ADD Elecon Engineering

Mixed bag; FY27 guidance disappoints; downgrade to ADD

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Engineering & Capital Goods | Result Update | **July 14, 2026** | **CMP (Rs): 502 | TP (Rs): 550**

We assume coverage on Elecon Engineering Company (ELCN) and downgrade it to ADD from Buy. ELCN's 1QFY27 operational performance was broadly in line with our estimates, with revenue/EBITDA/PAT registering 12%/4%/1% yoy growth, respectively. However, despite the healthy revenue growth, ELCN delivered muted profitability growth, impacted by adverse revenue mix and input cost pressure in the quarter. The demand environment remains healthy, with ELCN reporting robust order inflow of Rs7.6bn (+23% yoy) leading to a strong order backlog of Rs15.2bn (+37% yoy). However, given the softness in project execution on account of the prevailing macro headwind, the management has provided low double-digit revenue growth guidance for FY27 despite its healthy order book position and stable margins yoy. To factor in the near-term softness in order backlog execution, we cut our FY27/28/29 estimates by 10%/9%/6%, respectively. We revise down our TP by 8.3% to Rs550 from Rs600, valuing the stock at 25x its FY28E EPS.

Management gives a moderate FY27 guidance, despite healthy order backlog

ELCN management provided low double-digit revenue growth guidance with stable operating margins. This is despite the healthy, all-time-high order backlog, which the company has developed, given near-term softness in project execution from the clients' end. ELCN, however, believes medium-term growth prospects in both segments are strong and targets reaching Rs50bn revenue by FY30.

Transmission Equipment – Healthy start to FY27

ELCN's Transmission Equipment division delivered strong performance, with revenue at Rs4.2bn (+16% yoy) and EBIT of Rs745mn (+15% yoy). Revenue growth was supported by improved execution and healthy demand across domestic and international markets, while EBIT margin declined by 30bps yoy to 17.9% on account of elevated input costs prevailing during the quarter. ELCN reported healthy order inflow growth of 19% yoy to Rs5.7bn, leading to a robust order backlog position of Rs10.4bn (+47% yoy) granting strong near-term revenue visibility. Given the strong order backlog and improved business enquiries across key end-markets, we expect the transmission equipment division to revert to the double-digit growth trajectory in FY27, after a muted FY25/26.

MHE – Project delays, cost pressure play spoilsport

The MHE division reported a marginal revenue decline of 1.5% YoY, at Rs1.1bn, with EBIT margin of 25.6% (vs 33.5% for 1QFY26). The margin decline was attributed to the adverse sale mix, increased input cost pressure, and low throughput during the quarter. The management indicated business enquiries remaining strong from the power, steel, and cement industries; this, along with the strong order backlog (Rs4.8bn), grants us confidence about this division's growth prospects scaling-up in FY28.

Target Price – 12M	Jun-27
Change in TP (%)	**(8.3)**
Current Reco.	ADD
Previous Reco.	BUY
Upside/(Downside) (%)	9.6

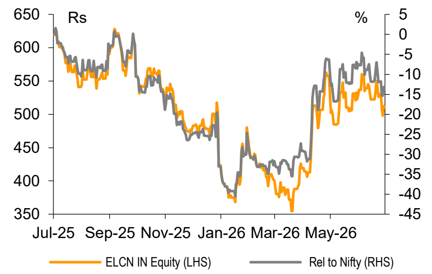
Stock Data	**ELCN IN**
52-week High (Rs)	638
52-week Low (Rs)	352
Shares outstanding (mn)	224.4
Market-cap (Rs bn)	113
Market-cap (USD mn)	1,178
Net-debt, FY27E (Rs mn)	(13,192.9)
ADTV-3M (mn shares)	0.9
ADTV-3M (Rs mn)	520.6
ADTV-3M (USD mn)	5.4
Free float (%)	40.7
Nifty-50	24,211.0
INR/USD	95.6

