KEYNOTE

# Elecon Engineering Company Ltd.

## FY26 guidance remained intact

15th October 2025

**Elecon Engineering Company Ltd. (EECL) saw revenue growth of ~14% on a YoY basis in Q2FY26. During the quarter, domestic market revenue increased by ~18% on a YoY basis due to strong demand from the power, steel, and cement sectors, accounting for ~79% of total revenue. However, the international business, which accounts for ~21% of total revenue, was flat on a YoY basis. The gear division, which accounted for ~76% of total revenue, grew by ~9% on a YoY basis. The growth was on the softer side due to delayed executions amid geopolitical challenges. However, the MHE business, which accounts for ~24% of total revenue, grew by 33% on a YoY basis. The EBITDA margin was 22% in Q2 FY26 compared to 23% in Q2 FY25. The decline in margin is attributed to an increase in employee costs and a change in product mix. PAT remained flat on a YoY basis. During the quarter, the order book and order intake grew by ~27% and ~28% on a YoY basis. The domestic business continued to see strong growth, while the current geopolitical situation in the Middle East market has impacted the international business.**

### FY26 guidance remained intact

Despite a weaker first half, the management remains confident of achieving its full-year targets of Rs 26,500 Mn in revenue with an EBITDA margin of 24%. The company expects EBITDA margins to improve from 22% in H1 FY26 to 24% for the full year, supported by stronger execution in the second half. This recovery is expected to be driven by improved execution in the gear segment and growth in the export business. Margin expansion is expected to be supported by a favorable product mix, while operating leverage is likely to play out as recently commissioned capacity ramps up and the order book converts to revenue at a faster pace.

### Strong order book and order intake

EECL saw a robust growth in the order book at Rs 12,260 Mn, growing by 27% on a YoY basis. This growth is mainly driven by orders from the power, cement, and steel sectors of the domestic market. International sales remained flat in Q2FY26 on a YoY basis due to weak execution amid geopolitical challenges, however, enquiry levels remain healthy. The order book of the gears segment grew by 23% on a YoY basis, mainly driven by domestic capex in the power, cement, steel, and sugar sectors. The order book of the MHE segment grew by 34% on a YoY basis, mainly driven by the power, steel, and ports sectors.

### Defence is emerging as a new business that can drive growth

EECL's defence business is moving from prototypes to firm execution. The Company expects an Rs 2,000 Mn naval gearbox order for INS Vikrant by Q4FY26–Q1FY27, followed by an Rs 10,000 Mn order for the P-17 Bravo frigates by Q3–Q4 FY26. As the only domestic manufacturer capable of producing these complex gearboxes, EECL enjoys a near-monopoly position, unlocking a multi-year, high-margin defence revenue stream.

### View & valuation

EECL has witnessed strong growth in the order book, while revenue growth was on the softer side due to delayed executions amid geopolitical challenges. We expect domestic demand to continue, with a strong focus on the international segment to drive revenue growth. We have revised our estimates and maintain a BUY rating on EECL with a target price of Rs 751 (33x FY27E EPS).

## BUY

CMP Rs. 542

TARGET Rs. 751 (+38.6%)

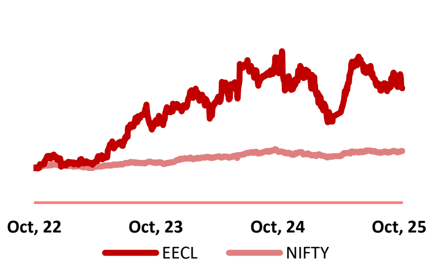
### Company Data

| | |
|---|---|
| Bloomberg Code | ELCN IN |
| MCAP (Rs. Mn) | 1,21,849 |
| O/S Shares (Mn) | 224 |
| 52w High/Low | 739 / 348 |
| Face Value (in Rs.) | 1 |
| Liquidity (3M) (Rs. Mn) | 301 |

