

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.

Disclaimer: This document has been prepared by Bajaj Capital Markets Limited, BCML (formerly known as Just Trade Securities Ltd, JTSL)

- This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument / security(ies) or as an official confirmation of any transaction. Further this document/report should not be construed as an investment advice. Readers should take independent advice from their Financial Advisor, before acting upon or taking any decision based on this document/report.
- The information contained herein is from publicly available data or other sources believed to be reliable. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for information purpose only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made out of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.
- Affiliates of BCML may have issued other documents/reports that are inconsistent with and reach to a different conclusion from the information presented in this document/report.
- This document/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject BCML and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.
- In no event shall BCML, any of its affiliates or any third party involved in, or related to, computing or compiling the information herein have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of BCML and/or its affiliates.
- This document/report is subject to changes without prior notice and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.
- BCML will not treat recipients as customers by virtue of their receiving this document/report.
- BCML, its directors, employees and/or its associates/affiliates or their employees may have interest and/or hold position(s), financial or otherwise in the securities mentioned in this document/report.