Shareholding,Jun-26	
Promoters (%)	59.3
FPIs/MFs (%)	7.0/7.2

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	(6.5)	21.0	(18.9)
Rel. to Nifty	(8.8)	19.2	(15.8)

1-Year share price trend (Rs)



Elecon Engineering: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	**FY25**	**FY26**	**FY27E**	**FY28E**	**FY29E**
Revenue	22,270	23,411	26,521	31,457	38,272
EBITDA	5,228	4,981	5,607	7,028	8,780
Adj. PAT	3,901	3,275	3,812	4,907	6,247
Adj. EPS (Rs)	17.4	14.6	17.0	21.9	27.8
EBITDA margin (%)	23.5	21.3	21.1	22.3	22.9
EBITDA growth (%)	10.2	(4.7)	12.6	25.4	24.9
Adj. EPS growth (%)	9.7	(16.1)	16.4	28.7	27.3
RoE (%)	21.7	15.2	15.5	17.4	19.1
RoIC (%)	33.0	24.1	26.2	33.2	38.6
P/E (x)	28.9	36.8	29.6	23.0	18.0
EV/EBITDA (x)	20.6	21.6	19.2	15.3	12.3
P/B (x)	5.6	4.9	4.3	3.7	3.2
FCFF yield (%)	3.4	2.0	3.7	2.8	3.7

Source: Company, Emkay Research

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View and valuation

To factor in the near-term softness in order backlog execution, we cut our FY27/28/29 estimates by 10%/9%/6%, respectively. We downgrade the stock to ADD from Buy, while revising down our TP by 8.3% to Rs550 from Rs600, valuing ELCN at 25x its FY28E EPS.

Concall highlights

FY27 guidance

- **Revenue growth:** The management has given guidance for a low double-digit consolidated revenue growth for FY27.
- **Margins:** The management aims to maintain EBITDA margins at the previous-year levels.
- Medium-term revenue guidance stands at Rs50bn by FY30.

Industrial Gears division

- **Revenue performance:** The division contributed nearly 80% of consolidated revenue, reaching Rs4.2bn – a 16.3% yoy growth.
- **Order Book:** The open order book stands at a robust Rs10.4bn, up 46.9% yoy.
- **Sector contributors:** The primary demand drivers were the power (27% of revenue), steel, and cement sectors.
- **Margins:** EBIT margin was 17.9%, slightly lower than the FY26 average of 18.8% due to raw material price hikes. However, the company targets a sustainable EBITDA margin of ~24% and EBIT margin of ~21-22%.
- **Product mix:** For the quarter, the mix comprised 54% catalog products and 46% engineered products.

MHE (Material Handling Equipment) division

- **Revenue moderation:** Revenue declined marginally by 2.9% to Rs1.1bn, primarily due to temporary project execution delays related to design engineering clearances in the power sector.
- **Strong order inflow:** Despite the revenue dip, order intake grew a significant 38.1% to Rs1.9bn.
- **Margins:** EBIT for the quarter was Rs270mn. The management cited a shift in sales mix, higher input costs, and lower output volume as reasons for the margin pressure.
- **Outlook:** Sustainable EBITDA margins for the MHE business are expected to be between 22% and 24% for the year.

Export business outlook

- **Growth momentum:** Overseas revenue reached Rs1.5bn, accounting for ~29% of consolidated revenue and growing 21.9% yoy.
- **Order intake:** Overseas order intake surged 63% yoy, Rs1.9bn.
- **Key geographies:** Growth was primarily driven by the Middle East and US. The European market is expected to take at least two more quarters to recover.
- **Operational strategy:** Elecon is focusing on setting up assembly centers outside India, to enhance customer proximity and service.

Capex details

- **Current program:** The company remains committed to its announced Rs4.0bn capital expenditure program over FY26-28 which is currently on track.
- **Strategic allocation:** The management is evaluating further capex to support its long-term goal of reaching **Rs50bn in revenue by FY30**.
- **Division focus:** By FY30, the company anticipates the Gear division (including marine) to contribute 70-75% of total revenue, with MHE making up the remaining 24-30%.

