BUY

Elecon Engineering

Strong order momentum offsets mixed Q2 performance

Your success is our success

Engineering & Capital Goods | Result Update | **October 14, 2025** | **CMP (Rs): 552 | TP (Rs): 750**

We maintain BUY on Elecon Engineering Company (EECL), with TP of Rs750. EECL reported a mixed set of results for Q2FY26, with consolidated revenue/EBITDA/PAT growing 14%/12%/flat YoY. EBITDA margin was lower by 37bps YoY, on account of unfavorable mix in the gear business. The flat PAT growth was owing to increase in depreciation on new capacity commissioning and higher tax rate. On a positive note, order inflow jumped up 28% YoY to Rs6.9bn, taking the order backlog to Rs12.3bn, up 27% YoY. The management indicated a strong enquiry pipeline across the business and exuded confidence in achieving Rs26.5bn revenue for FY26 as against 1HFY26 reported revenue of Rs11bn. Besides the strong domestic demand, we expect exports to see a meaningful recovery on the back of increased focus on key geographies, such as Europe, Middle East, Americas, Nordic countries, and Russia. We estimate revenue and PAT CAGR at 21% and 24%, respectively, over FY25-28.

Q2FY26 results, a mixed bag

The company saw an overall mixed set of results, with revenue coming in line with and EBITDA margin lower than estimates. Revenue was up 14% YoY at Rs5.8bn, led by Gear business growth of 11% YoY, and a strong 32% YoY growth in MHE. EBITDA margin declined by 37bps YoY to 21.7%, mainly due to weakness in the Gear business on account of an unfavorable mix and higher staff cost due to commissioning of new capacity. However, MHE margins expanded by 137bps YoY which partially restricted the impact. We expect margin on full-year basis to log at around 25%.

Order inflow going strong

EECL witnessed 28% YoY growth in order inflow at Rs6.9bn, mainly led by MHE up 84% YoY and Gear business up 15% YoY. The growth has mainly come from domestic markets – from key segments like Power, Steel, and Cement. The strong order book resulted in 27% YoY jump in the order backlog at Rs12.3 bn.

Middle East geopolitical issues impact exports

Q2FY26 exports were flat at Rs1.2bn (21% of sales as against 24% in Q2FY25). The management highlighted that geopolitical tensions in the Middle East impacted exports, which are likely to see a recovery in Q3 given the strong enquiry pipeline. We believe EECL's geographical diversification mitigates risks associated with the cyclical nature of the domestic market. It targets increasing exports' contribution to 50% by FY30.

View and valuation

EECL's leadership in gears, strong export momentum, and robust recovery in the MHE segment position it to be a key beneficiary of India's industrial and infrastructure cycle as well as global opportunities. At the CMP, the stock trades at ~18.4 P/E of Sep-27E EPS, which appears attractive.

Elecon Engineering: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	19,374	22,270	26,584	32,559	39,925
EBITDA	4,745	5,176	6,848	8,475	10,430
Adj. PAT	3,556	3,901	4,855	6,016	7,457
Adj. EPS (Rs)	15.8	17.4	21.6	26.8	33.2
EBITDA margin (%)	24.5	23.2	25.8	26.0	26.1
EBITDA growth (%)	40.0	9.1	32.3	23.8	23.1
Adj. EPS growth (%)	(25.1)	9.7	24.5	23.9	24.0
RoE (%)	24.7	21.7	22.0	22.5	23.0
RoIC (%)	32.2	32.6	37.9	41.7	45.5
P/E (x)	34.8	31.8	25.5	20.6	16.6
EV/EBITDA (x)	27.5	25.2	19.0	15.4	12.5
P/B (x)	7.7	6.2	5.1	4.2	3.5
FCFF yield (%)	2.6	2.8	2.0	2.8	3.7

Source: Company, Emkay Research

Target Price – 12M	Sep-26
Change in TP (%)	**-**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	35.9