### Shareholding Pattern %

| | Sept 25 | Jun 25 | Mar 25 |
|---|---|---|---|
| Promoters | 59.3 | 59.3 | 59.3 |
| FIIs | 8.3 | 9.6 | 8.7 |
| DIIs | 4.2 | 3.8 | 4.4 |
| Non-Institutional | 28.3 | 27.3 | 27.7 |

### EECL vs Nifty




*Source: Keynote Capitals Ltd.*

### Key Financial Data

| (Rs. Mn) | FY25 | FY26E | FY27E |
|---|---|---|---|
| Revenue | 22,270 | 26,251 | 31,525 |
| EBITDA | 5,426 | 6,300 | 7,566 |
| Net Profit | 4,134 | 4,934 | 5,110 |
| Total Assets | 27,295 | 30,944 | 34,983 |
| ROCE (%) | 23% | 20% | 21% |
| ROE (%) | 23% | 23% | 20% |

*Source: Company, Keynote Capitals Ltd.*

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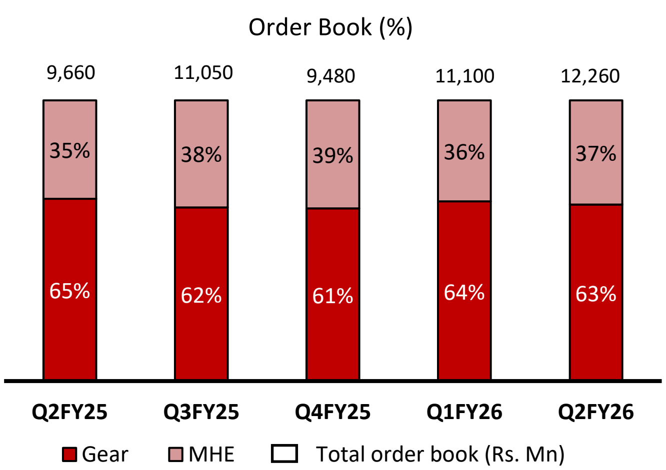
## Q2 FY26 Result Update

