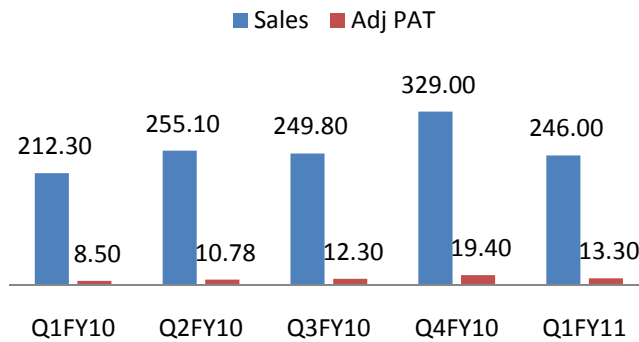
At the current market price of Rs.92, EEL is currently trading at a 9.62x FY11E & 8.74x FY12E, on expected EPS of Rs.9.56 & 10.5 respectively. Traditionally EEL has traded in a P/E of 12-14x and hence we believe it is looking quite attractive at current level. We maintain our BUY rating on stock with target price of Rs. 121 (based on FY11EPS of Rs. 8.6) considering attractive valuation, strong revenue visibility & Growing order book.

Year	Income Rs. in Cr	Growth %	Op. profit Rs. in Cr	Margin %	PAT Rs. in Cr	EPS Rs.	P/E	P/ABV	ROE %
FY09A	964.64	15.4%	158.64	16.4%	58.20	6.27	14.04	3.0	21.1%
FY10A	1054.31	9.3%	157.49	14.9%	66.18	7.13	16.27	2.5	20.3%
FY11E	1321.24	25.3%	213.20	16.1%	80.23	9.62	9.62	2.1	20.6%
FY 12E	1572.14	19%	253.35	16.1%	98.14	10.53	8.74	1.8	20.8%

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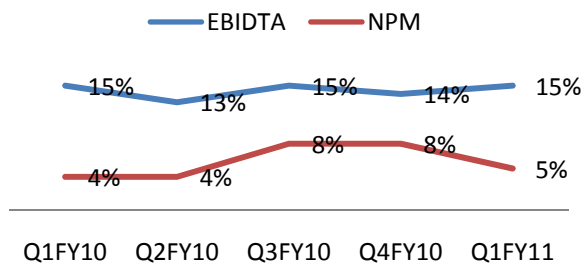
Elecon Engineering Ltd. (EEL)

Sales & Adj. PAT



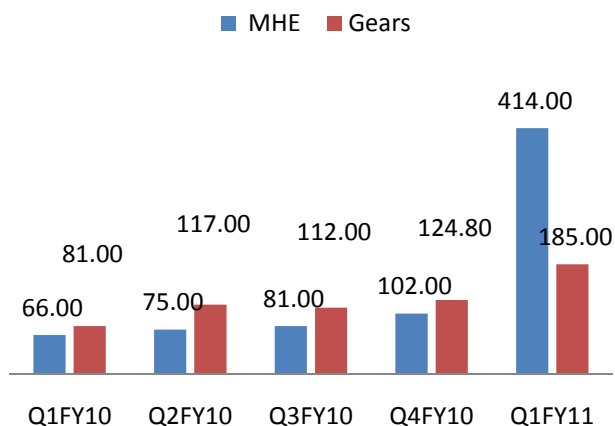
Revenue increased on account of better execution of orders. PAT Increase on account of decline in Interest cost.

EBIDTA & NPM



EBIDTA is hovering around 15% & NPM increased by 100 bps on account of decline in Interest cost

Orderinflow break up



During the current Quarter EEL reported highest ever order inflow in past 7-8 quarters. For Q1FY11, Order inflow has grown by 3 times.

Total Orders in pipeline is at Rs. 2500 Crs, which is expected to be finalized in next 1-2 Quarters.