Exhibit 1: Consolidated quarterly results analysis – 1QFY27

Y/E Mar (Rs mn)	1QFY26	4QFY26	1QFY27	yoy (%)	qoq (%)	FY26A	FY27E	yoy (%)
Revenue	**4,656**	**7,456**	**5,206**	***11.8***	***(30.2)***	**23,411**	**26,521**	***13.3***
Material cost	2,329	4,285	2,838	*21.8*	*(33.8)*	13,031	15,011	*15.2*
as % of sales	*50.0*	*57.5*	*54.5*	*449bps*	*-295bps*	*55.7*	*56.6*	*94bps*
Employee Cost	593	656	618	*4.1*	*(5.9)*	2,413	2,703	*12.0*
as % of sales	*12.7*	*8.8*	*11.9*	*-87bps*	*306bps*	*10.3*	*10.2*	*-12bps*
Other expenditure	681	935	659	*(3.2)*	*(29.5)*	2,985	3,201	*7.2*
as % of sales	*14.6*	*12.5*	*12.7*	*-196bps*	*12bps*	*12.8*	*12.1*	*-68bps*
Total expenditure	**3,603**	**5,876**	**4,114**	***14.2***	***(30.0)***	**18,429**	**20,915**	***13.5***
EBITDA	**1,053**	**1,580**	**1,091**	***3.6***	***(30.9)***	**4,981**	**5,607**	***12.6***
Depreciation	245	272	298	*21.3*	*9.5*	1,042	1,126	*8.1*
EBIT	**808**	**1,308**	**794**	***(1.7)***	***(39.3)***	**3,939**	**4,480**	***13.7***
Other Income	264	176	219	*(17.1)*	*24.7*	712	876	*23.1*
Interest	62	63	81	*31.9*	*29.8*	249	274	*10.0*
PBT	**1,010**	**1,422**	**932**	***(7.8)***	***(34.5)***	**4,402**	**5,082**	***15.5***
Taxes	317	344	228	*(28.0)*	*(33.7)*	1,133	1,271	*12.1*
PAT	**694**	**1,078**	**704**	***1.4***	***(34.7)***	**3,268**	**3,812**	***16.6***
Share in Associates/JV	6	-	-			6	-	
Extra ord / Exceptional item	805	(1,018)	-			(213)	-	
Reported PAT	**1,504**	**60**	**704**	***(53.2)***	***1,072.5***	**3,062**	**3,812**	***24.5***
(%)								
Gross margins	50.0	42.5	45.5	*-449bps*	*295bps*	44.3	43.4	*-94bps*
EBITDAM	22.6	21.2	21.0	*-166bps*	*-23bps*	21.3	21.1	*-14bps*
EBITM	17.3	17.5	15.2	*-210bps*	*-230bps*	16.8	16.9	*7bps*
PBTM	21.7	19.1	17.9	*-381bps*	*-117bps*	18.8	19.2	*36bps*
PATM	32.3	0.8	13.5	*-1880bps*	*1271bps*	13.1	14.4	*129bps*
Effective Tax rate	31.4	24.2	24.5	*-687bps*	*29bps*	25.7	25.0	*-75bps*

Source: Company, Emkay Research

Exhibit 2: Analysis of Elecon's business segments

Segmental revenue								
Division-wise	**1QFY26**	**4QFY26**	**1QFY27**	**yoy (%)**	**qoq (%)**	**FY26A**	**FY27E**	**yoy (%)**
Gear division	3,573	4,719	4,156	*16.3*	*(11.9)*	16,994	19,203	*13.0*
MHE division	1,133	2,924	1,116	*(1.5)*	*(61.8)*	6,875	7,838	*14.0*
Less: Inter division	(50)	(187)	(67)			(458)	(519)	
Total	**4,656**	**7,456**	**5,206**	***11.8***	***(30.2)***	**23,411**	**26,521**	***13.3***
Geography-wise	**1QFY26**	**4QFY26**	**1QFY27**	**yoy (%)**	**qoq (%)**	**FY26A**	**FY27E**	**yoy (%)**
Domestic	3,670	6,100	3,700	*0.8*	*(39.3)*	18,295	19,871	*18.6*
Overseas	1,240	1,360	1,510	*21.8*	*11.0*	5,116	6,651	*30.0*
Total	**4,910**	**7,460**	**5,210**	***6.1***	***(30.2)***	**23,411**	**27,570**	***17.8***

