

Elecon Engineering

Date: 8 Jan 2026

CMP: 505

Action: BUY

Industry/Sector	Target Price	Upside Potential	Investment Duration
Manufacturing – Heavy Engineering & Capital Goods	635	26%	12 Months

About Company:

- Elecon is India's largest industrial gear manufacturer with ~38–40% domestic market share & a **strong presence across steel, cement, power, mining & marine, supported by a fully backward-integrated manufacturing setup**. Its long-life gear products, high repeat business (70%), growing exports and a turnaround in the MHE (Material Handling Equipment's) segment position the company well for sustained and diversified growth.

Investment Rationale:

- **Balance sheet strength and capex flexibility:** Company maintains a debt-free balance sheet with net cash of ~INR 600 cr., providing ample financial flexibility to fund planned INR 400 cr. capex over FY26–FY28. The capex, part of which has already been capitalised in Q2 FY26, is being executed partly through operating leases, enabling capacity expansion while conserving cash & improving tax efficiency through fully deductible lease expenses.
- **Strong cash flow and earnings quality:** Cash flow generation continues to be healthy, with CFO/PAT consistently at ~100% over both 1 & 3-year periods and CFO/EBITDA in the 75–90% range. This reflects high-quality earnings, efficient working-capital management and strong internal accruals, reducing reliance on external funding.
- **Healthy order inflows and execution pipeline:** Operational momentum remained strong in Q2FY26, with order inflows rising 28% YoY to INR 6.9 bn, driven by robust growth in MHE (+84% YoY) and Gears (+15% YoY), largely from domestic Power, Steel and Cement sectors. The order backlog increased 27% YoY to INR 12.3 bn, providing strong revenue visibility, with export delays viewed as timing-related and H2FY26 expected to be stronger.
- **Promoter commitment and governance comfort:** Promoter shareholding has remained stable at ~59.28% for the past seven years, including as of 30 September 2025. This consistency reflects long-term promoter commitment and lends confidence to the company's strategic direction and governance standards.
- **Market leadership and defence opportunity:** Elecon is India's largest industrial gear manufacturer with a domestic market share of ~38–40%, supported by a backward-integrated manufacturing setup. Its strong technical capabilities are underscored by defence credentials, including supplies to INS Vikrant, with expected defence orders of INR 150–200 crore in FY26 and potential upside from the P-17 Bravo project in FY27, which could further strengthen long-term growth prospects.
- **Guidance intact with segmental margin outlook:** Management reiterated FY26 guidance of INR 2,650 cr. revenue & 24% EBITDA margin, supported by a healthy order book and improving throughput. Temporary margin pressure in the Gears segment is expected to normalize as volumes ramp up, while the MHE division continues to deliver strong double digit revenue growth and healthy EBIT margins driven by aftermarket demand.
- **Valuations and investment stance:** At current levels, stock trades at ~25x P/E and 16.5x EV/EBITDA, factoring in its clean balance sheet, strong order visibility and disciplined cash generation. However, near-term margin normalization and export execution remain key monitorable, leading us to maintain a BUY stance for medium-to long-term investors.

Potential Risks:

- **Macroeconomic and geopolitical risks:** Company's performance remains sensitive to global macroeconomic conditions and geopolitical developments. Past disruptions, including Middle East tensions and US Tariffs, led to deferred orders. While increasing export exposure will aid diversification, global demand weakness or supply-chain disruptions could impact growth execution.
- **Foreign currency risk:** Company is exposed to currency fluctuations due to transactions in USD, EUR and GBP.
- **Credit risk:** Credit risk could arise from the possibility of counterparty default on trade receivables and financial assets.
- **Commodity and raw material price risk:** Raw material costs are subject to price volatility and foreign exchange movements.

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