Stock Data	**ELCN IN**
52-week High (Rs)	739
52-week Low (Rs)	348
Shares outstanding (mn)	224.4
Market-cap (Rs bn)	124
Market-cap (USD mn)	1,397
Net-debt, FY26E (Rs mn)	(9,901.5)
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	387.8
ADTV-3M (USD mn)	4.4
Free float (%)	40.7
Nifty-50	25,227.3
INR/USD	88.7

Shareholding,Sep-25	
Promoters (%)	59.3
FPIs/MFs (%)	8.3/4.1

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	(8.1)	(10.9)	(20.0)
Rel. to Nifty	(8.5)	(11.1)	(20.8)

1-Year share price trend (Rs)

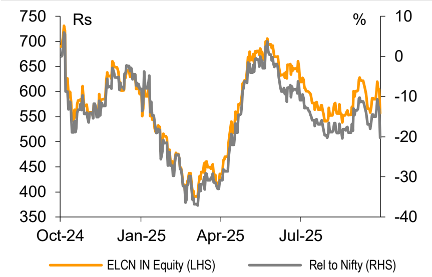

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Exhibit 1: Consolidated Quarterly Result Analysis – Q2FY26

Y/E Mar (Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)	H1FY25	H1FY26	QoQ (%)
Revenue	**3,924**	**5,081**	**5,289**	**7,976**	**4,656**	**5,781**	**13.8**	**24.2**	**9,005**	**10,437**	**15.9**
Material cost	1,969	2,785	2,680	4,440	2,329	3,287	18.0	41.1	4,754	5,616	18.1
as % of sales	50.2	54.8	50.7	55.7	50.0	56.9	204bps	682bps	52.8	53.8	101bps
Employee Cost	470	463	479	673	593	577	24.5	(2.7)	934	1,170	25.3
as % of sales	12.0	9.1	9.0	8.4	12.7	10.0	86bps	-276bps	10.4	11.2	84bps
Other expenditure	560	710	705	910	681	661	(6.9)	(2.9)	1,270	1,342	5.6
as % of sales	14.3	14.0	13.3	11.4	14.6	11.4	-254bps	-318bps	14.1	12.9	-125bps
Total expenditure	**3,000**	**3,958**	**3,863**	**6,022**	**3,603**	**4,525**	**14.3**	**25.6**	**6,958**	**8,128**	**16.8**
EBITDA	**924**	**1,123**	**1,426**	**1,953**	**1,053**	**1,256**	**11.9**	**19.3**	**2,047**	**2,309**	**12.8**
Depreciation	128	131	155	193	245	253	92.5	3.0	260	498	91.9
EBIT	**796**	**992**	**1,270**	**1,761**	**808**	**1,004**	**1.2**	**24.3**	**1,787**	**1,811**	**1.3**
Other Income	144	114	156	186	264	183	60.8	(30.7)	258	448	73.3
Interest	23	22	35	51	62	57	159.8	(7.5)	45	118	164.3
PBT	**917**	**1,084**	**1,392**	**1,896**	**1,010**	**1,130**	**4.3**	**11.8**	**2,001**	**2,140**	**7.0**
Taxes	208	228	327	456	317	253	10.7	(20.2)	436	570	30.6
PAT	**709**	**855**	**1,065**	**1,440**	**694**	**877**	**2.5**	**26.5**	**1,565**	**1,571**	**0.4**
Share in Associates/JV	25	22	10	25	6	-			46	6	
Extra ord / Exceptional item	-	-	-	-	805	-			-	805	
Reported PAT	**734**	**877**	**1,075**	**1,465**	**1,504**	**877**	**0.0**	**(41.7)**	**1,611**	**2,382**	**47.9**
(%)											
Gross margin	49.8	45.2	49.3	44.3	50.0	43.1	-204bps	-682bps	47.2	46.2	-101bps
EBITDAM	23.5	22.1	27.0	24.5	22.6	21.7	-37bps	-89bps	22.7	22.1	-60bps
EBITM	20.3	19.5	24.0	22.1	17.3	17.4	-216bps	1bps	19.8	17.4	-249bps
PBTM	23.4	21.3	26.3	23.8	21.7	19.5	-178bps	-216bps	22.2	20.5	-171bps
PATM	18.1	16.8	20.1	18.1	14.9	15.2	-166bps	28bps	17.4	15.1	-232bps
Effective Tax rate	22.7	21.1	23.5	24.0	31.4	22.4	131bps	-899bps	21.8	26.6	481bps