Segmental Break Up

Segmental Revenue	Q1FY11	Q1FY10	YoY%	Q4FY10
MHE	149.8	129.1	16%	210.0
Transmission Equipment	101.0	90.7	11%	135.7
Total	250.8	219.8	14%	345.7
Less:- Inter segmental	4.8	7.5		16.7
Income from Operation	246.0	212.3	16%	329.0
Segmental EBIT				
MHE	19.2	15.8	21%	27.2
Transmission equipment	15.3	14.6	5%	21.5
Total	34.4	30.4	13%	48.7
Less:- Int.	9.8	14.4		11.7
Less:- Unallocated Exp	5.4	3.1		2.8
Total PBT	19.2	12.9	49%	34.1

- On Segmental basis MHE reported growth of 16% on YoY to Rs.. 149 Crs and Transmission division reported 11% growth. On EBIT MHE reported 21% growth on YoY basis.
- Transmission equipment reported an increase of 5%. Total PBT increase by 49% mainly on account of decline in interest cost.

Q1 FY11 Result
Elecon Engineering Ltd. (EEL)

Rs. In crore	Q1FY11	Q1FY10	YoY%	Q4FY10
Net Sales	246.0	212.3	16%	329.1
Other Operating Income	1.1	2.2		3.4
Total Income	247.2	214.5	15%	332.4
Total Expenditure	209.2	179.7	16%	285.4
(Inc)/dec in stock in trade	(5.8)	(7.8)		9.2
Consumption of Raw materials	175.0	150.2	17%	225.4
As a % of Sales	0.7	0.7		0.7
Employee Cost	12.0	8.9	34%	9.7
As a % of Sales	0.0	0.0		0.0
Other Exp	28.1	28.4	-1%	41.1
As a % of Sales	0.1	0.1		0.1
EBIDTA	37.9	34.8	9%	47.1
EBIDTA Margin (%)	0.2	0.2		0.1
Other Income	0.0	0.0		0.0
Depreciation	8.9	7.5	19%	9.5
EBIT	29.0	27.3	6%	37.5
Interest Cost	9.8	14.4	-32%	11.7
Exceptional Item	0.0	0.0		8.3
PBT	19.2	12.9	49%	34.1
Tax	5.8	4.4		7.0
Net Profit	13.3	8.5	56%	27.1
Extraordinary Item	0.0	0.0		8.3
Adj PAT	13.3	8.5	56%	18.8
Equity	18.6	18.6		18.6
Adj EPS	1.4	0.9		2.0

(Sources:- Nirmal Bang Research)

Profit & Loss Account

Particulars (Rs. Cr.)	FY 2008	FY 2009	FY 2010	FY 2011E	FY 2012E
Income from Operations	836.2	964.6	1,054.3	1,321.2	1,572.1
Total expenditure	696.9	806.0	895.2	1,094.8	1,318.8
EBITDA	139.3	158.6	157.5	226.4	253.3
EBITDA Margins	16.7%	16.4%	14.9%	17.1%	16.1%
Depreciation	14.2	22.1	33.1	33.9	36.4
EBIT	125.1	136.5	124.4	192.5	217.0
EBIT Margins	15.0%	14.1%	11.8%	14.6%	13.8%
Other income	0.0	0.7	0.9	1.0	1.0
Interest	27.4	48.4	50.9	60.9	69.9
PBT	97.7	88.8	74.4	132.6	148.1
Total Tax	31.5	30.6	24.1	43.7	50.4
PAT before Minority Interest	66.2	58.2	66.2	88.8	97.8
Minority Interest	-	-	-	-	-
PAT after Minority Interest	66.2	58.2	66.2	88.8	97.8
PAT Margins	7.9%	6.0%	6.3%	6.7%	6.2%
EPS	7.1	6.3	7.1	9.6	10.5