Segment EBIT								
Y/E Mar (Rs mn)	**1QFY26**	**4QFY26**	**1QFY27**	**yoy (%)**	**qoq (%)**	**FY26A**	**FY27E**	**yoy (%)**
Gear division	650	911	745	*14.7*	*(18.2)*	3,190	3,937	*23.4*
MHE division	384	733	307	*(20.1)*	*(58.1)*	1,838	2,048	*-1.9*
Total	**1,034**	**1,644**	**1,052**	***(22.6)***	***(36.0)***	**5,029**	**6,196**	***14.1***

Source: Company, Emkay Research

Exhibit 3: Analysis of Elecon's order book

Order inflow (Rs mn)	1QFY26	4QFY26	1QFY27	yoy (%)	qoq (%)	FY26A	FY27E	yoy (%)
Gear division	4,800	5,500	5,700	*18.8*	*3.6*	19,910	22,897	*15.0*
Growth yoy (%)	*21%*	*11%*	*19%*					
MHE division	1,340	1,070	1,850	*38.1*	*72.9*	6,690	8,697	*30.0*
Growth yoy (%)	*-10%*	*-28%*	*38%*					
Total	**6,140**	**6,570**	**7,550**	***23.0***	***14.9***	**26,600**	**31,594**	***18.8***
Share in order inflow								
Gear division	78%	84%	75%			75%	72%	
MHE division	22%	16%	25%			25%	28%	
Order backlog								
Order backlog (Rs mn)	**1QFY26**	**4QFY26**	**1QFY27**	**yoy (%)**	**qoq (%)**	**FY26A**	**FY27E**	**yoy (%)**
Gear division	7,100	8,940	10,430	*46.9*	*16.7*	8,940	12,634	*41.3*
MHE division	4,000	3,980	4,750	*18.8*	*19.3*	3,980	4,840	*(5.3)*
Total	**11,100**	**12,920**	**15,180**	***36.8***	***17.5***	**12,920**	**17,473**	***35.2***
Backlog mix								
Gear division	64%	69%	69%			69%	72%	
MHE division	36%	31%	31%			31%	28%	

Source: Company, Emkay Research

Exhibit 4: Change in earnings estimate

Earnings change	OLD			NEW			Change		
(Rs mn)	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**
Revenue	27,575	33,150	39,882	26,521	31,457	38,272	-4%	-5%	-4%
EBITDA	6,155	7,593	9,247	5,607	7,028	8,780	-9%	-7%	-5%
EBITDA margin	22.3%	22.9%	23.2%	21.1%	22.3%	22.9%	-118 bps	-56 bps	-25 bps
Reported PAT	4,258	5,369	6,623	3,812	4,907	6,247	-10%	-9%	-6%
Adj PAT	4,258	5,369	6,623	3,812	4,907	6,247	-10%	-9%	-6%