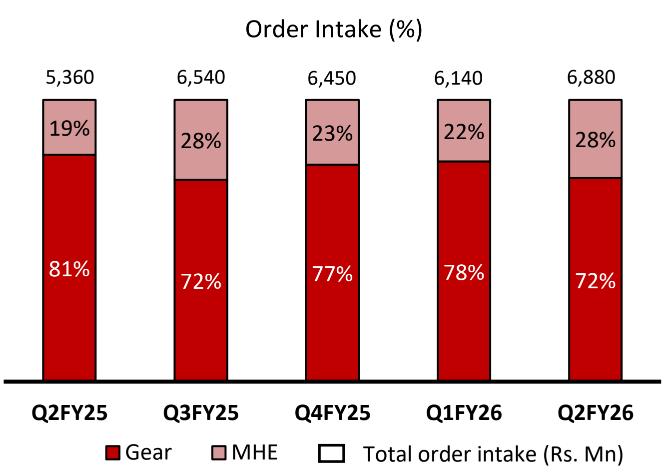
**Result Highlights (Rs. Mn)**

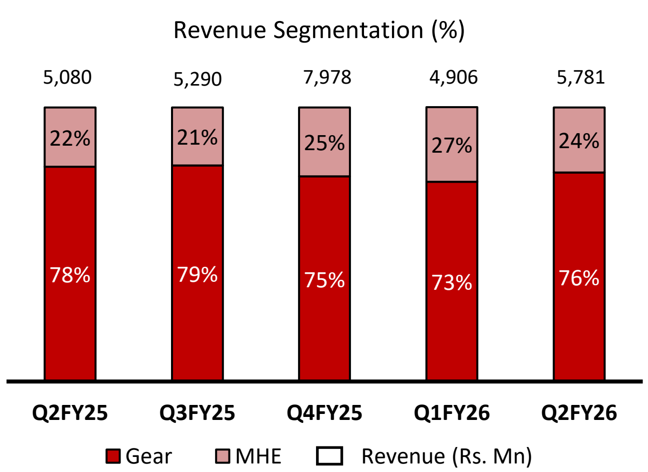
| Particulars | Q2 FY26 | Q2 FY25 | Change % (Y-o-Y) | Q1 FY26 | Change % (Q-o-Q) | H1 FY26 | H1 FY25 | Change % (Y-o-Y) | FY25 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 5,781 | 5,081 | *14%* | 4,906 | *18%* | 10,687 | 9,005 | *19%* | 22,270 |
| Raw Material Cost | 3,287 | 2,785 | *18%* | 2,329 | *41%* | 5,616 | 4,754 | *18%* | 11,874 |
| Gross Profit | 2,495 | 2,296 | *9%* | 2,577 | *-3%* | 5,071 | 4,251 | *19%* | 10,396 |
| ***Gross Profit %*** | **43%** | **45%** | ***(204) bps*** | **53%** | ***(937) Bps*** | **47%** | **47%** | ***25 bps*** | ***47%*** |
| Employee Cost | 577 | 463 | *25%* | 593 | *-3%* | 1,170 | 934 | *25%* | 2,086 |
| Other Operating Expense | 661 | 710 | *-7%* | 681 | *-3%* | 1,342 | 1,270 | *6%* | 2,885 |
| EBITDA | 1,256 | 1,123 | *12%* | 1,303 | *-4%* | 2,559 | 2,047 | *25%* | 5,426 |
| ***EBITDA %*** | **22%** | **22%** | ***(37) bps*** | **27%** | ***(483) Bps*** | **24%** | **23%** | ***122 bps*** | ***24%*** |
| Depreciation | 253 | 131 | *93%* | 245 | 3% | 498 | 260 | *92%* | 608 |
| EBIT | 1,004 | 992 | *1%* | 1,058 | -5% | 2,061 | 1,787 | *15%* | 4,818 |
| ***EBIT %*** | **17%** | **20%** | ***(216) bps*** | **22%** | ***(420) bps*** | **19%** | **20%** | ***(56) bps*** | ***22%*** |
| Finance Cost | 57 | 22 | *160%* | 62 | *-7%* | 118 | 45 | *164%* | 130 |
| Other Income | 183 | 114 | *61%* | 264 | *-31%* | 448 | 258 | *73%* | 601 |
| Exceptional Items | - | - | | 805 | *-100%* | 805 | - | | - |
| PBT | 1,130 | 1,084 | *4%* | 2,065 | *-45%* | 3,195 | 2,001 | *56%* | 5,288 |
| Tax | 253 | 228 | *11%* | 317 | *-20%* | 570 | 436 | *31%* | 1,219 |
| Share in profit of associate | 0 | 22 | *-100%* | 6 | *-100%* | 6 | 46 | *-87%* | 81 |
| **Profit after tax** | **877** | **877** | ***3%*** | **1,754** | ***-50%*** | **2,632** | **1,611** | ***63%*** | **4,151** |
| **EPS** | **4** | **4** | | **8** | | **12** | **7** | | **19** |

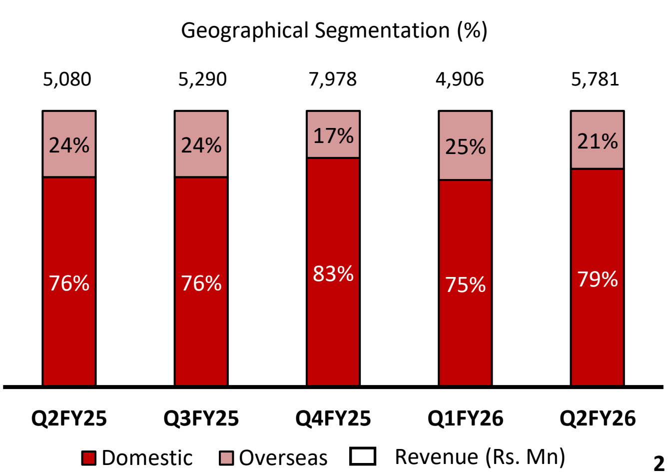
*Source: Company, Keynote Capitals Ltd.*