Source: Company, Emkay Research

Exhibit 2: Segmental Analysis of Elecon's business segments

Y/E Mar (Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)	H1FY25	H1FY26	YoY (%)
Segmental Revenue											
Gear Division	3,366	3,978	4,171	5,975	3,573	4,411	10.9	23.5	7,343	7,983	8.7
MHE Division	583	1,104	1,118	2,131	1,133	1,460	32.3	28.8	1,686	2,594	53.8
Less: Inter division	(25)	-	-	(130)	(50)	(90)			(25)	(140)	
Total	**3,924**	**5,081**	**5,289**	**7,976**	**4,656**	**5,781**	**13.8**	**24.2**	**9,005**	**10,437**	**15.9**
Order Inflows											
Gear Division	3,960	4,320	4,690	4,970	4,800	4,970	15.0	3.5	8,280	9,770	18.0
MHE Division	1,490	1,040	1,850	1,480	1,340	1,910	83.7	42.5	2,530	3,250	28.5
Total	**5,450**	**5,360**	**6,540**	**6,450**	**6,140**	**6,880**	**28.4**	**12.1**	**10,810**	**13,020**	**20.4**
Share in order inflow											
Gear Division	73%	81%	72%	77%	78%	72%			77%	75%	
MHE Division	27%	19%	28%	23%	22%	28%			23%	25%	
Order Backlog											
Gear Division	5,980	6,270	6,840	5,830	7,100	7,710	23.0	8.6	12,250	14,810	20.9
MHE Division	3,490	3,390	4,210	3,650	4,000	4,550	34.2	13.8	6,880	8,550	24.3
Total	**9,470**	**9,660**	**11,050**	**9,480**	**11,100**	**12,260**	**26.9**	**10.5**	**19,130**	**23,360**	**22.1**
Backlog Mix											
Gear Division	63%	65%	62%	61%	64%	63%			64%	63%	
MHE Division	37%	35%	38%	39%	36%	37%			36%	37%	

Source: Company, Emkay Research

Concall KTAs

- **Guidance:** The management reiterated its FY26 guidance of Rs26.5bn revenue and EBITDA margin of ~24%. It expressed confidence in meeting targets due to the strong pending order backlog and healthy inquiry levels.
- **Gear division:** EBIT margin was impacted by increase in employee costs and change in the product mix, as well as accelerated depreciation on assets capitalized recently. EECL's Sep-end order backlog stands at Rs7.7bn, providing strong visibility for upcoming quarters. The gear division's product mix: Catalogue products – 54%; and Engineered products – 46%.
- **MHE division:** The management's strategic focus on product supply and capitalizing on growing opportunities in after-sales services in the MHE division has resulted in superior growth in revenue (up 32% YoY). The MHE division has an order book of Rs4.6bn, as of Q2FY26-end.
- **Domestic demand:** The management is seeing healthy demand in both, the domestic and overseas markets. In India, it is witnessing sustained investment activity in key sectors like steel, power, and cement; this is expected to drive growth. The company recently received a large order worth Rs800mn from the power sector.
- **International demand:** The overseas business, too, remains on a solid footing, with consistent traction and encouraging inquiry levels across various geographies, with the company focused on penetrating new territories such as South America, Europe, and parts of the Middle East and Asia.
- **OEMs:** The company has onboarded 18 OEMs so far (no new additions YTD). Clients are satisfied with trials; however, slower orders are expected due to the geopolitical climate. Orders are expected to range at Rs300-400mn from OEMS; margins will be stable despite competitive pressures.
- **Capex:** The company plans spending Rs4bn on capex over FY26-28, aligned with its strategic goals. The capex will be funded through a combination of internal accruals and operating leases. The capex is intended for capacity enhancement, equipment maintenance/replacement, and quality/productivity improvements.
- **Dividend:** The company also declared an interim dividend of Rs0.5/share.

