

Pick of the day

Company	Elecon Engineering Co. Ltd.
BSE Code	505700
FV	2
Equity Capital (Rs in mn)	185.7
Reserves (Rs in mn)	3,351
Market Capitalization (Rs in mn)	7,048
CMP	Rs.76
Target Price	Rs.95
Upside	25%

A) About the company

Gujarat based Elecon Engineering Ltd. was incorporated in 1951 at Vallabh Vidyanagar. It is engaged in manufacturing of bulk material handling equipments (MHE) and industrial gears. Its product range in the MHE space includes design, engineering, manufacture, supply, erection and commission of wagon tippers, wagon loaders, stacker reclaimer, barrel type reclaimer, roller screen, feeder, conveyors, idlers, pulley and scrapers etc. In the gear division, its product range includes Helical Gear Boxes, Couplings, Wind Mill Gear Boxes and various categories.

B) Investment Rationale

- 1) Strong order book, good revenue visibility: Presently, its order book stood at Rs.16.3bn (1.5x of FY10 revenues). Out of which, 79% is accounted by MHE segment and the balance 21% is accounted by industrial gears segment. The management has given revenue guidance of Rs. 12.5bn for FY11E. As on H1FY11, its revenues stand at Rs.5.3bn. The current execution period for MHE orders is 18-24 months, while it takes ~10-12 months to execute orders in the industrial gears segment.
- 2) Well defined strategy of inorganic growth: To enter into developed markets like US and Europe, the company is following the inorganic route. It had recently acquired Benzler-Radicon group of business (gears division) from David Brown for GBP 18.41mn. With this acquisition it has got reputed brands, the acquired target business is expected to generate revenues of Rs.2.24bn with OPM of ~8-10% next year.
- 3) Marquee clients: It has a client base well diversified across sectors like power, cement, steel, ports, construction etc. Its key clientele include players like NTPC, Tata Steel, BHEL, Mundra Port.
- 4) Strong sector fundamentals: Expected improvement in the overall capex cycle would be beneficial for the company going forward. IIP (Index of Industrial Production) number suggests that capital goods output rose by 22 percent in October 2010. Mining and electricity grew faster at 6.5 percent and 8.8 percent respectively compared with the growth of 4.9 percent and 1.7 percent in the previous month.

C) Peer Analysis

Particulars	Elecon	Mcnally	TRF	Tecpro
CMP	75.6	210	540	363.7
FV	2	10	10	10
Market Cap/Sales	0.66x	2.27x	1.13x	1.24x
OPM (%)	15.4	8.1	10	29.9
NPM (%)	5.7	2.9	5.4	13.2
EPS(TTM)	8	14.6	19.5	24.9*
ROE (%)	18.5	21	34	44
P/E	9x	14x	28x	15x
P/BV	2.2x	2.9x	2.5x	5.2x
Debt/Equity	1.6	1.2	1.1	1.4
Note : *FY10 EPS				

D) Outlook and Valuation

The company witnessed revenue CAGR of 13% over the period FY08-10. We expect revenue CAGR of 18% over the period FY10-12E which translates into an EPS of Rs.10 for FY12E. At CMP, the stock currently trades at a P/E of 12x at H1FY11 annualized EPS. We believe that the company is well placed to tap the opportunity presented by the infrastructure sector and is a key beneficiary of uptick in private capex cycle. With due consideration to factors like a) strong order book, b) good revenue visibility, we recommend a 'BUY' with a target price of Rs.95 (9.5x at estimated FY12 EPS) for investors with a six months horizon.