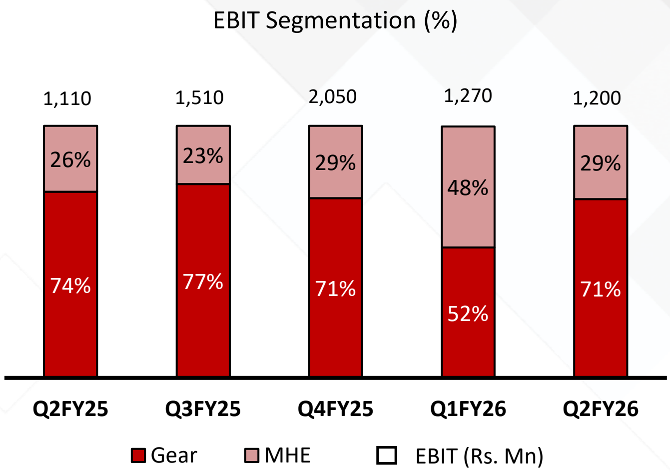
## Quarterly Business Progression

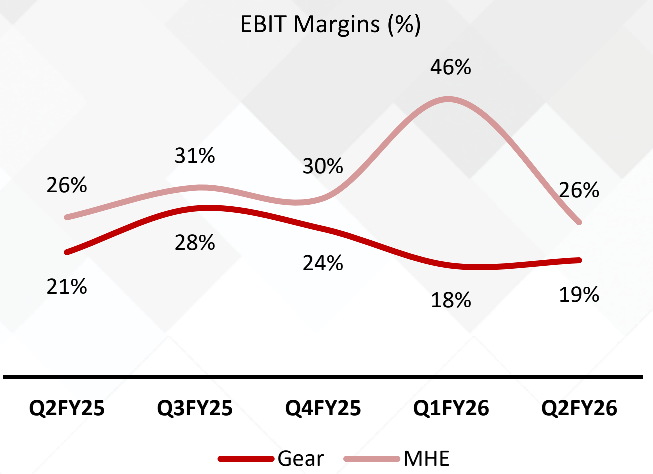





*Source: Company, Keynote Capitals Ltd.*

## Q2 FY26 Conference Call Takeaways

### Gear segment

- The gear division experienced some softness in Q2FY26, with revenue growth moderating to 9% on a YoY basis. It was primarily due to geopolitical volatility in select international markets. However, overall business momentum remains healthy, with enquiry levels continuing to be strong across geographies.
- The gear division reported a margin decline in Q2FY26, driven by higher employee costs and change in product mix between engineered and catalogued products. Margins were also impacted by accelerated depreciation on new assets capitalized in recent quarters. As capacity utilization improves and revenues scale up, the margins are expected to normalize. Management anticipates this recovery to materialize in the H2FY26 as operating leverage would start to kick in.
- EECL has received an order worth ~Rs. 800 Mn from the power sector under the gears segment. The execution of this order is expected to be spread over a period of two years.
- The order book for the gears segment grew by 23% on a YoY basis to reach Rs. 7,710 Mn in Q2FY26 whereas the order intake for Q2FY26 stood at Rs. 4,970 Mn, showing a strong 15% YoY growth.
- The Company continues to build capabilities and brand presence in different countries to drive export-led growth, with a long-term goal of increasing international revenue share to 50% by FY30 from the current 21% in Q2FY26.