Elecon Engineering: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**19,374**	**22,270**	**26,584**	**32,559**	**39,925**
Revenue growth (%)	26.7	14.9	19.4	22.5	22.6
EBITDA	**4,745**	**5,176**	**6,848**	**8,475**	**10,430**
EBITDA growth (%)	40.0	9.1	32.3	23.8	23.1
Depreciation & Amortization	509	608	979	1,179	1,379
EBIT	**4,236**	**4,568**	**5,868**	**7,296**	**9,051**
EBIT growth (%)	46.1	7.9	28.5	24.3	24.1
Other operating income	0	0	0	0	0
Other income	441	601	647	757	910
Financial expense	86	130	143	158	174
PBT	**4,590**	**5,038**	**6,372**	**7,895**	**9,787**
Extraordinary items	0	0	0	0	0
Taxes	1,098	1,219	1,517	1,879	2,330
Minority interest	-	-	-	-	-
Income from JV/Associates	64	81	0	0	0
Reported PAT	**3,556**	**3,901**	**4,855**	**6,016**	**7,457**
PAT growth (%)	49.7	9.7	24.5	23.9	24.0
Adjusted PAT	**3,556**	**3,901**	**4,855**	**6,016**	**7,457**
Diluted EPS (Rs)	**15.8**	**17.4**	**21.6**	**26.8**	**33.2**
Diluted EPS growth (%)	(25.1)	9.7	24.5	23.9	24.0
DPS (Rs)	**1.5**	**1.5**	**3.0**	**4.0**	**5.0**
Dividend payout (%)	**9.5**	**8.6**	**13.9**	**14.9**	**15.0**
EBITDA margin (%)	24.5	23.2	25.8	26.0	26.1
EBIT margin (%)	21.9	20.5	22.1	22.4	22.7
Effective tax rate (%)	23.9	24.2	23.8	23.8	23.8
NOPLAT (pre-IndAS)	**3,222**	**3,463**	**4,471**	**5,559**	**6,896**
Shares outstanding (mn)	224	224	224	224	224