Source: Nirmal Bang Research

Balance Sheet

Particulars (Rs. Cr.)	FY 2008	FY 2009	FY 2010	FY 2011E	FY 2012E
Share capital	18.6	18.6	18.6	18.6	18.6
Reserves & surplus	218.2	256.8	307.5	380.0	461.5
Networth	236.7	275.4	326.1	398.6	480.1
Minority interests	0.0	0.0	0.0	0.0	0.0
Secured Loan	320.9	523.6	332.9	328.8	403.6
Unsecured Loans	88.4	68.5	188.7	310.2	288.0
Total Debt	409.3	592.1	521.6	639.0	691.6
Deferred tax Liability (Net)	17.1	32.8	40.3	52.2	62.5
TOTAL	663.1	900.3	887.9	1,089.8	1,234.3
Application of funds					
Gross block	300.6	427.7	509.4	534.4	584.4
less:accumulated Depn	123.4	144.8	165.1	199.0	235.4
Net book value	177.2	282.9	344.4	335.4	349.1
Capital WIP	15.9	28.1	15.9	15.0	15.0
Investments	9.5	10.9	5.7	10.9	10.9
Current assets, loans & advances					
Inventories	252.6	400.7	315.2	472.4	569.5
Sundry debtors	492.3	471.7	517.6	644.7	771.3
Cash & bank balance	7.5	61.1	38.8	34.1	40.0
Loans & advances	57.2	74.9	54.1	94.4	111.2
Total C.Assets	809.6	1,008.5	925.7	1,245.6	1,492.0
Less: Current Liab & provisions					
Current liabilities & Provisions	350.0	431.8	408.8	519.6	633.4
Net current assets	459.6	576.7	516.9	726.0	858.7
Misc Expenditure	1.0	1.7	2.6	2.5	2.7
TOTAL	663.1	900.3	885.4	1,089.8	1,236.3

Source: Nirmal Bang Research

Cash Flow

Particulars (Rs. Cr.)	FY 2008	FY 2009	FY 2010	FY 2011E	FY 2012E
Cash flows from operating activities					
Operating profit before changes in working capital	139.3	158.6	157.5	226.4	253.3
Adjusted for (increase) / decrease in WC	(111.7)	(63.5)	37.5	(213.8)	(126.8)
Other Adjustment	(16.5)	3.0	(15.0)	2.5	2.0
Net cash flow from operating activities	11.1	98.1	180.0	15.1	128.6
Cash flows from Investing activities					
Capex	(65.4)	(139.4)	(69.5)	(24.1)	(50.0)
Others	(1.4)	(1.4)	5.2	(5.2)	0.0
Net cash used in investing activities	(66.8)	(140.8)	(64.3)	(29.3)	(50.0)
Cash flows from financing activities					
Issue of shares	0.0	0.0	0.0	0.0	0.0
Proceeds from borrowing	125.6	182.8	(70.5)	117.4	52.7
Interest paid	(27.4)	(48.4)	(50.9)	(60.9)	(69.9)
Dividend paid	(16.3)	(16.3)	(16.3)	(16.3)	(16.3)
Reserve/Share Premium	(1.1)	(3.2)	0.8	0.0	0.0
Misc Expenses W/off	(0.5)	(0.7)	(1.0)	0.2	(0.2)
Other Income	0.0	0.7	0.9	1.0	1.0
Net Extraordinary Income	0.0	0.0	16.0	0.0	0.0
Tax Paid	(29.8)	(18.7)	(16.7)	(31.8)	(40.0)
Net cash from financing activities	50.4	96.3	(137.7)	9.6	(72.7)
Net increase / (decrease) in cash and cash equivalents	(5.3)	53.6	(21.9)	(4.7)	5.9
Cash and bank balances, beginning of the period	12.8	7.5	61.1	38.8	34.1
Cash and bank balances, end of the period	7.5	61.1	39.1	34.1	40.0
<i>Source: Nirmal Bang Research</i>					

Ratio Analysis

Particulars (Rs. Cr.)	FY 2008	FY 2009	FY 2010	FY 2011E	FY 2012E
Per Share Data					
EPS (Rs) (Basic)	7.1	6.3	7.1	9.6	10.5
CEPS (Rs)	8.7	8.7	10.7	13.2	14.4
Book Value (Rs)	25.5	29.7	35.1	42.9	51.7
Profitability Ratios (%)					
EBITDA Margin	16.7%	16.4%	14.9%	17.1%	16.1%
Net profit Margin	7.9%	6.0%	6.3%	6.7%	6.2%
ROE	28.0%	21.1%	20.3%	22.3%	20.4%
Valuation Matrix					
PE (x)	12.9	14.7	17.0	9.6	8.7
P/BV	3.6	3.1	2.6	2.1	1.8
EV/EBIDTA (x)	6.9	6.7	6.9	4.9	4.5
EV/Sales (x)	1.1	1.1	1.0	0.8	0.7
Mcap/Sales (x)	1.0	0.9	0.8	0.6	0.5
Leverage Ratio					
Debt/Equity Ratio	1.7	2.1	1.6	1.6	1.4
Interest Coverage Ratio	4.6	2.8	2.4	3.2	3.1

Source: Nirmal Bang Research

NOTE

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