### MHE segment

- The MHE division reported a strong growth of 33% on a YoY basis. This is supported by increased execution and demand from Power, Steel, Cement, Mining and Ports sectors.
- The MHE division reported an EBIT margin of 25.5%, up from 25.2% YoY.
- The order book for the MHE segment grew by 34% on a YoY basis to reach Rs. 4,550 Mn in Q2FY26 whereas the order intake in Q2FY26 stood at Rs. 1,910 Mn, showing a strong growth of 84% on a YoY basis.

**Defence segment**

- The Company is positioning its defence vertical in naval gearboxes as a key long-term growth engine. EECL is currently the only qualified Indian supplier for such complex gearbox systems, giving it a significant competitive edge.
- Management expects to secure a Rs. 2,000 Mn naval gear box order for INS Vikrant, by Q4FY26 or early FY27, with execution spread over the next two years and a much larger order of naval gear boxes exceeding Rs. 10,000 Mn for P-17 Bravo frigates is also in its advanced stages and is likely to be finalised by Q3FY26 or Q4FY26, and will be executed over a three-year period.
- The management expects to receive naval gearbox orders for the New Generation Missile Vessels (NGMV) and New Generation Patrol Vessels (NGPV). However, no disclosures have been made regarding the pricing or the potential size of these orders.
- The defence opportunity is seen as multi-year and margin-accretive, with high entry barriers and limited competition.
- Trial deliveries have been successfully completed, and discussions are ongoing with key defence customers.

**Capex**

- The Company has outlined a total capex of Rs. 4,000 Mn over FY26–FY28, primarily aimed at expanding capacity in the gear division to support future growth.
- For FY26, the Company has capped its capex at Rs. 1,000 Mn, ensuring disciplined capital deployment. Out of this: a) Rs. 350 Mn is earmarked for the MHE division b) The balance will be invested in scaling up gear manufacturing capabilities.

**General highlights**

- EECL's OEM export business continues to gain strong traction. The Company has successfully transitioned from initial prototype supplies to regular production, underscoring growing customer confidence and product acceptance. EECL currently serves 18 OEMs, most of whom have completed successful product trials and indicated promising order volumes. Management has guided for OEM revenue of ~7 Mn Euro (~ Rs. 650–700 Mn) in FY26.
- The strong order backlog, coupled with sustained order inflow momentum across both divisions, provides clear visibility for healthy growth in the upcoming quarters.
- The Company is strategically diversifying its business portfolio by expanding into new sectors and strengthening its presence in international markets.
- The management is very optimistic about their overseas business and is aiming to increase its share in revenue to 50% by FY30 from 21% in the current quarter.
- Management indicated that additional arbitration proceedings are underway, which could result in potential inflows of Rs. 200 Mn or more over the next one to two years.

**Guidance**

- Management reaffirmed its FY26 revenue guidance of ~Rs. 26,500 Mn, supported by a strong order book of Rs. 12,260 Mn and healthy enquiry momentum across both division.
- The management expects EBITDA margin of 24% for the full year FY26.

## Financial Statement Analysis

### Income Statement

| Y/E Mar, Rs. Mn | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| **Net Sales** | **19,374** | **22,270** | **26,251** | **31,525** | **37,876** |
| Growth % | 27% | 15% | 18% | 20% | 20% |
| Raw Material Expenses | 10,183 | 11,874 | 14,175 | 16,866 | 20,264 |
| Employee Expenses | 1,885 | 2,086 | 2,494 | 3,152 | 3,788 |
| Other Expenses | 2,560 | 2,882 | 3,281 | 3,941 | 4,735 |
| **EBITDA** | **4,747** | **5,429** | **6,300** | **7,566** | **9,090** |
| Growth % | 42% | 14% | 16% | 20% | 20% |
| Margin% | 25% | 24% | 24% | 24% | 24% |
| Depreciation | 509 | 608 | 1,049 | 1,203 | 1,374 |
| **EBIT** | **4,238** | **4,821** | **5,251** | **6,363** | **7,717** |
| Growth % | 49% | 14% | 9% | 21% | 21% |
| Margin% | 22% | 22% | 20% | 20% | 20% |
| Interest Paid | 89 | 133 | 245 | 270 | 294 |
| Other Income & exceptional | 441 | 601 | 1,565 | 720 | 800 |
| **PBT** | **4,590** | **5,288** | **6,571** | **6,813** | **8,222** |
| Tax | 1,098 | 1,219 | 1,643 | 1,703 | 2,056 |
| **PAT** | **3,492** | **4,070** | **4,928** | **5,110** | **6,167** |
| Profit from associates | 64 | 64 | 6 | 0 | 0 |
| **Net Profit** | **3,556** | **4,134** | **4,934** | **5,110** | **6,167** |
| Growth % | 50% | 16% | 19% | 4% | 21% |
| Shares (Mn) | 112.2 | 224.4 | 224.4 | 224.4 | 224.4 |
| **EPS** | **15.85** | **18.50** | **21.96** | **22.77** | **27.48** |