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	224	224	224	224	224
Reserves & Surplus	15,816	19,763	23,944	29,062	35,398
Net worth	**16,040**	**19,987**	**24,169**	**29,287**	**35,622**
Minority interests	-	-	-	-	-
Non current liabilities & prov.	951	2,009	1,759	1,509	1,259
Total debt	**0**	**33**	**0**	**0**	**0**
Total liabilities & equity	**16,991**	**22,029**	**25,927**	**30,795**	**36,881**
Net tangible fixed assets	5,160	5,548	5,655	5,742	5,809
Net intangible assets	-	-	-	-	-
Net ROU assets	1,057	2,088	2,401	2,534	2,488
Capital WIP	9	67	67	67	67
Goodwill	1,018	1,018	1,018	1,018	1,018
Investments [JV/Associates]	880	955	1,055	1,155	1,255
Cash & equivalents	**4,868**	**7,837**	**9,901**	**12,870**	**16,915**
Current assets (ex-cash)	8,039	9,546	11,625	14,302	17,599
Current Liab. & Prov.	4,240	5,266	6,081	7,229	8,656
NWC (ex-cash)	**3,799**	**4,280**	**5,544**	**7,073**	**8,943**
Total assets	**16,991**	**22,029**	**25,927**	**30,795**	**36,881**
Net debt	(4,868)	(7,804)	(9,901)	(12,870)	(16,915)
Capital employed	16,040	20,020	24,169	29,287	35,622
Invested capital	**10,177**	**11,082**	**12,503**	**14,169**	**16,156**
BVPS (Rs)	71.5	89.1	107.7	130.5	158.7
Net Debt/Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)
Net Debt/EBITDA (x)	(1.0)	(1.5)	(1.4)	(1.5)	(1.6)
Interest coverage (x)	54.1	39.6	45.4	51.0	57.4
RoCE (%)	**32.3**	**28.7**	**29.5**	**30.1**	**30.7**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	4,654	5,370	6,372	7,895	9,787
Others (non-cash items)	(91)	(301)	(647)	(757)	(910)
Taxes paid	(1,076)	(1,268)	(1,517)	(1,879)	(2,330)
Change in NWC	(434)	(216)	(1,264)	(1,529)	(1,870)
Operating cash flow	**3,648**	**4,323**	**4,067**	**5,067**	**6,231**
Capital expenditure	(256)	(640)	(1,450)	(1,450)	(1,450)
Acquisition of business	0	0	0	0	0
Interest & dividend income	166	314	647	757	910
Investing cash flow	**(2,790)**	**(3,158)**	**(1,403)**	**(1,293)**	**(1,140)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	33	(33)	0	0
Payment of lease liabilities	(119)	(240)	(250)	(250)	(250)
Interest paid	(86)	(130)	(143)	(158)	(174)
Dividend paid (incl tax)	(337)	(337)	(673)	(898)	(1,122)
Others	(43)	0	0	0	0
Financing cash flow	**(585)**	**(674)**	**(1,100)**	**(1,305)**	**(1,546)**
Net chg in Cash	273	492	1,564	2,469	3,545
OCF	3,648	4,323	4,067	5,067	6,231
Adj. OCF (w/o NWC chg.)	4,082	4,539	5,331	6,596	8,101
FCFF	3,393	3,683	2,617	3,617	4,781
FCFE	3,473	3,866	3,120	4,216	5,517
OCF/EBITDA (%)	76.9	83.5	59.4	59.8	59.7
FCFE/PAT (%)	97.7	99.1	64.3	70.1	74.0
FCFF/NOPLAT (%)	**105.3**	**106.3**	**58.5**	**65.1**	**69.3**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	34.8	31.8	25.5	20.6	16.6
P/CE(x)	30.5	27.5	21.2	17.2	14.0
P/B (x)	7.7	6.2	5.1	4.2	3.5
EV/Sales (x)	6.7	5.9	4.9	4.0	3.3
EV/EBITDA (x)	27.5	25.2	19.0	15.4	12.5
EV/EBIT(x)	30.8	28.5	22.2	17.9	14.4
EV/IC (x)	12.8	11.8	10.4	9.2	8.1
FCFF yield (%)	2.6	2.8	2.0	2.8	3.7
FCFE yield (%)	2.8	3.1	2.5	3.4	4.5
Dividend yield (%)	0.3	0.3	0.5	0.7	0.9
DuPont-RoE split					
Net profit margin (%)	18.4	17.5	18.3	18.5	18.7
Total asset turnover (x)	1.3	1.2	1.2	1.3	1.3
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**24.7**	**21.7**	**22.0**	**22.5**	**23.0**
DuPont-RoIC					
NOPLAT margin (%)	16.6	15.6	16.8	17.1	17.3
IC turnover (x)	1.9	2.1	2.3	2.4	2.6
RoIC (%)	**32.2**	**32.6**	**37.9**	**41.7**	**45.5**
Operating metrics					
Core NWC days	71.6	70.1	76.1	79.3	81.8
Total NWC days	**71.6**	**70.1**	**76.1**	**79.3**	**81.8**
Fixed asset turnover	3.0	3.4	3.9	4.6	5.6
Opex-to-revenue (%)	31.0	29.4	27.2	27.0	26.9

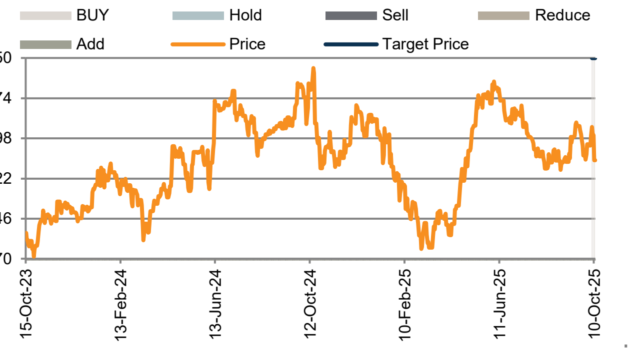
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
07-Oct-25	620	750	Buy	Ashwani Sharma

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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

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