Source: Company, Emkay Research

Elecon Engineering: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	**22,270**	**23,411**	**26,521**	**31,457**	**38,272**
Revenue growth (%)	14.9	5.1	13.3	18.6	21.7
EBITDA	**5,228**	**4,981**	**5,607**	**7,028**	**8,780**
EBITDA growth (%)	10.2	(4.7)	12.6	25.4	24.9
Depreciation & Amortization	608	1,042	1,126	1,259	1,392
EBIT	**4,621**	**3,939**	**4,480**	**5,769**	**7,387**
EBIT growth (%)	9.1	(14.8)	13.7	28.8	28.0
Other operating income	0	0	0	0	0
Other income	548	712	876	1,075	1,273
Financial expense	130	249	274	301	332
PBT	**5,038**	**4,402**	**5,082**	**6,543**	**8,329**
Extraordinary items	0	(213)	0	0	0
Taxes	1,219	1,133	1,271	1,636	2,082
Minority interest	-	-	-	-	-
Income from JV/Associates	81	6	0	0	0
Reported PAT	**3,901**	**3,062**	**3,812**	**4,907**	**6,247**
PAT growth (%)	9.7	(21.5)	24.5	28.7	27.3
Adjusted PAT	**3,901**	**3,275**	**3,812**	**4,907**	**6,247**
Diluted EPS (Rs)	**17.4**	**14.6**	**17.0**	**21.9**	**27.8**
Diluted EPS growth (%)	9.7	(16.1)	16.4	28.7	27.3
DPS (Rs)	**1.5**	**2.0**	**3.0**	**4.0**	**5.0**
Dividend payout (%)	**8.6**	**14.7**	**17.7**	**18.3**	**18.0**
EBITDA margin (%)	23.5	21.3	21.1	22.3	22.9
EBIT margin (%)	20.7	16.8	16.9	18.3	19.3
Effective tax rate (%)	24.2	25.7	25.0	25.0	25.0
NOPLAT (pre-IndAS)	**3,503**	**2,925**	**3,360**	**4,327**	**5,540**
Shares outstanding (mn)	224	224	224	224	224