### Balance Sheet

| Y/E Mar, Rs. Mn | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| Cash, Cash equivalents & Bank | 2,633 | 3,584 | 7,068 | 9,964 | 13,239 |
| Current Investments | 2,033 | 4,146 | 4,146 | 4,146 | 4,146 |
| Debtors | 4,451 | 6,139 | 5,513 | 6,305 | 7,575 |
| Inventory | 2,297 | 2,430 | 3,260 | 3,710 | 4,458 |
| Short Term Loans & Advances | 550 | 378 | 378 | 378 | 378 |
| Other Current Assets | 225 | 286 | 286 | 286 | 286 |
| Total Current Assets | 12,189 | 16,963 | 20,651 | 24,789 | 30,082 |
| Net Block & CWIP | 7,695 | 9,206 | 9,168 | 9,068 | 8,831 |
| Long Term Investments | 831 | 813 | 813 | 813 | 813 |
| Other Non-current Assets | 516 | 313 | 313 | 313 | 313 |
| **Total Assets** | **21,231** | **27,295** | **30,944** | **34,983** | **40,039** |
| Creditors | 1,879 | 2,801 | 3,001 | 3,463 | 4,202 |
| Provision | 252 | 308 | 308 | 308 | 308 |
| Short Term Borrowings | 0 | 33 | 33 | 33 | 33 |
| Other Current Liabilities | 1,862 | 2,229 | 2,229 | 2,229 | 2,229 |
| Total Current Liabilities | 3,993 | 5,371 | 5,571 | 6,033 | 6,772 |
| Long Term Debt | 0 | 0 | 0 | 0 | 0 |
| Deferred Tax Liabilities | 246 | 229 | 229 | 229 | 229 |
| Other Long Term Liabilities | 951 | 1,707 | 1,707 | 1,707 | 1,707 |
| Total Non Current Liabilities | 1,197 | 1,937 | 1,937 | 1,937 | 1,937 |
| Paid-up Capital | 224 | 224 | 224 | 224 | 224 |
| Reserves & Surplus | 15,816 | 19,763 | 23,212 | 26,789 | 31,106 |
| Shareholders' Equity | 16,040 | 19,987 | 23,437 | 27,013 | 31,330 |
| Non Controlling Interest | 0 | 0 | 0 | 0 | 0 |
| **Total Equity & Liabilities** | **21,231** | **27,295** | **30,944** | **34,983** | **40,039** |

### Cash Flow

| Y/E Mar, Rs. Mn | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| Pre-tax profit | 4,590 | 5,288 | 6,571 | 6,813 | 8,222 |
| Adjustments | 504 | 438 | 534 | 753 | 868 |
| Change in Working Capital | -434 | -216 | -5 | -780 | -1,279 |
| Total Tax Paid | -1,076 | -1,268 | -1,643 | -1,703 | -2,056 |
| **Cash flow from operating Activities** | **3,584** | **4,242** | **5,458** | **5,082** | **5,756** |
| Net Capital Expenditure | -256 | -640 | -1,011 | -1,103 | -1,136 |
| Change in investments | -2,023 | -1,907 | 0 | 0 | 0 |
| Other investing activities | -511 | -610 | 760 | 720 | 800 |
| **Cash flow from investing activities** | **-2,790** | **-3,158** | **-251** | **-383** | **-336** |
| Equity raised / (repaid) | 0 | 0 | 0 | 0 | 0 |
| Debt raised / (repaid) | 0 | 33 | 0 | 0 | 0 |
| Dividend (incl. tax) | -337 | -337 | -1,479 | -1,533 | -1,850 |
| Other financing activities | -249 | -370 | -245 | -270 | -294 |
| **Cash flow from financing activities** | **-585** | **-674** | **-1,724** | **-1,803** | **-2,144** |
| Net Change in cash | 209 | 410 | 3,483 | 2,896 | 3,275 |

### Valuation Ratios

| | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| **Per Share Data** | | | | | |
| EPS | 16 | 18 | 22 | 23 | 27 |
| Growth % | 50% | 17% | 19% | 4% | 21% |
| Book Value Per Share | 143 | 89 | 104 | 120 | 140 |
| **Return Ratios** | | | | | |
| Return on Assets (%) | 18% | 17% | 17% | 16% | 16% |
| Return on Equity (%) | 25% | 23% | 23% | 20% | 21% |
| Return on Capital Employed (%) | 25% | 23% | 20% | 21% | 22% |
| **Turnover Ratios** | | | | | |
| Asset Turnover (x) | 1.0 | 0.9 | 0.9 | 1.0 | 1.0 |
| Sales / Gross Block (x) | 1.7 | 1.8 | 1.9 | 2.1 | 2.3 |
| Working Capital / Sales (%) | 24% | 24% | 22% | 20% | 19% |
| Receivable Days | 74 | 87 | 81 | 68 | 67 |
| Inventory Days | 91 | 73 | 73 | 75 | 74 |
| Payable Days | 72 | 71 | 71 | 68 | 67 |
| Working Capital Days | 93 | 88 | 84 | 76 | 74 |
| **Liquidity Ratios** | | | | | |
| Current Ratio (x) | 3.1 | 3.2 | 3.7 | 4.1 | 4.4 |
| Interest Coverage Ratio (x) | 52.6 | 40.7 | 24.5 | 26.3 | 28.9 |
| Total Debt to Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Debt to Equity | -0.2 | -0.2 | -0.3 | -0.4 | -0.4 |
| **Valuation** | | | | | |
| PE (x) | 30.8 | 24.1 | 24.2 | 23.3 | 19.3 |
| Earnings Yield (%) | 3% | 4% | 4% | 4% | 5% |
| Price to Sales (x) | 5.7 | 4.5 | 4.5 | 3.8 | 3.1 |
| Price to Book (x) | 6.8 | 5.0 | 5.1 | 4.4 | 3.8 |
| EV/EBITDA (x) | 22.5 | 17.8 | 15.3 | 12.8 | 10.6 |
| EV/Sales (x) | 5.5 | 4.3 | 4.4 | 3.7 | 3.1 |

*Source: Company, Keynote Capitals Ltd. estimates*

## KEYNOTE Rating History

| Date | Rating | Market Price at recommendation | Upside/Downside |
|---|---|---|---|
| 2nd May 2025 | BUY | 545 | +50.9% |
| 15th July 2025 | BUY | 624 | +20.4% |
| 15th October 2025 | BUY | 542 | +38.6% |

*Source: Company, Keynote Capitals Ltd. estimates*

## Rating Methodology

| Rating | Criteria |
|---|---|
| BUY | Expected positive return of > 10% over 1-year horizon |
| NEUTRAL | Expected positive return of > 0% to < 10% over 1-year horizon |
| REDUCE | Expected return of < 0% to -10% over 1-year horizon |
| SELL | Expected to fall by >10% over 1-year horizon |
| NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS) | Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage |

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