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	224	224	224	224	224
Reserves & Surplus	19,763	22,834	25,973	29,982	35,107
Net worth	**19,987**	**23,059**	**26,197**	**30,207**	**35,331**
Minority interests	-	-	-	-	-
Non current liabilities & prov.	2,009	3,147	2,897	2,647	2,397
Total debt	**33**	**0**	**0**	**0**	**0**
Total liabilities & equity	**22,029**	**26,205**	**29,094**	**32,853**	**37,728**
Net tangible fixed assets	5,548	5,829	5,888	5,926	5,942
Net intangible assets	-	-	-	-	-
Net ROU assets	2,088	2,946	2,961	2,864	2,655
Capital WIP	67	231	231	231	231
Goodwill	1,018	0	0	0	0
Investments [JV/Associates]	955	249	249	249	249
Cash & equivalents	**7,837**	**9,554**	**13,193**	**15,890**	**19,498**
Current assets (ex-cash)	9,546	13,255	13,072	15,168	18,010
Current Liab. & Prov.	5,266	6,132	6,823	7,847	9,280
NWC (ex-cash)	**4,280**	**7,124**	**6,249**	**7,321**	**8,730**
Total assets	**22,029**	**26,205**	**29,094**	**32,853**	**37,728**
Net debt	(7,804)	(9,554)	(13,193)	(15,890)	(19,498)
Capital employed	20,020	23,059	26,197	30,207	35,331
Invested capital	**11,082**	**13,225**	**12,459**	**13,618**	**15,094**
BVPS (Rs)	89.1	102.8	116.7	134.6	157.4
Net Debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Net Debt/EBITDA (x)	(1.5)	(1.9)	(2.4)	(2.3)	(2.2)
Interest coverage (x)	39.6	18.7	19.5	22.7	26.1
RoCE (%)	**28.7**	**21.6**	**21.7**	**24.3**	**26.4**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
PBT (ex-other income)	5,370	4,545	5,082	6,543	8,329
Others (non-cash items)	(301)	(418)	(876)	(1,075)	(1,273)
Taxes paid	(1,268)	(1,108)	(1,271)	(1,636)	(2,082)
Change in NWC	(216)	(1,168)	874	(1,072)	(1,409)
Operating cash flow	**4,323**	**3,142**	**5,210**	**4,321**	**5,288**
Capital expenditure	(640)	(965)	(1,250)	(1,250)	(1,250)
Acquisition of business	0	0	0	0	0
Interest & dividend income	314	497	876	1,075	1,273
Investing cash flow	**(3,158)**	**(2,196)**	**(874)**	**(675)**	**(477)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	33	(33)	0	0	0
Payment of lease liabilities	(240)	(702)	(250)	(250)	(250)
Interest paid	(130)	(35)	(274)	(301)	(332)
Dividend paid (incl tax)	(337)	(449)	(673)	(898)	(1,122)
Others	0	0	0	0	0
Financing cash flow	**(674)**	**(1,218)**	**(1,197)**	**(1,449)**	**(1,704)**
Net chg in Cash	492	(272)	3,139	2,197	3,108
OCF	4,323	3,142	5,210	4,321	5,288
Adj. OCF (w/o NWC chg.)	4,539	4,310	4,336	5,393	6,697
FCFF	3,683	2,177	3,960	3,071	4,038
FCFE	3,866	2,424	4,562	3,845	4,980
OCF/EBITDA (%)	82.7	63.1	92.9	61.5	60.2
FCFE/PAT (%)	99.1	79.2	119.7	78.4	79.7
FCFF/NOPLAT (%)	**105.1**	**74.4**	**117.9**	**71.0**	**72.9**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	28.9	36.8	29.6	23.0	18.0
P/CE(x)	25.0	26.1	22.8	18.3	14.7
P/B (x)	5.6	4.9	4.3	3.7	3.2
EV/Sales (x)	4.8	4.6	4.1	3.4	2.8
EV/EBITDA (x)	20.6	21.6	19.2	15.3	12.3
EV/EBIT(x)	23.3	27.4	24.1	18.7	14.6
EV/IC (x)	9.7	8.2	8.7	7.9	7.1
FCFF yield (%)	3.4	2.0	3.7	2.8	3.7
FCFE yield (%)	3.4	2.2	4.0	3.4	4.4
Dividend yield (%)	0.3	0.4	0.6	0.8	1.0
DuPont-RoE split					
Net profit margin (%)	17.5	14.0	14.4	15.6	16.3
Total asset turnover (x)	1.2	1.1	1.1	1.1	1.2
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**21.7**	**15.2**	**15.5**	**17.4**	**19.1**
DuPont-RoIC					
NOPLAT margin (%)	15.7	12.5	12.7	13.8	14.5
IC turnover (x)	2.1	1.9	2.1	2.4	2.7
RoIC (%)	**33.0**	**24.1**	**26.2**	**33.2**	**38.6**
Operating metrics					
Core NWC days	70.1	111.1	86.0	84.9	83.3
Total NWC days	**70.1**	**111.1**	**86.0**	**84.9**	**83.3**
Fixed asset turnover	3.4	3.6	4.3	5.0	6.0
Opex-to-revenue (%)	29.3	30.7	29.9	29.7	30.1

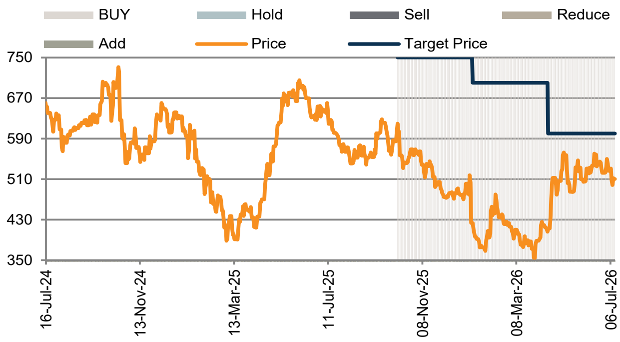
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
10-Jun-26	523	600	Buy	Ashwani Sharma
17-Apr-26	413	600	Buy	Ashwani Sharma
11-Jan-26	424	700	Buy	Ashwani Sharma
14-Oct-25	531	750	Buy	Ashwani Sharma
07-Oct-25	620	750	Buy	Ashwani Sharma

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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